Strategies for Financing Small Business: The UK Experience by Dawn Penso

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STRATEGIES FOR FINANCING SMALL BUSINESS;

THE UK EXPERIENCE AND

ITS RELEVANCE FOR THE CARIBBEAN

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STRATEGIES FOR FINANCING SMALL BUSINESS: THE UK EXPERIENCE

Introduction

Although the title of this paper refers to strategies for financing small business, most of the measures described below include new businesses as well. A new business is generally small but in most cases the intention is for the business to grow and become a medium sized business if not a large one. New businesses need funds to get started and later on to expand. Their need for finance is therefore almost identical with the needs of small businesses and for this reason they are included in the discussion below.

This leads on to the inevitable question of what is a small business? Most definitions use numbers employed but the range includes firms with less than 500 employees to firms with less than 20. Both these definitions may be valid for their respective industries but in this paper firms will be regarded as small in relation to their markets. Small firms are therefore those with less than 2 per cent of market share.

The paper begins with a discussion of government initiatives to make finance available to small companies directly and indirectly, and then considers finance from private sector sources. It excludes the Stock Exchange including the Unlisted Securities Market and the Over-the-Counter Market, merchant banks and discount houses. In general, the amounts sought by small firms are too small for these institutions, although in some

exceptional cases, new firms in high technology areas requiring large sums of start-up capital do obtain funds from merchant banks.

Part I ends with a discussion of the requirements of the funding institutions and the assistance available to small firms in meeting these. Finally, it discusses briefly, the success of small firms in raising the finance to launch or expand their businesses.

Part II looks at the relevance and applicability of British experience and institutions for the Caribbean and suggests some broad measures which could be used to provide financial and other assistance to small firms. It outlines an expansion of the role of development agencies and banks to include provision of financial, management and marketing advice to small businesses and suggests ways in which public and private funds can be channelled to small businesses.

PART I

Government-Aided Sources of Finance

The UK Government has demonstrated its commitment to the development of an "enterprise culture" by making a number of significant changes to the fiscal and financial environment in order to make it easier for small firms to raise finance. These include new tax measures such as:

- Business Expansion Scheme - Loan Guarantee Scheme
- Loans from government agencies
- Government grants and incentives

Business Expansion Scheme (BES)

The BES was introduced in 1983 to enable incorporated businesses to raise share capital from outsiders more easily. The Scheme offers individual investors income tax relief at their highest rates of income tax for qualifying investment of up to £40,000 a year.

This relief initially was worth up to 60 per cent of the cost of the shares - the investor therefore had to find only £16,000 to buy a £40,000 share in a business, with the taxman providing the balance. However, the 1988 Budget reduced the top rate of personal income tax from 60 percent to 40 percent with the result that the investor now has to put up £24,000 for his £40,000 investment.

The relief is kept in full if the company continues to qualify for 3 years and the individual keeps the shares for 5 years. Companies qualify if they are not listed on the Stock Exchange,

carry on a qualified trade mainly in the UK and are not controlled by another company. Companies engaged in leasing and hiring, property or share dealing, provision of legal or accounting services, farming or financial investment activities do not qualify. The minimum sum which can be raised is £500 for any one company in any one year.

Individuals are eligible if they are resident in the UK, subscribe for newly-issued shares, are not closely connected with the company, do not own more than 30% of the company and are not employees or paid directors of the company.

There are now about 60 BES funds operating in the UK and more than £100 million is raised annually from these funds and other private BES sources put together by accountants and solicitors.

Purchase of Own Shares

The Companies Act of 1981 helps companies to raise capital from outside investors and yet not give up control of the business permanently. This is of particular importance for example to a family company where the owners may contract in advance that outside shareholders will be bought out in 5 or 7 years' time. This is attractive to both parties in that the owners know that they will regain full control and the investors know that they will not be "locked in" indefinitely.

Under the Finance Act 1982, any gain by the shareholder is treated as a capital gain rather than income for tax purposes, and for the company, the re-purchase transaction is not subject to advance corporation tax as it is not treated as a taxable distribution.

The Government Loan Guarantee Scheme

This was designed to help small businesses which have raised all the finance they can from conventional sources but which are still short of required funds. It is aimed in particular at proposals which a bank manager believes are commercially valid but for which there is insufficient security for a loan or where the business is new and therefore has no track record. Another objective is to reduce the need of businessmen to mortgage their houses to raise business finance.

Applications for Government guaranteed loans have to be approved by the lender, usually one of the clearing banks, and are then passed to the Department of Trade and Industry (DTI) which issues the guarantee. The commercial appraisal of the loan is carried out by the lender and it is very rare for an application to be turned down by the Government.

Loans may be from 2 to 7 years with a capital repayment holiday of up to 2 years. Interest rates are set by the lender and the maximum amount which may be lent is £75,000. The Government guarantees 70% (85% in certain designated areas) and charges a fee of 2.5% for this. The bank will usually require security in the form of a pledge on the assets of the business as it is not allowed to take personal security for a loan of this type. A government guaranteed loan often forms part of a package along with ordinary bank lending and other forms of finance.

The scheme is operated by 23 banks and 20,000 loans have been made totalling £665 million. The average loan is for £33,000 with about half going to start-up businesses. In January 1988 the Government made it easier and quicker for smaller firms to use

the scheme by allowing banks to approve loans up to £15,000 without reference to the DTI.

Most manufacturing and service activities are eligible but the following businesses are excluded: agriculture, banking, education, forestry, house and estate agents, insurance, recreational or cultural services, tied pubs and travel agents.

Grants

In January 1988 the DTI introduced the Enterprise Initiative Scheme, a programme of support and assistance to small and medium sized companies (up to 500 employees) in the areas of marketing, design, quality, manufacturing systems, business planning, financial and information systems and exporting.

Under this scheme, the DTI provides financial support for between 5 and 15 man days of specialised consultancy in any one of the 7 key areas above. The rate of the award is 50 percent of the cost except in Assisted Areas and Urban Programme Areas where the rate is 66 percent of the cost. Companies may receive assistance twice but these must be in 2 different categories.

Government funding of £50 million has been allocated to the Enterprise Initiative for 1988/89 to support 1000 consultancy projects per month. The total budget to 1991 is £250 million.

The DTI's programme of export support is implemented by the British Overseas Trade Board which also provides financial assistance in the form of grants towards export market research, air fares for overseas trade missions and other forms of export market development. The Board will also provide loans of up to 50 percent of the cost of setting up an overseas operation, with a maximum of £300,000.

The British Technology Group, also funded by the Government, provides finance for companies and individuals who wish to develop their own technology or to start up a business using products they have developed themselves. For a project to qualify, it should be based on a new invention, contain a significant technical innovation or be an important evolutionary improvement on an existing product.

The Enterprise Allowance Scheme

The Enterprise Allowance Scheme was introduced almost 6 years ago to help unemployed persons to create their own jobs by going into business. The Scheme advances them £40 per week for a year, provided they meet the criteria below.

Applicants must be over 18 and under retirement age, have been unemployed for at least 13 weeks, be receiving unemployment or supplementary benefit at the time of application and show that they have access to £1000 to invest in the business. The allowance is not payable to people who are already in business as it is intended to compensate applicants for the loss of unemployment or supplementary benefit which would otherwise occur when starting a business.

Since its inception, 360,000 people have received the allowance and there is now an annual ceiling on the number of grants of 110,000 for 1988 and 1989. By July 1988 some 94,000 people had been granted the allowance. In a recently completed evaluation of the scheme, it has been found of that those who complete the 12-month period of the grant, 74 percent were still in business 18 months after start-up while 65 percent were still trading after 3 years.

Another objective of the scheme was the creation of jobs (besides the applicant's) and the result in this regard has been an average of 71 additional jobs for every 100 businesses operating after 18 months and 114 additional jobs after 3 years.

Development Agencies and Boards

Development agencies were set up in 1976 in Scotland and Wales to coordinate and encourage all activities relating to new and small businesses. Similar agencies have since been set up elsewhere in the UK and they are now a significant source of start-up and development capital.

Council for Small Industries in Rural Areas (CoSIRA)

This agency was established by the Government to revitalise rural areas by helping to set up small rural firms and to encourage existing ones to become more prosperous. Rural areas are defined as those with less than 10,000 inhabitants.

CoSIRA can provide loan funds to finance part of the cost of a project up to maximum of £75,000. Grants are also available to contribute to the cost of converting buildings and installing or upgrading mains services.

Tourist Boards

The 4 Tourist Boards in the UK provide funds aimed at stimulating the growth of enterprise within the sector. These funds are available in the form of loans and grants which may be up to 50 percent of the capital cost of a project. In order to encourage private sector finance, Tourist Boards also offer interest relief grants for certain projects.

Local Enterprise Boards (LEBs)

Under the Local Government Act, metropolitan counties have the right to spend up to a 2p rate on discretionary purposes. There are 5 LEBs which lend and invest these funds in new and small businesses within their own areas.

One of these, the Greater London Enterprise Board (GLEB), offers financial and other support to small businesses throughout the Greater London area. GLEB is owned by a consortium of local authorities in the area and many requests for finance are channelled through these authorities. GLEB provides equity and loan finance to businesses through its wholly-owned subsidiaries: GLE Investments, GLE Technology and GLE Fund Managers. These investments are usually between £40,000 and £500,000 and larger investments are arranged via syndication.

When investing in a company, GLE will usually take a substantial minority holding in the company in a financing package comprised of both ordinary and preference shares. GLE's preferrred policy is to exit in 3-6 years by means of a management buy-out, stock market flotation or trade sale.

In addition to the LEBs, most local councils have schemes to help small firms with financing. These may be in the form of grants to help with relocation, property renovation, equipment purchase or other business expense.

Private Sources of Finance

Venture Capital Firms

The past 10 years have seen a remarkable growth in the number of these firms which in 1978 amounted to less than 10 little-known firms and now number more than 100. Venture capital firms now

invest over £300 million a year in new and small businesses covering a range of activities from pre-start up to late stage development. The following table gives a breakdown of the allocation of venture capital funds in 1987:

Stage	%
Pre-start up	9
Start up	25
Early stage development	28
Late stage development	26
Management buy-out	10
	100

In addition to finance, these firms provide support to the management of the companies in which they invest and both work together to achieve a common goal - the rapid and successful growth of the business. This has led to specialisation within the venture capital industry and a small firm seeking funds must seek the "right" investor. For example, a small company in the electronics business with plans to enter the US market in the future should try to find a partner with an American affiliate or strong US connections.

Some venture capital firms follow a narrow investment policy while others invest across a broad specturm of business activities, in companies at different stages of development and in all geographical regions. Because of the high risk inherent in backing new and untried businesses, most venture capital firms seek to achieve a compound annual rate of return of approx. 40 percent on each investment they make. They are therefore only

interested in companies where this type of growth rate is possible and as a result reject about 95% of the proposals they receive. However, since 1982 some 3,500 UK-based companies have received funding from a venture capital firm, although not all of these were small or new firms.

Venture capital firms generally have an exit strategy involving an agreement with the small firm to sell to a trade buyer or float the company at an agreed date in the future. The major exception to this is Investors in Industry, 3i, the largest venture capital firm in the UK, and possibly the world, which takes a lifelong interest in any company in which it has equity.

Leasing Companies

Leasing is a major source of finance for both new and established companies, providing more than £4 billion in funding annually. There are 2 main types of leases: an operating lease where the equipment is to be used for less than its full economic life e.g. a car or a photocopier, and a finance lease, where the equipment is leased for most of its economic life.

The advantage of leasing is that no deposit is required, thus leaving capital available for other uses in the business.

Factoring Companies

Factoring is a means of providing liquid funds to companies with cash tied up in outstanding invoices. The factoring company assumes responsibility for issuing and collecting the client's invoices and advances money to the client against the sum due. Up to 80 percent of the invoice value may be advanced immediately to the client once the invoice is issued to the debtor, with the

balance less a service charge paid either when the invoice is settled or after a fixed period. Factoring is suitable for young companies which are under-capitalised and with an annual turnover of at least £250,000. They should also have reliable, credit-worthy customers.

Finance Houses

These are the main source of hire purchase funds which are now used to finance the purchase of most types of business asset. More than £8 billion is currently lent this way, with 60 of the 100 largest UK enterprises and 45% of all small firms as regular users of hire purchase facilities.

Private Individuals

It is possible to advertise directly for investors in papers such as the Financial Times and the Sunday Times Business to Business section.

Venture Capital Report is a monthly publication which provides summary descriptions of business proposals and is circulated to some 700 subscribers including not only private individuals seeking investment opportunities but also venture capital firms and other corporate entities.

The London Enterprise Agency runs a "Marriage Bureau" which links businesses seeking capital and management help with people who wish to invest and work in those firms. This is done by means of a monthly bulletin containing details of investment opportunities and also by investor meetings where promoters of small businesses present their ideas and plans to a group of investors.

Special Funds

The foregoing section has summarised the main sources of finance for new and small businesses in the UK. There are many other small funds available with specific eligibility criteria such as funds for craft-based businesses, funds aimed at young, unemployed persons (i.e. under 25), funds available from a mix of local councils and business sources for projects in deprived areas and funds earmarked for projects from minority or other special groups.

Conclusion

From the foregoing, it can be seen that there has been a dramatic increase in the sources of finance for small businesses and in the amount of funds available to them. Access to most of these funds requires the borrower to prepare a business plan giving an in-depth analysis of the market for the product and its competitive edge, the management team, and financial projections for at least 3 years. Firms can obtain assistance in the preparation of these plans either by attending special courses or in the form of a grant towards the cost of having them prepared professionally.

Once the business plan is complete, the small firm's owner can decide which institution to approach, depending on the amount of finance needed, the purpose, (i.e. start-up, expansion etc.) and whether he or she is prepared to part with some of the equity in the business. The investor in turn will make his decision based on an analysis of the financial ratios of the business and an evaluation of the product, the market and the individuals who make up the management.

How successful have these efforts to help small firms been? In the last 10 years the number of small firms in the UK rose by 50 percent to 1.9 million. The rate of increase shows no sign of slackening as 1987 saw the biggest annual increase in new businesses - 45,000 - since 1979.

In employment terms, between 1982 and 1984, 1 million jobs were created in firms employing less than 20 persons while during this period there was a net loss of jobs in firms employing more than 20. More funds are being made available and more assistance and business opportunities are being provided to small firms as both government and the private sector continue to acknowledge the importance of small firms to the economy and business as a whole.

PART II

The Caribbean

The strategies for financing small business in the UK have two broad objectives overall - to provide jobs by the creation of opportunities for self-employment and to promote the establishment and growth of new/small companies.

Research has shown than smaller firms can represent a dynamic force in an economy and that they can make a major contribution to employment growth and technical innovation. However, for small firms to play this role, the infrastructure which is vital for their development must be in place.

If initiatives in the Caribbean have similar objectives, then an appropriate institutional framework will have to be established, including a wide-ranging communications exercise to inform all the target groups of the various types of finance and assistance available.

It would be useful to begin with the identification of sectors in which the promotion of small business activity was regarded as desirable either because of employment opportunities and/or market potential for the product or service.

This identification could be the responsibility of national or regional organisations which would consult local development banks and other institutions in order to reach agreement on overall investment objectives. Once these have been agreed, a suitable network of agencies and financial instruments would need to be developed to channel funds to selected recipients.

Agencies

These could range from local community action programmes at one end to government-backed schemes and development banks at the other. They must be able to offer help through advice and counselling, business planning, education and training, loans, grants, and allowances for starting businesses.

It may be possible for the agencies to be partly funded by donations from private companies and partly by government. They should be run, however, by persons with corporate managerial experience. They should publicise their existence by means of leaflets, open days, etc., inviting would-be entrepreneurs to come in and discuss their business ideas before committing resources to them. Their aim would be to help entrepreneurs clarify their projects and to assess objectively whether their business ideas were viable.

A major cause of small business failure is under-capitalisation, followed by a lack of marketing skills. The agencies should therefore lay great stress on helping applicants prepare a business plan with particular attention paid to financial projections - especially cash flow - and marketing plans.

The agencies should be able to provide advice and counselling on a wide range of business problems as well as data on the major sources of business and government information. Ideally, this information could be stored in a single computerised data base and be made available to locally-based agencies in other parts of the country.

A counselling service could be offered, with a small fee for each session. Counsellors should be experienced businessmen and women

specially selected for their general business knowledge and for their particular areas of specialist knowledge of business operations and industries or sectors.

In the UK, counsellors attend courses specially prepared by the Institute of Marketing and the Institute of Chartered Accountants. They also take courses in counselling and analytical skills at Warwick University. They attend regular updating seminars on issues relevant to small business such as taxation, premises, leasing, franchising, cooperatives, marketing and consumer protection. A similar programme for training counsellors would be desirable.

Counsellors could also advise established firms on a range of topics including financial matters, diversification, product expansion, new markets, exporting, and staff recruitment and development.

Development Agencies and Banks

These already exist in most Caribbean countries and could consider taking on the additional role of coordinating and encouraging all activities relating to new and small business. Development banks in particular would be well-placed to determine the types of government support in the form of tax relief, guaranteed loans and grants which would be suitable. They could also maintain data on national, regional and overseas markets for the output of small firms.

The identification of foreign sources of additional finance and assistance could also be carried out by the development banks. They could further assist by channelling these resources to small firms.

Caribbean governments may find it difficult to introduce schemes such as the Enterprise Allowance Scheme based on a system of grants to each new business but where increased employment is the main objective, schemes to provide "seedcorn" loans for business start-ups may be appropriate. These can be interest-free loans of up to £5,000 for example, repayable in monthly instalments over 3 to 5 years. These loans would be aimed at persons who have viable business proposals but who cannot meet the lending requirements of the banks and other institutions.

Governments should bear in mind, however, that loans to smaller and start-up businesses carry a higher degree of risk than loans to larger established businesses and may therefore not be an acceptable use of funds.

Lending on commercial terms to new companies is also unattractive from the company's point of view in that it imposes a financial burden on cash flow in the early days of the company when it is struggling to establish itself. Equity investment would provide funding agencies with the probability of a better return on investment than a loan and also relieve the small business of the burden of loan repayments.

Other Public Institutions

Other institutions will be required to play an important role in the provision of finance to small businesses. Public funds can be channelled into suitable investment either through development banks as well as through specially created national bodies which function on commercial terms but target their resources to those areas of the market which find it difficult to raise funds from traditional sources.

The requirement that such bodies operate on ordinary commercial terms is recommended in order to establish their commercial credibility and so enable them to raise funds from the private sector (merchant banks, pension funds, etc.). It may be necessary, in the case of new bodies, to begin with public funds only and to seek private funds once their commercial reputation is established.

The organisations should aim to become self-financing by means of the returns they make on investments and by raising funds from private sector investors for joint investment in expanding companies.

The objectives of these institutions should include the provision of a range of services to strengthen the small businesses in the sectors or areas identified. The services to be provided should include for example company secretarial services, bookkeeping and financial management services, staff and management training, personnel management and employment practices, and advice on technology and product development. Companies using these services would be charged a fee which may be on full commercial terms or partly-subsidised.

The success of any venture could depend heavily on the provision of these various forms of post-investment support on a continuous basis.

Private Institutions

It is essential if finance is to be efficiently utilised in small businesses, that the owners of these businesses develop an understanding of finance and planning.

Many owners obtain the wrong type of financing, over or under estimate the amount of financing needed, fail to match their funding with their needs or fatally underestimate the real cost of money. Small business owners must plan their financial needs before setting out to raise capital and determine whether "bootstrap" financing will be sufficient or whether they need equity or debt financing.

"Bootstrap" Financing

The term "bootstrap" financing means using the company's internal ability to generate capital, i.e. stretching trade credit, turning fixed assets and receivables into ready cash and cutting expenses. Making maximum use of credit from suppliers can keep a company afloat even when cash is short. Business owners sell the goods and collect the proceeds before payments are due and then pay the bills out of the receipts. To make maximum use of this method, however, initial orders should be paid on delivery and all credit references promptly supplied.

In other cases, customers may be required to provide raw materials or pay for the work in installments as a means of financing the business. This is often the case in the building industry and in industries when the business fills a highly specialised need. The owner may then demand partial or total prepayment or payment on delivery.

If a small business spends too much money on the purchase of equipment, the company may find itself without enough working capital to keep the business operating. An equipment loan in which the lender finances some 60 to 80 percent of the value of the equipment leaves working capital free to generate profits.

The loan is repaid in monthly installments over 1 to 5 years or the term of the equipment's usable life.

Equipment leasing is another method which also avoids the tying up of capital and this facility is available from banks, commercial finance companies and leasing companies. Although equipment lease payments may in the end total more than the purchase price of the equipment, the capital which it enables to be fed into the business may generate more than the difference in profits.

When a company already owns its equipment it can sell the equipment to a bank or finance company at a price near the equipment's market value. The business then leases the equipment back from the buyer and continues to use it for its remaining usable life.

Cutting expenses is one of the major foundations of bootstrap financing and careful scrutiny of the profit and loss statement to see where expenses can be cut should be done regularly.

Salaries are probably the most difficult expenses to control but the owner must be prepared to limit his or her personal earnings while the business is struggling to attain financial stability.

Other measures include comparisions of the company's cost of goods with other companies in the industry, possible reductions in utility bills, avoidance of waste of supplies and comparing actual expenses with budgetted. The other side of controlling expenses consists of finding ways to increase profits, sell surplus inventory or assets and adopt a programme of collecting receivables as quickly as possible.

Equity Finance

If the owners' resources and the use of bootstrap financing are insufficient to meet the financial needs of the business, then the sale of equity is an alternative open to the owners. This will mean dividing the ownership of the business among investors who may or may not participate in the running of the business. Small businesses can obtain equity from what may be termed non-professional investors, i.e. friends, relatives, employees, customers or industry colleagues.

The small business owner should contact any one who might contribute out of good will and belief in the business. Wealthy individuals may also be invited to invest, especially if there are tax advantages to be gained. However, the owner should keep family and social relationships separate from business and document loan transactions to avoid potential difficulties in the future.

Professional investors - venture capitalists and government-funded small business investment bodies - invest in small businesses that they expect to grow into major regional or national concerns returning healthy profits.

Whether investors are professional or non-professional, there should be a written agreement with details of the investment amount, terms and risks involved. In the case of a limited company, investment can take the following forms:

Ordinary shares, which represent shares of ownership in a company and provide maximum potential return on investment for the company's founders and other investors. If the company fails,

however, all creditors and other investors are repaid before ordinary shareholders.

Preferred shares give the holders a prior claim on repayment over holders of ordinary shares should the business fail. Holders of preferred shares receive fixed dividends and usually are not entitled to vote.

Venture Capital

The relatively small number of venture capital firms in the Caribbean may make this an even less likely option for small firms in the region than it is in the United Kingdom where thi sector of the financial services industry is well developed.

An active role on the part of governments in fostering the growth of small firms could well lead to an increase in the number of venture capital firms and merchant banks in the Caribbean as business opportunities for them increase.

It is more difficult to raise money from venture capitalists as they invest money with the expectation of making large profits. They usually invest a larger minimum sum than non-professional investors in order to justify their investment of time. They often have no ceiling on the amount they will invest and can invest large sums by syndicating or sharing the investment among several firms.

They usually have definite preferences concerning location, type, size of business and its stage of development. Most venture capitalists purchase ordinary shares or preference share so as not to burden the young enterprise with interest payments on debt and to obtain the maximum return possible.

A limit may be put on the amount of shares they may purchase in order that the business owners retain a majority share of the business but this might not always be possible. Although venture capitalists generally will have a director at board level and provide management and technical advice, they are not normally involved in the day-to-day running of the business.

There are different stages in the life of a business at which venture capitalists may become involved: the pre-startup stage which is the riskiest and which therefore requires the greatest return on investment. Few venture capitalists are willing to undertake such investment and it is here that government funds in the form of seedcorn financing or guarantees can be most useful in getting a company beyond the idea stage.

The next stage is one where there is a business organisation and the company is in its start-up position, where the risks are still high but some venture capitalists will be attracted to the venture. As the company develops, the more conservative venture capitalists will become interested in providing 2nd and 3rd round financing when both the risks and rewards have decreased.

A company's business plan is the main analytical tool for venture capitalists who focus on three basic features.

1. Management capability - no matter how good the product is, it is the quality and experience of the management which makes or breaks the company.

2. Competitive advantgage - product or service innovations that will lift the new company above healthy competition in the field. Ideally, this should be supported by market surveys and competition analysis.

Growth industry - the business should be in an industry which is growing at a much faster rate than the gross national product. Venture capital firms in the Caribbean, like their counterparts in the UK, may not be interested in investing in small firms requiring relatively small amounts of finance. It may be possible, however, for governments to lend funds to local venture capital firms to invest in small businesses where the potential for growth and profitability is regarded as high.

Exit Strategies

Investment in small and new businesses should be regarded as long-term investment with the aim of achieving rapid growth. It is important to plan successful routes out of investments in order to provide the return to the investor and funds to invest in new companies.

Exit from an equity investment can take the form of a flotation of the company on the stock market, a trade sale or a buy-out by the original owners. In the Caribbean, the option of a stock market flotation is not available in all countries nor may it always be possible even where there is a market.

A trade sale to another company or a management buyout will therefore probably be the most likely method of exiting from an investment. The terms of exit should form part of the agreement when the investment is made so as to avoid misunderstandings or conflict. It is possible, of course, to have an agreement where the investor remains an equity holder permanently.

Finally, investors in small and new businesses should fully accept the fact that they are investing in risky ventures and not all their investments will pay off. Hopefully, most will

succeed, one or two even spectacularly, and some will fail but it is only by making investments and accepting the risk of losses that governments and private investors can promote the growth of small businesses and the social and economic benefits which they bring.