

# Credit management, financial forecast and obtaining finance

**SME Corporation Malaysia**

<http://www.smecorp.gov.my>

## Credit management

Credit management is a term used to identify accounting functions usually conducted under the umbrella of Accounts Receivables. Essentially, this collection of processes involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding invoices, the initiation of collection procedures, and the resolution of disputes or queries regarding charges on a customer invoice. When functioning efficiently, credit management serves as an excellent way for the business to remain financially stable.

The process of credit management begins with accurately assessing the credit-worthiness of the customer base. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Proper credit management calls for setting specific criteria that a customer must meet before receiving this type of credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer.

Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit score. The current ratio between income and outstanding financial obligations will also be taken into consideration. Competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

After establishing the credit limit for a customer, credit management focuses on providing the client with accurate and timely statements or invoices. The invoices must be delivered to the customer in a reasonable amount of time before the due date, thus providing the customer with a reasonable period to comply with the purchase terms. The period between delivery of the invoice and the due date should also allow enough time for the customer to review the invoice and contact the vendor if there are any questions or concerns about a line item on the invoice. This allows all parties concerned time to review the question and come to some type of resolution.

## Financial forecast

A financial forecast is normally an estimate of future financial outcomes for a company or country (for futures and currency markets). Using historical internal accounting and sales data, in

addition to external market and economic indicators, a financial forecast is an economist's best guess of what will happen to a company in financial terms over a given time period which is usually one year. See financial modeling.

Arguably, the most difficult aspect of preparing a financial forecast is predicting revenue. Future costs can be estimated by using historical accounting data; variable costs are also a function of sales.

Unlike a financial plan or a budget a financial forecast doesn't have to be used as a planning document. Outside analysts can use a financial forecast to estimate a company's success in the coming year.

Reference class forecasting was developed to reduce error and increase accuracy in financial forecasts

## Obtaining finance

You've got a great business idea, heaps of enthusiasm and experience, or perhaps you want to purchase an existing small business to fulfil a dream of being your own boss.

In either case, you've done a feasibility study and your research and financial forecasts indicate that your idea is viable. There's only one problem, you don't have enough money to start.

All businesses require some form of financing. The best way to access funds is to have some form of collateral. Equity in property is considered one of the best resources. However, if that's not possible there are several options you may consider financing your business.

Equity funding is personal money invested into a business. Many people use their savings, an inheritance, or sell an asset to fund their business start-up.

Starting a business can place a strain on your personal finances. It may be several months or more before your new business is profitable and can provide an income for you and your family. You must have the resources to maintain your household expenses while you establish your business, otherwise the financial success of your business will be at risk.

Well before starting a business it is advisable to get your personal finances in order. Develop a household budget that accounts for your income and your personal expenses. Once your personal finances are in order, you can assess the excess funds you have available to invest in your business.

# Arranging finance for MSMEs in India

## Office of DC MSME and Ministry of Micro, Small and Medium Enterprises (MSME), Government of India

<http://www.dcmsme.gov.in/howto/setup/finance.htm>

No Micro, Small and Medium Enterprises (MSME) unit can take off without monetary support. This need for finance can be classified into following types:

- Long and medium-term loans
- Short term or working capital requirements
- Risk Capital
- Seed Capital/Marginal Money
- Bridge loans

Financial assistance in India for MSME units is available from a variety of institutions. The important ones are:

- (i) Commercial/Regional Rural/Co-operative Banks
- (ii) SIDBI - Small Industries Development Bank of India (refinance and direct lending)
- (iii) State Financial Corporations (SFCs)/ State industrial development corporations (SIDCs)

Long and medium-term loans are provided by SFCs, SIDBI and SIDCs. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. The short-term loans are required for working capital requirements, which fund the purchase of raw materials and consumables, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks. The commercial banks also sanction composite

loan comprising of working capital and term loan up to a loan limit of Rs.1 crore.

For loans from financial institutions and commercial banks a formal application needs to be made. The details of documentation that need to be provided with the loan application are indicated below:

- Documentation for Loan Application
- Balance Sheet and Profit Loss Statement for last three consecutive years of firms owned by promoters
- Income Tax Assessment Certificates of Partners/Directors
- Proof of Possession of Land/Building
- Architect's estimate for construction cost
- Partnership deed/Memorandum and Articles of Associations of Company
- Project Report
- Budgetary Quotations of Plant and Machinery

A sanction or rejection letter is issued by bank after its assessment of the application. After receiving a sanction letter, applicants need to indicate in writing their acceptance of terms and conditions laid down by FI/Banks.

Subsequently, loan is disbursed according to the phased implementation of the project. In today's environment, there are other choices apart from commercial banks and Government owned financial institutions. These options include venture capital funds and non-government finance companies.

### Asia Pacific SEforALL Hub

The Asia Pacific SEforALL Hub is led by ADB, UNDP and ESCAP, with the Hub Secretariat hosted at ADB Headquarters in Manila, Philippines. The three organizations will help catalyze major new investment opportunities to speed-up the transformation of the world's energy systems, pursue the elimination of energy poverty, and boost prosperity. The Hub will leverage on the existing structures of ADB, UNDP and ESCAP energy programs and integrate the strengths of all three development partners. It looks to grow its partnerships and consolidate efforts to promote Sustainable Energy for All in Asia and the Pacific region.

The Asia Pacific Hub will facilitate and coordinate core activities in the region, with respect to the SEforALL goals, in close cooperation with the SEforALL's Global Facilitation Team. A better policy environment will accelerate the further development of sustainable energy, which is why the AP-SEforALL Hub established a Sustainable Energy Center for Excellence, hosted by the Sustainable Energy Association of Singapore. The Singapore-based facility will become a venue for the region's policy makers to receive training on policy, technology, and project financing matters in the sustainable energy sector.

Key activities of the Asia-Pacific Hub for the SEforALL Initiative:

- Support the preparation of rapid assessments, country action plans and investment prospectuses.
- Facilitate policy dialogues among stakeholders.
- Catalyze investments in energy access, renewable energy, and energy efficiency.
- Develop market-based approaches for the delivery and consumption of energy.
- Build synergies and promote knowledge sharing among its stakeholders.
- Conduct regular monitoring and evaluation of activities and initiatives of its stakeholders.

For more information, access:

[http://www.se4all.org/hubs\\_asia-pacific-hub](http://www.se4all.org/hubs_asia-pacific-hub)