



Sources and Uses of Money

Objectives

At the end of this session, the participants will be able to:

- 1) Examine different ways of raising money
- 2) Identify the 'mix' of sources of finance that is most suitable for their circumstances.

Participants

- 12 to 30

Time

- 90 minutes

Resources

- Flip-charts and markers
- Handout "Where to get the money from"

Flow

- 1) Ask participants where businesses get money from.
 - a) Elicit the obvious reply: 'by borrowing it from a bank'.
 - b) Ask whether any of the participants have ever borrowed money from a bank; was it easy, quick and inexpensive?
 - c) The answer will almost certainly be 'No'; explain that the objective of this session is to examine other ways of raising money for a business, so that participants can examine each of them and identify the 'mix' of sources of finance that is most suitable for their circumstances.
- 2) Remind participants that money in itself is of no use; people only want it because they need things which they can buy with money.
- 3) Ask participants to give examples of the things they want to buy, and for which they are trying to obtain funds;
 - a) elicit examples such as:
 - Raw materials
 - Spare parts
 - Equipment
 - Advance rent etc
 - Premises
 - A vehicle
 - b) Ensure that they also include items such as money to finance credit to customers, which is a use of money in just the same way as stocks or equipment.

- 4) Ask participants who have borrowed from banks to describe what is involved; elicit the disadvantages of loans of this kind;
 - Interest has to be paid
 - Security is required
 - It takes a long time to get a decision
 - 'Inducements' may have to be given
 - The repayment schedule is inflexible.

- 5) Ask participants to write down as many different sources of money as they can; they should refer to the list of typical things for which money is needed, since this may remind them of particular sources of finance which are 'tied' to particular items.
 - a) After some five or ten minutes, ask each participant in turn to name one source of money, and if necessary to explain it by reference to one of the items previously listed.
 - b) Go round the group in turn, until all the possibilities have been listed. The list should include at least the following, and participants may include others:
 - Own savings
 - Family money
 - Deposits from customers
 - Credit (that is, in effect, loans) from suppliers
 - Hire-purchase finance
 - Profits of the enterprise itself

- 6) When this list has been completed, ask participants to think about their own businesses; how do they actually raise money, for particular purchases, quite apart from the sources already listed?
 - a) If necessary, ask a participant to describe the last time s/he paid for something for his/her business; this should not be a new capital purchase, but an ordinary day-to-day purchase.
 - b) If no participants have actually started their businesses ask them to think about other businesses; where do they get money for their day-to-day purchases?
 - c) S/he, or they, will have paid for it out of her cash or bank balance; ask where this money came from. The answer will be 'from customers' payments'; ask what the customers have paid for; the answer is of course the goods they bought.
 - d) Elicit, through discussion, the conclusion that this transaction in fact involves the business obtaining cash, with which to pay for supplies, by converting goods into cash.
 - e) Stress that the most frequent source of money for a business is in fact the business itself; cash is taken from one use and put to another, as in the example of selling goods in order to pay for supplies.

- 7) If there is a participant who is has managed a business before, ask them to list the 'assets', or ways in which the money s/he had in her business was. Or, if none are yet in business, once again to think about other businesses; how are they using their money? After s/he has suggested certain headings, ask other participants to suggest others, and list the possibilities as follows:
 - Stocks of materials
 - Stocks of goods ready for sale
 - Goods in the process of being made
 - Cash
 - Equipment and tools
 - Motor vehicles
 - Money owed by customers
 - Buildings

- 8) Ask participants to suggest ways in which each of the above can be 'converted' into cash, to be used for buying something else; some of the answers are obvious, but others may be more difficult; they should include the following:

| | |
|-------------------------|---|
| Material stocks | Turn into goods and sell them, or sell any excess for whatever price it will fetch. |
| Work in progress | Finish off and sell half-made goods, and do not start new goods until bills have been paid. |
| Finished stocks | Sell off, for cash, reducing prices if necessary. |
| Money owed by customers | Sell only for cash, press late payers to settle their accounts |
| Machines and equipment | Sell off or lease out any under-used machines |
| Buildings | Sell them, and rent premises instead |

- a) Stress that bankers will not lend money to anyone who is not making the best possible use of what she already has.
- b) Relate the answers to the earlier session on the Balance Sheet; remind participants that a balance sheet shows how money is being used in a business, and where it came from. A business(wo)man can use her balance sheet to see which 'assets' might be turned into cash, and which 'liabilities', or stocks, can be tapped for more money.
- 9) Ask participants who claim their businesses need money and who propose to apply for bank loans, to describe what they want to buy; ask them, or others, to suggest alternative ways of raising the finance, resulting from this session; examples might include:

| | |
|--------------------------------|--|
| Raw materials: | customers to buy them, or to make deposits |
| Equipment: | rent from other people, hire purchase |
| Customers demanding credit: | do not give it to them! |
| Cash for a buying trip abroad: | exports of local goods, even at a loss |

- 10) If time allows, and some participants have actual business experience, ask them to describe occasions when they have raised money from inside and from outside their businesses; ask them to describe their needs for finance, and help them to see through sharing their problems with others that they may be able to raise the necessary funds without going outside the business.