

Finance options for farm and rural start-ups and expanding businesses

By Jim Richards, Rural and Business Specialists

BUSINESS GUIDE

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One challenge facing any farm or rural business owner – whether a start-up or a growing business – is finding the finance to help turn your dreams into reality. There is a range of available finance options including loans, mortgages, grants and invoice factoring and new options such as crowdfunding and peer-to-peer lending. These types of funding may be appropriate for different purposes and, of course, may differ in cost. With this number of options, where does a business start?

With no or little historical financial activity, over the last decade start-ups have found it difficult to find traditional bank loan finance due to the high risk of failure for new businesses. However, many new rural businesses continue to incubate and fledge, often from diversified farm businesses, and there will inevitably be both successes and failures.

For both start-ups and expanding businesses, funding may be a little more accessible now with new, alternative lenders entering the commercial lending market. However, the rural sector has not attracted the same level of interest, generally because many don't understand how farm and rural businesses work. Nonetheless, there are options out there if you know where to look.

Planning must be your first step

Regardless of the funding source or type, preparation is the first and most important step. A strong, realistic and well-presented business plan is crucial in helping to secure finance or grant funding. You often only get one chance to make a good impression, so you must make it count by presenting a robust plan. Get it right and you earn the trust of lenders or grant donors, get it wrong and you may not get your business off the ground.

You'll need to include your plans and goals coupled with substantiated financial and cashflow projections. Detail the business idea, your experience, how it is sufficiently different to your competitors and how you will market the business. You'll need to be clear on the finance you need, your ability to repay any loan, your break-even point and what your personal drawings will be.

There's a lot of information to include, and a lot to lose by not preparing well. You may find you need professional help and could involve your accountant, consultant or other financial expert. The process for some types of funding can take a long time, so make sure you plan well in advance.



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Conventional types of non-bank funding

With a robust business plan, you'll now be ready to approach lenders or grant donors. Before turning to banks, explore some of the following routes.

- **Your own capital:** You may have cash or unused or under-utilised assets or investments which you could sell. Consider this first, it may be a more cost-effective option than borrowing to start or expand the business.
- **Family loans or accelerated inheritance plans:** You can think about asking family or friends for a loan but be very clear on any final terms and put it in writing. With a farm business, accelerating any inheritance plans may help younger family members get bank funding for a new enterprise, and could be a more tax efficient route in the long term. Seek advice from your accountant.
- **Government grants:** Government grants could be available for rural and small businesses. Some are very local, so you should be prepared to do a lot of research. The Government's **Business Finance Support Finder** is a useful tool for finding relevant funding. The funding pots can be relatively small, the applications are often complicated, and success is not guaranteed, but you must explore them as any grant funds are helpful. For example, the **RDPE Growth Programme** provides funding for projects in England which create jobs and growth in the rural economy.
Other funding is available for Wales, Scotland and Northern Ireland. LEADER funding is available to businesses through their Local Action Group. New entrant grant schemes operate in Scotland and a new Young Entrant Support Scheme (YESS) has recently been announced in Wales.
- **Other grants:** There are other grant options for farm and rural businesses. **The Princes Countryside Trust Fund** provide grant funding to improve the viability for family farm businesses and to sustain rural communities. For young entrepreneurs, whilst not a grant, the **Fresh Start Land Enterprise Centre Land Partnerships** could provide land-based options.
- **Stipends or bursaries:** There are some local trusts and pots of money that benevolent people, charities or organisations have made available. The sums can be small, but they are worth looking for.

Options for non-bank funding:

- Your own funds
- Government grants
- Family loans or accelerated inheritance plans

Other grants:

- Stipends or bursaries
- Alternative types of funding
- Crowdfunding
- Peer-to-peer lending
- Private investors

"It's vital you plan any start-up or investment project properly before approaching lenders."



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Conventional types of bank finance

After exploring grant funding and your or your family's ability to fund new projects or expansion, look at high street bank or other lender options. Many businesses will turn to their existing bank, but it's important to look at the whole of the market and check offers from other sources to make sure you are getting the best deal and terms.

- **Overdraft:** As a short-term option an overdraft can aid start-up costs, bolster cashflow and accommodate the peaks and troughs in cashflow associated with the seasonal fluctuations experienced in farming and rural enterprises.
- **Unsecured business loan:** These offer short-term funding for working capital investment. They are usually quick to access through the high street banks and other lenders, providing you meet the criteria. But expect to pay higher interest rates and many require some history of trading. A new entrant could look at Start-Up Loans which is a government backed loan scheme to help new businesses.
- **Mortgages:** These offer loans secured against your property. They are most suited to purchases or development of long-term assets such as land or buildings. Whether from high street banks, rural lenders or private banks, they will come with different costs, terms and covenants. Using a consultant or broker who has a thorough understanding of the lending market can help match you to suitable lenders and negotiate terms on your behalf. A mortgage with a parent acting as a guarantor could be an option for a start-up businesses.
- **Asset or machinery finance:** This is finance used to purchase equipment or machinery for business tasks. You pay for the equipment over its working life. A range of banks and lenders provide asset finance. Talk to your accountant first as they will advise you on how to make tax savings too.
- **Invoice discounting and factoring:** Both factoring and invoice discounting enable businesses to release the cash tied up in unpaid invoices. A bank or lender will advance money against outstanding debtor balances, which gives you cashflow without having to wait to receive payment.



"Look at all the available options and don't take the first lending offer you get."



New or alternative types of funding

Many alternative lenders are now entering the lending market, with some, but not all operating in the rural market place. Alternative lending can play its part in helping businesses start, grow or adapt as they will consider propositions outside the normal high street bank criteria.

- **Crowdfunding:** This is a way of funding a project by raising small amounts of money from many people. It's a popular method now, but the market is crowded. You must attract lots of investors to make it work and success rates are questionable.
- **Peer-to-peer lending:** This is borrowing and lending between individuals or businesses generally through online services without a traditional bank or building society being involved. If you want to borrow money, the services match you up with people willing to lend it to you. They often require a trading history.
- **Private investors:** There are lots of pools of funds around at present or private investors (business angels) could invest in the business. They tend to be short term and expect quick returns.

Funds will be available for the right businesses with the right propositions, but it's vital you plan any start-up or investment project properly before approaching lenders and seek advice from your accountant or financial consultant before embarking on any borrowing.

It's important you know the total cost of repaying the debt and that any borrowing is affordable by a decent margin. Stress test the investment against falling prices and raising interest rates to make sure you can still afford repayments, and still make more money than you invested, if market conditions change.

Finally, look at all the available options and don't take the first lending offer you get. You can get better deals by shopping around and negotiating margins and terms.

Author information

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Jim has specialised in agricultural and rural finance since graduating in agriculture. He worked for some of the leading funding providers including the Lloyds Banking Group, ING (the Dutch banking group) and the RBS Group before forming Rural and Business Specialists Ltd in 2004. He now uses his specialist knowledge and independence to help farm and rural business to find the most suitable finance to establish, grow and succeed.

