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 SOURCES OF SHORT-TERM FINANCE AND INVESTMENT OPPORTUNITIES

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ABSTRACT
Global credit crunch makes difficult to obtain bank credits, for many small firms to find short-term finance resources getting the crucial issue. In such a situation many firms delay their capital expenditures till indefinite time. Short-term investment opportunities appears most reliable direction to use cash surplus to maintain liquidity during financial market volatility. This paper investigates the main directions of short term financing opportunities for small businesses and research’s the implementation methods of investment decision making. At the end author makes some conclusion the characteristics of new small business environment and gives his opinion about improvements of small businesses.

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INTRODUCTION
As credit crunch makes difficult to obtain bank credits, for many small firms to find short-term finance resources getting the crucial issue. In such a situation many firms delay their capital expenditures till indefinite time. Short-term investment opportunities appears most reliable direction to use cash surplus to maintain liquidity during financial market volatility. Below we investigate some problems for financing and investment direction for small businesses. Short-term finance may be obtained from a variety of sources including:
• Trade credit from suppliers;
• Overdraft;
• Short-term loans;
• Using trade receivables as security for a loan, through factoring or invoice discounting.

There are other sources that tend to be specifically associated with financing export sales such as;
• Bills of exchange;
• Documentary credits.

Trade credit
Trade credit is an important source of finance for most businesses. Trade credit is the money owed to the suppliers of goods and services as a result of purchasing goods or services on one date, but paying for those goods on a later date. The credit is often viewed as being a free source of finance as interest is not usually charged by a supplier unless payments is overdue. Trade credit does have a cost, although those costs may be hidden.

As interest is not usually charged on trade credit, the temptation is to maximize the use of trade credit, but it is important that this is not abused. Exceeding the normal credit terms may lead to a number of potential problems:
• Difficulty of obtaining credit terms from new suppliers;
• Cash-flow problems for key suppliers that could adversely affect to viability of both organizations;
• Existing suppliers may be unwilling to extend further credit;
• Supplier goodwill will be eroded;
• Suppliers may refuse to supply in the future;
• Credit rating may be reduced.

The problems of late payment have been a particular concern for smaller entities selling goods on credit to large entities in a number of countries, including in Uzbekistan. Entities that suffer from late payment usually have to resort to additional overdraft finance while waiting for their customers to pay.

Overdrafts
One of the most important external sources of short-term finance, particularly for small firms, is the overdraft. Features that make the overdraft popular are:
• Flexibility. The bank will agree to a maximum overdraft limit or facility. The borrower may not require the full facility immediately, but may draw funds up to the limit as and when required.
• Minimum documentation. Legal documentations is fairly minimal when arranging an overdraft. Key elements of the documentation will be to state the maximum overdraft limit, the interest payable and the security required.
• Interest is only paid on the amount borrowed, rather than on the full facility.

The drawback of overdraft finance is that it is, strictly speaking, repayable on demand, which means that the facility could be withdrawn at any time. Entities with few assets to offer as security will find it difficult to arrange further overdraft finance. The interest rate charged by the bank will vary depending on the perceived credit risk of the borrower.

Term loans
Term loans are offered by the high street banks and their popularity has increased for a number of reasons, not least their accessibility, which is of importance to smaller business. A term loan is for a fixed amount borrowed and an arrangement fee is payable dependent on the amount borrowed.

Term loans also have the following qualities:
• They are negotiated easily and quickly. This is particularly important when a cash-flow problem has not been identified until recently and a quick but significant fix is needed.


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High street banks

This may be important given the uncertainty that exists with interest rates.

Variable interest rates. This may be important given the uncertainty that exists with interest rates.

Local authority deposits

Local authorities have a requirement for short-term cash, with terms ranging from overnight to 12 months or more. Interest would be payable on these deposits.

Commercial paper

Large entities may issue unsecured short-term loan notes, referred to as commercial paper. These loan notes will generally mature within 9 months, typically between a week and 3 months. Commercial paper is negotiable, so the bills can be sold on the discount market at any time before their maturity date. There is an implied rate of interest in the price at which the commercial paper is traded.

Local authority bonds

These bonds are issued by local authorities and may be purchased with their remaining maturity. They are tradable, but have a lower level of marketability than most marketable securities, although this is dependent upon the size of the particular local authority.

Corporate bonds

These are bonds issued by entities to raise debt finance. They are long term, but are tradable and thus can be sold money markets at any time. The level of liquidity depends on the cumulative volume issued by the entity. The level of risk depends on the individual entity and on the terms of the bonds, but a credit score is available from credit rating agencies.

Government bonds

These are bonds issued by a government. They normally have lower default risk than corporate bonds (depending upon the government that issued them). They are tradable in money markets and tend to be more liquid than corporate bonds as they are issued in higher volumes.

Risk and return

When investing surplus cash in short-term investments, consideration must be given to the trade-off between return and risk. The liquidity of the investments must also be considered, how quickly could the investment be realized if it is required.2

- **Default risk.** The risk than interest and/or principal will not be paid on schedule on fixed interest investments. Most short-term investment in marketable securities is confined to investments with negligible risk of default.

- **Price risk.** Where interest rates change and this has not been anticipated, this will have an impact upon the tradable value of a security. Thus, if interest rates rise unexpectedly, than the value of a tradable fixed interest security will tend to fall until its yield is equal to the equivalent market yield for that type of security. If securities are held to redemption, the full nominal value is repaid, but the risk still exists in the opportunity cost of the higher interest lost on alternative investments. Financial managers normally wish to avoid substantial price risk.

- **Foreign exchange risk.** If the funds are invested in an overseas currency, there is the risk that exchange rate movements may reduce the value of the principal in terms of the domestic currency. Given that the entity may purchase an overseas entity, then the investment may represent hedging against this in terms of currency matching. This may actually reduce risk. This, of course,

- **Certificates of deposit**

  Certificates of deposit (CD) are issued by the banks at a fixed interest rate for a fixed term (usually between 3 and 5 years). CDs are negotiable documents for which there is an active secondary market, meaning that the holder of a CD can realize the investment on the discount market at any time.

  Money market accounts. Most major financial institutions offer schemes for investment in the money market at variable rates of interest. There is a large money market in the UK for inter-bank borrowing and lending, with terms ranging from overnight to 12 months or more. Large entities will be able to lend surplus cash directly to a borrowing bank on the inter-bank market.

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depends upon identifying the particular country in which the entity is to be purchased.

- **Taxation and regulation risk.** Unexpected changes in tax rates or other regulation changes may impact upon the tradable value of a marketable security.

- **Return.** Managers will usually try to achieve the maximum yield possible, consistent with a satisfactory level of risk and marketability. It is unlikely that short-term cash surpluses will be invested in equities owing to the risks associated with achieving that return over a short period.

- **Liquidity.** Managers need to consider the ease with which they can access the invested funds if their forecasts prove inaccurate. For example, treasury bills and certificates of deposit can be traded in the market and realized at any time, whereas a fixed term deposit may not be available until the end of the deposit term.

Credit crunch makes extra pressure to Financial managers to be cautious when making investment decisions even it negatively affects to their bonus schemes and encourages to take only low risk projects.3

**CONCLUSION**

The following are the recommendations to improve post-crisis management of short-term finance and investment plans in small business environment:

1. Risk-management improvement and optimization of risk management tools and options needed to be implemented to stimulus small businesses in Uzbekistan;

2. The increase efficiency of usage of the resources of financial institution gives extra boost to economic recovery;

3. Implementation of production centers will encourage regional investment attraction;

4. Communal service infrastructure needed to be improved to develop regional economy.

**REFERENCES**


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