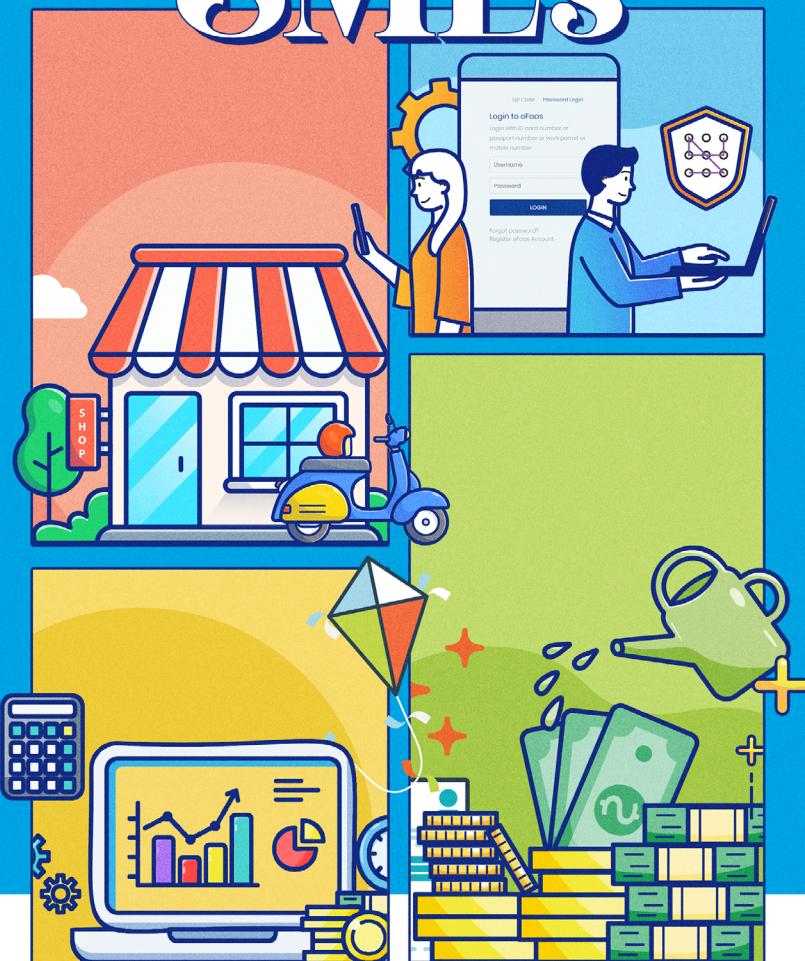


SME Handbook | Volume 1

Introduction to SMEs



SME Handbook | Volume 1

Introduction to SMEs



 Ministry of
Economic Development
Republic of Maldives

 **BCC**
BUSINESS CENTER
CORPORATION

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<https://bcc.mv/>

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Preface

The SME Handbook is your guide to finding opportunities and overcoming challenges as an SME. This handbook is written to assist you from the start of your SME to managing stakeholders and day-to-day activities. Walking the road to success is no simple task for any business. Hence, this handbook will cover the necessary processes, planning tools, and practical approaches that are commonly used by SMEs to further their progress in this field.

The explanation of the essential tools and processes for an SME can be quite long. As such, the SME Book will be split between multiple volumes for your convenience. This book is the first volume of the SME Book, which will focus on providing an overview of SMEs, the registration process, obtaining finance, and strategic & business planning.

The SME Handbook is an initiative of the Ministry of Economic Development and is authored by Business Center Corporation (BCC) in collaboration with the United Nations Development Programme (UNDP) in the Maldives with the generous contribution of the Government of Japan. This handbook is a testament to their commitment to supporting the growth and development of SMEs in Maldives.



About BCC

Business Center Corporation (BCC) is the implementing body of MSME development projects initiated by the Ministry of Economic Development. The organization was incorporated in 2017 by presidential decree with the purpose of enabling a competitive and innovative MSME developmental environment. As such, the main objective of BCC is to create this developmental environment for MSMEs through various support mechanisms that allows these businesses to sustain, scale, and grow.



Mission Statement of BCC

Foster, support, & promote inclusive economic growth through the provision of a full range of business services to support Micro, Small, & Medium Enterprises.



Vision of BCC

Create an enabling and inclusive economy of competitive, innovative, and sustainable MSMEs with access to infrastructure, assistance, and global opportunities to thrive in.

Role of BCC

BCC provides numerous services and undertakes various functions in its progress towards the development of its organizational objectives.



Consulting & Advisory Services

Lack of business knowledge is a significant obstacle faced by entrepreneurs when starting and operating a business. To address this, BCC offers expert consulting and advisory services. Our experienced professionals provide valuable guidance and strategic advice to businesses, helping them make informed decisions, identify new opportunities, and overcome challenges. Through our consultation services, we aim to enhance the performance and success of MSMEs.



Access to Finance

Access to finance is a major hurdle for many aspiring entrepreneurs and MSMEs. Recognizing this challenge, BCC provides valuable information on funding options and strategies to help businesses obtain the necessary financial resources. Moreover, we actively work to foster investor confidence and create networking platforms that facilitate collaboration between small businesses and investors. Our aim is to bridge the financing gap and empower businesses to thrive and grow.



Trade Facilitation

Many MSMEs in the Maldives face challenges in product creation, development, and expanding into new markets due to the lack of available infrastructure. BCC aims to overcome these hurdles by providing the required infrastructure and support to enhance the development and export potential of MSME products. We focus on improving marketability, achieving consistency in products and services, and empowering businesses to enter global markets confidently.



Access To Market

Access to markets is a fundamental concern for entrepreneurs, as they often lack platforms to showcase their products and access a broader customer base. BCC addresses this issue by developing multiple platforms that allow MSMEs to exhibit their potential, gain brand visibility, and secure market access both domestically and globally. Our flagship initiatives, Authentic Maldives, and the SME Hub, serve as effective channels for businesses to connect with customers, expand their market presence, and establish strong brand identities.



Outreach

Lack of business knowledge among and inability to capitalize on opportunities can result in unfavorable consequences in an ever-changing market. In light of this concern, BCC assumes a role to support MSMEs by disseminating valuable information. To achieve this, BCC has established the Maldives Business Network (MBN), a dedicated media channel aimed at promoting MSMEs. Through MBN, we endeavor to empower entrepreneurs with the knowledge and insights necessary to make informed decisions, navigate challenges, and seize opportunities effectively.



Entrepreneurship Development

Major concerns affirmed by SMEs include difficulties faced in effectively managing their resources and business planning. To address such concerns, BCC facilitates the development and enhancement of entrepreneurs' abilities and startups' potential. As such, we provide a number of services, which can range from being directly involved with the development of entrepreneurs with training and workshops to auxiliary services such as the provision of co-workspaces. By providing entrepreneurs with the essential skills, knowledge, and environment BCC aims to lead MSMEs to success.

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CHAPTER

1

Introduction



1.1 What is an SME?

Small and Medium-sized Enterprises, hereby referred to as SMEs, are by definition, those businesses that are smaller in size compared to large corporations. SMEs are often regarded as the key drivers of growth in an economy due to their contribution to GDP and job creation.



1.2 Classification of SMEs

1.2.1 Overview of Classification

This brings us to the question, **how small is a small enterprise compared to a medium enterprise? And how can you differentiate between these?** In terms of classification, the criteria for determining the size of an SME can vary depending on the country or region. This can include a number of factors such as the number of employees, annual revenue attained by the enterprise, and total assets. Regardless, generally, SMEs are defined by the number of employees and/or the level of attained annual revenue.

While the term SME is widely acknowledged and often well understood, a less common classification also differentiates between micro-sized enterprises. The term MSME was introduced by India as numerous 'micro-sized' businesses play a key role in the development of India's economy. Following this, numerous other countries have also classified their SME Act to differentiate between micro-sized businesses and small businesses. Regardless, the classification of SMEs still varies widely across the globe.

1.2.2 Classification of SMEs in Maldives

"Why is all this distinction necessary?", you may ask. It is very useful for you to know if your company is a micro, small, medium sized enterprise as this allows you to identify the appropriate financing options, what government support is applicable, how you should structure your business, and so on. In reference to the First Amendment to the Small and Medium Enterprise Act [17/2021] of Maldives, the classification of SMEs in the Maldives is based on three main indicators. These are as follows:



Additionally, the classification of SMEs in the Maldives is also defined to include MSMEs. Regardless, in this book, SMEs and MSMEs will be used interchangeably unless mentioned otherwise. As such, the classification of SMEs can be summarized as follows.

Classification	Number of Employees	Total Annual Revenue for a Year (MVR)	Total Net Profit Attained within a Year (MVR)
Micro	0 to 5	Up to 1,000,000	Up to 250,000
Small	6 to 30	1,000,001 to 10,000,000	250,001 to 2,500,000
Medium	31 to 100	10,000,001 to 30,000,000	2,500,001 to 5,000,000

If a business exceeds any one of the boundaries set by a category, it does not mean that the business will automatically be placed in the next level of classification. For instance, if an enterprise earns an annual revenue of MVR 700,000 and a net profit of MVR 60,000 (which is within the boundary of a micro business), while employing 6 staff (which exceeds the boundary for a micro business), it does not necessarily mean that the business will be regarded as a small enterprise. Instead, SMEs are reclassified based on a weighted formula. Further provisions regarding SME Classification can be found in the Second Amendment to the Small and Medium Enterprise [Act [5/2022]

For more info regarding the classification of SMEs you can refer to the SME Act at <https://trade.gov.mv/laws-and-regulations-dv/>



INITIATIVE OF



OPERATED BY



DEVELOPMENT PARTNERS



DIGITAL PARTNER



Seed

BY BCC

A workspace for everyone

Get productive with
your side hustles,
entrepreneurial ideas
& personal development.



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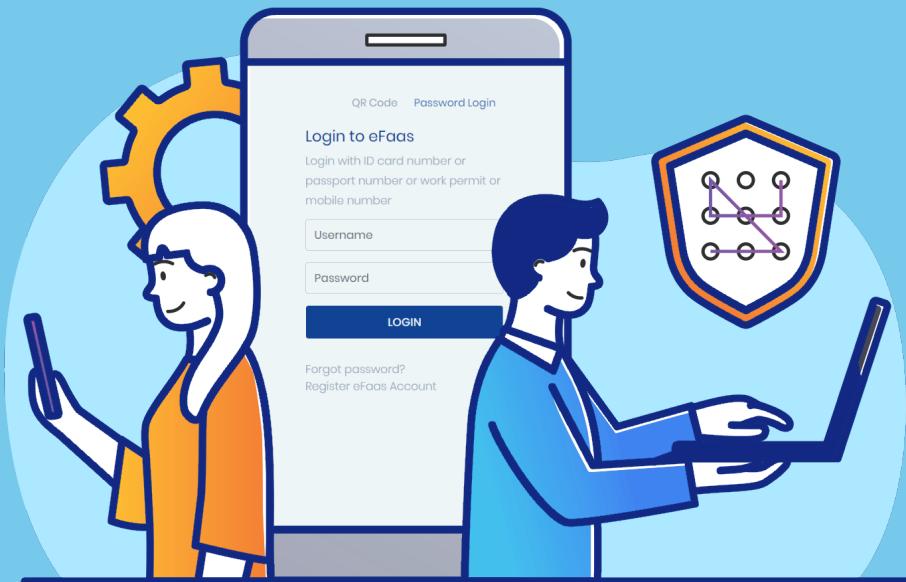
SEEDBYBCC



CHAPTER

2

Business & SME Registration



The word ‘registration’ in this context refers to creating an official legal record of the existence and specifics of your business. In this book, we will explore business registration from the perspective of an SME. The business registration process includes choosing and registering a business name and registering your business entity at the Ministry of Economic Development by providing the necessary documents. The specifics of this process can vary depending on the type of business. **After the business registration is completed, the SMEs are encouraged to register as an SME to complete the registration process.**

2.1 Overview of the SME Registration Process

Provided below is an overview of the registration process for an SME.



2.2 Importance of Completing your Registration as an SME



Legal Compliance & Protection: Registering your business is part of the legal requirements for a business. Failing to register your business can result in fines and penalties. Additionally, it allows you to fulfill other requirements such as obtaining licenses, permits, and registering for taxation.



Establishing Credibility: Registering your business gives it validity and assures customers, suppliers, and other businesses to trust and do business with you.



Protecting Your Business Name: Registering your business allows you to claim and protect your business name, so that no other businesses can use it.



Access to Funding: Numerous funding sources are only available to SMEs. Funding sources, such as bank loans, require the registration process to be completed before they consider the provision of funding.



Access to SME Only Initiatives: There are numerous initiatives that only accommodate MSMEs. For Instance, BCC developed the SME Hub¹ specifically to provide market access for MSMEs. At the SME Hub, a dozen kiosks are dedicated for registered MSMEs to showcase their products and grow their businesses. Registering as an MSME would mean that your business would qualify for these benefits.

¹ The SME Hub is an initiative by Ministry of Economic Development as the first-of-its-kind, get-together center for entrepreneurs and targeted towards local MSMEs. This hub is intended to be an avenue for entrepreneurs from various industries. SME Hub offers market spaces with affordable kiosks to MSMEs where they can sell their products and services.



Formalizing your business: Registering your business can help you establish clear roles, responsibilities, and ensure that your business is structured in a way that maximizes its chances of success.

Note: Two Different Types of Registration.

There are two different types of registrations, SME Registration and Business Registration. The SME Registration process can only be initiated after you complete the Business Registration process and receive your Business Registration Certificate.

2.5 Choosing a Type of Business

Now that we have established the importance of completing the registration process as an SME, to proceed with the registration, you should first select the type of business entity. In the SME Book, we will refer to this as a 'legal entity'. The type of legal entity you choose will have major implications on how your business will operate. As such, this will affect high level decisions such as taking loans, setting up new business activities, introducing new partners/shareholders to your business, etc. Provided below is a list of legal entities that you can choose for your business.



Sole Proprietorship



General Partnership



Limited Liability Partnership



Private Limited Company

As part of understanding the types and the differences between legal entities, we should understand a few concepts that relate to the topic. One of these concepts is the concept of liabilities and the difference between "limited liabilities" and "unlimited liabilities". Provided below is a technical definition of these concepts.

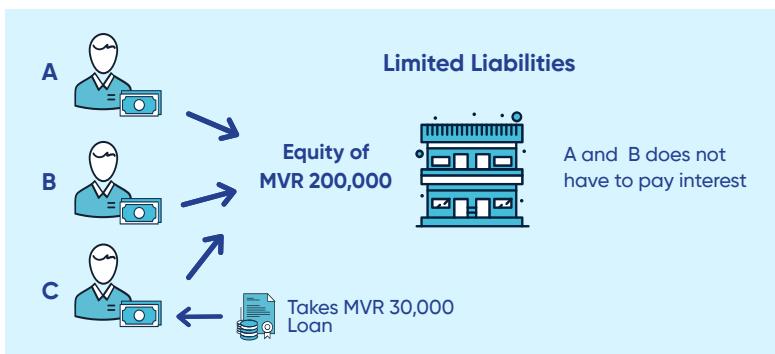
Unlimited Liabilities:

This is a situation where the owners of the business are personally responsible for the debts of the business.



Limited Liabilities:

This is a situation where the owners of the business are only responsible for the amount of equity they have put into their business.



Hence, this would mean that your only loss on the liquidation of your business is what you had initially invested into the business. And that you are not required to make any further payments to help settle the debts of the business.

For instance, if a sole proprietorship owes one of their suppliers a large sum of money for their inventories, the owner of the sole proprietorship will have to personally pay off this sum, even if it means selling their personal assets. Contrastingly, the owners of a Private Limited Company will not be personally liable. Their creditors will only be able seize the assets of the company and not the personal assets of the owners.

However, this **does not mean that you do not need to worry about the debts of your business if you are registered as an entity that has limited liability.**

We will explore the concept of liabilities more in the next volume of the SME Book. Hence, now that you have a general understanding of what liabilities mean, let us move on to understanding legal entity.

Provided below are the differences between the identified legal entities.

Sole Proprietorship



A business owned and run by one individual, with no legal distinction between the owner and the business. The owner has 'unlimited liability' and is personally liable for all debts and obligations of the business.

General Partnership



A business owned and run by two or more individuals, with no legal distinction between the partners and the business. The partners have 'unlimited liability' and are personally liable for all debts and obligations of the business.

Limited Liability Partnership



This is a type of partnership in which some or all partners have limited liability for the debts and obligations of the business.



Private Limited Company

A type of company in which the shareholders have limited liability for the company's debts.

It should be noted that there are many other differences between the legal entities. Regardless, this introduction into legal entities should give you an idea of what type of legal entity is appropriate for your company. We will explore the concepts of legal entities, liabilities, and ownership in depth in the next volume. Provided below is a quick summary of the types of legal entities for your convenience.

Type of Business Entity	Sole Proprietorship	General Partnership	Limited Liability Partnership	Private Limited Company
Liability Type	Unlimited	Unlimited	Limited	Limited
Registration Fee	MVR 500	MVR 2,000	MVR 2,000	MVR 2,000
Annual Fee	10-year Validity	MVR 2000	MVR 2000	MVR 2000 + (% of equity)
Number of Owners / Partners / Shareholders	1	As Defined in Partnership Agreement	As Defined in Partnership Agreement	50
Type of Shareholders	Natural Only	Natural Only	Natural & Legal	Natural & Legal

Note: Natural vs Legal Shareholders

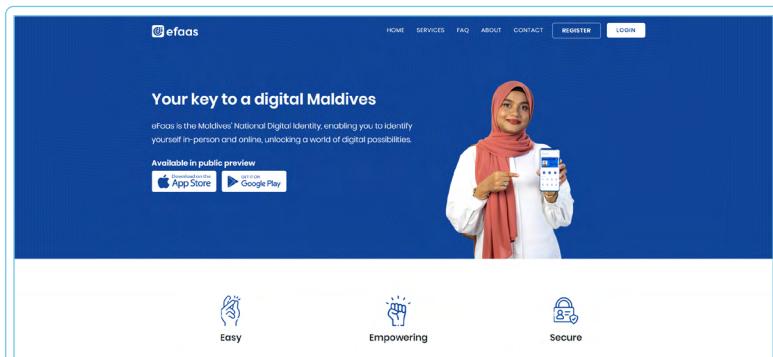
A shareholder can be either a natural person or a legal person. Where a shareholder is a natural person, it is an individual who personally owns shares in a company. In the case of a legal person, it is a legal entity that owns shares in a company. This legal entity is treated as a separate person from its actual owners in the eyes of the law. In practice, this distinction is important because it allows companies and organizations to conduct business and manage their finances as separate entities from their owners and limit the liability of the owners.

2.1 The Registration Process

Now that you have a general idea of the type of legal entity for your company, next let us look at the registration process. In this section, we will go through an overview of the precursors to the registration process.

2.1.1 Registering your eFaas Account

You can register your business via the Business Portal. To access the Business Portal, you will need an active eFaas account. eFaas is a digital ID card that enables you to access numerous government services. You can register your eFaas account via eFaas website, the business portal, or over the counter at the Ministry of Economic Development.



Note: The Business Portal is a platform by Ministry of Economic Development

The Business Portal is an online platform by the Ministry of Economic Development, presented as a one-stop portal for all business-related services. The portal was initiated as part of the ministry's efforts to reduce counter services and increase its online presence.

To register your eFaas account you will need to provide the following:

National ID Card Number

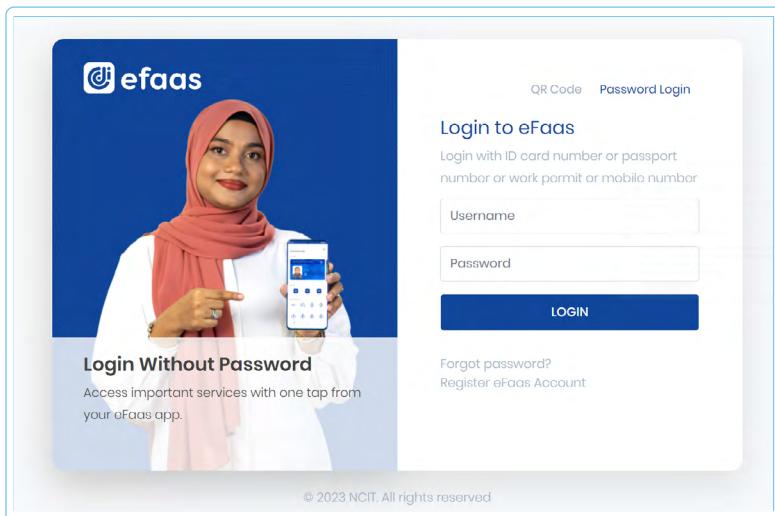
A Passphrase

ID Card Serial

Mobile Number

A Password

Email



After you register your eFaas account and verify your credentials, you will be provided access to the business portal.

Register efaas at <https://efaas.egov.mv/>



Visit the business portal at <https://business.egov.mv/>



Login to your business portal account at
<https://business.egov.mv/Account/Login>



2.1.2 Reserving a Business Name

The next step in the registration process is to reserve a name for your business. Your business name is reserved for both (1) business activity and (2) business entity. However, your business activity can only be registered after the business entity is registered.

It should be noted that your business name is reserved for 14 days and during this time no other business can reserve or register the name you have reserved. Hence, it is recommended to register your business during this period and if the duration expires before you register, you will be required to reserve the name again. Additionally, if your reservation expires, it will also be possible for another party to reserve and possibly register the name.

2.1.5 Documents Required for Registration

The documents required for registration can vary depending on the type of business. Hence, we have summarized this in the table below for your convenience.

Document	Sole Proprietorship	General/ Limited Liability Partnership	Private Limited Company
NID Card Copy of Applicant	✓		
NID Card Copies of All Legal Persons (Shareholders, Directors, Partners)	✓	✓	✓
Representative Acceptance letter (If any assigned)	✓		
Representative Acceptance ID copy (If any assigned)	✓		
Partnership Agreement	✓		
Declaration from Managing Director/Partner	✓	✓	✓
Declaration from Company Secretary		✓	
Memorandum of Association		✓	
Articles of Association		✓	
Tax Responsible Person Information Form	✓	✓	✓

You can download the templates of Memorandum of Association, Articles of Association, and the Partnership Agreement from the publications page of the business portal.

Visit the publications page of the business portal at

<https://business.egov.mv/Home/LawsRegulation>



Memorandum of Association vs Articles of Association

Memorandum of Association is a legal document that outlines the constitution and objectives of a company. It includes the company's name, registered office address, share capital, and founding members.

Articles of Association is a legal document that sets out the internal rules and regulations governing the company's operations and management. It covers a range of topics, including the management of the company, conduct of meetings, transfer of shares, appointment and removal of directors, and distribution of profits.

Both documents are important for the establishment and governance of a company and is required by law depending on the type of legal entity selected.

2.1.1

Registering your Business Entity

In this chapter, we have highlighted the importance of registering your business, explained legal entity, and provided an overview of the registration process. As evident from this chapter, the registration process can vary in terms of the registration process, documents required, how you would interact with the registration portal, etc. depending on the type of legal entity selected.

After completing the business registration process, you shall then register your business as an SME. It should be noted that SME registration can only be completed after the business registration is completed.

Volume 2 of the SME Handbook will provide step by step guidance for Name registration and business registration.



WHO ARE WE?

SME Hub is a unique shopping mall that is dedicated to promoting and supporting local Micro, Small, and Medium Enterprises (MSMEs).

The mall is comprised of several businesses, including a Café, Plant Store, Bookstore, and a Food Court, all of which are operated by local MSMEs.

GROUND FLOOR

Café
Plant Store
Book Store
Performance Area

FIRST FLOOR

19 Food Kiosks

SECOND FLOOR

(COMING SOON)

Garments Kiosks
Arts & Crafts Kiosks
Cinema
Gaming Arcade
Art Gallery
Salon
Kids Play Area



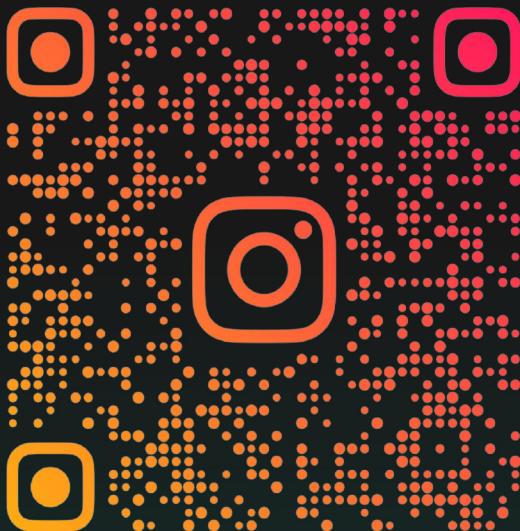
AN INITIATIVE OF:

Ministry of
Economic Development
Republic of Maldives

IMPLEMENTED BY:**DEVELOPMENT
PARTNER:****TECHNOLOGY
PARTNER:**

LOCATION:

SME Hub
Allied Building,
Chandhanee Magu, Malé



SMEHUB.MV

CHAPTER



Paving the Path for your Business



As a business owner, you should have a general idea of what your business will be doing and where it will be heading. As these will prominently vary for every business, we will not be looking into the specifics, but explore some of the instruments used in this procedure. These instruments can at times be intertwined with each other. Hence, it would be important to obtain a general understanding of the listed concepts in order to visualize your business direction.

3.1 Setting Up a Company Account

Once the SME registration process has been completed, most businesses hurry to create a company account. A company account refers to a bank account that is set up specifically with the purpose of managing the financial transactions of your SME. Often, this is a dedicated current account offered specially for businesses by a bank. These business accounts often offer additional benefits when compared to personal accounts. The benefits include higher levels of flexibility, convenience when making overseas payments, access to Point of Sale (POS) terminals, corporate cash cards, and so on. However, it should be noted that a dedicated business account may require a higher minimum deposit when compared to a personal account.

Regardless of what benefits your bank offers to businesses for their business account, it is important that you make a dedicated company account for multiple reasons. Having a company account would mean that the financial transactions of the owners and the business can be separated. This would help your SME to manage its financial transactions in an organized and efficient manner, which can lead to improved credibility with suppliers, customers, and investors. Furthermore, a company account would assist in creating a clear record of the company's financial activities. This is crucial for tax purposes, financial reporting, and maintaining the company's legal standing. Additionally, this will also assist you in obtaining funding through banks and institutes.

5.2 Mission & Vision Statement

When visiting the website of an organization or going through their promotional materials, you may have noticed that companies often have a statement called a 'Mission', which is often followed by another statement named 'Vision'. If you think that these statements are often formulated by organizations because they serve some purpose, you would be on point! So, what are mission and vision statements and what purposes do they serve?

A mission statement is a declaration that defines the overall purpose of the existence of an organization. A mission statement is typically a short, clear, and concise statement that provides direction and purpose for the organization.

A vision statement, on the other hand, is a set of long-term aspirations and goals of an organization. It is a statement of what the company wants to become in the future and how it wants to redefine its environment. A vision statement is typically more inspirational and forward-looking than a mission statement.

Both the mission and vision statements combine to serve several purposes. This can include:

-  Providing direction and focus for the organization by clearly stating what the company does and what it aims to achieve.
-  Helping to align the actions and decisions of employees, stakeholders, and customers with the overall goals and values of the organization.
-  They serve as a guide for making strategic decisions and allocating resources.
-  They help to differentiate a company from its competitors and create a unique brand identity.

Mission & Vision Statement of BCC

Mission

Foster, support, & promote inclusive economic growth through the provision of a full range of business services to support Micro, Small, & Medium Enterprises.

Vision

Create an enabling and inclusive economy of competitive, innovative, and sustainable MSMEs with access to infrastructure, assistance, and global opportunities to thrive in.

3.5 Setting Goals

It is crucial for every business to set goals. These goals help provide direction and focus for your company. Goals also help to motivate and engage employees, as they can see how their work contributes to the overall success of the company. Additionally, having clear goals in place can help to identify potential problems or areas for improvement, and can provide a framework for decision making.

However, not every goal is equal. This does not mean that there are 'right' and 'wrong' goals. But some goals provide better direction and focus for your business. Hence, you should formulate your goals in a way that they retain these qualities.



Specific

Your goals should be clear and well-defined. It should answer questions such as what, why, who, and how.



Measurable

Your goals should be quantifiable so that progress can be tracked, and you can identify the progress towards your goal.



Achievable

Your goals should be realistic and achievable based on the resources and constraints of your business situation.



Relevant

Your goals should be relevant to the overall mission and vision of the organization.



Time-bound

Your goals should have a specific target by when it should be achieved.

These qualities are more commonly known as SMART, and by following this framework, you can create goals that will increase the chances of success.

Example: A SMART Goal

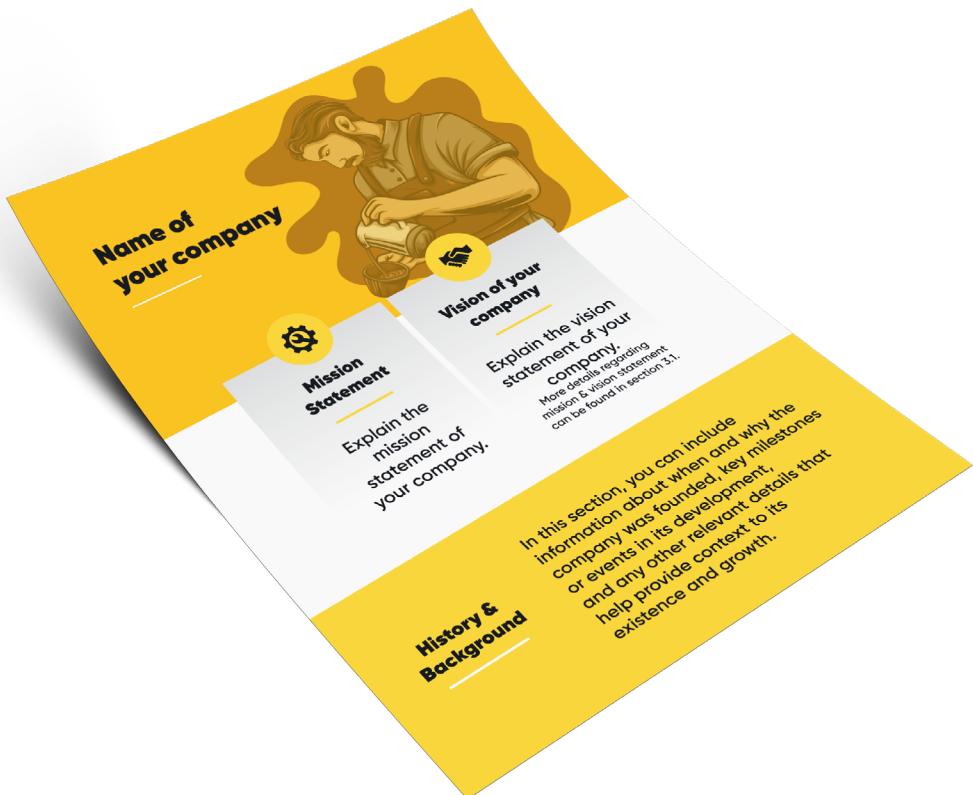
A SMART Goal for a business could be: "Increase sales revenue by 10% within the next 12 months through expanding our online presence by creating a new website and using social media and email marketing campaigns to target new customers."

In this example, the goal is specific (increase sales revenue by 10%), measurable (10% increase in sales), achievable (through expanding online presence), relevant (to the overall mission and objectives of the organization) and time-bound (within the next 12 months).

Your goals can either be (1) long term – which are also known as “strategic goals”, (2) medium-term – also known as “tactical goals”, or (3) short-term – also known as “operational goals”. Operational goals are declared in your operational plan and relate to the day-to-day activities in your organization. These are usually supervised with the use of daily, weekly, or monthly reports. Tactical goals often relate to how you allocate, spend, and acquire resources and are detailed in your business plan, while strategic goals are declared in your strategic plan. In this volume we will only be looking into strategic planning. We will take a more detailed look into business and operational planning in upcoming volumes of the SME Book.

3.1 Creating a Company Profile

If you are interested in connecting with customers and attracting investors, creating a company profile would be an important step. A company profile is a short profile that gives an introduction to the story of your business. Company profiles are regarded as the first and the most versatile marketing tool for a business. A company profile will demonstrate that you are not a faceless business and that people with real goals and determination are leading the business. The length of a company profile can vary from a few pages to a dozen depending on your audience. Provided below is a sample template for a company profile.



Products & Services Offered

A yellow brochure page featuring a central illustration of a barista pouring coffee from a pot into a cup. Below the illustration are six small mugs, each containing a different type of coffee drink: Espresso, Cappuccino, Latte, Mocha, Americano, and Flat White. The text "You can use illustrations to grab the attention of your audience!" is written diagonally across the bottom right of the page.

Customer testimonials

★★★★★ If you have existing customers, you can provide their testimonials regarding their experience with the business. For instance, you can mention how a customer faced a specific problem and how your company assisted to solve the problem. This serves as social proof and can help potential customers feel more confident in your company's ability to deliver on its promises. The testimonials you provide should be short, direct, and authentic.

Contact Information

Contact Information
Company Name:
Contact Number:
Email:
Address:

Be sure to include how to how they can reach out to you as your profile may incite their interest in your business

3.5 Creating a Business Plan

To pave the path of success for your SME, it is important to have a roadmap. And this is the function served by a business plan. If you completed your business and SME registration process, you will have a general idea of where you want to go with your business. However, you may not have the specifics in ink. This is one of the reasons why it is important for you to formulate a business plan.

At this point, if you are not familiar with business plans, you may wonder what a business plan consists of. Regardless of how you decide to structure your business plan, to create a business plan, all you need to do is answer and clarify just several basic questions. The answers to each of these questions can be provided in an appropriate section. Provided below is one way you structure and formulate your business plan.

Section	Questions
Mission & Vision ➔	<p>What is the purpose of your SME?</p> <p>Where do you see your SME in the future?</p>
Business Goals ➔	<p>What do you have to do to achieve your mission and realize your vision?</p>
Market Analysis ➔	<p>What is your target market & what are their characteristics?</p> <p>What is the marketing standing of your competitors?</p>

Products & Services	→	What products and services are you offering? What benefits does your products offer?
Pricing	→	How will you price your product? How does it compare to the market price in terms of value?
Marketing Strategy	→	How will you reach your customers? What will you do to grab their attention?
Operational Plan	→	What are the processes involved in your SME? How will you carry out these processes?
Financial Projections	→	Based on all the previous considerations, where do you expect your SME to be in financial terms within the next few years?

In this volume we have shed some light on some of the questions that should be answered in a business plan. In upcoming volumes, we will be going into the details of how these questions can be answered and what tools businesses use to assist in the process of formulating a business plan.

3.6 Strategic Planning

Why do some firms succeed and why do others fail? How would you even know if you are on the right path? This is what strategy will help you with. A strategy is a long-term plan of action designed to achieve a particular goal or set of goals. A strategy answers 4 main questions. They are:

- 1. Where is your business now?**
- 2. Where do you want to go?**
- 3. How will you get there?**
- 4. How will you know when you get there?**



To solidify your answer to these questions, it is important to detail these in a plan, which is fittingly named a "strategic plan". Your strategic plan should include the following.

Your mission and vision – which sets the purpose and direction of your business.

Analysis of your internal & external environment and your organizational strengths, weaknesses, opportunities & threats (often known as a SWOT analysis) – which identifies your current business situation.

Your strategic goals – which define where you want to go.
Selection of appropriate strategies – which defines how you will approach achieving these goals.

Defining metrics, key performance indicators (KPIs), and timelines – which will assist you in identifying when you achieve your strategic goals.

We have already covered mission, vision, and strategic goals in the previous sections. We will be offering a more detailed look into other components of the strategic plan in future volumes.

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CHAPTER

21

Financing your Business



Once your business is registered and you have a specific goal in mind, next you may be interested in raising finances to achieve your business objectives. Most MSMEs fund their businesses by using their own savings. This is often known as 'bootstrapping' as this is the equivalent of 'gripping your own bootstrap and pulling yourself up'. While financing your business by yourself is a challenging task, it does come with its benefits. Bootstrapping allows one to be free from the opinions and judgements of investors. It allows the entrepreneur to make all the relevant business decisions independently and create something truly innovative. Furthermore, this would mean that you will not be forced to sell your own assets to pay off loans or other borrowed funds.

While sometimes bootstrapping is necessary, most of the time SMEs engage only in bootstrapping due to lack of experience. It is unlikely that most owners can invest the amount of funds necessary to achieve all the business objectives. Additionally, this would mean that only you will be bearing all the business risks. Losing it would mean losing your fortune. Regardless, it can be rather important to raise the necessary funds through other means whenever the situation calls for it.

1.1 Financing Needs

Financing needs for SMEs can be broadly classified into three categories:



Asset Acquisition & Development



Working Capital Management



Trade Financing

1.1.1 Asset Acquisition & Development

This involves financing for acquiring and or developing long-term assets such as property, plant, & equipment (PP&E) or other fixed assets. SMEs may require financing for asset acquisition when establishing their premises, expanding operations, or replacing obsolete assets.

Before we proceed with discussing the financing needs for your SME, there are some basic terms and concepts you should be familiar with. This section will give you an overview of these terms and concepts and attempt to familiarize you with these conceptions.

What is an asset?

An asset is something that a person or a company owns and has value. It can be used to generate income, exchanged for monetary gain, or used to provide future benefits. Assets can include Fixed Assets and Current Assets.

Fixed assets are typically long-term assets that have a useful life of more than one year and are not intended for resale. This can include land, machinery, and building. It is important to remember that the value of an asset can change over its useful life. For this reason, you should keep track of the assets value and ensure that it is being managed properly.

A current asset is an asset that is expected to be converted into cash or consumed within a relatively short period, usually within one year. Examples of current assets include cash, accounts receivable (money owed by customers), inventory (goods held for sale), and prepaid expenses (expenses paid in advance). These assets are considered easily convertible into cash and are vital for supporting the day-to-day operations and meeting short-term obligations of a business.

What are Liabilities?

Liabilities are obligations or debts that a company or individual owes to external parties. It another way of saying that your SME owes something to someone. Liabilities can be Long-term or Short-term (more commonly known as Current Liabilities).

Current liabilities are debts that are expected to be settled within a short period, typically within one year. Examples of current liabilities include accounts payable (money owed to suppliers), short-term loans, accrued expenses (expenses incurred but not yet paid), and taxes payable.

Long-term liabilities, on the other hand, are debts that are due beyond the next 12 months. These can include long-term loans, bonds payable, and mortgages.

1.1.2 Working Capital Management

Let's say you run a small lemonade stand and you need cups, sugar, and lemon, etc. for your daily operations. You fund the daily operations of your lemonade stand with money from your jar of coins. If you have enough coins in the jar you can keep the stand going. If not, you might have to stop selling lemonade. Working capital is like this jar of coins. It is the money that a business needs to keep running its day-to-day operations. It is the cash that a business can use to pay for things like rent, inventory, employee salaries, etc.



Your neighbor might say that they will pay for their lemonade 3 weeks from now and this becomes money that you currently cannot use to buy inventory for your stand. You will likely receive it at a later date, but if you do not have enough cups to sell lemonade today, you may face difficulty keeping the store open tomorrow. This brings us to the cash cycle. The cash cycle is the process of how a business turns the money they use to buy things into the money they receive from customers.

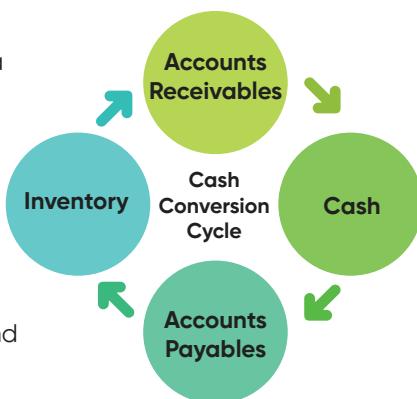
The management of the cash cycle involves four important components.

Receivables: money owed to a business by its customers.

Payables: money a business owes to its suppliers.

Inventory: stock of goods a business holds for sale.

Cash: the physical currency and balances in a business's bank account.



The goal of managing the cash cycle is to make sure that you have enough money to buy the lemons and sugar, and to make sure that your customers pay you for the lemonade before you run out of money. Financing your working capital means ensuring that you have enough money at hand to manage the day-to-day operations of your business.

Cash flow vs profit

Cash flow and profits are not the same thing. While both are important, they measure different aspects of a business's financial health.

Profit is the amount of money a business earns after subtracting all of its expenses, such as rent, salaries, and taxes. It is the difference between what you earn and what you spend.

On the other hand, cash flow refers to the actual cash that comes in and out of a business. This includes the cash received from customers, the cash paid to suppliers and employees, cash spent on investments, etc.

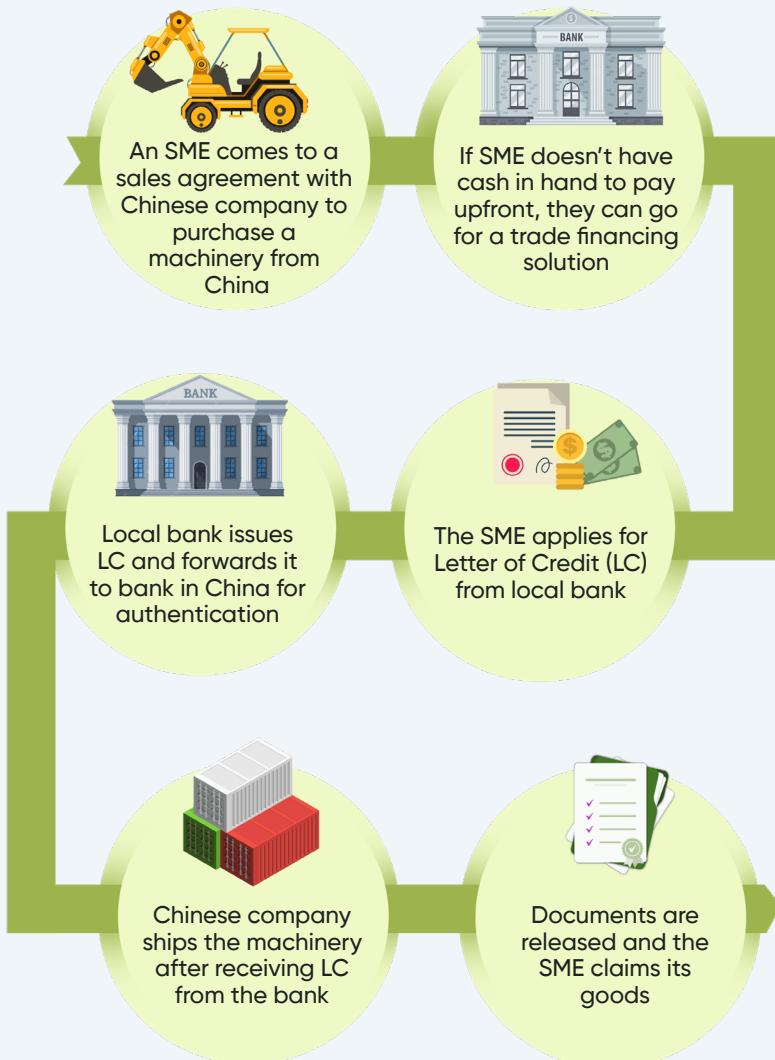
For example, if a business sells a painting for \$100 but allows the customer to pay in 30 days, that sale will count as a profit right away, even though the business has not received the cash yet.

1.1.5 Trade Financing

Trade financing is a type of financial support that helps businesses with their buying and selling activities. It provides financing to buyers, sellers, or intermediaries involved in a trade transaction to help them complete the transaction. This can include things like letters of credit and guarantees.

Trade financing is important because it helps reduce the risks associated with trade transactions, such as non-payment or delayed payment. This makes it easier for businesses to buy and sell goods or services with other businesses, especially in international trade where transactions can be complex and risky.

Let's consider a scenario where a Maldivian company intends to purchase machinery from a Chinese supplier, and the Maldivian company wants to ensure that payment is made securely before the machinery is shipped. Since the Maldivian company may not have sufficient cash immediately available to pay for the machinery upfront, they decide to apply for trade financing from a bank. The bank issues a letter of credit to the Chinese supplier, assuring them that payment will be made once the machinery is delivered, and the agreed-upon conditions are met. This arrangement provides confidence to the Chinese supplier, as they can rely on the bank's guarantee of payment, allowing the machinery to be shipped without concerns about payment delays or default.



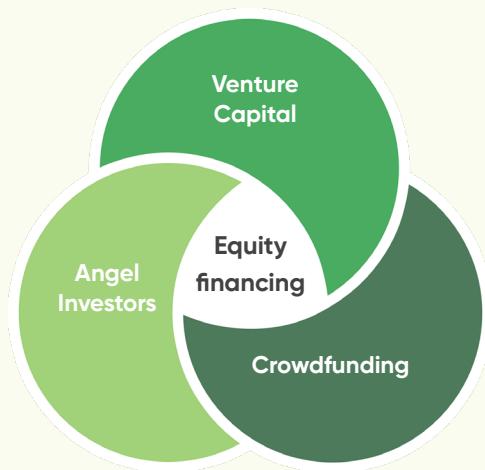
4.2 Types of Financing

In this section we will be looking into the types of financing available for SMEs. In the following sections, we will be looking into the sources where you can obtain financing sources and a summary of these sources. Types of financing for your SME can be split into two main categories. They are:

Debt financing

This involves borrowing money from lenders or investors, which must be repaid with interest over a specified period. In this case, the lenders or investors become creditors to the business and do not have ownership rights. If the borrower is unable to repay the borrowed amount, the lenders or investors can take legal action to recover the amount. Debt financing is beneficial to SMEs as it does not dilute their ownership or control over the business. However, excessive debt can lead to financial strain.

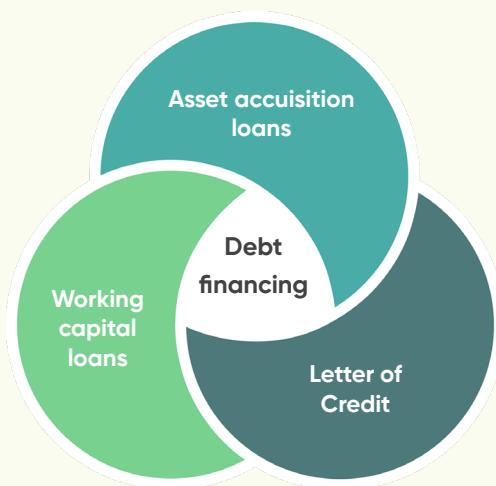
Examples of Equity financing options



Equity financing

This involves selling ownership shares of the business to investors. In this case, the investors become part owners of the business and share in the profits and losses. Equity financing is beneficial to SMEs as it does not require repayment of the investment amount, and the burden of risk is shared among the investors. However, the downside is that SMEs dilute their ownership and control over the business, and they must share the profits with the investors.

Examples of Debt financing options



Debt Financing	Equity Financing
Advantages	
Keep full ownership	Keep full ownership
No obligations after paying debt	No paying back funds
Interest is tax deductible	Gain credibility through Investor networks
Short and long-term options	Investors don't expect Immediate ROI
More cash on hand	Fixed payments for better budgeting
Disadvantages	
Must pay back	Investors returns could be more than debt payments
Could cause cash flow issues	Investor gets some ownership
Usually need collateral	Most consult investor For decisions

Debt & Equity Financing can be short-term or long-term.

Short term financing	Long term financing
Fund immediate short term needs such as fund for working capital	Fund long term investments such as asset acquisitions and expanding operations
Usually for 1 year period	More than 1 year
Shorter repayment period	Longer repayment period
Higher interest rate due to high risk	Low interest rate as risk is spread for a longer duration

1.2.1 Islamic Financing

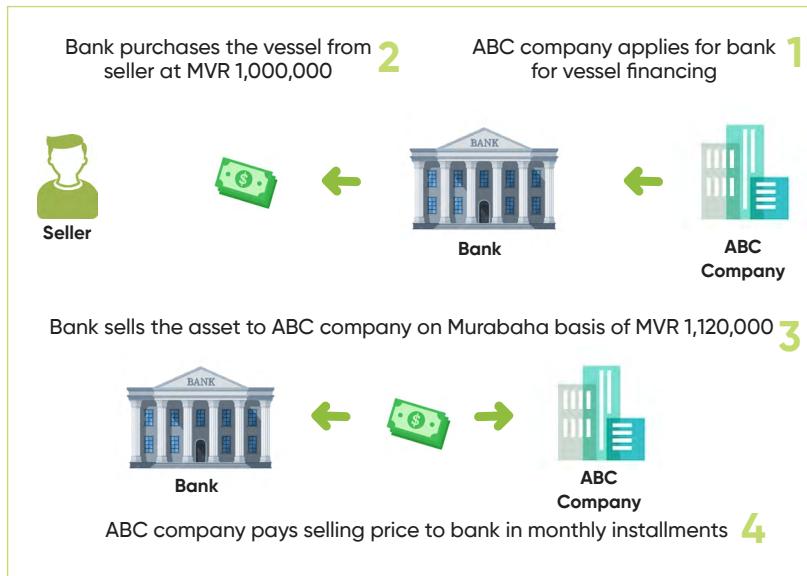
While Islamic Financing options are similar to conventional financing methods, they are different in one very significant way. Islamic financing methods and concepts are shariah compliant. As such, the agreement between the lender and borrower are structurally different in Islamic financing. Islamic Finance considers money as an instrument for measuring value and not an end itself. Islamic Financing options follows the concept that no one should be able to receive more income from just money alone. For this reason, we have differentiated Islamic financing options from conventional methods.

Islamic	Conventional
Profit Rate	FINANCING PROFIT
Fixed Payment Period	MONTHLY INSTALLMENT
Shariah Compliant Activity	BUSINESS SCOPE
Compensation (ta'widh)	LATE PAYMENTS
Enjoy Rebate	EARLY SETTLEMENT

Listed below are some of the main concepts of Islamic financing:

Murabaha

This is a cost-plus-profit arrangement where the lender purchases an asset on behalf of the borrower and then sells it to them at a marked-up price. The borrower pays back the price in installments. This is commonly used for financing the purchase of goods, such as a car or home.



Mudarabah

This is a profit-sharing arrangement where the lender provides the capital, and the borrower manages the business. The profits are shared between the two parties based on an agreed ratio. However, if there are losses, the lender bears the entire loss.

Musharaka

This is a partnership arrangement where two or more parties contribute capital to a business venture. Profits are shared based on an agreed ratio, while losses are shared based on the amount of capital contributed.

One common variation of Musharaka is the Diminishing Musharaka model. In this model, the financier gradually transfers its ownership share to the business owner over time.

1



The SME and the bank enter into a diminishing Musharaka partnership agreement for financing an asset

2



The bank initially owns a majority share, and the business owner holds a minority share of the asset

3



The business owner has the right to use and benefit from the asset based on their ownership share

4



SME makes regular payments that include repayment of the bank's share and a profit margin

5



With each payment, the business owner's ownership share increases, while the bank's share decreases

6



Once the agreed-upon payments are completed, the business owner becomes the sole owner of the asset

Ijarah

This is a leasing arrangement where the lender purchases an asset and leases it to the borrower for a fixed period. The borrower pays rent to use the asset, and at the end of the lease period, they may have the option to purchase the asset.

Istisna

This type of financing refers to a contract between a manufacturer and a buyer, where the manufacturer agrees to produce a specific good and deliver it to the buyer at a predetermined price and time in the future. From a financing perspective, the payment for the asset is typically made in installments, with each installment tied to a specific stage of completion. This allows the buyer to make payments gradually as the asset is being constructed or manufactured.

Sukuk

These are Islamic bonds that are structured to comply with Shariah principles. Instead of paying interest, the issuer of the bond shares the profits generated from the underlying assets with the investors. Sukuk can be issued for a specific project or asset, such as a real estate development or a power plant.

1.2.2 Debt Financing

In this section we will be looking debt financing options available for MSMEs in Maldives.

Bank Loans

A bank loan is a type of debt financing product offered by banks and financial institutions, which allows individuals and businesses to borrow money for a specific period of time (short-term or long-term), usually with the requirement to repay the loan amount with interest. Additionally, the loan can sometimes involve a collateral depending on the loan amount. Regardless, bank loans are the most sought-after form of financing for MSMEs. Bank loans can come in many different forms and names. However, when considering the type of funding for your business, it is important to look past these names and consider what they are offering to your business and what the costs involved in the option.

Provided below are key terms in financing that can impact the cost and structure of loans:

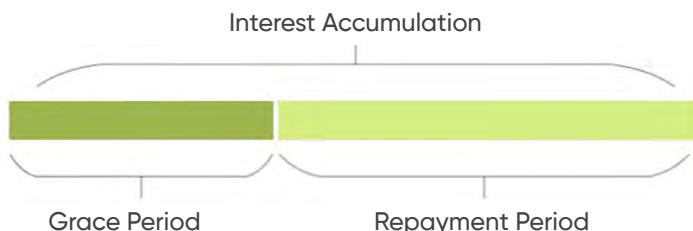
Loan Amount: This is the total amount of money that a lender is willing to lend to an SME. The maximum loan amount can depend on factors such as the SME's cash flow, duration of operation, and can be tied with the collateral.

Interest Rate: This is the cost of borrowing money, usually expressed as a percentage of the loan amount. A higher interest rate means a higher cost of borrowing.

Repayment Period: This is the amount of time given to the borrower to repay the loan. A longer repayment period can mean lower monthly payments, but it also means more interest paid overtime.

Grace Period: This is the period of time after the loan is disbursed where the borrower is not required to make payments. A grace period can give your SME time to generate revenue before you must start repaying the loan. However, interest may still accrue during the grace period.

Timeline of Loan



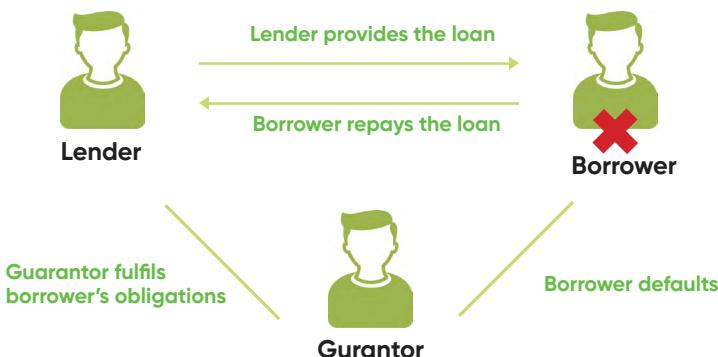
Collateral: A Collateral is something valuable that you give to a lender to guarantee that you will pay back a loan. This is more than often a fixed asset such as a vehicle or property but can also be a current asset such as inventory.

For example, let's say you want to buy a car, but you don't have enough money to pay for it in full. You decide to take out a car loan from a bank, but the bank wants to make sure that they will get their money back. In this case, the car you want to buy can be used as collateral for the loan. So, if you are unable to make your car loan payments, the bank can take possession of the car and sell it to recover the money you owe them. In this way, the car serves as a guarantee that you will pay back the loan.



Missed loan payments? Lender can seize collateral

Guarantee: A guarantee is a promise or assurance made by one party, to take responsibility for the debt or costs involved in case they are unable to fulfill the agreement. It acts as a form of security provided to lenders to reduce their risk ensure that the agreement will be fulfilled even in unexpected situations.



In this example the guarantee provided by the SME is a personal guarantee. However, it can also be a joint guarantee where multiple parties are involved, or a corporate guarantee where a corporation agrees to be legally responsible for the debt.

Trade Credit

Trade credit is a form of financing that allows businesses to buy goods and services from suppliers on credit with a short payment deadline. In essence, trade credit is a type of short-term financing that allows SMEs to purchase goods and services without immediate cash payments.

Trade credit is commonly used by SMEs to manage cash flow, as it allows them to extend their payment deadlines and delay cash outflows. For example, an SME might negotiate with a supplier to pay for a shipment of goods 30 days after receiving them, giving them time to generate revenue from the sale of those goods before having to pay for them.

Trade credit is often extended by suppliers as a way to maintain good relationships with their customers and encourage repeat business. In some cases, suppliers may offer discounts or other incentives to customers who pay early or on time.

While trade credit can be an attractive financing option for SMEs, it is important to manage it carefully and avoid overextending credit. Late or missed payments can damage relationships with suppliers and harm credit ratings, making it more difficult to obtain trade credit in the future.

Leasing

Leasing is a financing option that allows businesses to rent assets such as equipment, vehicles, or property, for a specified period, in exchange for regular payments. A lease involves two parties the lessor (the lender) who purchases the asset (perhaps at a prior time) and the lessee (the borrower) who borrows the asset and benefits from using the asset without having to purchase it. Leasing is a way for SMEs to access assets without the upfront costs and risks associated with purchasing the asset. Leasing also reduces the burden on your business to manage and maintain a purchased asset. For example, a dredging company may find leasing beneficial for acquiring heavy-duty dredging equipment. Instead of purchasing the equipment outright, the company can enter into a lease agreement with a leasing company. This allows the dredging company to use the equipment for a specific period, such as a project duration.

Leasing can be of three types.

Financial (Capital) Lease: This type of lease resembles a long-term loan, and the lessee has the benefits and risks of ownership and is responsible for costs associated with the asset. At the end of the lease term, the lessee may have the option to purchase the asset at a predetermined price or return it to the lessor.

Operating Lease: This type of lease is typically short-term and allows the lessee to use an asset without bearing the risks associated with ownership. The lessor retains ownership and responsibilities for maintenance and other costs. An operating lease is rather similar to renting.

Sale and Leaseback: In this arrangement, a company sells the asset(s) to a lessor and immediately leases it back. In other words, the company becomes the tenant of the asset it previously owned. This allows the company to free up capital while retaining use of the asset. When considering this type of lease, it is important to carefully evaluate the terms and costs associated with the lease agreement to ensure it aligns with the company's long-term objectives and financial stability.

Leasing vs Ijarah

Leasing is similar to the Islamic financing concept of Ijarah with the main difference being under Ijarah, rent is charged when the asset is made available to the lessee for use. However, under conventional leasing, interest is charged once the contract is signed, regardless of whether the asset is made available to use or not.

Let's say you need a new vegetable peeling machine for your business

Should you lease it or buy it? Which one is right for you?

Lease

When you lease, you only pay the asset for duration of your use

Leasing gives you the flexibility to upgrade/ replace the asset frequently

You can save on asset maintenance

Buy

When you buy an asset, it is yours forever

Can lead to more savings long term

You are free to use the asset as you please

Debt Factoring

Debt factoring is a financial service that involves selling accounts receivable (outstanding invoices) to a third-party (factor) at a discounted (lower) rate in exchange for immediate cash. The Factor then collects the full amount from the customers who owe the money. An SME may consider debt factoring when it needs to improve its cash flow by receiving immediate payment for outstanding invoices. This can help the business to maintain its operations and invest in growth opportunities without waiting for customers to pay their invoices. Debt factoring may also be useful when the SME does not have the resources or expertise to manage its own credit control and collection process, as the factoring company can take on this responsibility. However, it is important to consider the costs associated with debt factoring, including the factoring fee and any interest charges, and to ensure that the benefits outweigh the costs.

Debt Factoring Process



Your business agrees to sell your unpaid customer invoices to a factor.



You provide the relevant documents and sell the invoices to the factor at a discounted price.



The factor pays your business a portion of the invoice value upfront, providing immediate cash flow.



The factor takes charge of collecting payment from the customers mentioned in the invoices.



Once the customers pay in full, the factor deducts its fees and returns the remaining balance to you.



You can continue selling invoices to the debt factor as needed to access immediate cash flow.

Overdraft Facilities

A business overdraft is a type of loan that allows a business to overdraw their account up to a certain limit. To 'overdraw' your account means withdrawing more money from your bank account than you currently have available, resulting in a negative balance. This can allow SMEs to cover unexpected expenses and manage their working capital. An overdraft is a flexible financing option where interest is only charged on the amount borrowed and for the duration it is used. For example, if an SME selling traditional dresses experiences a temporary cash flow shortage due to an unexpected expense, it can use its business overdraft to cover the shortfall until the next customer payment is received. The SME will only pay interest on the amount borrowed, and once the overdraft is repaid, the available credit limit will be restored. Overdraft facilities are tied to a bank account and are generally available with any corporate account.

An overdraft can save you from an unexpected expense

MVR -30,000



**Unexpected
Expense**

MVR 25,000



Working Capital

MVR 5,000



Overdraft

Debt Securities

Debt securities are a type of guarantee from your company made to the investor promising that you will pay them back by a specified date. When a business issues debt securities, it is essentially borrowing money from investors in exchange for a promise to pay them back with interest. Investors who buy the debt securities become creditors of the business, and the business is obligated to repay the principal and interest on the securities according to the terms of the agreement.

The sale of debt securities can be an attractive option for businesses because it allows them to raise funds without giving up ownership or control of the company. Before raising debt securities, an SME should consult with legal and financial professionals to ensure that it complies with relevant securities laws and regulations. It should also carefully consider the terms and structure of the debt offering, including interest rates and repayment terms.

There are several types of debt securities; the most common of which is a bond. A bond is a type of debt security issued by a government, corporation, or other entity to raise capital. When you buy a bond, you are lending money to a company, government, or organization. In return, they promise to pay you back the money with interest after a certain period of time. It's similar to when you lend money to a friend and they promise to pay you back later, but with a bond, it's more formal and involves larger amounts of money. As an SME you can issue bonds to raise capital as well.



1.2.5 Equity Financing

In this section we will be looking into the equity financing options available to MSMEs in Maldives.

Venture Capital

This is a type of financing offered MSMEs by venture capital firms. These firms invest money in exchange for ownership or equity in the company. It is similar to having a partner who believes in your business idea and is willing to invest money to help it grow. Venture capitalists also offer guidance, mentorship, and industry expertise to increase the chances of success. In return, they expect a share of the company's profits or a return on their investment when the company becomes successful. The advancement of venture capital in Maldives is currently managed by state-owned enterprise, Maldives Fund Management Corporation (MFMC). The corporation will be launching three distinct funds targeted towards the advancement of tourism, infrastructure, and renewable energy. As such, Venture Capital funding in Maldives is currently at an initial state.

Crowdfunding

This type of financing allows SMEs to raise finance by collecting small contributions from a large number of people. In return, depending on the type of crowdfunding, the contributors can receive rewards, pre-orders of products, or even equity in the business. Crowdfunding is a collaborative and community-driven approach to financing that allows people with innovative ideas or limited access to traditional funding sources to gather financial support from a wide audience. Online crowdfunding options can include platforms such as Kickstarter, GoFundMe, and Indiegogo. While there are number of online crowdfunding options available online, currently there are no registered platforms facilitating crowdfunding in Maldives. Regardless, as an SME you may want to be on the lookout for online options and opportunities for crowdfunding.

4.5 Sources of MSME Funding

In this section, we will highlight a number of financing sources available to MSMEs. While it is possible that you may be able to acquire the same net amount of money, no two types of financing are the same. Each and every financing option will have its pros and cons. Hence, it would be important to carefully research your options. Suitable financing options for your business will depend on the industry and size of your business. After we go through financing sources available in Maldives, we will be looking at a summary of the options available.

Tip: Seek professional advice from a financial expert

If you are unsure about any financial decisions regarding the development of your MSME, you should contact a financial expert to assist you. This can be your bank, professional accountants, or independent financial advisors.

Consultation Services are available at Business Center Corporation as well. This will be further discussed in a later section.

1.5.1 Banks Operating in Maldives

Provided below are a list of banks currently operating in Maldives. The debt financing options made available through each bank and the specifics of these options in terms of interest, payment period, etc. can vary. If you have an account with any of these banks and/or are interested in looking for more financing options, it is recommended that you contact them and check your options.



Bank of Maldives Plc. (BML)



State Bank of India (SBI)



Habib Bank Limited (HBL)



Bank of Ceylon (BOC)



Mauritius Commercial Bank Maldives Pvt. Ltd. (MCB)



Maldives Islamic Bank Plc (MIB)



Commercial Bank of Maldives Pvt Ltd. (CBM)

1.5.2

Other Funding & Related Institutions in Maldives

In addition to banks, several noteworthy funding & related institutions are present in Maldives. Each and every one of these institutions provides a unique opportunity and presents a different way of funding your SME. As such, we will be providing you with a short overview of the institutions listed below.



SME Development Finance Corporation
(SDFC)



Maldives Finance and Leasing Company
Private Limited (MFLC)



Housing Development Finance
Corporation (HDFC)



Maldives Stock Exchange (MSE)



SME Development Finance Corporation (SDFC)

SDFC is an institution that was formulated with the mission of supporting the growth of MSMEs by providing solutions that cater to their financing needs. As such, they offer several financing options that are tailored to MSMEs. These financing options focus on tourism, agriculture, manufacturing, fisheries, and the ICT industry. The minimum and maximum loan amount, equity requirements, maximum repayment period, etc. can vary depending on the type of the financing option.

For more info, visit <https://sdfc.mv/>



Maldives Finance and Leasing Company Private Limited (MFLC)

MFLC is a private financial institute, wholly owned locally, and governed by the central bank, Maldives Monetary Authority (MMA). The company has over two decades of providing innovative lease and finance solutions to our customers. For businesses and SMEs, they offer lease financing, debt factoring, and business loans . Additionally, MFLC offers a 'Green Loan', which is a product that is specifically designed to accommodate environmentally sustainable activities.

For more info, visit <https://www.mflc.mv/>



Housing Development Finance Corporation (HDFC)

HDFC is distinctive as the only mortgage housing institution in the Maldives. The institution offers both conventional and Islamic housing finance facilities. These offers are presented in the form of Home Purchase & Construction Loans, Home Improvement Loan, and Financial Lease.

For more info, visit <https://www.hdfc.com.mv/>



Maldives Stock Exchange (MSE)

The primary function of the Maldives Stock Exchange is to facilitate local companies to raise capital through the issue and trade of securities. Additionally, MSE has established a Private Securities Segment created under the Regulation on Issuance of Securities of CMDA. To facilitate this segment, the Viyana Portal was instituted, which allows the sale of debt securities to SMEs. The Viyana portal acts as a centralized and transparent platform where both private and institutional investors can invest in your business. To issue debt securities, SMEs should register online via the Viyana portal, appoint a representative, and create an offer. It should be noted that to issue debt securities, a placement fee and annual listing fee is charged.

For more info, visit <https://viyana.mv/>

4.1 Summary of Financing Facilities Available

In the previous section, we have provided you with an overview of financing sources available for MSMEs in Maldives. This section will provide you with a summary of these options.

#	Bank	Bank Loans		Trade Financing	Leasing	Debt Factoring	Overdraft
		Working Capital	Asset Acquisition & Development				
1	BML	Working Capital Loan	Vessel Financing Loan Guest House Loan Real Estate Loan	Yes	–	–	Yes
		Green Loan Retailers Loan Business Development Loan					
2	MIB			Yes	Asset Refinancing	–	–
3	SBI	Working Capital Loan	Mortgage Term Loan Project Term Loan	Yes	–	–	Yes
		Loan Against Deposits					
4	BOC			Yes	–	–	Yes
5	MCB	Working Capital Loan	Asset Financing Project Financing Term Loan	Yes	–	–	Yes
6	CBM	Short Term Loan	Term Loan	Yes	–	–	Yes
		Women Entrepreneur Loan					
7	HBL	Women Entrepreneur Loan	Term Loan	Yes	–	–	Yes
8	SDFC	Offers a number of loan options specifically targeted towards SMEs *		–	–	–	–
9	MFLC	Fahi Business Loan		–	Finance Lease and Sale & Leaseback		Yes
		Green Loan					–
10	HDFC			–	Lease Buyout		–
		Home Renovation Home Improvement					–

1.5 Standard Documents Required When Applying for Business Loans

Business loans are one of the most sought-after financing options for MSMEs, especially for startups that need capital to get their businesses off the ground. In this section we will cover the standard documents required when applying for business loans. These documents can be categorized into (1) Identification Verification Documents, (2) Income Verification Documents, (3) Project/Investment Related Documents, and (4) Collateral Related Documents.

Identification Documents: can include business details, owner details, contact details, and ID card copy for unregistered businesses. For registered businesses, can include the following documents, depending on the type of business (legal entity).

Business Details and Business Contact Details

Business Registration Number & copy of Business Registration

Copy of Memorandum of Association and Articles of Association

Board Resolution for the Company/Partnership stating the authorized signatory on behalf of the business

ID Card Copy of Shareholders/Directors of the Company/ Partnership

Income Verification Documents: includes the Bank Account Statement of owner(s)/shareholders/partners for a given period depending on the type of business. Additionally, this can also other income verification documents such as rental agreements & letters depending on the application.

Project/Investment Related Documents: can differ based on the loan purpose but can generally include business plans, project/investment breakdowns, timelines, financial forecasts, etc.

Collateral Related Documents: compulsory if collateral is required for the loan. This can include a registry copy of the collateral, and an ID card copy of the mortgager(s).

1.6 Obtaining a Credit Report

A credit report is a statement that provides an individual's or businesses' credit history such as number of credit facilities taken and repayment history as well as provides snapshot of current credit situation. This is one useful report that Businesses can use to obtain better loan terms and interest rates from lenders especially banks. In some countries, Businesses with good credit reports are more likely to participate in government projects and obtain lower business insurance rates.

Importance of Credit Reports		
Vendors will be more willing to provide favorable credit terms for a business with good credit history	Financial institutions can obtain accurate data from the report to make unbiased decisions in offering loans	Good credit history can increase chances of getting loans or credit facility at favorable terms

Maldives Monetary Authority (MMA) established Credit Information Bureau (CIB) to ease access to finance for individuals and businesses and support financial institutions in taking informed credit decisions. The main objective of the Bureau is to serve as a one-stop repository of credit information and provide Credit Information Reports (CIR) composed by the CIB provide insights into the company's financial health and history, allowing members of the bureau to evaluate a company's credit worthiness. Additionally, CIB also provides Self-inquiry Reports whereby an individual can request for their own credit report, which they can submit to other institutions to demonstrate their creditworthiness.

To obtain a credit report you can visit the Credit Information Bureau website and request a self-inquiry report. As an SME you will need to provide the following details when requesting a credit report.

Entity Name

Registration No.

Registration Date

Contact Details

Copy of Company/Partnership Registration Certificate

Board Resolution for Authorization to Collect Self-Inquiry Report

ID Card Copy of Directors Signed in the Board Resolution

Company Profile from Ministry of Economic Development

To request for a credit report or for more info,
visit <https://cib.gov.mv/>

1.7 Taxation

Taxation is the process of collecting money from individuals and businesses by the government. The government uses the money it collects from taxes to support the needs of the country and its citizens. Taxes are used to fund public services such as schools, hospitals, roads, and security. Taxes help ensure that everyone contributes to the functioning of society and the provision of essential services.



Disclaimer: The information provided in this book regarding taxation is for general informational purposes only and should not be considered as professional tax advice. Tax laws and regulations are subject to change, and the application of tax rules can vary based on individual circumstances. It is recommended that readers visit the official website of the Maldives Inland Revenue Authority (MIRA) for the most up-to-date and accurate information on taxation.

There are 3 main types of taxation in Maldives. These are

Income Tax,

Goods & Services Tax (GST), and

Other Taxes & Fees.

In this volume, we will only be looking into Income Tax & Goods & Services Tax. The MIRA website contains tax guides, interactive guides, and instruction sheets for both Income Tax & GST.

What is a tax return?

A tax return is a form that individuals, businesses, or other entities submit to the government to report their income, expenses, and other relevant information for the purpose of calculating and paying taxes. It is typically filed annually and provides detailed information about the taxpayer's financial activities during a specific tax year.

Filing a tax return is an important responsibility for taxpayers to ensure compliance with tax laws and regulations and to accurately report their financial information to the government. It helps determine the correct amount of tax owed and facilitates the assessment of any refunds or credits that the taxpayer may be eligible for.

1.7.1

Income Tax

Income tax applies to all tax residents of Maldives. You are a tax resident of Maldives if any one of the following situations applies to you.

Your permanent place of living is in the Maldives;

You are present, or you intend to be present in the Maldives for more than 183 days in any 12-month period commencing or ending in a tax year [183-day rule];

You are an employee or an official of the Government of the Maldives posted overseas during a tax year.

It should be noted that residents of the Maldives are taxed on their worldwide income, whereas non-residents and temporary residents are taxed on the income derived from the Maldives only.

Income Tax can be personal or corporate. In this book we will be focusing on corporate income tax. However, it should be noted that for sole proprietorships, personal income and business income are regarded as the same.

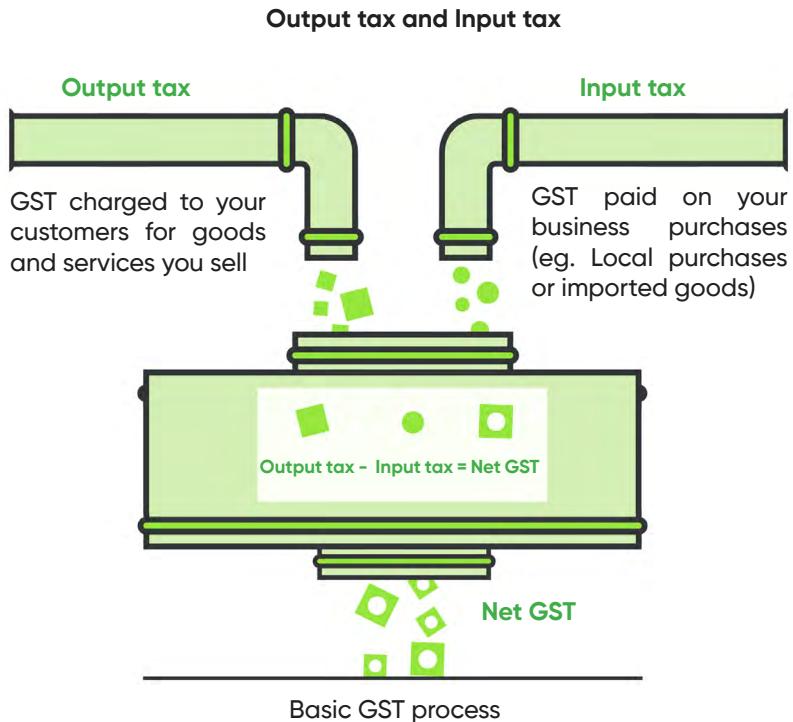
As an SME, whether you operate as a sole proprietorship, partnership, or a company, you are required to register for taxation. However, if your business is already registered with MED as we have discussed in Chapter 2, there is no need to submit a separate registration.

Generally, all types of income earned by an individual/company are subject to income tax. This can include, but is not limited to remuneration, business income, rental income, capital gains, dividends, interest, royalty, commissions, etc. However, there are also some types of income that are exempt from income tax. This can include income received from grants & scholarships, wedding gifts, etc. For a complete list of the types of taxable and exempt incomes, you can visit the MIRA website.

Whether you should file an income tax return can depend on a variety of factors such as type of legal entity, taxable income, gross income etc. If you are required to file a tax return and do not, in accordance with the Tax Administration Act, penalty fines for failure to file returns and/or pay taxes can be applied. Hence, we would recommend visiting the MIRA website and using their interactive guide income tax return.

1.7.2 Goods & Service Tax (GST)

Goods & Service Tax (GST) is a consumption-based tax system that is designed to be imposed on the final consumer. GST can be charged only after registering and must be charged on all goods and services other than zero-rated and exempt goods and services. In general, GST exempt items include essential goods, export goods and services, and other items of concern. To check the full list of zero-rated goods and services, you can visit the MIRA website. GST serves as a replacement of multiple layers of indirect taxes, such as sales tax, service tax, excise duty, and others.



To check if you are required to register for GST, you can visit MIRA website and follow their interactive guide on GST registration. The website also provides a GST fine calculator and GST lookup services.

For more info, visit <https://www.mira.gov.mv/>

1.8 Consultation & Advisory Services

Do you face any difficulties in obtaining the expertise and knowledge to drive your SME? Do you need assistance in making business plans, obtaining funds, or managing risks for your SME? Providing consultancy service is one of BCC's core functions and currently we have provided consultation services to over 4,000 MSMEs. If your business needs any assistance, we can provide you with tailored solutions for your needs. Moreover, we provide consultation services free of charge.

BCC provides consultation and advisory services regarding the following:



Business Registration



Other Registrations (such as Customs & Industry Specific Registrations)



Projects & Initiatives by BCC



Business Dissolution & Deregistration



Foreign Employment



Loan Applications



Taxation



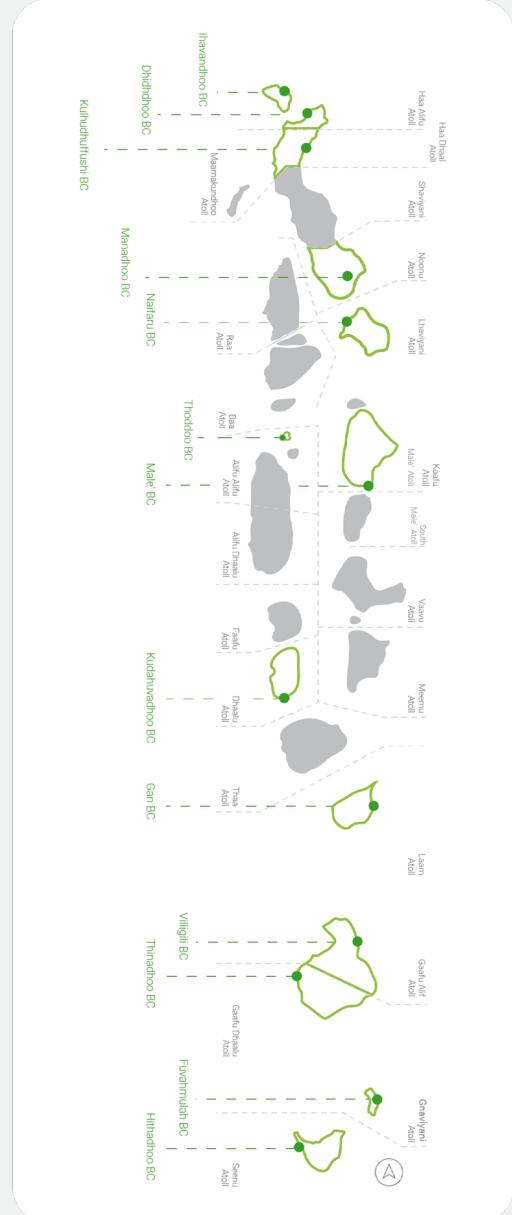
Business Planning



Operations

Consultancy services are available from every location where BCC has established Business Centers. These locations are listed below.

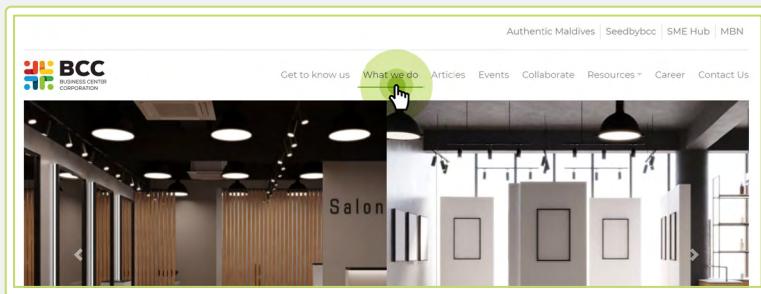
- HA. Dhidhdhoo
 - HA. Ihavandhoo
 - HDh. Kulhudhuffushi
 - N. Manadhoo
 - Lh. Naifaru
 - Male' City
 - AA. Thoddoo
 - Dh. Kudahuvadhoo
 - L. Gan
 - GDh. Thinadhoo
 - GA. Villingili
 - Gn. Fuvahmulah
 - S. Hithadhoo



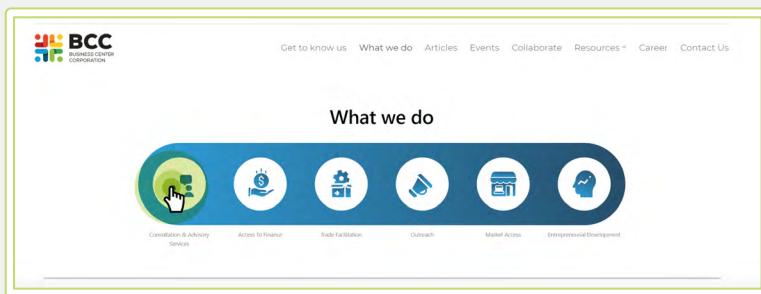
To book a consultation with us, you follow the following steps.

1. Visit our website at <https://bcc.mv/>

2. Click the 'what we do' tab from the navigation menu



3. Click 'Consultation & Advisory Services' or scroll down to the 'Consultation & Advisory Services' section.



3. Press 'Book a Consultation'.



4. Select a Business Center of your choice (we have Regional Business Centers certain islands covering all atolls in Maldives), select a preferred booking date, and press Next.

Need to consult with us?

BCC
BUSINESS CENTER
CORPORATION

Consultation Booking

Please select a convenient date for your consultation. Our team will contact you with the availability of our consultants through email and telephone.

For more information please contact 3305555.

Select Business Center: Male BC

Preferred Booking Date: 10 July 2023

Sun	Mon	Tue	Wed	Thu	Fri	Sat
23	24	25	26	27	28	29
30	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	1	2	3	4

Next

5. Enter your name, email, contact number, and press Next.

Need to consult with us?

BCC
BUSINESS CENTER
CORPORATION

Consultation Booking

10 July 2023

M. Kaneru Villa, First Floor (A)
Orchid Magu
K. Male

For more information regarding your consultation,
please contact +960 330 5555

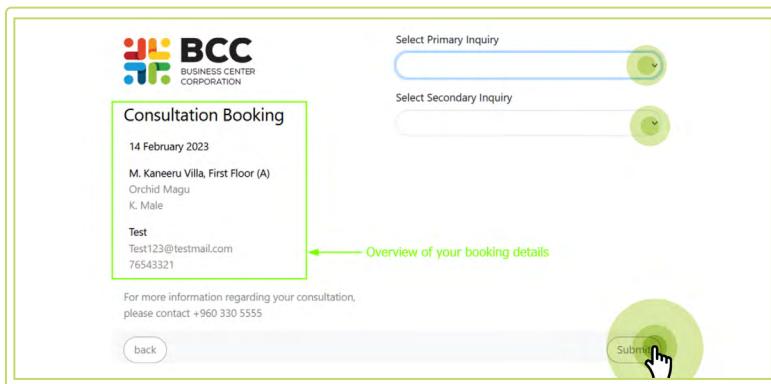
Name

Email

Contact No

Next

6. Select your Primary Inquiry and Secondary Inquiry (optional). This page also provides you with an overview of your booking details. Verify whether this information is correct and then, press Submit.

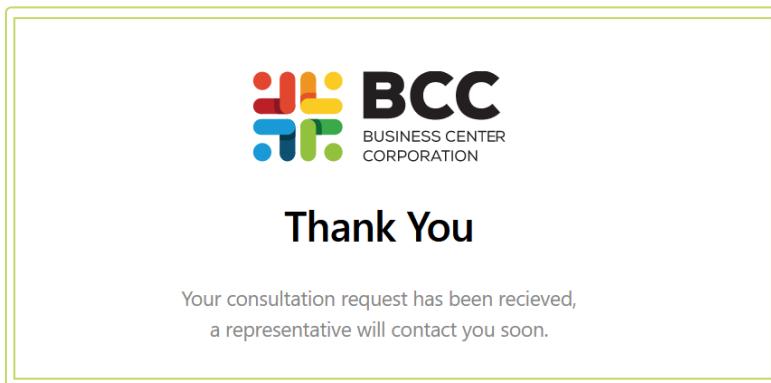


The screenshot shows a consultation booking form. At the top left is the BCC logo. To the right are two dropdown menus: "Select Primary Inquiry" and "Select Secondary Inquiry", both currently set to "None". Below these is a section titled "Consultation Booking" containing the following details:

- Date: 14 February 2023
- Location: M. Kaneeru Villa, First Floor (A)
Orchid Magu
- Gender: K. Male
- Test: Test
Email: Test123@testmail.com
Phone: 7654321

A green arrow points from the text "Overview of your booking details" to the booking summary section. At the bottom left is a "back" button, and at the bottom right is a large green "Submit" button with a hand cursor icon pointing to it.

7. Congratulations. Now you have booked a consultation with us. We will contact you regarding the consultation and arrange a session for you at your convenience. The session can be online or preferably, in person. We will be working closely with you to understand your specific needs and objectives, provide you with a customized solution that meets your requirements.



4.9 Other Resources

Listed below are some other resources that can assist you in driving your SME to success.

Instructional Videos for New Entrepreneurs:

As a newly registered entrepreneur, you may need some assistance getting started. We have prepared a set of instructional videos that can assist you regarding this.

<https://bcc.mv/#videos>

Collaborate with BCC:

Interested in joining us? You can become a mentor to share your guidance with other MSMEs, find new innovative startups, or register in BCC's business listing to make your business more visible to other investors.

https://bcc.mv/#register_withus

Follow Us:

We regularly share valuable insights, exclusive content and opportunities targeted for MSMEs. By following us, you can have access to a wealth of resources that can help you grow and succeed.





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IMPLEMENTED BY:



Conclusion

Throughout the book, we have covered essential topics such as understanding SMEs, the registration process, goal setting, and financing options for your SME. By looking into these key areas, we aim to empower readers with the knowledge and tools necessary to start on their SME journey with confidence. Remember, success in the SME world requires a solid foundation built upon knowledge, planning, and adaptability. As you continue on your entrepreneurial path, this book will serve as a valuable guide for your SME's growth and prosperity.

The next volume of the SME Book will be Volume 2 – Registrations. In Volume 2, we will dive deeper into the details of business registrations, guiding you through the process and sharing valuable tips and resources. Stay tuned for Volume 2 as we continue our journey to empower and support SMEs on the path to success.

Best of luck with your entrepreneurial endeavors!

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Discover the path to entrepreneurial success with the SME Handbook, a comprehensive guide designed to empower and equip SMEs at every stage of their journey.

Volume 1 of the SME Handbook unveils the essential steps for starting and growing your own business. Gain invaluable insights into the classification of SMEs, understand the registration process, explore financing options, and pave the path for your SME to success.

The SME Handbook is an initiative of the Ministry of Economic Development and is authored by Business Center Corporation (BCC) in collaboration with the United Nations Development Programme (UNDP) in the Maldives with the generous contribution of the Government of Japan. This handbook is a testament to their commitment to supporting the growth and development of SMEs in Maldives. Get inspired and equipped with the knowledge to build a sustainable, innovative, and successful business with the SME Handbook Vol.1 - Introductions.



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