

# Sources of Finance for Starting a Business

Business Information Factsheet

BIF040 · May 2024

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## Introduction

Many new businesses fail because they do not have enough cash to last them through the critical first few months of trading when their sales revenues are only just starting to build up.

Before you begin trading, you need to make sure you have enough money to set up the business and cover initial running costs. If you or your business partners don't have enough money, you will need to approach other sources of finance.

This factsheet outlines some of the options available for sourcing external cash to help you start up in business. It is not exhaustive and professional advice should always be taken where necessary.

## Personal funds

Personal savings and money raised from family members or other personal contacts are the most common forms of finance for start-ups.

Family members or personal contacts may be prepared to help you start up by offering you a loan, particularly if you have not been able to get one from a bank. If they require you to pay interest, there will be tax implications for both parties. Personal relationships may be affected if your business does not do as well as planned and you are unable to repay the loan on time or in full.

## Bank loans and overdrafts

Banks offer a variety of finance options, including overdrafts and business loans.

An overdraft is an agreement whereby the bank allows you to withdraw more money than you actually have in your business account. The bank will set a maximum level for the overdraft. You only have to pay interest on the amount you are overdrawn. However, the interest payable is often higher than the rate for a loan.

Business loans are available through the major banks and challenger banks such as Monzo, Revolut and Starling Bank. For a business start-up, it is likely that the loan will need to be secured against a personal asset such as your house or other property.

## Credit cards

Some business start-ups fund their short-term spending through the use of credit cards. While many credit card providers discourage the use of personal credit cards for business purposes, there are a number of business credit cards available that may be suitable for a start-up.

Although initial interest rates may be attractive, the interest costs of credit cards are usually higher than overdrafts and loans, unless you can repay the outstanding balance each month.

## Private equity investors

Private equity is money that is invested in a business by a third party in return for a share of the ownership. This type of finance is available only to limited companies. Private equity funding is not available if you operate as a sole trader or in a business partnership legal structure.

Equity investors include commercial organisations and business angels.

Business angels are private investors who look for opportunities to invest money in new or growing small companies and typically also provide mentoring. Information about how to secure business angel investment is available from the UK Business Angels Association at <https://ukbaa.org.uk/entrepreneurs/>.

Although equity investment may also be available from commercial organisations such as venture capital companies, most, but not all, venture capital investors are looking to make quite large investments, which means that they are unlikely to be interested in providing finance to the majority of start-ups. The British Private Equity & Venture Capital Association publishes information about venture capital investment at [www.bvca.co.uk/Our-Industry/Venture-Capital](http://www.bvca.co.uk/Our-Industry/Venture-Capital).

## Crowdfunding

Crowdfunding is a method of raising finance from a large number of people who each contribute a relatively small amount of money.

Businesses seeking to raise finance in this way typically use crowdfunding platforms. Some platforms specialise in equity crowdfunding, which enables you to raise finance by selling shares to a large number of investors.

Other crowdfunding platforms, sometimes known as peer-to-peer lending platforms, enable you to receive crowdfunded loans, which you must repay with interest. Alternatively, some social enterprises and not-for-profit organisations raise finance by using donation-based crowdfunding platforms.

For more information about crowdfunding, go to [www.ukcfa.org.uk/what-is-crowdfunding/](http://www.ukcfa.org.uk/what-is-crowdfunding/).

## Grants

Grants provide finance to allow your business to undertake a specific project that, without financial assistance, would not be able to proceed. Such projects might involve the initial start-up of the

business, developing a new product or buying equipment.

A grant is usually a one-off payment and provides funding that covers a percentage of the costs of the project - normally you or your business will have to meet some of the costs too. Unlike a loan, a grant does not usually have to be repaid unless your business fails to comply with the specific eligibility requirements and conditions of the scheme. You need to check that you meet the eligibility criteria for a particular grant and consider what will be required to satisfy the funders' requirements.

To search for grant schemes in different regions of the UK, go to:

- England: [www.gov.uk/business-finance-support-finder/search](http://www.gov.uk/business-finance-support-finder/search).
- Wales: <https://businesswales.gov.wales/businessfinance/finance-locator>.
- Scotland: [www.mygov.scot/funding-advice-search](http://www.mygov.scot/funding-advice-search).
- Northern Ireland: [www.nibusinessinfo.co.uk/business-support](http://www.nibusinessinfo.co.uk/business-support).

Some government departments, such as the Department for Environment, Food & Rural Affairs (Defra), and other organisations such as the UK's Arts Councils ([www.artscouncil.org.uk](http://www.artscouncil.org.uk), [www.creativescotland.com](http://www.creativescotland.com), <https://arts.wales> and <https://artscouncil-ni.org>) may also offer grants for business start-ups in specific sectors.

## Start Up Loans

Start Up Loans is a national scheme that provides loans to people aged 18 and over to help them start up or develop a business that has been trading for less than 36 months.

Loans are repayable over one to five years, and the interest rate is currently fixed at 6%. Loans of up to £25,000 per person are available, with a maximum of £100,000 per business. Mentoring and support are provided to successful applicants.

To apply for a Start Up Loan you must be at least 18 years old, with the legal right to work in the UK.

For more information about Start Up Loans, go to [www.startuploans.co.uk/what-is-a-start-up-loan](http://www.startuploans.co.uk/what-is-a-start-up-loan).

## Responsible finance providers

Responsible finance providers (RFPs) specialise in providing finance to new and growing businesses that have been unable to secure finance through traditional providers such as banks. Most are members of Responsible Finance, who publish a directory of RFPs at <https://responsiblefinance.org.uk/responsible-finance-providers/who-provides-responsible-finance/>. RFPs were previously known as community development finance institutions.

## Credit unions

Credit unions are co-operatives that are owned and controlled by their members. Some provide loans for business-start ups. Go to [www.communityfirstcu.co.uk/loans/business-loans](http://www.communityfirstcu.co.uk/loans/business-loans) and [www.calderdalecreditunion.co.uk/business/small-business-loans](http://www.calderdalecreditunion.co.uk/business/small-business-loans) for examples.

The Association of British Credit Unions Limited (ABCUL) publishes a directory of credit unions in England, Scotland and Wales at [www.findyourcreditunion.co.uk](http://www.findyourcreditunion.co.uk). Information about credit unions in Northern Ireland is provided by the Ulster Federation of Credit Unions (UFCU) at <https://ufcu.co.uk/credit-unions.html>.

## Local enterprise agencies

Many local enterprise agencies and similar business support organisations provide access to grants and loans, as well as advice, training and mentoring. Those that do not provide funding themselves are able to signpost other sources of financial support.

For information about local enterprise agencies and other business support organisations across the UK, go to:

- England: <https://nationalenterprisenetwork.org/directory/>.
- Wales: <https://businesswales.gov.wales>.
- Northern Ireland: [www.enterpriseni.com/lea-office-locations](http://www.enterpriseni.com/lea-office-locations).
- Scotland: [www.scottish-enterprise.com](http://www.scottish-enterprise.com).

## Related factsheets

BIF062 Financing a Business with Venture Capital

BIF324 Business Angel Investment

BIF373 Types of Debt Finance

BIF463 Government Financial Support for Business

BIF546 Using Crowdfunding to Raise Finance

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