DOWNLOAD PDF DEBT VERSUS EQUITY FINANCE IN DEVELOPING COUNTRIES

Chapter 1 : Debt Versus Equity Finance in Developing Countries (February edition) | Open Library

An analysis of the effects of foreign direct investment and debt inflows on investment, domestic savings and economic growth in developing economies, and an assessment of the role of the regulative.

By Tim Parker November 22, â€" 2: This is especially true for companies in the beginning stages of development. Finding that money can be difficult. Tighter lending standards and venture capitalists still recovering from the recessionary fallout are producing an environment in which funding is a challenge. There are two basic types of funding available to small businesses - debt financing and equity financing. As a small business owner, which is best for you? Debt Financing Purchasing a home, a car or using a credit card are all forms of debt financing. You are taking a loan from a person or business and making a pledge to pay it back with interest. Debt financing for your business works in a similar way. As a business owner, you can apply for a business loan from a bank or receive a personal loan from friends, family or other lenders, all of which you must pay back. Even if family members lend you money for your business, they must charge the minimum IRS interest rate in order to avoid the gift tax. The advantages of debt financing are numerous. First, the lender has no control over your business. Once you pay the loan back, your relationship with the financier ends. Next, the interest you pay is tax deductible. Finally, it is easy to forecast expenses because loan payments do not fluctuate. The downside to debt financing is very real to anybody who has debt. Debt is a bet on your future ability to pay back the loan. What if your company hits hard times or the economy, once again, experiences a meltdown? What if your business does not grow as fast or as well as you expected? Debt is an expense and you have to pay expenses on a regular schedule. If you think debt financing is right for you, the U. Small Business Administration works with select banks to offer a guaranteed loan program that makes it easier for small businesses to secure funding. Go to the SBA website to learn about those programs. Equity Financing The public does not understand equity financing as well as debt financing, because equity financing involves investors. You could offer shares of your company to family, friends and other small investors, but equity financing often involves venture capitalists or angel investors. The popular ABC series, "Shark Tank," highlights entrepreneurs who present their business ideas to a group of investors in an attempt to secure equity financing. The big advantage of equity financing is that the investor takes all of the risk. If your company fails, you do not have to pay the money back. You will also have more cash available because there are no loan payments. Finally, investors take a long-term view and understand that growing a business takes time. The downside is large. In order to gain the funding, you will have to give the investor a percentage of your company. You will have to share your profits and consult with your new partners any time you make decisions affecting the company. The only way to remove investors is to buy them out, but that will likely be more expensive than the money they originally gave you. Often you will not have a choice. Formal equity financing is difficult to secure especially for small, early-stage startups. Venture capitalists are looking for companies with global reach. If your company is a startup serving a local market and does not need large-scale funding, debt financing is probably your best, and perhaps only, option. Larger startups often combine debt and equity financing to reduce the downside of both types. The Bottom Line The type of financing you seek depends largely on your startup. If you are just getting started, consider a loan from family, friends or a bank. As you grow and reach a larger market, equity funding may become a more viable option if you are willing to give up a portion of your company. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 2 : Difference Between Debt and Equity (Comparison Chart) - Key Differences

Debt Versus Equity Finance in Developing Countries An Empirical Analysis of the Agent-Principal Model of International Capital Transfers (Kieler St) by Peter Nunnenkamp.

Debt abolition[edit] There is much debate about whether the richer countries should be asked for money which has to be repaid. The Jubilee Debt Campaign gives six reasons why the third world debts should be cancelled. Firstly, several governments want to spend more money on poverty reduction but they lose that money in paying off their debts. Economist Jeff Rubin agrees with this stance on the basis that the money could have been used for basic human needs and says it is Odious Debt. Also, many of the debts were signed with unfair terms, several of the loan takers have to pay the debts in foreign currency such as dollars, which make them vulnerable to world market changes. The unfair terms can make a loan extremely expensive, many of the loan takers have already paid the sum they loaned several times, but the debt grows faster than they can repay it. Finally, many of the loans were contracted illegally, not following proper processes. In both cases, the stimulus to the economy would be the same, and the only difference is who benefits. Economists refer to this as a moral hazard. It would also be difficult to determine which debt is odious. Moreover, investors could stop lending to developing countries entirely. Debt as a mechanism in economic crisis[edit] An example of debt playing a role in economic crisis was the Argentine economic crisis. During the s, Argentina, like many Latin American economies, experienced hyperinflation. This guaranteed that inflation would not restart, since for every new unit of currency issued by the Argentine Central Bank, the Central Bank had to hold a US dollar against this â€" therefore in order to print more Argentine currency, the government required additional US dollars. Before this currency regime was in place, if the government had needed money to finance a budget deficit , it could simply print more money thus creating inflation. Under the new system, if the government spent more than it earned through taxation in a given year, it needed to cover the gap with US dollars, rather than by simply printing more money. A fixed exchange rate was incompatible with a structural i. Investors started to speculate that the government would never stop spending more than it earned, and so there was only one option for the government â€" inflation and the abandonment of the fixed exchange rate. In a similar fashion to Black Wednesday , investors began to sell the Argentine currency, betting it would become worthless against the US dollar when the inevitable inflation started. The crisis led to riots in December Investment fled the country, and capital flow towards Argentina ceased almost completely. The Argentine government met severe challenges trying to refinance the debt. Some creditors denounced the default as sheer robbery. Vulture funds who had acquired debt bonds during the crisis, at very low prices, asked to be repaid immediately. For four years, Argentina was effectively shut out of the international financial markets. The exchange was not accepted by the rest of the private debt holders, who continue to challenge the government to repay them a greater percentage of the money which they originally loaned. The holdouts have formed groups such as American Task Force Argentina to lobby the Argentine government, in addition to seeking redress by attempting to seize Argentine foreign reserves. In , Argentina cancelled its debt with the holdout creditors, which received returns in the order of the hundreds of percentage points. The determinants of external debt crises in developing countries[edit] Some of the major risk factors which increase the probability of the external debt crises in developing countries include high level of inflation, relatively large share of short term debt in external debt, denomination of the dept in foreign currency, decrease of the terms of trade over time, unsustainable total debt service relative to GNI, high income inequality, and high share of agriculture in GDP. At the same time, holding foreign exchange reserves is a strong protective measure against an external debt crisis [6]. Recent debt relief[edit] 39 impoverished countries[who? Tanzania used savings to eliminate school fees, hire more teachers, and build more schools. Burkina Faso drastically reduced the cost of life-saving drugs and increased access to clean water. Uganda more than doubled school enrollment. Some have claimed that it was the Live 8 concerts which were instrumental in raising the profile of the debt issue at the G8, but these were announced after the Summit pre-negotiations had essentially agreed the terms of the debt announcement made at the Summit, and so can only have been of marginal utility. Make Poverty History, in contrast, had been running for five months prior to the Live 8 announcement and, in form of the Jubilee campaign of which Make Poverty History was essentially a re-branding for ten years. Debt cancellation for the 18 countries qualifying under this new initiative has also brought impressive results on paper. For example, it has been reported that Zambia used savings to significantly increase its investment in health, education, and rural infrastructure. The fungibility of savings from debt service makes such claims difficult to establish. Under the terms of the G8 debt proposal, the funding sources available to Heavily Indebted Poor Countries HIPC are also curtailed; some researchers have argued that the net financial benefit of the G8 proposals is negligible, even though on paper the debt burden seems temporarily alleviated. The total debt has been reduced by two-thirds, so that their debt service obligations fall to less than 2 million in one year. While celebrating the successes of these individual countries, debt campaigners continue to advocate for the extension of the benefits of debt cancellation to all countries that require cancellation to meet basic human needs and as a matter of justice.

Chapter 3 : What are the differences between debt and equity markets? | Investopedia

Foreign direct investment in competing host countries: a study of taxation and nationalization / Thomas Andersson. HG A52 Multinational investment in developing countries: a study of taxation and nationalization / Thomas Andersson.

Even entrepreneurs who bootstrap their companies â€" that is, pay for it themselves â€" often rely on credit cards to get things going in the short term. There is a variety of financing available out there, from bank loans and factoring services , to crowdfunding and venture capital. So, how can you know what to select? There are two broad categories of financing available to businesses: Figuring out which avenue is right for your business can be confusing, and both comes with a set of pros and cons. Debt financing a business is much the same. The borrower accepts funds from an outside source and promises to repay the principal plus interest, which represents the "cost" of the money you initially borrowed. Borrowers will then make monthly payments toward both interest and principal, as well as put up some assets as collateral as reassurance to the lender. Collateral can include inventory, real estate, accounts receivable, insurance policies or equipment, which will be used as repayment in the event the borrower defaults on the loan. Considering a small business loan? The SBA offers loans through banking partners with lower interest rates and longer terms, but there are stricter requirements for approval. Alternatives to business loans include merchant cash advances, personal lines of credit and business credit cards. With some of the alternative financing methods, borrowers may be required to make weekly payments or repay a percentage of their profits, rather than make fixed monthly payments. Pros and cons of debt financing Debt financing is widely available in one form or another for most small business owners. It is a popular avenue for many businesses because the terms are often clear and finite, and owners retain full control of their operations unlike an equity financing arrangement. However, the repayment and interest terms can be steep depending on the loan. Another disadvantage of debt financing is the potential for personal financial losses if it becomes impossible to repay the loan. Whether a business owner is risking their personal credit score, personal property or previous investments in their business, it can be devastating to default on a loan. What is equity financing? Equity financing means selling a stake in your company to investors that hope to share in the future profits of the business. There are several ways to obtain equity financing, such as through a deal with a venture capitalist or equity crowdfunding. Instead, investors will be partial owners who are entitled to a portion of company profits and, perhaps, even a voting stake in company decisions depending on the terms of the sale. Angel investors and venture capitalists are often on the lookout for startups with the potential to grow to great heights rapidly, if only they had the capital investment required to scale. To convince an angel or VC to invest, entrepreneurs will need a pro forma with solid financials, some semblance of a working product or service, and a qualified management team. Another version of equity financing, known as equity crowdfunding , allows businesses to sell very small shares of the company to many investors throughout their state. These campaigns usually require immense marketing efforts and a great deal of groundwork to hit the intended goal and become funded. Pros and cons of equity financing Unlike debt financing, equity financing is a lot harder to come by for most businesses. This type of funding is well suited for startups in high growth industries, such as the technology sector, and it requires a strong personal network, an attractive business plan, and the foundation to back it all up. However, companies that score investments will have capital on hand to scale up and will not be required to start paying it back with interest until the business is profitable. Equity financing allows the business owner to distribute the financial risk among a larger group of people. And if the business fails, none of the money needs to be repaid. Business owners should be careful when selling shares of the company. If they relinquish more than 49 percent of the business, even to separate investors, they will lose their majority stake in the company. That means having less control over company operations and, potentially, risking removal from a management position if the other shareholders deem it prudent to change leadership. Ultimately, the decision between whether debt or equity financing is best depends on the type of business you have and whether the advantages outweigh the risks. Do some research on what is the norm in your industry, and what your competitors are doing. Investigate several financial products to see what suits your needs, and if you are considering selling equity, do so in a manner that is legal and allows you to retain control over your company. Additional reporting by Elizabeth Peterson. He worked for a local newspaper and freelanced for several publications after graduating college. He can be reached by email , or follow him on Twitter.

Chapter 4 : Debt vs Equity: What's the Best Financing Choice for Your Business?

"Debt versus equity finance in developing countries: An empirical analysis of the agent-principal model of internat. capital transfers," Open Access Publications from Kiel Institute for the World Economy , Kiel Institute for the World Economy (IfW).

Essential to secure loans, but funds can be raised otherwise also. Not required Definition of Debt Money raised by the company in the form of borrowed capital is known as Debt. It represents that the company owes money towards another person or entity. They are the cheapest source of finance as their cost of capital is lower than the cost of equity and preference shares. Funds raised through debt financing are to be repaid after the expiry of the specific term. Debt can be in the form of term loans, debentures or bonds. Credit Rating is mandatory for issuing debentures publicly. They carry fixed interest, which requires timely payments. The interest is tax deductible in nature, so, the benefit of tax is also available. Debt can be secured or unsecured. In the case of unsecured debt, there is no obligation to pledge an asset for getting the funds. It is the source of permanent capital. By investing in equity, an investor gets an equal portion of ownership in the company, in which he has invested his money. Although the dividend is not tax deductible in nature. There are no committed payments in equity shareholders i. Key Differences Between Debt and Equity The difference between debt and equity capital, are represented in detail, in the following points: Debt is the borrowed fund while Equity is owned fund. Debt reflects money owed by the company towards another person or entity. Conversely, Equity reflects the capital owned by the company. Debt can be kept for a limited period and should be repaid back after the expiry of that term. On the other hand, Equity can be kept for a long period. Debt holders are the creditors whereas equity holders are the owners of the company. Debt carries low risk as compared to Equity. Debt can be in the form of term loans, debentures, and bonds, but Equity can be in the form of shares and stock. Return on debt is known as interest which is a charge against profit. Return on debt is fixed and regular, but it is just opposite in the case of return on equity. Debt can be secured or unsecured, whereas equity is always unsecured. Conclusion It is essential for all the companies to maintain a balance between debt and equity funds. The ideal debt-equity ratio is 2:

Chapter 5 : Small Business Financing: Debt Or Equity?

options reduce to a choice between foreign debt and equity finance for the latter group on which this study will focus. In the s and early s, most of the developing countries.

Chapter 6 : Debt versus equity finance in developing countries (Book,) [racedaydvl.com]

Shark Tank Season 6 Episode 20 LATEST FULL Micro-loans funded by money raised from backpacks made of fabrics from developing countries ABC - 27 February ().

Chapter 7 : Debt of developing countries - Wikipedia

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