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SRFP
Development
of Financial System
in Rural Areas in Serbia

BUSINESS PLAN DEVELOPMENT

THE STEPS AND TIPS IN WRITING A BUSINESS PLAN

This brochure is brought to you by the Development of Financial System in Rural Areas in Serbia (SRFP) program, which is being implemented by Business and Finance Consulting (BFC) in partnership with the Serbian Ministry of Agriculture, Forestry, and Water Management.

Starting points in preparing a business plan

QUALITATIVE ANALYSIS

FINANCIAL ANALYSIS

CONCLUSION OF THE ANALYSIS

This part of the business plan, the qualitative analysis, includes a description of the company's activities, as well as a description of the capacities that the company has at the time of application, as well as a projection of potential for the future. The qualitative part also refers to the narrative description and effects of the investment. The first step of quality analysis is to make a SWOT analysis of the company, in order to consider all internal and external influences.

The financial analysis is an analysis of production and financial results of the company from the previous period, as well as projections for future years in which the investment is repaid. The income statement and balance sheet, as well as economic flows and cash flows are projected. The starting positions in the analysis start from the official balance data and company documents.

Conclusion of the analysis and business plan are calculated ratios that show feasibility, profitability, as well as the payback period. The final conclusion is the recommendation whether the business plan is sustainable and acceptable from the point of view of the proposed investment, e.g. IPARD measure, or the requirement for which it is applied.

Why does a person need a business plan? For many reasons. For the most part, a person needs a business plan as a strategic document which guides the business into the future. For other reasons, a mandatory part of documentation that is often required when applying for investment loans and project financing, sometimes with banks, as well as for the approval of IPARD projects, is the business plan.

The business plan must contain all information about the applicant, their activities and the planned investment. Through the analysis of activities, a calculation of the sustainability of the investment in relation to the income and expenses that the applicant realizes in its production process is made.

The final result of the analysis is a ratio of values that prove whether the project is sustainable and profitable in the long run, as well as values that show in how many years the investment will be repaid.

When going through this business plan exercise, please use the SRFP-Business and Finance Consulting video as a tutorial:

https://youtu.be/0VG4eRg13zk

Qualitative Analysis

A qualitative analysis starts with the description of the applicant's activity (ownership structure, related parties, employees, description of the activity—basic business operations of the company, market assessment, competition, customers, suppliers, business premises, property, equipment, etc.)

A qualitative analysis should begin with a SWOT analysis, which assesses Strengths, Weaknesses, Opportunities and Threats to the applicant's business.

A qualitative analysis is a comprehensive description of the client's business and all factors that affect their business model at the time of business plan, as well as projections of business quality risk for the next period, in relation to current effects and current business.

SWAT	Activity	Market	Property
SWOT analysis	*Company activity, products/services, ownership structure, and related parties*	*Market, customers, suppliers, competition*	*Company assets; facilities, equipment*

SWOT Analysis

SWOT analysis is used as part of strategic planning and focuses on:

- **Internal Forces**
- **Internal Weaknesses**
- **Opportunities in the External Environment**
- **Threats in the External Environment**

What is the significance of the analysis?

SWOT analysis helps management to discover the following:

- What does the company do better than the competition?
- What do competitors do better than a company?
- Are existing opportunities being used in the best way?
- How does the organization react to changes in the external environment?

What is the purpose of the SWOT analysis?

There is no point in performing a SWOT analysis if no action will follow. The key words are "connect" and "convert".

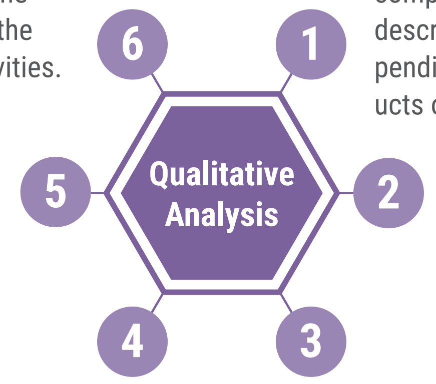
CONNECT STRENGTHS WITH OPPORTUNITIES

CONVERT WEAKNESSES TO STRENGTHS

What is the significance of the analysis?

The main challenge of any organization is to turn weaknesses into strengths. An internal and external analysis can produce a large amount of information, most of which may not be relevant. A SWOT analysis can serve to reduce information on key issues. A SWOT analysis classifies internal aspects as strengths or weaknesses, and external factors as opportunities or threats. Strengths can serve as a basis for creating advantages over the competition, and weaknesses can threaten it. Based on the analysis, the company can: deploy your forces, correct your weaknesses, take advantage of great opportunities and eliminate potential threats.

Qualitative Analysis



1. ACTIVITY, PRODUCTS AND SERVICES
Detailed description of the company's activities based on information for the company's previous operations. Detailed description of the company's offer, depending on whether it is a range of products or services provided by the company.

2. MARKET
Insight into market trends and market positions of the company, as well as a description of cooperation and listing the main customers and suppliers of the company.

3. OWNERSHIP STRUCTURE AND RELATED PARTIES
Overview of the ownership structure, as well as listing all related parties with whom there is a connection in business on basis of the joint founders of the company.

4. COMPETITION
Identification of the main competitors, both in the part of activity and scope of dealing with a certain activity, and in the form of listing the biggest competitors on the market.

5. COMPANY ASSETS
We set examples to encourage and enable our customers to make better choices and lead a more productive and sustainable life.

6. PLANS FOR THE FUTURE
Planned investments in assets, as well as a plan for the company's business in the future through the placement of new products, or the expansion of the offer and activities.

Financial Analysis

BS

BALANCE SHEET
Analysis of the last balance sheet and preparation of the balance sheet projection for the project duration years.

PL

PROFIT AND LOSS
Analysis of the last income statement and making a projection of the income statement for the years of the project.

CF

CASH FLOW
Making a projection of inflows and outflows from business activities for all years of the project.

EF

ECONOMIC FLOWS & NET PRESENT VALUE
Making a projection of all inflows and outflows of the company, for all years of the project. Calculating the internal rate of return, through the net present value of the project.

The financial analysis is an analysis of the financial results of the applicant, as well as a business projection for the period in which the investment will give the greatest effects.

Through a financial analysis, the balance sheet and income statement are projected, as well as economic and cash flows for a period of x years, in order to determine whether the project is profitable, feasbile, economical, sustainable and cost-effective, and the final assessment should calculate the period for which the investment will be repaid, i.e. return (so-called ROI—return on investment ratio).

BS

BALANCE SHEET ANALYSIS AND PROJECTIONS
The value of assets (fixed and current assets) is projected, as well as liabilities (short-term and long-term liabilities) and finally the applicant's own capital. Positions in the balance sheet enable the projection of short-term liquidity, as well as movements in the total value of ASSETS.

IS

INCOME STATEMENT ANALYSIS AND PROJECTIONS
Through the projection of the income statement, the profitability of the business in the projected period is calculated, where the indications of the "success" of the project are seen through the positive business in the entire projected period.

CF

CASH FLOW PROJECTION
Cash flows represent the difference between cash inflows (charged from customers) and cash outflows (paid to suppliers) in one time period and are made for the same time period as the Income Statement. Net Cash Flow = the difference between the final and initial cash balance and preferably positive.

ES

ECONOMIC FLOWS
Overview of all inflows and outflows and their differences, with the aim of calculating profitability and applying a dynamic method of investment project evaluation. Inflows in the economic flow are all inflows, not only from sales, but also the rest of the project, and outflows are investments and all other expenses related to the investment, operating expenses without depreciation, taxes, etc.

RA

RATIO ANALYSIS
Based on the projections of the balance sheet and income statement, as well as cash and economic flows, the ratio for the final evaluation of the project is calculated. The ratios that are calculated in this way are: feasibility, economical, profitability, as well as the ratio of return on investment (time required to repay the investment and the loan).

CURRENT ASSETS
- Cash equivalents and cash
- Receivables from customers and related parties
- Inventories—material, work in progress, finished goods, goods, advances given, real estate for sale
- Permanent working capital

CAPITAL
- Shares and other capital
- Unpaid subscribed capital
- Reserves
- Revaluation reserves
- Unrealized losses / gains on securities
- Undistributed profit
- Loss
- Repurchased own shares

OBLIGATIONS
- Short-term liabilities (short-term financial liabilities to banks, current part of long-term debt)
- Long-term liabilities (loans and other long-term liabilities, liabilities to related parties)
- Operating liabilities (liabilities to suppliers, liabilities to related parties)
- Other—loans of the founders, tax liabilities

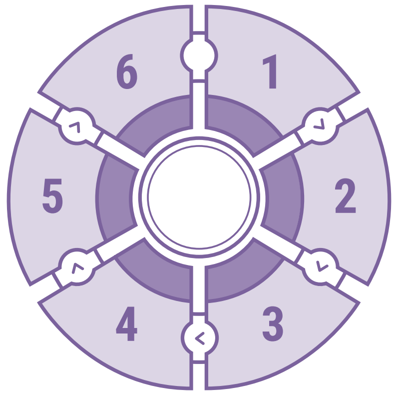
FIXED ASSETS
- Land, plots
- Mechanization and equipment
- Objects
- Vehicles and other machinery

Profit and Loss

6. NET RESULT
EBITDA—earnings before deductions for taxes, interest and depreciation
RETAINED EARNINGS: The difference between income and expenses less income tax

1. BUSINESS INCOME
- Revenues from sales
- Income from activating effects and goods
- Other operating income

5. OTHER INCOME AND EXPENSES
- Other extraordinary income
- Other extraordinary expenses
- Net operating profit of discontinued operations
- Net operating loss that is discontinued
- Income tax (deferred tax expenses / income for the period, personal income paid to the employer



2. BUSINESS EXPENSES
- Material costs
- Earnings and other personal expenses
- Decrease / increase in inventory value
- Depreciation and provisioning costs

4. RESULT FROM REGULAR OPERATIONS
Operating income – Operating expenses = EBIT.
EBIT + financial income - financial expenses = OPERATING RESULT

3. OPERATING RESULT (EBIT)
EBIT—earnings before interest and taxes—profit before interest and taxes—the difference between operating income and operating expenses

Business Indicators *(result of income statement and balance sheet)*

SALES AND LIQUIDITY

1. SALES INDICATORS
- Operating result without depreciation (EBITDA)
- Business result (EBIT)
- Gross margin on sales
- EBITDA margin
- Operating profit rate (EBIT)
- Rate of profit from ordinary activities
- Net profit rate from ordinary activities
- Margin from operating cash flows
- Sales tax
- Interest coverage

2. LIQUIDITY INDICATORS
- Net working capital
- Change in net working capital
- Current liquidity ratio
- An indicator of accelerated liquidity

DEBT AND YIELD

3. DEBT INDICATORS
- Net value of tangible assets
- Total financial liabilities
- Change in total financial liabilities
- Net financial liabilities / net asset value
- Total liabilities / net asset value
- Debt amortization period
- Capital ratio

4. PERFORMANCE INDICATORS
- Net return on assets (ROA)
- Net return on equity (ROE)
- Dividend increase
- Dividend coverage

TURN-OVER

5. TURNOVER INDICATORS
- Total assets ratio
- Days of binding receivables from customers
- Stock carrying days
- Business cycle duration
- Days of binding obligations to suppliers
- Gap to finance the business cycle

Cash Flow

INFLOWS FROM BUSINESS ACTIVITIES	All inflows from business activities, by years, for the duration of the project (revenues, transfer of existing sources - own funds, loans)
OUTFLOWS FROM BUSINESS ACTIVITIES	All outflows from business activity, by years, for the duration of the project (transfer of existing assets, investment in fixed assets, investment in working capital, tangible and intangible costs, employee salaries, loan annuities, income tax)
NET INFLOW – TOTAL CASH FLOWS	The difference between total inflows and outflows from business activities
NET INFLOW – TOTAL CASH FLOWS	Net inflow increased by cumulative net inflow at the end of the previous year

Cash Flow Analysis

OPERATING RESULT – CHANGE IN CURRENT ASSETS = CASH FROM REGULAR OPERATIONS

CASH FROM REGULAR OPERATIONS – FINANCIAL OUTFLOWS = NET CASH FROM OPERATING OPERATIONS

CASH FROM INVESTMENT – CASH FROM FINANCING TOTAL CASH MOVEMENTS

1. NET BUSINESS RESULT (AFTER TAX AND DEPRECIATION)
- Business result without depreciation (EBITDA)
- Depreciation costs
- Interest coverage

2. NET CHANGE IN CURRENT ASSETS
- Buyer claims
- Supplies
- VAT
- Short-term financial investments
- Deferred tax assets
- Receivables for overpaid income tax
- Fixed assets held for sale
- Business duties
- Other current liabilities
- Deferred tax liabilities
- Liabilities based on VAT and public revenues
- Income tax liabilities
- Liabilities based on assets held for sale

3. FINANCIAL OUTFLOWS
- Financial expenses
- Financial income
- Other extraordinary income and expenses
- Net result of discontinued operations

4. INVESTMENT CASH
- Net cost of acquisition of fixed assets
- Intangible assets
- Goodwill
- Investments in the capital of others

5. CASH FROM FINANCING
- Short-term financial liabilities
- Long-term credit
- Basic capital
- Unpaid subscribed capital
- Repurchased own shares
- Revaluation reserves
- Use of capital
- Long-term provisions
- Other long-term liabilities

Economic Flows and Net Present Value

INFLOWS
All inflows from business activities, by year, for the duration of the project.

1

OUTFLOWS
All outflows from business activities, by years, for the duration of the project (transfer of existing assets, investment in fixed assets, investment in working capital, tangible and intangible costs, employee salaries, income tax).

2

NET INFLOW, CUMULATIVE AND YEAR OF RETURN ON INVESTMENT
The difference between inflows and outflows. The first call of the year represents the year in which the project will be repaid.

3

NET PRESENT VALUE
It is a measure of profitability, i.e. the effectiveness of the business entity or project. The value of cash flow today is not the same as in some future period, i.e. cash flow currently has the highest value, because it can be invested immediately and can start to make a profit, while in the future it cannot to the same extent. The cash flow disc implies reducing the future expected benefits of the investment to the value of the investment at the time of doing business.

4

DISCOUNT RATE
It represents the expected rate of return on initial investment, i.e. it determines the amount that the investor is willing to pay in the present time with the assumed return in the investment period, with a certain degree of investment risk - the rate at which the difference between net present value of inflows and outflows is zero.

5

INTERNAL PROFITABILITY RATE
The internal rate of return is the discount rate that makes the net present value of all cash flows from a particular project equal to zero.

6

BALANCE SHEET
- Short-term liquidity
- Capital movements
- Asset movements

PROFIT AND LOSS
- Realized profit in all years of the project
- Profitability of the project
- Cost-effectiveness of the project

CASH FLOWS
- Positive cash flow in all years of the project

ECONOMIC FLOWS
- Year of project return
- Discount rate
- Internal rate of return

For more information on parts of this business plan brochure:
Please refer to Workbook for Writing a Business Plan—Part 2 for more in-depth instructions on how to develop a business plan even further.

Is a business canvas model the best way to start for you?:
www.alexandercowan.com/business-model-canvas-templates/

SWOT analysis for business plans:
www.liveplan.com/blog/what-is-a-swot-analysis-and-how-to-do-it-right-with-examples/

Final Evaluation of the Business Plan

6 BASIC CONCLUSIONS BASED ON CALCULATED VALUES AND ANALYSIS OF INCOME STATEMENT, BALANCE SHEET, CASH AND ECONOMIC FLOWS

ECONOMICAL
- The project is economical if the coefficient of economy is greater than 1
- Coefficient of economy = income / expenses (in a representative year)

PROFITABILITY
- Realized profit (positive financial result) in all analyzed years, during the project, as well as positive cash flow for the entire period

LUCRATIVENESS
- The project is lucrative if the internal rate of return, as well as the basic rate of return is higher than the discount rate, i.e. average annual market interest rates.

Final assessment of the business plan: economical, profitable, capital forming, lucrative, has return on investment and a positive net present value

CAPITAL ACCUMULATION
- A project is capital forming if the rate of accumulation is positive. The higher the rate, the higher the level of project capital accumulation

RETURN ON INVESTMENT
- One of the most important segments of making a business plan is designing the year in which the investment will pay off in full and "return", in terms of investing in it. This primarily refers to the return on investment and the moment when the investment begins to bring full capacity, with maximum usability and profitability.

NET PRESENT VALUE
- Measure of profitability, i.e. the effectiveness of the business entity. If the net present value is positive, it means that the project is profitable and with positive effects on the company's business.

Documentation for the development of a business plan for legal entities and RAH

REGISTERED AGRICULTURAL HOLDINGS

LEGAL PERSON

BALANCE SHEET AND CARDS
Cross-section of funds and sources of funds on 31.12. and fixed asset, customer, supplier and credit bureau cards

PROFIT AND LOSS
Income and expenses and financial result for the period 01.01. - 31.12.

GROSS BALANCE SHEET
Gross balance with the last postings, as a cross-section of operations on a certain date

AGENCY FOR BUSINESS REGISTRATION REPORT
Information on the company's headquarters, date of registration, founders, directors and representatives

RAH

BALANCE SHEET (OWNERSHIP IN THE VAT SYSTEM)
Cross-section of funds and sources of funds on 31.12.

PROFIT AND LOSS
Income and expenses and financial result for the period 01.01. - 31.12.

EXCERPT FROM THE REGISTER AGRICULTURAL HOLDINGS
Sowing structure, structure of livestock, data on farm registration, farm members, location, etc.

LIST OF FIXED ASSETS
Fixed assets card, or a list of all fixed assets owned by the family and the holder of the household