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Module 7 – Managing the Money

Unit 1 – Sources of Finance

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Introduction to Sources of Finance

In this unit, we will provide you with an overview of the following sources of finance:

- \clubsuit Loans and financial institutions;
- ♦ Soft-funding and grants;
- Overview of alternative sources of funding seed capital, venture capital, angel investors etc.
- Crowd Funding







Sources of Finance

Over time – all SMEs By date of interview	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Unweighted base:	5008	5023	5024	5038	5001	5004	5003	4500	4500
Core products (any)	30%	31%	28%	29%	28%	29%	32%	25%	30%
-Bank overdraft	18%	17%	16%	16%	16%	15%	17%	14%	16%
-Bank loan/Commercial mortgage	8%	7%	7%	8%	6%	7%	8%	6%	6%
-Bank loan		5%	6%	7%	5%	6%	6%	5%	4%
-Comm. Mortgage		1%	1%	2%	2%	2%	2%	2%	3%
-Credit cards	15%	16%	14%	15%	15%	15%	17%	15%	17%
Other forms of finance (any)	18%	20%	16%	16%	17%	16%	19%	15%	15%
-Leasing, hire purchase or vehicle finance	7%	8%	6%	7%	6%	7%	8%	7%	8%
-Loans from directors/family/friends*	8%	8%	6%	7%	7%	6%	8%	4%	5%
-Equity from directors/family/friends*	2%	3%	2%	2%	2%	3%	3%	2%	2%
-Invoice finance	3%	3%	2%	2%	2%	3%	2%	2%	2%
-Grants	2%	2%	1%	2%	2%	2%	2%	2%	1%
-Loans from other third parties	1%	2%	2%	2%	2%	2%	2%	2%	1%
Any form of finance – all SMEs	39%	40%	36%	36%	36%	36%	40%	33%	36%

Source: SME Finance Monitor, 2016







Internal Sources of Finance

- Owner's self-investment or bootstrapping
 - the owners themselves inject money into their businesses.
 - ◆ can be referred as the start-up capital if used for set-up of the business.
- Retained Profit
 - if your business is making profits, you can use this money in order to invest back into your business.
- Share Capital
 - ◆ an entrepreneur can sell shares in their company to raise capital
- Income from customers







Loans and Financial Institutions

- Sank Loans mean borrowing money that is to be repaid over a period of time, including the interest on top of the loan amount.
- \clubsuit It is simply a debt that is contracted at a bank.
- ♦ Bank financing is used in green businesses to:
 - Purchase capital such as equipment, machinery, buildings and/ or vehicles
 - Provide working capital
 - Provide match co-funding for grant applications
 - Finance business growth and expansion
 - Finance other costs, including eco-packaging, green marketing, etc.
- A Dublicky backed loop achomog





Loans and Financial Institutions

Advantages:

- Entrepreneurs don't need to transfer a percentage ownership of their company to an investor
- ✓ Entrepreneurs have the freedom to develop your business as they wish.
- ✓ Repayments are spread out over time.

Disadvantages:

- > Entrepreneurs are charged interest and so repayments can be quite high.
- > Banks may require security on the loan.
- Financing is dependent on the business' or entrepreneurs' financial projections and credit rating.







Soft-financing and Grants

 \bullet Soft financing does not directly require a return on investment. Subsidies, donations and grants fall under soft funding. ◆ Soft funding is particularly relevant to the green business sector - access grants offered through your local LEADER Rural Development Programme, or from national and international programmes which specifically target this innovative sector. • Grants are generally applied for and awarded for a specific purpose, for example, eco-packaging, diversification into green economy, development of sustainable tourism services, innovations in bio-fuels, etc.







Soft-financing and Grants

Advantages:

- ✓ Large sums of money possible.
- $\checkmark~$ Process is clearly outlined and transparent.
- ✓ May be source of on-going finance.
- ✓ Entrepreneur does not have to give over an equity stake in their business.

Disadvantages:

- > Application procedures may be long and tiresome.
- > May only pay by unit of service.
- Unspent monies may need to be returned.
- Usually have difficult record keeping processes.
- Geographical boundaries







Seed Capital

- When an investor purchases part of a business, this financing model is called seed funding.
- ♦ Seed funding is an early investment strategy.
- The aim is to support the business until it can generate cash of its own, or until it is ready for further investments.
- ♦ It is most commonly used when early stage businesses lack the credentials for a traditional bank loan.
- Seed money options include friends and family funding, angel investors, venture capitalists and accredited investors.







Seed Capital

Advantages:

- ✓ Used for preliminary operations such as market research and product development.
- Less paperwork involved in seed capital as opposed to other funding sources.

Disadvantages:

- > Not necessarily a large amount of money € 50,000 or less.
- > Entrepreneur has to give us a level of control over the direction their business takes.
- Seed funding involves a higher risk than normal venture capital funding. Erasmus+
- Entrepreneurs have to find an investor.





Venture Capital

- Start-up or growth equity capital provided by private investors (the venture capitalists) or specialised financial institutions.
- Venture capital is a type of funding for a new or growing business.
- Venture capitalists give funding to the start-up company in exchange for equity in the start-up.
- ♦ Venture capital companies make large investments.
- Most commonly found in high growth technology industries like biotech and software.
- ♦ Formal vs. Informal Venture Capital







Venture Capital

Advantages:

- $\checkmark\,$ Access to financial, administrative, economic and fiscal support.
- ✓ Collateral is not needed.
- $\checkmark~$ Can have access to large amount of financing.

Disadvantages:

Whoever pays holds the power to decide", the entrepreneur has to commit an equity stake in their business to the investors.







Angel Investors

- Angel Investors are entrepreneurs who have extensive knowledge and experience in managing small businesses and who have access to capital that they would like to invest.
- Angel Investors fund and invest in emerging companies especially in innovative sectors like the green economy.
- Angel investors take on a role in the management of the business once they have invested.
- This is not a disadvantage for the green entrepreneur because these entrepreneurs with little business experience will have much more experienced partners to work with.







Angel Investors

Advantages:

- ✓ Quick financing
- ✓ Real life training in business management and professional contracts
- ✓ Entrepreneurs of unconventional businesses with high growth potential have a higher chance of securing investment from angels than through a conventional bank loan
- $\checkmark~$ No repayments and no interest

Disadvantages:

- Entrepreneurs have to give a percentage share of the business to the investor
- It can take a long time to find an appropriate investor







Introduction to Crowd Funding

Crowd Funding is the collection of funds through small contributions from many parties in order to finance a particular project, idea or venture.

Advantages:

- $\checkmark~$ It is a cheap and cost-effective
- If the business idea is promising, large amount of financing might be available
- ✓ No need for collateral guarantees to get a project funded

Disadvantages:

Need to acquire a large number of followers on different platforms to get an idea / project funded





Participants in Crowd Funding

The model involves a variety of participants:

- ♦ Usually include the entrepreneur or businesses that propose the ideas, and/or projects to be funded,
- The contributors the crowd of people who support the proposals, and
- The model is then supported by an organisation (the "platform") which brings together the entrepreneur and the contributors.





Introduction to Models of Crowd Funding

Donation based crowdfunding

 \diamondsuit This runs on philanthropy.

FRAINING

- $\$ The incentive to make a contribution is not financial return or gain
 - the reward is in the satisfaction of knowing that money will be used for a good cause.

Reward based crowdfunding

- Supporters are given the opportunity to choose the size of their support and receive special perks in return.
- ♦ The more money spent, the greater the reward.





Introduction to Models of Crowd Funding

Pre-sales based crowdfunding

TRAINING

- Investors receive the finished product in return for their contributions.
- May not be feasible, but entrepreneurs should have thoroughly calculated the costs of manufacturing before committing to this.

Lending based crowdfunding

Peer-to-peer lending cuts the institutional "middle man", allowing lenders to choose an investment themselves and entrepreneurs to benefit from lower interest rates.

Frasmus+



Introduction to Models of Crowd Funding

Investment based crowdfunding

TRAINING

- ♦ Also termed "Crowd-investment"
- This allows for contributors to receive equity in the companies they support.
- Typically, contributors buy shares, which may give them some kind of say in the project or business.







Platforms that support Crowd Funding

- Donations, Philanthropy and Sponsorship where there is no expected financial return
 - Examples include Kickstarter, RocketHub, IndieGoGo, Faithfunder, ChipIn,
- Lending/Borrowing
 - Examples include KIVA, Funding Circle and RateSetter

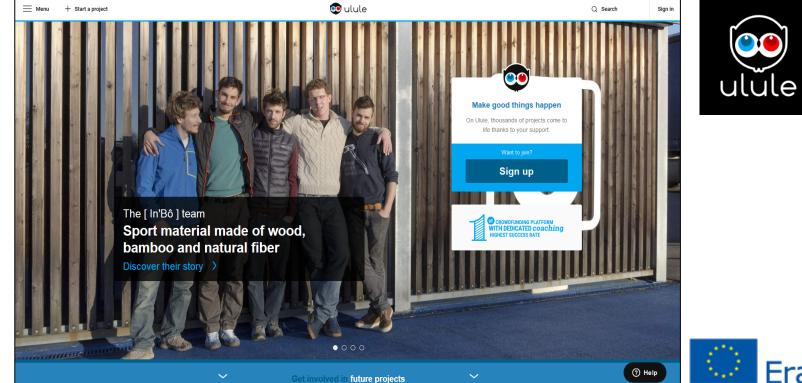
Investment in exchange for equity, profit or revenue sharing
Examples include Profounder, AppBackr, PeerBackers







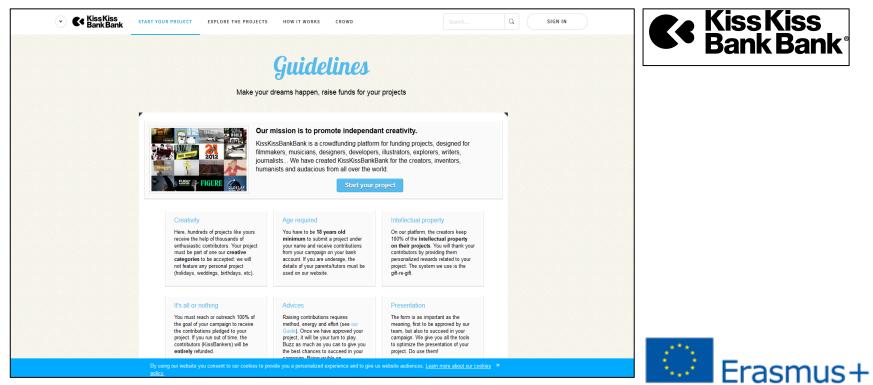
















Unit 1 – Sources of Finance

For a more information on sources of funding, please visit:

- How to Finance a Green Business (Ecopreneurist): <u>http://ecopreneurist.com/2008/02/18/how-to-finance-a-green-business/</u>
- Where To Get the Green: Sources of Funds for Green Entrepreneurs (Green for All): <u>https://www.greenforall.org/</u> where_to_get_the_green_sources_of_funds_for_green_entrepreneurs

For more information on crowd-funding platforms, please visit:

- Euro Crowd: <u>http://eurocrowd.org/about-us/</u>
- Ulule: <u>https://www.ulule.com/</u>
- Kiss Kiss Bank Bank: <u>https://www.kisskissbankbank.com/</u>







For more information

Visit our website Green-entrepreneurship.online

