E-BUSINESS TRAINING CONTENT FOR TRAINERS

FF201

Fundraising Practice

Core

FUNDRAISING PRACTICE

Written by:

Pichmonita Ho | Cambodia

LEARNING OBJECTIVES

Upon completion of this course, students will be able to:

1. Understand the financing concept and the three key stages
2. Explore various funding opportunities in ASEAN
3. Establish a funding plan and identify which type of business is ideal for each funding

OUTLINE

Module 1. Financing Your Business

- What is Financing?
- Startup-Stage Financing
- Growth-Stage Financing
- Maturity-Phase Financing

Module 2. Funding Opportunities

- General funding sources for MSMEs in ASEAN
- ASEAN Programme to assist MSMEs

Module 3. Establishing a Funding Plan

- Overview of business types and its suitable funding
- Discussion
- Recap & Q&A session

DURATION

1.5 – 2.0 hours (30 – 40 mins per module).

MODULE 1. FINANCING YOUR BUSINESS

1-1. What is a Financing?

Objective: *To introduce the concept of financing and the two main types of financing available for SMEs*

- Financing refers to *"the process of providing funds for business activities, making purchases, or investing. To help consumers, businesses, and investors reach their goals and objectives, financial institutions such as banks are in the business of providing capital."* (Hayes, 2022)
- Financing is *"a way to leverage the time value of money to put future expected money flows to use for projects started today. Likewise, in order to create a market for money, financing also benefits from the fact that some individuals in an economy will have extra capital that they want to invest in order to earn returns, while others demand capitals to make investments (also in the hope of earning returns)."* (Hayes, 2022)
- Two main types of financing are debt financing and equity financing:
  - Debt Financing: is when a business takes out loans from banks or other lenders.
  - Equity Financing: is when a business sells ownership stakes to investors in exchange for capital.

Instructor starts by introducing the concept of financing, followed by its significance and a few practical examples.

Participants will be invited to simply share their own thoughts on what financing is and why it is needed at every stages of business development.

Instructor should then share and differentiate the two main types of financing for business to the participants.

Instructor will ask participants to form groups, make list of pros and cons for both financing and present. (Think-Pair-Share)

1-2. Startup-Stage Financing

Objective: *To understand the typical phases of the business life cycle in startup*

- Financing requirements that early-stage businesses typically encounter
- Providing the overview of the sources SMEs can turn to in securing their funding

Type of business and their life cycles

Every business is different so as their life cycles and financing requirements. Harvard Business School's Karen Gordon Mills and Fundera Inc.'s Brayden Mc-Carthy have conducted their research on the state of small business and financing in the United States. The study has found that roughly 70% of small employer business (Main Street firms) in the US are dry cleaners, medical clinics, mechanics and relevant businesses which play a vital role in their local communities. These businesses frequently aim to meet the owner's personal or family income needs, and once the businesses are established, the owners place a greater emphasis on maintaining their income than on expanding it.

A startup phase, followed by a period of gradual growth, followed by a no-growth or slow-growth phase of maturity are all present in this type of business. To buy or lease equipment, rent office space, set up an inventory and fixtures, and provide working capital, the business owner need startup financing. The entrepreneur may occasionally just buy an existing company from someone else.

In the US, supply-chain businesses make up about 17% of small, multi-employee companies. These specialized businesses fill a specific need in a particular industry, region, or area of an existing supply chain. Supply-chain businesses are incredibly crucial to the economy as they offer employment opportunities and wages, foster innovation, and provide massive support to the bigger ones. These companies produced 80% of the US patents in 2013 and accounted for about 37% of the US employment. These businesses maintain a growth-oriented focus after the startup phase. (Harvard Business Review Press, 2018)

In every business, there are the startup phase, the growing phase, and the mature phase. The amount of growth and how long it takes to reach that growth vary. Business or companies that are expanding quickly typically need more successive phases of financing at ever-higher levels. (Harvard Business Review Press, 2018)

Only a small percentage of entrepreneurial businesses make it through all the phases. Within a few years, many companies fail. Others are successful but are not given the chance to reach their full potential as they are acquired by bigger businesses. (Harvard Business Review Press, 2018)

Startup-phase financing

In the startup phase, the initial financing usually comes from personal sources (often referred to as bootstrapping financing):

1. Personal savings
2. A second mortgage on the founder's home
3. Credit card lines of credit

In this phase, you may also start to seek for the outside resources or seed investment:

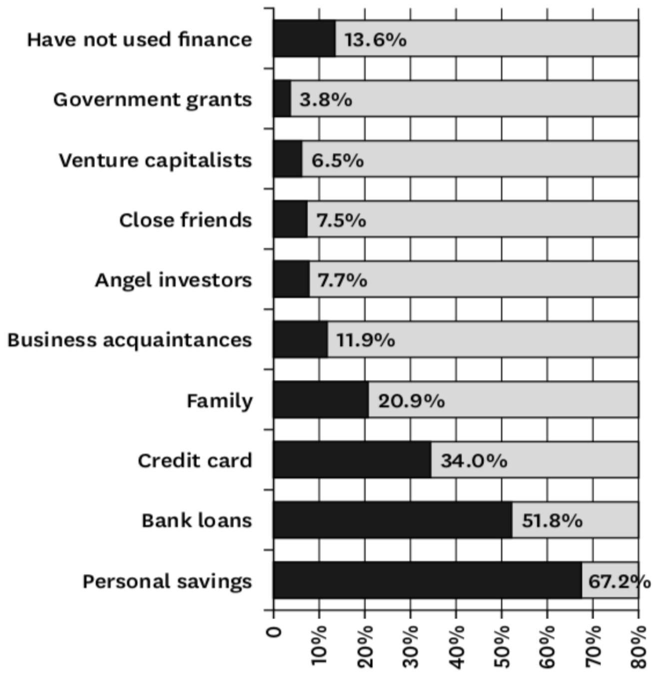
1. Loans from friends/relatives
2. Bank loan from small banks and online lenders
3. Short-term trade credit from suppliers
4. Crowdfunding
5. Equity investment from an accelerator program

Angel investors, private equity, a venture capital firm or even hedge fund may be interested in investing in a startup if the founder and the management team have a track record of business success and good standing in the business or scientific community. Financial professionals actively pursue those who have shown they have the Midas touch. In these scenarios, the company may draw investors before it has marketable goods or services and most definitely before it enters the growth phase. As financing has become more widely available, early-stage equity investments have increased in popularity over the past few years. Whereas venture capital used to be an exclusive club of formal firms, a wider range of options are now available, even for early-stage entrepreneurs looking for equity capital, thanks to angels, accelerators and crowdsourcing.

Figure 6-1 displays the various funding sources used by Inc. magazine's list of the 5000 American businesses with the fastest growth in 2014. (Harvard Business Review Press, 2018)

FIGURE 6-1

Sources of funding for *Inc.* magazine's five thousand fastest-growing US companies in 2014



Source: "How Entrepreneurs Access Capital and Get Funded," *Entrepreneurship Policy Digest*, Kauffman Foundation, June 2, 2015.

Many small businesses are initially funded by personal savings as well as donations from friends and family. Even though it's expensive, some business owners also turn to credit cards or home equity lines of credit for startup capital.

Likewise, there are some limited external sources of capital available to the startup-stage businesses known as the seed stage when your bootstrapped business starts to show some signs of success or grow.

1. Trade credit: is an agreement between two businesses allowing one business (customer) to purchase goods or services from another (supplier) without paying cash up front, and instead pay at a later date. Trade credit is a better deal for the business owner than using a bank line of credit or another method that entails paying interest.
2. Commercial bank loans: may be able to provide some startups with limited financing. Since the 2008 recession, despite legislative efforts to reduce the risk for banks, funding for entrepreneurial debt from banks has been scarce. Due to these restrictions, alternative solutions, such as crowdfunding, angel syndication, or online lending, are becoming more and more crucial for the needs of early-stage startups.
3. Crowdfunding: a method of raising capital through customers, family, friends, and investors on crowdfunding sites or platforms. Throughout the crowdfunding process, a business owner may use various platforms and crowdfunding sites to help raise capital.
4. Accelerators: offer fixed-term, cohort-based support for new companies

through financing, immersive education, and customized mentorship in exchange for equity.

1-3. Growth-Stage Financing

Objective: *To understand the typical phases of the business life cycle during the growing phase*

- The expansion of business in its growing phase demands more capital to further grow
- Debt capital is more commonly appeared at this phase; however, certain requirements must be met to obtain the loan
- The capital sources during this phase may come from internal cash flow from operations, debt capital, venture Capital and initial public offering

As business expands its sales and builds a larger customer base in its growing phase, more capital is in demand to expand the business operation, human resources, or possibly acquiring other small businesses. Your business may already be producing some positive cash flows that can be used to fund these initiatives, but if your growth is robust or your strategy is to increase brand recognition, you'll likely need more capital. However, now that your company has established its credibility, you can typically access external funding easier than in your startup phase. Most of that capital comes from bank debt for slow to moderate growth businesses.

Debt Capital

When business is growing, owner often receive debt capital from their local banks. However, it does not always work when it comes to small businesses or the startups. Bankers would look to a borrower's ability to repay, character, and collateral before making a loan.

Equity and beyond

The sale of shares to investors, including the entrepreneur, provides equity capital. The typical business in the growing stage is neither established nor large enough to go public, or to start an initial public offering (IPO) of shares. Consequently, it cannot tap broader equity markets. A venture capital firm or angel investor may take notice of the business if it operates in a fast-growing sector of the economy or is on the verge of developing a product that will take the clients by storms, or if the looks of the business attract the investors to contribute a sizeable amount of capital. However, for the early-stage business to generate this kind of capital is somehow uncommon.

Most businesses never progress past this stage of development. Either they are acquired or they fail. The public stock market, is available to those who are successful, giving them access to a wider range of financing opportunities. Equity investors are drawn to businesses with the potential for greater growth by the desire to purchase shares while they are still inexpensive and the company is still relatively unknown.

A public issuing of shares (initial public offering, or IPO) is a major mile-stone in the growth phase for the few businesses that reach it. An IPO provides a major infusion of cash to fuel growth. One or more investment banking firms chosen by the issuing company manage these offerings. Investment bankers assist the issuing company in navigating the complex regulatory requirements of issuing shares to the public. More importantly, the investment bank and its network of stockbrokers grant direct access to millions of potential investors, including private money managers, mutual funds, pension funds, and individual investors.

Various forms of capital sources during the growth phase:

1. Internal cash flow from operations
2. Debt capital
3. Venture Capital
4. Initial public offering

1-4. Maturity-phase financing

Objective: *To understand the typical phases of the business life cycle during the mature phase*

- In the mature phase, there is no more rapid expansion of a business; however, it does not mean that growth is no longer possible. Business owner may decide to keep their business going, collect shares, or sell the business.
- The additional external funds can still be obtained

A business is no longer experiencing rapid expansion once it has reached maturity. Although growth is still possible, it might occur at a slower rate now that the owners have a sizable market share. Owners may want to consider an exit strategy at this point. Owner may decide to keep running their business and collect dividends, or decide to sell it since it is flourishing and more valuable.

Once the mature business is creditworthy, additional external funds can be obtained in various ways such as bank loans, the sale of commercial paper, bonds, and preferred stocks.

Matching assets and financing

Making a proper match between the assets and their associated forms of financing is one of the guiding principles of financing, whether the funding is intended to launch a business, support/maintain its operations, or foster growth. The short-term assets should be financed with short-term financing, and long-term assets should be financed with long-term or permanent financing.

MODULE 2. FUNDING OPPORTUNITIES

2-1. General funding sources for MSMEs in ASEAN

Objective: *To be able to help MSMEs owners identify possible finance investors to approach with their business ideas*

- Angel Investors
- Venture Capital
- Social impact investors
- Equity crowdfunding platforms

There are currently more than 200 venture capital and private equity firms, social impact investors, equity crowdfunding platforms, and angel investors all over Southeast Asia. However, there are sizable populations of alternative investors in other nations as well, including Singapore and Malaysia.

It is crucial for business owners seeking for funding to think carefully about whom they approach, do the research, determine which companies are most likely to invest in the type of business you are starting. Until then, it is time to approach an investor.

2.1.1. Angel Investors

Finding Individual Angel investors is not an easy task. Typically, they are people who are hesitant to publicly state that they are looking for companies to invest in and support. The best way to find an angel investor is frequently through the contacts you have in the business community. These connections might be willing to put you in touch with individuals who might be interested in investing in businesses similar to yours. Similar to this, if you are connected to an incubator or accelerator, it can probably aid in your search for an early stage investor.

However, there are online resources as well. Angel List, a website, is a good starting point. It contains a list of angel investors in the area and some details on what these investors are looking for. For instance, here is the link to angel investors in Thailand: https://angel.co/thailand/investors.

Through angel investor networks, you can reach angel investors even more effectively. In this area, there are numerous of such networks in this region:

- the oldest business angel network Southeast Asia, (https://www.bansea.org)
- Indonesia, one network is called Angin, http://angin.id.
- Manila Angels Investment Network, (http://www.main.ph)
- The Mekong Angel Investment Network, (http://mekongbusinessangels.com) covers the Mekong River Basin
- Malaysian Business Angel Network, (http://mban.com.my).
- Other angel networks

2.1.2. Venture Capital

The number of venture capital firms looking for opportunities in Southeast Asia has skyrocketed. They are very focused on scalability and potential returns and they have a tendency to look for larger investments than angel investors do. Here are some of the venture capital private equity firms operating in ASEAN which focus on different sectors and distinct budget invested ranging from the minimum of USD10,800 to a maximum of USD 3,000,000,000 (The ASEAN Secretariat, 2017, Table 2)

2.1.3. Social Impact Investment

Business looking to address significant issues in health, education, poverty alleviation, or other social issues may find social impact investors to be a good source of funding. However, social impact investors are not philanthropists. Typically, they are money-making investors who are also pursuing social good. They occasionally have more flexible investment terms, which reflects the unique requirements of social enterprises. They might be willing to offer some soft financing and aren't always looking to invest only in pure equity. This, however, is not corporate social responsibility. The path to profitability as well as the social benefits of the business should be emphasized in pitches to social impact investors.

High-net-worth individuals (HNWIs) frequently lead the way in social impact investing. The good news is that Asian HNWIs invest 37.3 percent of their portfolios in socially responsible projects, compared to HNWIs around the world who invest 31.6 percent of their capital in such projects. According to the CapGemini Asia-Pacific Wealth Report 2016, wealthy people in China (40.8 percent), Malaysia (43.6 percent), and Indonesia (45.8 percent) had the highest portfolio allocations for social impact investments.

Some of the social impact organization that concentrate on the Southeast Asian market are: ARUN, Anthem Asia, Gandeng Tangan, Garden Impact, IIX Growth Fund, Insitor Impact Fund, KIVA, Patamar Capital, Sustainable Finance Collective (SFC) Asia, etc.

2.1.4. Equity Crowdfunding

Although it is still relatively new in this ASEAN region, equity crowdfunding is becoming more and more popular. It gives business owners the chance to get funding through standard mechanisms and gives retail and other investors the chance to invest in new ventures. Some of the equity crowdsourcing websites that concentrate on the Southeast Asian market are listed below:

- https://fundingsocieties.com/
- https://fundingsocieties.com.my/
- https://huydong.com
- https://www.investree.id/
- https://kapitalboost.com/
- https://koinworks.com/
- https://www.pitchin.my/
- https://www.akseleran.com/
- https://alixglobal.com/
- https://amartha.com/
- https://asiola.co.th/en

- http://www.ata-plus.com/
- https://crowdo.com/
- https://www.crowdplus.asia/
- http://www.dreamakerequity.com/
- https://eureeca.com/
- https://www.firstcircle.ph/
- https://fundedhere.com/

2-2. ASEAN Programme to assist MSMEs

Objective: *To provide an overview of available mechanisms working to promote MSMEs development*

- **ASEAN COORDINATING COMMITTEE ON MICRO, SMALL AND MEDIUM ENTERPRISES (ACCMSME):** is the ASEAN body in charge of developing and promoting MSMEs. Among other things, it: (1) formulates policies, programs, and activities addressing MSME development; (2) serves as a consultative and coordination forum for MSME cooperation among AMSs, as well as with ASEAN dialogue partners; and (3) works with private sector entities and other stakeholders to support MSME work in ASEAN. The group's SME Advisory Board is made up of representatives of SME agencies and the private sector, and it works to enhance public-private collaboration on MSME activities. ACCMSME's work is supported by, among other donors, the Japan-ASEAN Integration Fund, the

Organization for Economic Cooperation and Development (OECD), and USAID. In 2014, the ASEAN Strategic Action Plan for SME Development 2016-2025 was launched in 2015, which outlines concrete policy objectives to enable regional SMEs to better compete on the global stage. In addition, ASEAN SME Service Centre, an online platform to provide services to ASEAN SMEs and to create connection between SMEs and SME service providers was established. Likewise, the ASEAN SME Academy, an open-access, online training tool was launched in 2014 to provide training courses for SMEs and to provide business information relevant to regional SMEs as well as access to service providers to whom SMEs can reach out for financial advice, corporate programs, and networking. ASEAN Access is a free information portal for Small and Medium Enterprises (SMEs) in the ASEAN region, launched on June 2021. This online portal provides comprehensive information on market and trade access in ASEAN and beyond. SMEs can identify new products and business opportunities, participate in various business and trade matchmaking events and follow up with trade and business information in the region. (Mohamed, 2017)

- **ASEAN BUSINESS ADVISORY COUNCIL (ASEAN-BAC):** was established and launched in 2003 by ASEAN leaders at the 7th ASEAN Summit to provide private sector feedback and guidance to boost ASEAN's efforts towards economic integration and to identify potential priority areas and issues by facilitating and strengthening regional economic cooperation and integration. (Mohamed, 2017)

- **NATIONAL PROGRAMS:** are locally established to assist SMEs. More information can be accessed through the official website of relevant SMEs information portal in each ASEAN country.

Instructor will lead by asking participants about ACCMSME on whether they have heard of this regional committee before.

Instructor gives overviews of each program.

Participants will be asked to think of their national programs and shared their opinions on “Which national programs are aligned to ACCMSMEs?

Instructor will raise a few examples of the national programs of some ASEAN countries.

MODULE 3. ESTABLISHING A FUNDING PLAN

3-1. Overview of business types and its suitable funding

Objective: *To be able to identify which type of business is ideal for each funding*

- Business types: Micro, Small and Medium enterprises (MSMEs)
- Potential Investors are bootstrapping, banks and other loans, credit cards, friends and family, angel investor, venture capital, government, etc.
- Pros and Cons of each potential investors

Business types:

Micro, Small and Medium Enterprises (MSMEs) are an integral part of the economic development and growth in the ASEAN member states. By various definitions, ASEAN has 70 million MSMEs, accounting for 97.2% to 99.9% of the total number of enterprises. Micro enterprises often represent the largest percentage. By region, MSMEs contribute 85% of employment, 44.8% of GDP and 18% of the national exports. (Development of Micro, Small, and Medium Enterprises in ASEAN (MSME))

- **Start-up**

A startup refers to an emerging company or enterprise founded by a single or a group of entrepreneurs and is in the first stage of its operation. A startup offers a service or product that is believed to be in high demand. A startup is generally in the first stage before upgrading into a micro or small enterprise.

- **MSMEs**

Instructor provides definitions of MSMEs based on the classifications and criteria set by each ASEAN countries member states. (*Definitions of MSME in ASEAN member States - ASEAN Main Portal*)

Instructor distinguishes each business types (Micro, Small, Medium enterprises)

Comparing Potential Investors

Potential Investors/ Funding Opportunities	Purposes	Pros	Cons
Bootstrapping	The practice of building a business without outside capital investment. Financed at the owner's expense through internal sources, such as savings, credit cards, mortgages and loans	- Ownership of Your Business - Control Over Direction - No pressure of returning the funds	- Chances of Survival - Limited on your visibility, growth, expansion - Hard to gain credibility
Banks and other Loans	The amount of money borrowed for a set	- Clear loan terms - No equity dilution - Flexibility	- Collateral requirements - Complicated

	period within an agreed repayment schedule. The repayment amount will depend on the size and duration of the loan and the rate of interest. It is to finance the purchase of inventory and equipment as well as to obtain operating capital and funds for business expansion	- Potentially favorable interest rates compared to credit cards	application procedures - Strict eligible criteria - Rigid repayment schedule - Secured loans carry the risk of losing asset - High interests rates
Credit cards	Credit cards are designed to be used for transactions	- Earning rewards - Building credits history - Digital Tools and Account Management - Increased purchasing power - Access to Cash Flow and Financial Flexibility - Predictable payment schedules - Access to emergency	- Payment threshold - Hidden costs - Potential for theft and fraud - High interest rates

		funds	
Friends and Family	The amounts of money borrowed from people who are close to you	- Quick process - High percentage of positive response - Flexible repayment - No collateral required	- Breach of contract - Limited in amounts - Major strains on personal relationships
Angel Investors	The funds come from wealthy individuals who use their own money to make equity investments in early-stage companies. Some angels are tech entrepreneurs; others are successful doctors, lawyers, real estate developers, entertainers, professional athletes, etc	- Secure funding without interest payments - Provide a lot more than just money, including industry expertise and a strong network of connections. - Attract other investment	- Need contracts - Slow careful cultivation - Less control of ownership and certain decisions - Individual investment approach - Documents and compliance requirements are complicated - Confidential information sharing
Venture Capital	The fund that invests in new or growing businesses in exchange for an ownership stake, and often, representation on the board of directors	- Provide a lot more than just money, including industry expertise and a strong network of connections. - Attract other	- Difficult to persuade - Interfere in business management and decision-making - usually offered to trusted SMEs in their networks

	The fund is made up of investments from institutions and wealthy individuals	investment	- Limited information about financial channel and lack of awareness on how to approach and deal with venture capitalists
Government	Funds from a local authority aims at providing public support and stimulating the economy. Usually, grants are awarded to finance or reimburse activities that meet the governments priorities and objectives	- Widely available - Clear administration procedures - Low interest's rates -Provide the capital necessary to start or expand operations	-Application process is slow and detailed -Need to meet certain requirement -Dependent on policy shift -Monitoring, evaluation, and reporting is extensive

Instructor provides overview of each funding opportunities, followed by its pros and cons.

3-2. Discussion

Objective: *To enable the participants to use the skills learnt in developing a good* *fundraising strategy for their individual business*

- Group-paring
- Sharing and Feedbacks

Instructor classifies the participants into 3 small groups (eg. same business types/sectors):

1. Startups
2. Micro-Small Enterprises
3. Medium Enterprises

Instructor asks each group "Which funding is best match for their selected business? And why?

The participants discuss and brainstorm their ideas.

Presentation stage and feedbacks.

3-3. Recap and Q&A session

Instructor summarizes and recalls the main contents of the three modules.

Instructors opens up for the Q&A sessions.

REFERENCE AND FURTHER READINGS:

1. ASEAN SME ACADEMY. (n.d.). *Fundraising concepts*. Get Certified in the latest business techniques. Retrieved February 15, 2023, from https://asean-sme-academy.org/en/courses/fundraising-concepts
2. *Definitions of MSME in ASEAN member States - ASEAN Main Portal*. (n.d.). Retrieved April 10, 2023, from https://asean.org/wp-content/uploads/Definition-of-MSME-in-ASEAN-Member-States.pdf
3. Harvard Business Review Press. (2018). *Harvard Business Review Entrepreneur's handbook: Everything you need to launch and grow your new business*.
4. Hayes, A. (2022, December 19). *Financing: What it means and why it matters*. Investopedia. Retrieved from https://www.investopedia.com/terms/f/financing.asp#:~:text=Financing%20is%20the%20process%20of,help%20them%20achieve%20their%20goals.
5. Mohamed, H. (2017). *Handbook for Msme Access to Alternative Sources of Finance in Asean*. The ASEAN Secretariat.
6. The ASEAN Secretariat. (n.d.). *Development of Micro, Small, and Medium Enterprises in ASEAN (MSME)*. You are being redirected... Retrieved April 10, 2023, from https://asean.org/our-communities/economic-community/resilient-and-inclusive-asean/development-of-micro-small-and-medium-enterprises-in-asean-msme/