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UNDERSTANDING THE FINANCIAL INSTRUMENTS

- Bootstrapping
- Grants
- Debt funding
- Equity
- Crowdfunding

Agenda

- Bootstrapping
- Grants
- Debt funding
- Equity
- Crowdfunding

Session structure

Session organization

Section	Activity	Time allocation
First quarter	Opening & Energizer	10mn
Second quarter	Learning Available funding instruments and how to use them	60mn
Third quarter	Application of learning Use provided materials to identify the right funding instrument for each participants	40mn
Fourth quarter	Wrap up & session evaluation Key takeaways et next session preparation	10mn



Key objectives

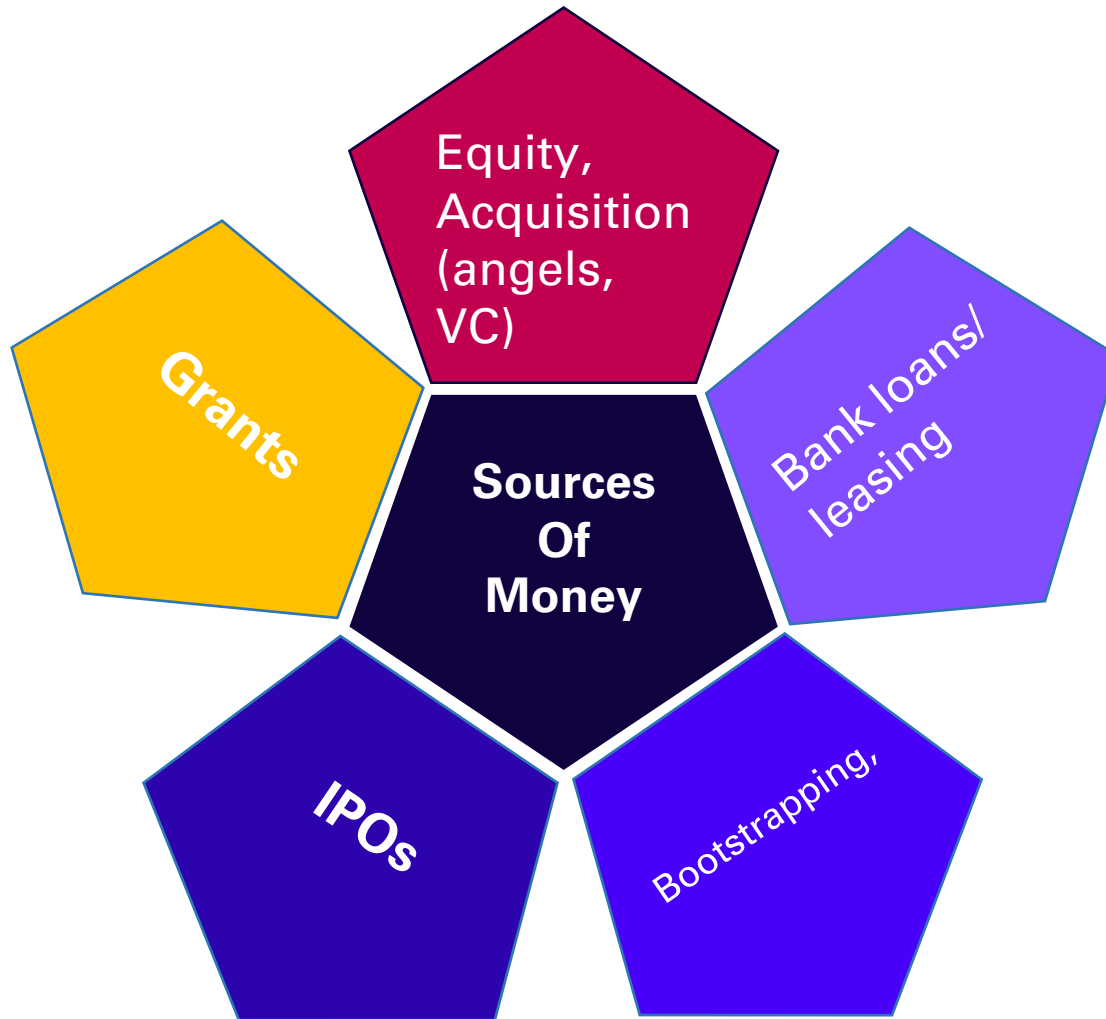
1. Most common sources of financing for SMEs;
2. Advantages & disadvantages of each source;
3. Selecting the appropriate source of financing.

Quiz

Who already raised funding from ?

- Grant
- Crowdfunding
- Debt
- Equity
- Other instruments

Sources of funding



The World's Best TRAVEL JACKET with 15 Features || BAUBAX

Chicago, IL Product Design

\$9,192,055
pledged of \$20,000 goal

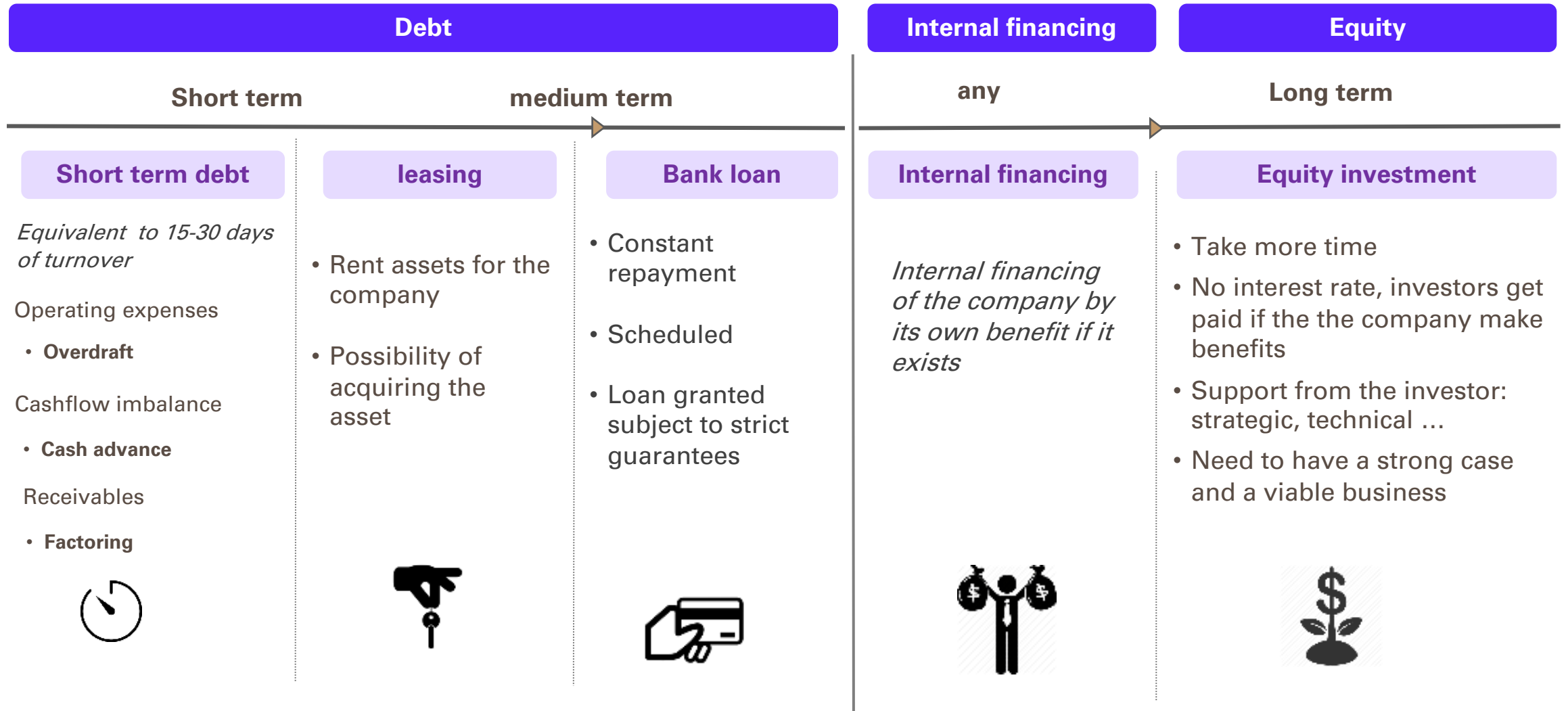
44,949
backers

MailOnline India
Indian innovators get \$1million to fund high-tech health solutions



The Gambia Angel Investors Network (GAIN) announces investment in Daraja Ltd.

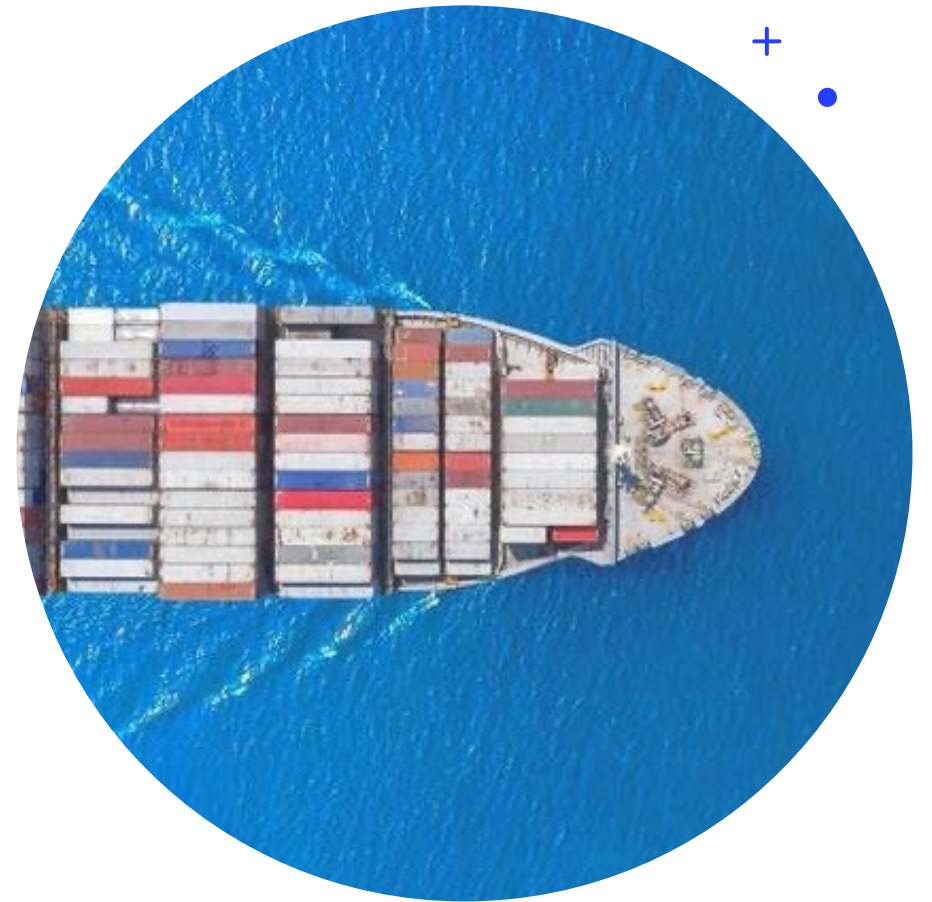
Source of financing



Session 2

Understanding financial instruments

- **Bootstrapping**
- Grants
- Debt funding
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Bootstrapping 101

Bootstrapping, family, friends and fools - and, most importantly, generate your own revenues

Bootstrapping: Bootstrapping is building a company from the ground up with nothing but personal savings, and with luck, the cash coming in from the first sales. The term is also used as a noun: A **bootstrap** is a business an entrepreneur with little or no outside cash or other support launches.
<https://www.investopedia.com/terms/b/bootstrap.asp>

 **Important:** More than 80% of startup operations are funded by the founders' personal finances; the median in start-up capital is about \$10,000.

Bootstrapping =fundraising from clients

Bootstrapping 101: Guy Kawasaki's advice

1. Manage for cash flow, not profitability

- low-up front capital requirements
- short (ideally under a month) sales cycles
- short (under a month) payment terms
- recurring revenue
- word-of-mouth advertising - especially through social media

2. Avoid top-down forecasting: TAM-TOM-SOM is for your pitch deck (or VC)

- focus on bottom-up variables (sales calls/new deals/week/month/year,...)

3. Get your product to market ASAP

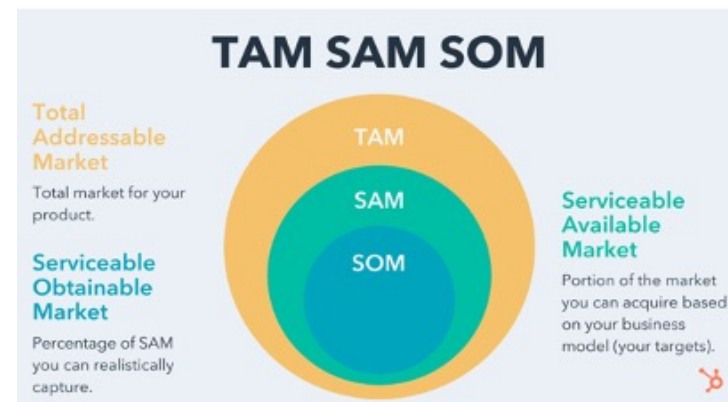
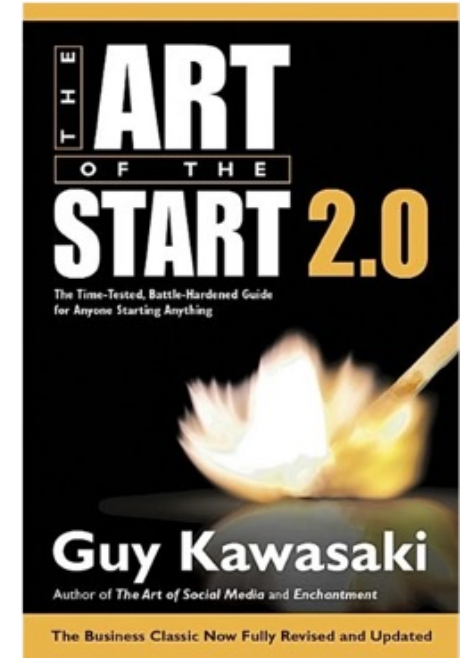
- Ship-fix-ship-fix (BUT make sure you go to market once you have a solid MVP)
- Focus on function (that works), rather than form (design)

4. Focus on an affordable team

- You usually cannot afford highly experienced staff
- You usually lack the experience to manage highly experienced staff

5. Focus service revenues while building your product

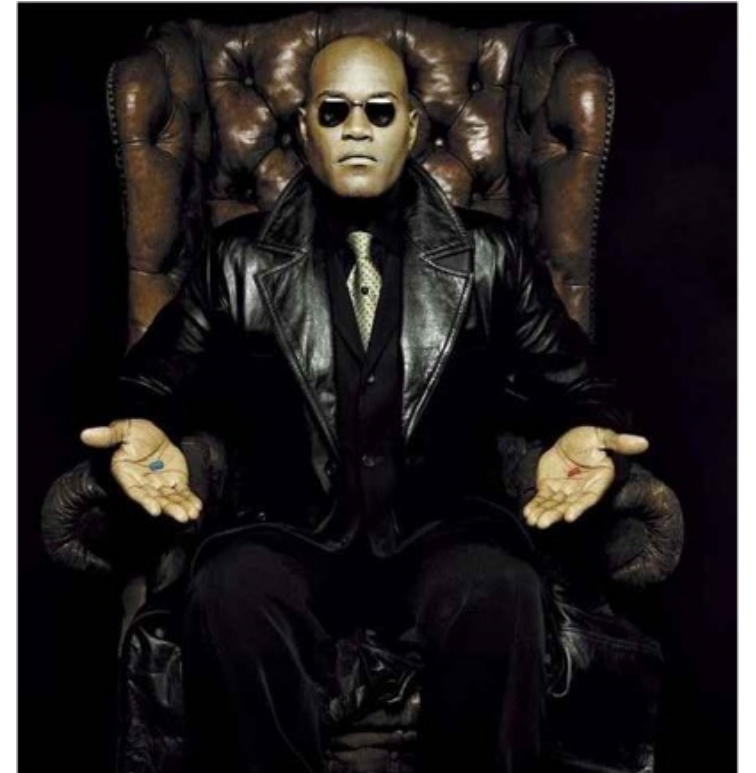
- Allows you to extend your runway
- Risk: your clients don't leave you the time to focus on your product



Bootstrapping 101: THE 10 questions

A useful list of questions from Guy Kawasaki to ask yourselves when you start, and go back to every quarter:

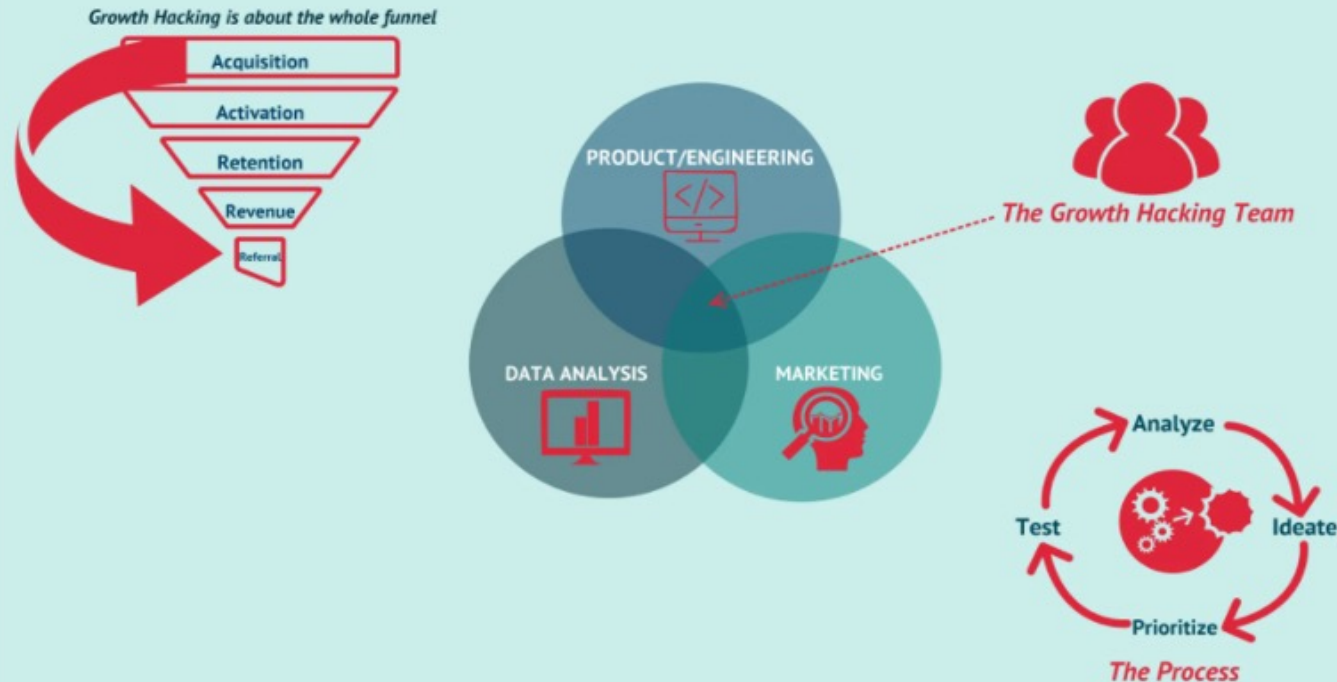
1. When is your product or service going to be ready for market?
2. What are your true costs of operations?
3. When will you run out of money, taking into account question 2?
4. How much of your sales pipeline is going to convert?
5. How much of your account receivables is collectible, ie how much will your customers/clients never pay?
6. What can your competitors offer, that you cannot?
7. Who are your non performing employees?
8. What impact are you trying to have? (contribution to the UN sustainable development goals for instance)
9. How good are you as the leader of your company?
10. *Are you maximising shareholder value (that is, once you have shareholders)*



Concept: Growth Hacking

Growth Hacking In A Nutshell

Growth hacking is a process of rapid experimentation, coupled with the understanding of the whole funnel, where marketing, product, data analysis, and engineering work together to achieve rapid growth. The growth hacking process goes through four key stages of analyzing, ideating, prioritizing and testing.



Growth hacking is an umbrella term for strategies focused solely on growth. It is usually used in relation to early-stage startups who need massive growth in a short time on small budgets.

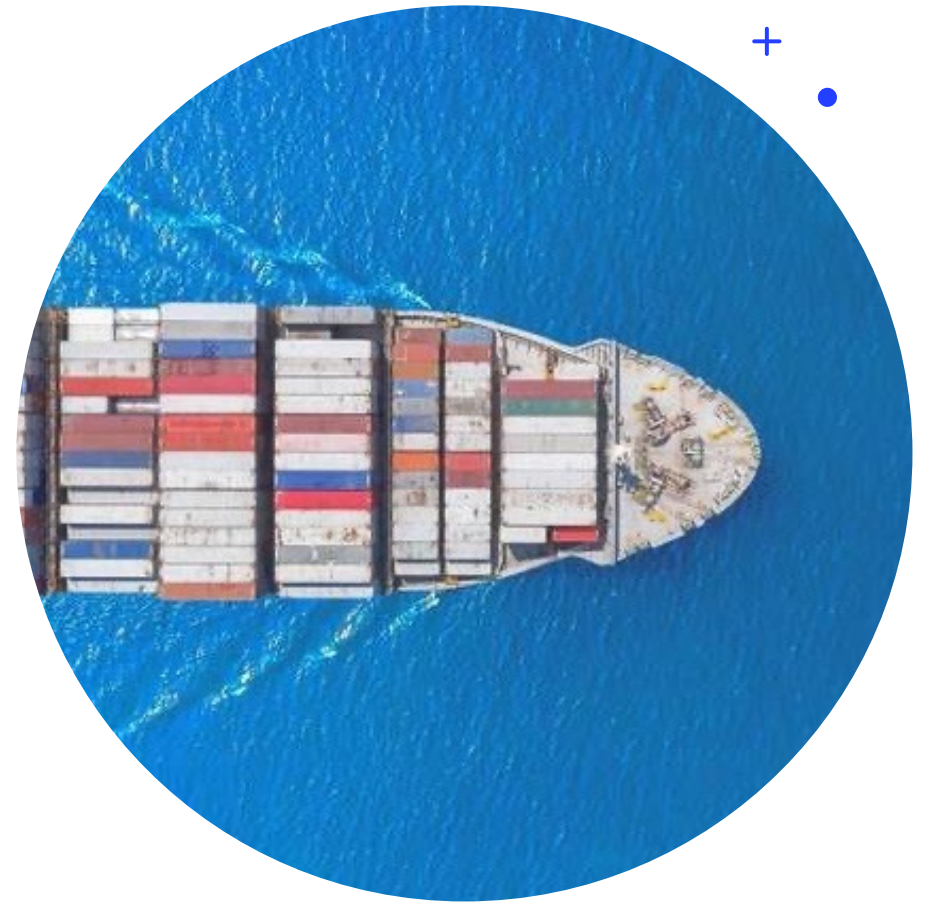
“Growth hacking is a process of rapid experimentation coupled with the understanding of the whole funnel, where marketing, product, data analysis and engineering work together to achieve rapid growth. The growth hacking process goes through four key stages of analyzing, ideating, prioritizing and testing.”

FourWeekMBA

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Grant Funding



Grants are usually available to businesses that are aligned to challenges organised by NGOs, Development Aid Partners, research organisations and foundations.

Requirements:

1. Detailed grant application - process typically a competition
2. Must be aligned with the funders general mandate.
3. Complete due diligence documentation including social impact metrics

For more information, look up the related report under FastTrackTech tools prepared by Asha Mweru (in English) and Christian Jekkinou for the French version, which inspired this section..

Finding grants - In Africa, VC4A

The screenshot shows the VC4A website interface. At the top, there's a navigation bar with the VC4A logo, 'Explore' and 'About' dropdown menus, and a 'Sign in' button. Below the navigation is a section titled 'Overview of opportunities' with a sub-header 'Explore open programs for aspiring entrepreneurs, venture founders and developers.' The main content area is titled 'Opportunities for entrepreneurs' and lists several programs:

- Best Small Business: Good Food for All** (UN Food Systems Summit) - Inspire the world! - Competition (Jul 15 - Jul 31) - 2 weeks left.
- Africa's Business Heroes Competition** (Jack Ma Foundation - Africa's Business Heroes) - Change-makers that believe in the power of entrepreneurship - Competition (Jun 7 - Nov 30) - 2 weeks left.
- Pareel - Supporting women-led SMEs in access to public and private markets** (Women Entrepreneurs Finance Initiative (We-Fi)) - A World Bank program implemented by Deloitte - Acceleration Program - 3 weeks left.
- Financiamiento para emprendimientos indigenas en Perú** (Nesst) - Funding Opportunity (Jun 7) - 9 hours left.

On the right side of the page, there are two promotional boxes: 'Promote your program' (yellow) and 'Create a free partner page' (teal). Below these is a social media feed showing a tweet from 'She Leads Africa' (@SheLeadsAfrica) about a pitch deck hangout and a coaching program application deadline.

If you are in a different geography, identify the leading portal that aggregates information about the opportunities in your ecosystem.

Sharing is caring: please share the platforms you know in the Chat!

Grants come in all sizes

The screenshot shows the GSMA website's navigation bar with links for ABOUT, WHAT WE DO, MEMBERSHIP, SERVICES, EVENTS, and NEWS, along with a search icon. Below the navigation is a red header for "Mobile for Development" and a dark blue bar with a "Home" link. A sidebar on the left lists various topics under "Mobile for Development", with "The GSMA Innovation Fund" highlighted in blue. The main content area features the title "The GSMA Innovation Fund" and two paragraphs of text. The first paragraph states that the fund supports innovative digital solutions in emerging markets to reduce inequalities. The second paragraph notes the GSMA's 10 years of experience in running innovation funds. A call to action at the bottom of the main content area reads "Sign up to our newsletters to receive information on our upcoming and open GSMA Innovation Funds, including what areas they will focus on, when you can apply and their eligibility criteria." Below this text is a red button labeled "Register your interest".

Grants tend to be between 1000-5000 USD.

Grants can be large: the GSMA Innovation Fund grants can be in the range of 200,000-300,000 GBP

Not everything that glitters is a grant

The screenshot shows the top navigation bar of the Seedstars website with links for 'Local Competitions', 'Regional Competitions', 'Seedstars Summit', and 'About Us'. The main banner features the text 'GRAND FINALE' in large blue letters, followed by 'Online Seedstars World Competition 2020/21' and 'The Grand Finale of the largest startup competition in emerging markets is here!'. An orange 'REGISTER FOR EVENT' button is centered below the text. The bottom right corner of the banner includes the Seedstars logo, the TRW logo, and a Swiss flag with the text 'an idea born in Switzerland'.

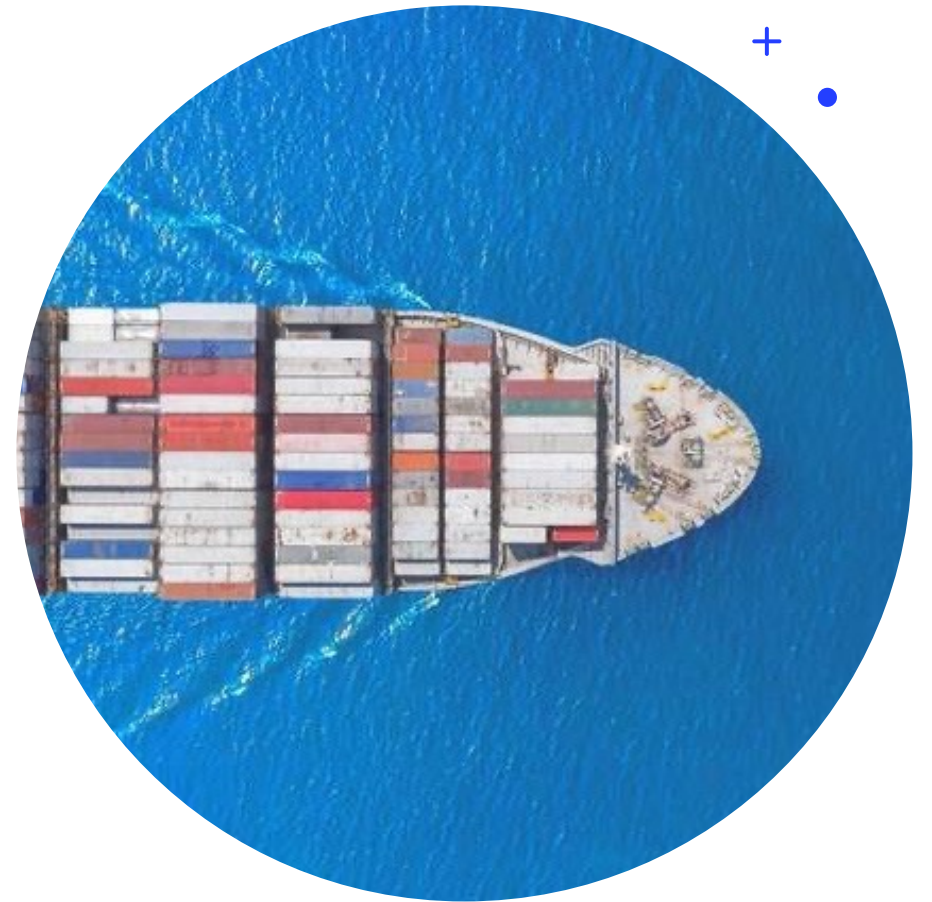
But not all competitions offer GRANTS - Seedstars for instance offers an “equity investment of up to 500,000 USD to the winner”.

Why join the competition?

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Deb funding

Might not be the best instrument for early stage start-ups

Provided by financial institutions such as banks, microfinance institutions

A loan has a maturity date, an interest rate, a payment schedule

- The business has to have stable revenue stream
- Interest rates might be high in some countries
- Might not be the best instrument for early stage startups
- Usually you provide a collateral

Could be interesting to explore quasi debt or quasi equity instruments :

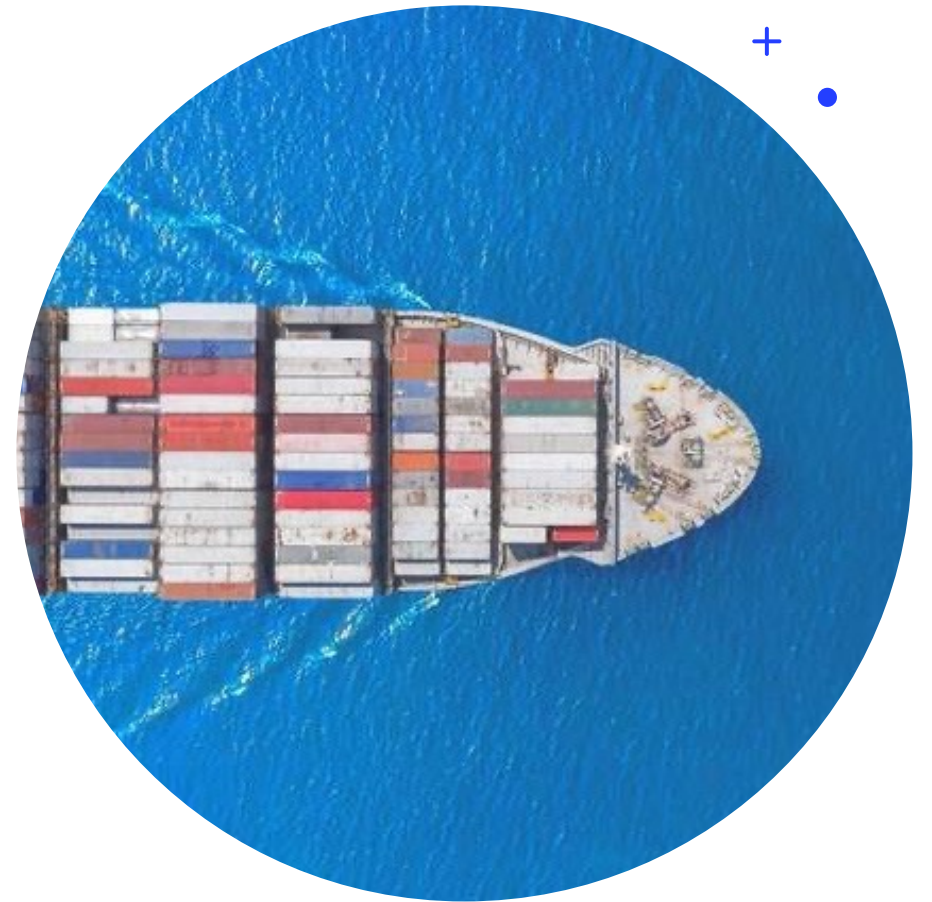
Alternative instrument

Convertible Notes: Debt instrument that can be converted to equity under certain circumstances, and need to be agreed with investors before closing the deal.

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What is equity investment?

*Equity is where the money raised gives the investor an **ownership** interest.*

TYPE	COST	PAYBACK TERMS	ADVANTAGES	DISADVANTAGES	NATURE
Friends & Family	Low	None / Very flexible	Easy, cheap, flexible	Can create friction.	Passive
Angel investors / Impact investors	Medium	Flexible	Flexible, best value	Share ownership. No or low real value addition.	Passive / Active
Venture capital / Private Equity	Medium / High	5-7 years	Can get large amounts	Hard to get; share ownership	Passive / Active
Strategic investors	Medium	Flexible	Can get to large amount / Best deal	Very hard to get; share ownership	Active

An equity investment is money invested in a company through the purchase of its shares

Equity investors purchase shares in the expectation that they will rise in value in the form of capital gains and/or generate capital dividends from the company.

Angel investing: How does it work?

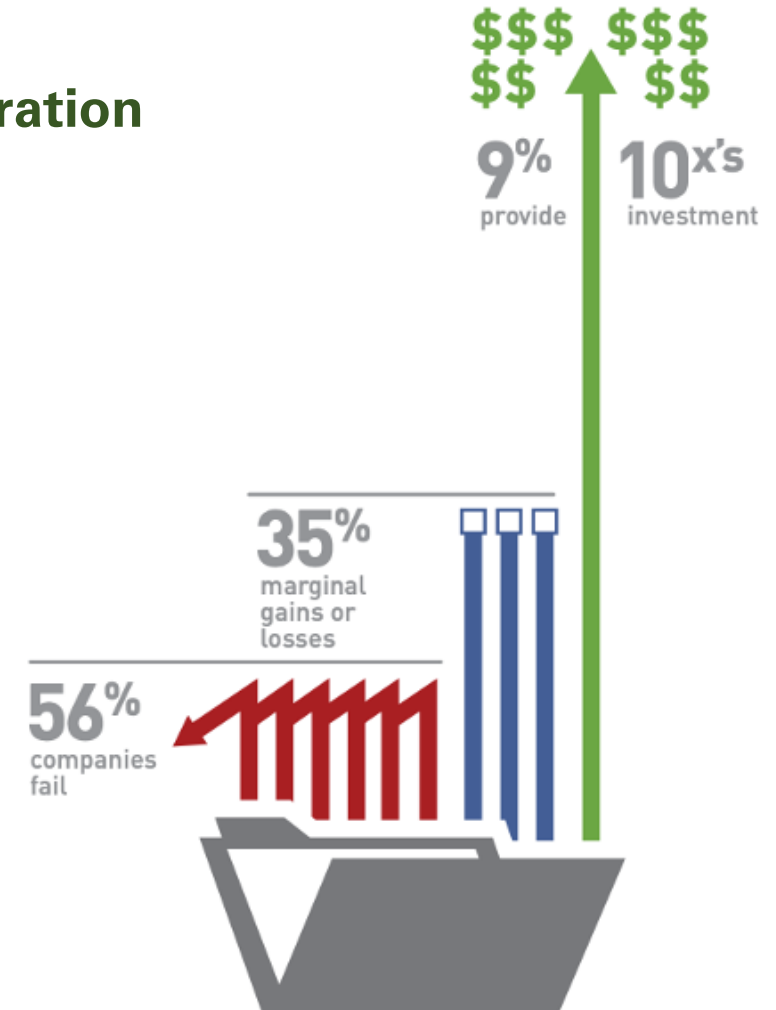
Angels are those with a passion for developing the **next generation**

Why is Angel investing so important?

- Filling the funding gap
- Providing business knowledge, networks and mentorship
- Creating jobs
- Giving Back
- etc...

Investment conditions

- An average annual return of 25% or more comes
- Over a long run (>3 years & <10 years)
- With a carefully **selected** and **managed portfolio** of at least 20 companies
- Tickets can be as low as \$1000 up to \$400k
- **5-15%** stake in the company



Venture Capital

Very competitive, large amounts and high returns

- Looking for the next champions: high and rapid growth companies
- Tickets: range from x000 to billions
- Selectivity: Many applicants- few winners
- Support: provide more than just financial support

The investment process:

1. **Investor deck, financial model** and first meetings
2. If interest is confirmed, the investor issue a **Term sheet**
3. **Due diligence** is performed usually by paid consultants and experts (auditors, management consultants...)
4. Equity is their preferred instruments (unless it is a mezzanine or debt fund) to materialise the investment with 15%-35% stake in the company

Alternative instrument

SAFE (Simple Agreement for Future Equity) is an agreement between an investor and a company that provides rights to the investor for future equity in the company when certain conditions are met.

SAFE vs Convertible Note

Attribute	SAFE	C-Note
Convertibility	✓	✓
Discount	✓	✓
Valuation Cap	✓	✓
Interest rate	✗	✓
Characterization	Like a warrant	Debt
Conversion	✓	✓
Term	Next equity round	Maturity date

Discount: future discount applied to the future valuation associated with the equity round

Valuation Cap: a pre-negotiated valuation cap.

When you have both, whichever is more favorable for the investor at the time of conversion is applied

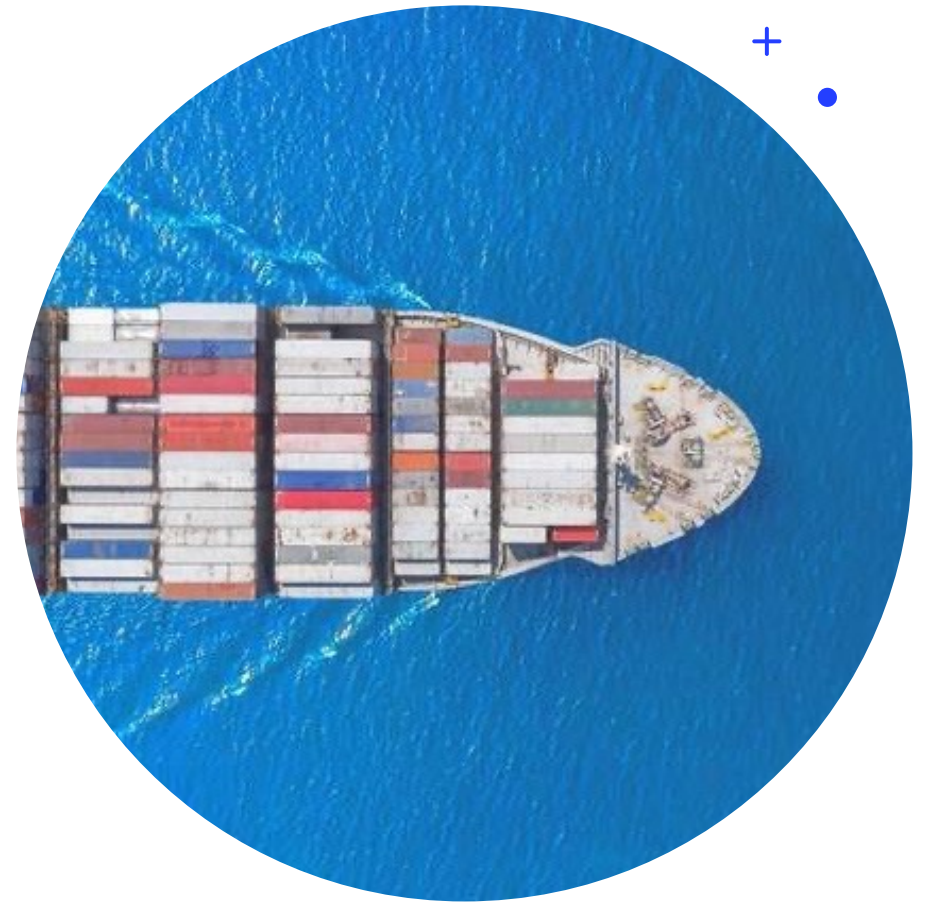
Convertible note agreement: examples

Factors	Loan size	Valuation cap	Discount rate	Serie A pre-money valuation	Price per share	Price per share for Conv. Note holder	#share for Conv. Note holder	#share otherwise
No Discount rate	100000	\$10M	-	\$20M	\$20	$(10M/20M)*\$20 = \10	$100000/\$10 =$ 10000 shares	$100000/20 =$ 5000 shares
No Valuation Cap	70000	-	30%	\$15M	\$20	$70%*\$20 = \14	$70000/\$14 =$ 5000 shares	$70000/\$20 =$ 3500 shares
With both	100000	\$7M	40%	\$14M	\$20	$\text{Min}((7M/14M)*\$20 = \$10, 60%*\$20 = \$12) = \$10$	$100000/\$10 =$ 10000 share	$100000/\$20 =$ 5000 shares

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- **Crowdfunding**



Crowdfunding: Emerging Opportunities

Crowdfunding is **peer-to-peer** (people as opposed to companies), and platform-based. Mainly in developed countries, focusing on social and artistic causes, but it's business focus is growing.

- Usually on a smaller scale than banks and investors.
- **Four types of crowdfunding:**
 - 1. donations (=grants),
 - 2. rewards (eg. preselling),
 - 3. debt and
 - 3. equity, which is growing.
- Debt and equity will require more preparation and involves regulatory constraints, in particular on the financial side, as through traditional channels
- Crowdfunding in Africa, most recent study available: 182 M USD in 2016 - when VC funds reached 367 M USD (Partech report)
 - Diaspora philanthropy
 - African Crowdfunding Association set up to organise the sector (code of conduct)



<https://ventureburn.com/2020/05/uprise-africa-to-refund-sun-exchange-investors/>

Trust is the main challenge

- KYC: Know your customer obligations (money laundering, funding terrorism) & licensed business

2500+ platforms in EU + Northern America*



MICROVENTURES



* 2019, <https://lenderkit.com/blog/crowdfunding-infographic-2019/>

Crowdfunding can work

Republic | Invest · Learn | Live in 3d

Raise capital | Log in · Sign up

Campaign ended

Asaak

Next generation asset-backed loans for Africa.

500 STARTUPS | FINTECH | RIDE HAIRING | B2B2C

enabling one billion people to access financial products affordably and conveniently.

\$899,523
3598% of minimum goal raised

1,891
Investors

Successfully funded and closed on April 10, 2021.

Invest in Asaak

Just launched a crowdfunding campaign with Republic, an SEC-regulated investment platform for startups. You can check it out here: <http://rep.pub/invest-asaak>

We have raised \$126K in < 24 hours. We are the #1 trending company on Republic right now. I would be honored to have you as our shareholder

Quiz 1

Which of the items below are not funding instruments?

1. Convertible note
2. Equity
3. Fintech
4. Leasing
5. Bank loan
6. Crowdfunding
7. Real estate

Wrap up and key takeaways

- There are many financial instruments, and each have a financing purpose
- It is important to identify your startup maturity stage : pre-seed, seed, growth
- Explore alternative instruments such as SAFE, Convertible notes when possible
- Usually, if your startup generate stable revenue, you can look for debt funding if affordable

Activity: Homework

1. Identify financial instruments that fit your needs and investors providing those instruments
2. List crowdfunding platforms, equity investors, grant donors in your ecosystem
3. Write one sentence introducing your company and activity in less than 60 words.



THANK YOU

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ATTRACTING CAPITAL - A. NDIONE

