Investment Guide for Entrepreneurs

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About This Guide

The SHE Investments team has worked with hundreds of female entrepreneurs in Cambodia, and one of the most common questions we get asked is "How can I get investment?" If you are looking for investment or interested in what investment means, this guide will help you understand investment as a financing option and how to access it from start to finish.

This guide has been written to be easily read and digested. Think of it as an introduction to investment for entrepreneurs. The aim is to help you feel more comfortable talking about investment, asking the right questions, understanding whether investment is right for you, and getting your business closer to investment readiness. It will cover all the basics: what investment is, the different types of investment, and how to get your business investment ready. Our goal is to provide information, tools, and resources so you feel equipped to access the right financial resources for your business.

This is the second book in the SHE Entrepreneurs Handbook series. We have designed it primarily for female entrepreneurs in Cambodia who already have a business and are interested in investment, but it will be useful for anyone who would like to learn more about the basics of investment in Cambodia.

Why should women run a business?

In Cambodia, more than 60 percent of businesses are run by women. While most are micro- or small businesses, they make a massive contribution to Cambodia's economy every year: creating jobs, enabling families to earn incomes, allowing women to become financially independent, and promoting them as role models and leaders. Traditionally, women have been expected to stay home or tend to domestic duties such as caring for children, cleaning the house, and cooking for the family, while it has been left to men to run the businesses. However, it is important for both men and women to understand that anyone can run a business, whether male or female, able-bodied or living with a disability, in a city or a village, or rich or poor; all anyone needs is the right information and tools.

SHE Investments and Aspen Network of Development Entrepreneurs

This resource has been developed by SHE Investments and supported by the Aspen Network of Development Entrepreneurs (ANDE) as part of their Advancing Women's Empowerment Fund (AWEF).

Together SHE and ANDE share the belief that women in Cambodia have the power to start and scale enterprises that create meaningful impact for themselves, their families, and their communities. This guide is one resource created under our partnership to be made available to entrepreneurs across the country.

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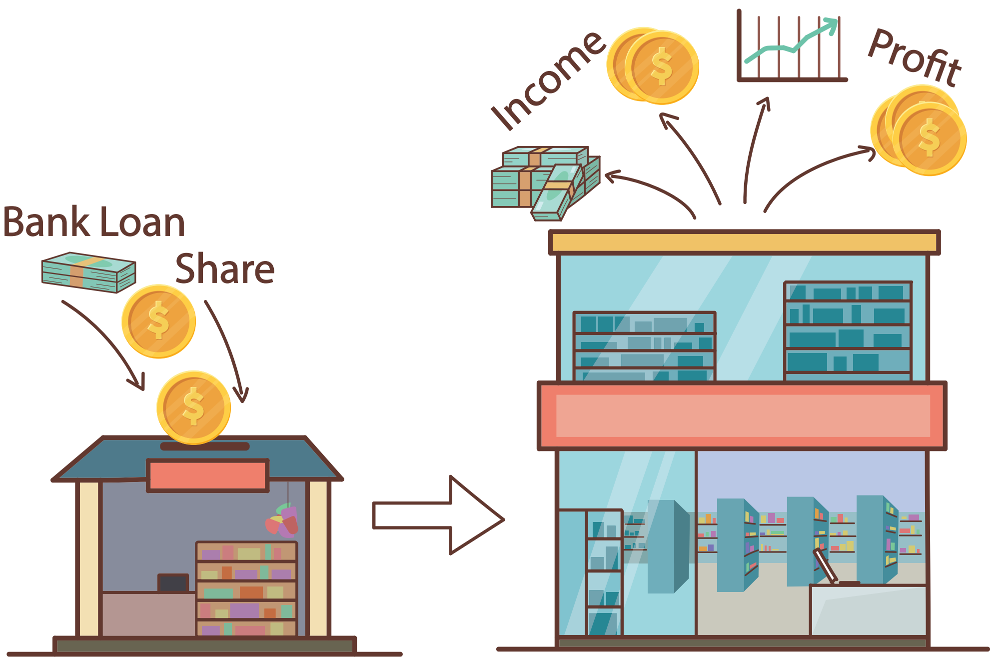
Chapter One:

What is Investment?

Over the last 10 years in Cambodia, investment has become a hot topic. During almost every workshop run by SHE Investments, we get asked, "How can I get investment?" What we have learned through these discussions is that many entrepreneurs don't fully understand what investment is, the different types of investment there are, and what each means for their business.

What is investment?



Investment is a very general term, but it typically means putting money into a business to generate a benefit (most commonly as income) in the future. Most entrepreneurs vaguely understand this, but there are common misconceptions about what qualifies as investment and what it actually means for a business. For example, we find that many entrepreneurs are surprised to learn that obtaining a bank loan is a type of investment classified as debt investment (see below for more info). The confusion comes from the tendency for people to say investment when they mean equity investment, in which an individual or a company gives money in return for part-ownership of a business (that is, shares). Investment can come in many forms, such as starting a new business, buying new assets (such as equipment) or real estate, buying shares in an existing company, or spending money on research and development; these are all investments.

This book focuses on what receiving investment can mean for a business owner, how a business owner obtains financing (that is, investment), and which option is the best for a business.

What are the common types of financing?

Debt Investment

Most people know debt investments as loans. Debt investment may come from a bank or another financial institution and requires set repayment schedules that are negotiated between the financial institution and the business. This is often cheaper and quicker to obtain than equity investment; however, it requires proof that you can repay the loan within a certain time and, often, collateral.

Equity Investment

When people say investment, they're usually referring to what is known as equity investment. Equity investment is the most popular and talked-about financing option, particularly for start-ups. In equity investment, the investor (an individual or a company) takes some ownership in your business in the form of shares. Equity investment is good for an entrepreneur when their business is growing but does not have much cash flow, as there are no set repayments. However, it can take a lot of work to obtain this type of investment.

Convertible Note

A convertible note is a debt that converts into equity. When an investor cannot value a business reliably, they will lend the business money; and then rather than get their money back with interest, the investors receive shares in the business when it is able to be valued.

Informal Financing

Informal financing refers to getting money from your friends or family. This can come as either a loan or equity (in which your friends or family own some of your business). This can be a great place to start, as it can be easier to obtain early on. However, you need to be sure that your friends and family understand the risks involved and there are clear agreements in place. We have seen relationships struggle due to failed business ideas, so enter these agreements with caution.

Grants

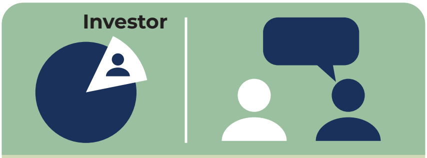
When business owners are looking for investment, they often forget to think about grant financing. Grant financing is when an organization provides your business with money but does not look to make money from it. Grant funding is great for start-ups that can create social benefits for society or their communities. There are grants that are allocated for different sectors and kinds of impacts, such as women's empowerment, environmental impact, social enterprises, for tech start-ups, etc. Grants are a great resource for new businesses and social enterprises, but every grant is different and has unique requirements.

It is important to note that grant proposals are often required to be written in English, which may be a barrier for some entrepreneurs. Those whose written English is not very strong may need to seek help with writing or editing effective grant proposals.

What are the common types of financing?

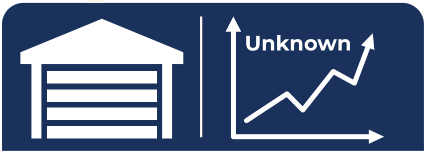
Debt Investment

- Loan
- Easier and quicker to obtain than equity
- Need positive cashflow to make repayments



Equity Investment

- Investor takes some ownership in the business
- Can often be difficult to get, and need a lot of due diligence
- Good for businesses that do not have positive cashflow yet



Convertible Note

- Best for very early stage businesses
- Used when it is difficult to value a business
- Similar process to equity investment

Grant

- Great for start-ups and social enterprises
- Can be difficult to apply depending on the grant

Informal Financing

- Very common
- Borrowing money from friends and family
- Need to be clear on the terms at the start