

Glossary

Investment

Allocating or providing money with the expectation of positive benefit or return in the future

Grant

Money provided to an entity (usually a business or organization) without the expectation of return

Debt Investment

Lending money with the expectation that it will be returned with interest

Equity Investment

Providing money in exchange for equity (i.e., shares) in a business

Cash Flow

The flow of cash in and out of a business

Profit

Generally speaking, this usually refers to net profit, which is the total revenue minus all the expenses

Gross Profit

Total revenue minus the cost of goods/service

Net Profit

Total revenue minus all the expenses

Cost of Goods Sold

The direct costs involved in making the product; example: to produce a T-shirt, the costs of goods sold are the costs of the fabric and the salary costs to sew the T-shirt

Cost of Service

The same as cost of goods sold but for a service business; example: for accountancy services, the cost of service is the accountant's salary

Asset

A resource that is owned by the business; this can be tangible (e.g., equipment) or intangible (e.g., the value of the brand)

Finance-First Investment

Investment with the primary goal of getting a financial return

Impact Investment

Investment with the intention of generating positive social or environmental impact while also getting a financial return

Dividend

The distribution of profits

To Breakeven

The quantity of units/products to be sold in order for revenue to equal expenses (i.e., no profit/no loss)

Due Diligence

A review of a business to check facts and details about the business (e.g., checking financial data, legal documents)

Tools and Resources

In this section you can find more information on some of the topics in the book as well as checklists and links to other resources. If you are looking for financing and not sure where to start the Financial Pathways Toolkit is a great place to start, go to

www.sheinvestments.com/financial-pathways-toolkit-1

Valuation and Discounted Cashflows

Example of 'discounted cash flow' method of valuing an investment

CF = Cash flow

r = Discount rate

DCF = Discounted cash flow

n = time period between now and period of consideration (e.g. 1 year from now)

$$DCF = \frac{CF_n}{(1+r)^n}$$

So, for a given point in the future, we can say that the cash flow then can be reduced by a certain percentage to account for the uncertainty of this cash flow. The discount rate (r) is usually set by the investor and is decided by the amount of risk the investor thinks there is in the investment. If the investor thinks that they can get 10% return on another investment with the same amount of risk then they will use a discount rate of 10%.

This can be taken a step further and a 'net present value', may be calculated. This net present value (NPV), looks at the discounted cash flows that an investor expects an investment to make over its lifetime, and can then assess whether these make the initial investment worthwhile for them financially.

Financial Readiness Checklist

This checklist is designed for business owners that are looking to obtain financing, this is what we would say is the bare minimum you would need when speaking with a financial institution or investor. Depending on the investor or institution you may need more but this checklist will provide a good starting point.

Additionally, we think this is a great checklist for business owners that are looking to grow their business or move from family/small business to a professional company

Financial Knowledge

- ☐ I understand the following terms
 - Equity
 - Debt
 - Loan
 - Balance Sheet
 - Profit and Loss Statement
 - Statement of Cash Flows
 - Cash Flow Forecast
 - Liabilities
 - Accounts Receivable
 - Accounts Payable
 - Assets
 - Cost of Goods Sold/Cost of Service

- ☐ I know how to read a balance sheet
- ☐ I know how to read a Profit and Loss Statement
- ☐ I understand the difference between Profit and Cash
- ☐ I understand what cash reconciliation is

Financial Processes

- ☐ I track my sales and expenses regularly
- ☐ I have an accountant or bookkeeper
- ☐ My business uses a professional bookkeeping system (Quickbooks, Xero)
- ☐ I reconcile my accounts every month
- ☐ I have financial records for the last 12 months (ideally last 24 months)
- ☐ I have a cashflow forecast (3–5 years for investors)
- ☐ I have a profit and loss forecast (3 -5 years for investors)
- ☐ I have a financial policy manual

Problem and Solution Statement Example

Kotra Riel App

Problem Statement: There are more than 500,000 micro-businesses in Cambodia, most of these businesses do not have any financial records and if they do have them, they are inaccurate. With no financial records, micro-businesses in Cambodia are unable to understand if their business makes money, making it difficult to make important business decisions. Additionally, without clear and accurate financial records, it can be difficult to access suitable financing. Currently, interventions rely on the user having high level accounting knowledge, are in English, require a laptop and are expensive. (>\$30/month)

Solution Statement: Kotra Riel is a bookkeeping app that is simple, cheap and easy to use. Kotra Riel is available in both Khmer and English, does not require high level accounting knowledge, can use both USD and Riel, only requires a smartphone and can produce easy to read profit and loss statement that can be exported.

Top things to Consider when Seeking Investment

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Getting an investment is a big decision, before you say yes, it is important that you get to know each other, trust each other and most importantly feel comfortable that this is the right decision for you. The questions below are suited to working with a formal investor or just friends or family looking to invest.

Some questions to consider are:

- ☐ Why does the investor want to invest in your business? What are their goals?
- ☐ What value do they bring to your business? Can they support your business to grow? Do they have experience in the industry? Have they started a business before or invested in businesses before?
- ☐ What do they expect from you? What reports do you have to send? How often?
- ☐ How much money do you need? How will it help you grow?
- ☐ How will the investor exit? Do they want to sell their shares back to you? To someone else? When do they plan on doing this? How will they make their money back?
- ☐ What happens if the business fails? Does the investor know the risks?

- ☐ Will you pay dividends (share of the profits)? How will you decide this? How often?
- ☐ What happens if the business needs more money? What if you are short on cashflow one month? Will both parties put in an even amount of money?
- ☐ How does the business make decisions? Do you still have full decision making or does the investor now get a say?

This is just a sample of some of the things to consider before getting an investment, we recommend talking to someone experienced with investment before saying yes to any investment.

This handbook has been developed by SHE Investments and supported by ANDE through the Advancing Women's Empowerment Fund. 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 what it means for your business.

DISCLAIMER

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