Module 06 : Launching the business

Week 02:
Finance the launch

Resource Recovery and Reuse
(RRR) Entrepreneurship

Week 2 Module 6: Finance the launch

“Week 2 of module 6: finance the launch.

Last week you have set objectives and planned activities for your launch. This week I'm going to introduce you to financing options for launching your RRR business.

Money is the bloodline of your business. When and how much capital you require depends largely on the nature and stage of your business. If you are still at prototyping stage – so if you haven’t tested your business model yet – then your financing will likely not come from impact investors or banks. Investing into your business at this early stage would be too risky for them. At this stage, tapping into donor or governmental grants and taking part in start-up competitions has more chances of success.

Generally speaking, putting all your eggs in one basket is not a good idea. This is particularly true when it comes to financing your business. Diversifying your sources of financing will also increase your chances of getting the appropriate financing to meet your specific needs. Showing a potential lender that you have sought and are using different financing sources demonstrates that you are a pro-active and savvy entrepreneur.

Whether you opt for a bank loan, an angel investor, crowdfunding, government or donor grants or a Public-Private Partnership, each of these sources of financing has specific advantages and disadvantages.

Here is an overview of common sources of financing:

- Own contributions
- Revenues
- Family, friends and fools
- Bank loans
- Business angels
- Impact Investment
- Crowdfunding
- Government and donor grants
- Public-Private Partnerships

As an early stage RRR business you might face trouble in getting funding from financing institutions. You should therefore consider self-funding, also known as **own contribution**, that is using your own and co-founders' money to invest in your RRR business. Investing your own savings shows to investors and banks that you are committed and that you have carefully weighed the risks of venturing into the market. You can invest from your own savings, which may come from another business of yours or from the salary of your current bread-and-butter job. Unlike bank loans, where you need to regularly pay interest, the actual cost of self-funding is almost zero. But, the capital is no longer available for other - potentially more profitable - investment opportunities. Therefore, personal investment is only a wise choice if your business' return is higher than returns from other opportunities or if it is the only financing option available.

Instead of investing your own cash, you can also invest your own or your co-founders' resources and workforce for your business, like pro bono workhours, your private car or equipment and facilities like your backyard and garage. Be creative in identifying non-cash contributions to your RRR business.

A **Public-Private Partnership**, or PPP in short, is a collaboration between a governmental entity and private sector business. There are several forms of PPPs. Specifics of transfers and ownership are chosen based on initial negotiations with the government:

In a **Build Operate Transfer (BOT)** arrangement the private sector entity is delegated to build and operate a facility for a certain time. During this concession period, the private entity is entitled to retain all revenues generated. Afterwards, the facility is transferred to public administration.

The **Build-Own-Operate-Transfer (BOOT)** differs from BOT in that it is a form of project financing, wherein a private entity receives a concession to finance, design, construct, own and operate a facility.

Build-Own-Operate (BOO) is a variant of BOT. the ownership of facility remains with private entity. The physical life of the project coincides with the concession period.

In the **Design Build Operate and Transfer (DBOT)** model, the private entity is contracted to design, build, operate and then transfer the facility.

For example, in Kumasi, Ghana, a Public Private Partnership was established between the Kumasi Metropolitan Assembly and the private company Waste Enterprisers Holding to use aquaculture as a source of revenue for sustaining the sanitation services. As part of the agreement, Waste Enterprisers Holding is allowed to stock catfish in the final maturation ponds of governmental owned wastewater treatment plants, while in return Waste Enterprisers Holding uses half of its fish-sale profit to facilitate regular plant maintenance. This arrangement helps Waste Enterprisers Holding to access water and infrastructure for fish farming without related capital expenditures, while Kumasi Metropolitan Assembly gets its treatment plants well maintained which was so far more than challenging.

As another example, Greenfield Crops is a Public Private Partnership-based business which was set up to carry out waste management activities in the Matara municipality, Sri Lanka. Greenfield Crops adopts an open windrow technology to process municipal solid waste into compost. It also produces fuel pellets and sells non- degradable material obtained during the sorting of waste. Greenfield Crops has satellite compost stations which are close to local markets and that provide easy access to waste not requiring significant segregation. Compost is sold directly to farmers through a network of dealers.

The composting facility as well as land and other infrastructure were set up by the municipality. Greenfield Crops manages the business and bears the cost of operations and maintenance. It pays the municipal council for the use of the resources provided, i.e. the composting facility and equipment. The municipal council on the other hand pays Greenfield Crops tipping fees for the disposal and processing of the solid waste. Essential to this model are the satellite compost stations that Greenfield Crops operates. These stations are close to local markets and farmers, resulting in minimizing transportation costs for waste collection for the municipality and distribution of compost product for the business - thus increasing farmer accessibility to the organic fertilizers. While this initiative is currently still dependent on government funding, with plans to increase its scale of production via additional satellite stations, full cost-recovery is certainly achievable in near future.

The most elegant way to finance your launch is to use the **revenues** from your RRR business activities. A challenge in RRR businesses however is that the initial investment is potentially high and revenues usually come much later. One way of earning revenues before investing into expensive infrastructure is launching a pilot and selling sample products, like manually moulded briquettes or fertilizer from a test composting box.

Money invested or lent by **family, friends and fools** (FFF) is often considered as "patient capital", which is repaid as your business breaks even and profits increase. When borrowing from your spouse, parents, family or friends, you should be aware that family and friends rarely have much capital, they may want to have equity in your business and a business relationship with family or friends should never be taken lightly.

Bank loans are the most commonly used source of funding for small and medium-sized businesses. In general, you should know that banks are looking for businesses with a sound track record. A good business idea is not enough though; it must be backed up with a solid business plan and start-up loans typically require a personal guarantee. Keep in mind that interest rates are likely to be between

10 and 15% (or even higher) and if your business' revenues are lower than that your business will go bankrupt before even launching.

Business angels are typically wealthy individuals or retired business executives who invest into businesses. They are professional investors, well-networked individuals and business experts who not only contribute their funds and networks but also technical and management expertise. In exchange for risking their money, business angels usually reserve the right to supervise the business' management, which often involves a seat on the board of directors and an assurance of transparency. Getting angel investment requires a great business idea and a lot of luck.

While business angels tend to finance early stage businesses, **impact investors** often prefer larger investments into businesses that have gone beyond prototyping stage. Be aware that impact investors are looking for impact-driven businesses with growth potential. They may take an equity position in your business, which involves giving up some ownership or equity in your business. Impact investors might not expect as high of a return on their investment as traditional investors, but they are generally only ready to invest when the business starts scaling up.

Often, government agencies and donor organisations provide financing such as grants to promote the development of the private sector to advance development goals like environmental protection, sustainable agricultural practices or job creation. These are the social and environmental benefits you have identified in your business model in module 3.

Lately, **crowdfunding** gained popularity in funding the launch or scaling of businesses.

This is how crowdfunding works: you submit a detailed description or short movie about your business to a crowdfunding platform. Here it is important to tell a compelling story about the social and environmental impacts of your business and the market potential. Anyone who likes and believes in your idea can contribute money towards launching your business. There are several forms of crowdfunding such as donation-based, reward-based and financial return-based crowdfunding. The least complex type is donation-based crowdfunding, which can be compared to philanthropy, as people donate money without expecting anything in return other than the satisfaction of having contributed towards something they feel is worthwhile. In reward-based crowdfunding, the funder receives a non-financial reward. In return-based crowdfunding, the funder either expects a repayment of the funds or a reward in return; this can be one of your products or a present.

Keep in mind that crowdfunding is a highly competitive place to earn funding. You will need a compelling business story, a large network and mailing list to gain required attention and sell your story. Crowdfunding might contribute to generating interest in your business, help in marketing the product alongside financing and attract investment down the line if you have a particularly successful campaign.

Getting **government and donor grants** may be your only chance to get funding if you are only at prototype stage but it is also tough. There may be strong competition and the criteria for grants are often stringent. Generally, most grants require you to match the funds you are being given and this amount varies greatly, depending on the grant giver. Often you are only required to contribute your workhours for free, but sometimes you may have to contribute a cash amount. For grants, it is very important to communicate the social and environmental impacts of your business well and show that they are in line with what the government or donor policy wants to achieve – so create new jobs, restore soil fertility, reduce greenhouse gas emissions etcetera.

Now that I have introduced various financing sources to you and talked about the advantages and disadvantages, it is time for you to evaluate your own funding possibilities. Use the worksheet below to describe and evaluate the financing sources that are most realistic for your business at this stage and research what supporting documents the financing partner will require.

In the case of investors, like business angels, impact investors this will most likely be a business plan. While there is no one-size-fits-all business plan, there are certain elements that you should definitely include in a business plan. Essentially, you introduce by mentioning the business opportunities, summarizing the findings of your business environment assessment, describing your business model and market positioning, and finally by describing your operational and financial planning and what your offer to investors is. Here is what the chapters of your business plan could be:

1. Executive summary
2. Company description
3. Business model
4. Solution
5. Feasibility assessment
6. Market positioning
7. Strategic and action planning
8. Management
9. Risk assessment
10. Financial plan
11. Financing

While you do need to present sound information that will allow the investors to evaluate the risk in investing into your business, the business plan should not be too long. A maximum of 10 pages is a good reference. Check the further readings below to find an example business plan by SLD Company in the Philippines.

Once you have done all the exercises in this course and written your business plan, you should be ready to reach out to potential financing partners. Just keep in mind that approaching financing partners is an art in itself. You are probably not the only person approaching them and you need to be able to pitch your business idea to them in a convincing way in a few minutes. This too has to be learned. Here is what your pitch should bring across:

- Great one-sentence introduction about you
- The customer's problem and why it is a business opportunity for you
- How your solution creates added value for the customer (and how it is better than the competition) and a financial return for you (and the investor)
- Why are you (and your team) the right people to solve the problem
- Call to action: What do you want from the investor?

It is important to make your pitch a story – a simple but passionate story. You want to create excitement in your audience. Also know who you are talking to and slightly adapt your story to what this person could be wanting to hear. And finally, be authentic!

This was the last video tutorial of this online course. You should now be ready to launch your RRR business!

If you feel that you need more dedicated support and or simply want us to give you feedback on your worksheets, reach out to us. We offer coaching packages to support you with your individual questions!"

List of Reference:

Graph sources:

- Unless otherwise noted, all graphics and case studies from OTOO, M. (Editor), DRECHSEL, P. (Editor) (2018): *Resource Recovery from Waste. Business Models for Energy, Nutrient and Water Reuse in Low- and Middle-Income Countries.* International Water Management Institute (IWMI). Routledge

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