Module 4: Financial Literacy & Operational Management

Topic 1: Sources of Capital

Capital is the money or wealth used to invest in a business to generate more wealth. For a student or a first-time entrepreneur, finding the money to start is often the biggest hurdle. Understanding the different "pots" of money available is crucial.

1. Internal Sources of Capital

These are sources that come from within the entrepreneur's own circle.

- **Personal Savings (Bootstrapping):** Using your own money from a part-time job, allowance, or previous business.
    - *Benefit:* You keep 100% ownership and have no debt.
- **The "3 Fs" (Friends, Family, and Fools):** Borrowing from or selling shares to people who know and trust you.
    - *Warning:* Be careful—mixing business with family can lead to personal conflict if the business fails.

2. External Sources: Equity vs. Debt

Most businesses eventually need outside help to grow. This comes in two main forms:

A. Equity Financing (Selling a piece of the pie)

You give a portion of ownership in your business to an investor in exchange for cash.

- **Angel Investors:** Wealthy individuals who invest their own money in early-stage startups (often in exchange for mentoring the entrepreneur).
- **Venture Capitalists (VCs):** Professional firms that invest large sums of money into businesses with high growth potential.
- **Crowdfunding:** Raising small amounts of money from a large number of people, usually via the internet (e.g., Kickstarter or GoFundMe).

B. Debt Financing (Borrowing money)

You borrow money that must be paid back with **interest**.

- **Microfinance Banks:** Banks that specialize in small loans for entrepreneurs in developing regions.

- **Commercial Banks:** Larger banks that offer business loans but usually require "collateral" (something of value like a house or car that the bank can take if you don't pay).
- **Trade Credit:** An agreement where a supplier lets you take goods now and pay for them 30 or 60 days later.

3. Government Grants and Competitions

Many governments and NGOs offer "free" money to young entrepreneurs to encourage job creation.

- **Grants:** Money given to a business that does not have to be paid back (though you usually have to prove exactly how you spent it).
- **Pitch Competitions:** Events where entrepreneurs present their ideas to a panel of judges to win "seed prizes."

4. What Investors Look For (The 5 Cs of Credit)

If you ask a bank or investor for money, they will evaluate you based on:

1. **Character:** Your reputation and reliability.
2. **Capacity:** Your ability to repay the loan (based on your business plan).
3. **Capital:** How much of your own money you have already put in.
4. **Collateral:** Assets you can pledge as security.
5. **Conditions:** The state of the economy and the specific industry.

Student Summary:

Don't wait for a "big" loan to start. Most successful entrepreneurs start by **bootstrapping** (using small personal savings) to prove their idea works, then they use that proof to attract bigger investors later.