4 Sources of Capital Investment for your BAM Business

Toby Miles - BAM360.org

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One of the questions that I get all the time is, **"Where am I supposed to get the startup money (capital investment) that I need to begin my new business venture?**"

This is a great question! Oftentimes, young kingdom entrepreneurs don't have a lot of personal savings. Perhaps they've just paid off college debt and are finally ready to move overseas. They may have some savings, but not enough to start a business.

Imagine the scenario: A young couple moves into the Arab world because God has called them to go to the nations. They are excited to start their new business that will give them a strong identity full of integrity which will thrust them into natural relationships. Their business coach walks them through the process of writing a business plan. The final step of the business plan is to complete the financial portion of the plan. After estimating the one time startup amount plus 12 months running costs, they discover they need $75,000.

Wow! That's a lot of money. They ask themselves, "Where in the world are we going to find that type of money?"

Does this sound familiar? Are you in this situation or know someone else who might be facing the challenge of raising startup capital?

In this article, we're going to look at 4 different sources for capital investment. I am sure there are some other more complex models, but these are the 4 most realistic sources for BAM ventures.

Personal money – "Get some skin in the game"

The first place where we would encourage young kingdom entrepreneurs to look for startup capital is from their own pockets.

As I said earlier, they probably don't have a lot of money, but it's important to have some skin in the game. Most times when you dig deep enough, you can always find some savings or personal funds. I have heard some say that the entrepreneur should come up with at least 25% of the needed capital. I personally don't have a suggested set percentage, but I do think it is important to have at least something invested.

Why do I think this is important? There are a couple of reasons.

The first is that it gives them some vested interest in the success of the business. Understanding the value of the capital and the risk of investment is good for the kingdom entrepreneur. They will understand better that it is not just play money (like monopoly) because they actually have some of their own money at risk…skin in the game.

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The second reason why it's important for people to have their own money invested in the business is for what it communicates to potential investors.

Investors will appreciate the fact that they have invested some of their own personal money. As I have approached investors for possible ventures, one of the common questions that I get asked is, "Are you investing any of your own money into this new business?"

They want to know if I am willing to risk my own, hard earned money in this new idea. They want to see if I am willing to take the risk WITH them or am I just looking for the investors to carry all the risk.

Gifts – "Free money"

The second source of investment capital is gifts or grants. This sounds like a great way of raising capital but there are a few things to be aware of.

The first thing to consider is the tax implication for both the giver and the receiver. Different countries have different laws, but for the United States, a donor can only give a limited amount of money as a gift without being liable for taxes. This amount was around $15,000 but could have changed over the years.

Before accepting a gift, the receiver should find out if they have any tax liability for this gift. From my research it does not appear that the receiver would need to pay any tax on these gifts. They may need to declare them on their tax return as a gift, but they should not be liable to pay taxes.

I'd like to differentiate between a gift and a charitable donation. Any time money is given and a tax deductible receipt is given, this is considered a donation.

I would highly recommend that you do not use donated money to start a for profit business. This could actually jeopardize the tax status of the nonprofit entity. For more on this topic, read 6 Financial Questions that Trouble Business as Missions.

That said, there are a few ways that this might be possible.

For example, there are some organizations that have been established for the sole purpose of receiving donated money for new business ventures. They normally take a percentage of the donated money and they then pass on the remaining money into your company. They certainly have some restrictions and will probably require some reporting to show fiduciary control.

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Another possible way would be if the money is given to your mission organization. In this case the mission organization owns the business. This would not be considered a personal venture. The money could be used to help accomplish the missions goals, but it would not belong to you. All profits from the business would belong to the mission organization.

This may sound like a good idea, However there are some tricky things to consider. You will need to address questions like:

- What does the local government think about ownership?
- Where will any income need to be declared for tax purposes?
- Who does the IRS think owns the business?

We recommend that you just stay away from donated money for starting your business ventures.

Loans from individuals – "Our preferred method"

The third method is private loans. Loans are very nice because, from what I understand, there are no tax implications.

When it comes to loans, anybody can give a loan to somebody else. They just need to draw up a simple loan agreement. The loan can be paid back over time or can even can be a zero interest loan. If the loan is defaulted, that is something between you and the loan giver.

Now, one thing to remember about loans is that people will often want some interest on the loaned money. I would encourage you to find sympathetic or empathetic investors. These investors are looking for a small return on their investment, perhaps 3% – 7%. They are not looking to make a ton of money because they understand the kingdom return on the investment. They understand that they may potentially lose all of their money if you get booted out of the country or if the business fails, but they believe that the kingdom impact is worth the risk.

Equity – "Adding owners to your company"

The last way of finding investment money for your business venture is through offering investors equity in your company. In this option, you are selling shares and bringing on additional owners of the company.

Just a little advice: I don't recommend giving away equity in the company if you don't have too. It seems to work best if you maintain the ownership of the company which allows you to champion the venture.

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If you do decide to sell shares in your company, it is important to consider who will have the majority share, how decisions are made and who ultimately is responsible to run the company.

If for some reason you need to give away a majority stake in your company (because you have no money), then you will want to clearly define how the company is managed. In most countries, you can designate a manager to "manage" the company instead of the owners "managing" the company. Since this is your vision and brainchild, it is important that you have say in how the company is run.

As you start to look for people to invest in your company as equity partners, I would recommend that you find people who are willing to give more than their money. Perhaps they have some area of expertise like marketing or finance. Having owners who can add value to your company will give it a better chance for success. Make sure they also understand your ultimate vision and are not just in it to make a dollar.

Personally, anytime that I invest in a new business, I make sure that I have a seat at the table. I want to be able to ask questions about how the business is moving forward but also how the kingdom goals are being accomplished. I want to be available to consult and give advice to these new business startups.

One final note on equity. Make sure that you offer your investors a realistic valuation for their invested money. Yes, it is tricky to decide how the share value of the company is determined, but you should try to use standard practices.

Here is an example that demonstrates the challenges of setting the share valuation.

A number of years ago, I was involved in a consulting project with a potential business startup. The 2 guys that were starting the business were looking for $150,000 for 30% equity in the company. The only problem was that they were not putting in any money of their own. They were taking 70% of the company based on their "sweat equity".

The investors questioned the valuation because they thought the 2 entrepreneurs were not risking anything. They did not think that the "sweat equity" was worth $350,000. The 2 entrepreneurs felt like they had moved their families overseas and had learned language…which cost a lot of money. The potential investors felt like that was all donated money.

You can see the struggle here.

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So what is the fair way of dividing equity? I believe the key is making sure it is very clear upfront. As long as the investors understand the valuation and expectations, they can say “yes” or “no”.

Profit vs Salaries: A helpful thing to remember is that profit is normally paid based on ownership “money invested” and salaries are paid for work done. Perhaps the 2 entrepreneurs could have taken salaries for their efforts and given away more equity for the money invested.

Finally, the Lord is ultimately in control of our resources. He can easily & quickly provide the necessary capital investment for any kingdom business. As you consider these four sources of investment capital, make sure you seek the Lord’s direction as you take steps in raising capital.

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For other Business as Mission articles and resources, please visit www.bam360.org. The purpose of BAM360 is to empower and equip the next generation of Christian entrepreneurs to make a positive spiritual and economic impact in areas lacking a Christian witness.

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