Venture Financing

Stages of startups and sources of funding

Startup India Hub, Government of India

https://www.startupindia.gov.in

There are multiple sources of funding available for startups. However, the source of funding should typically match the stage of operations of the startup. Please note that raising funds from external sources is a time-consuming process and can easily take over 6 months to convert.

Ideation/Pre-Seed Stage

This the stage where you, the entrepreneur, has an idea and are working on bringing it to life. At this stage, the amount of funds needed is usually small.

Given the fact that you are at such an initial stage in the startup lifecycle, there are very limited and mostly informal channels available for raising funds. Common funding sources utilized by startups in this stage are:

- **Bootstrapping/Self-financing:** Bootstrapping a startup means growing your business with little or no venture capital or outside investment. It means relying on your own savings and revenue to operate and expand. This is the first recourse for most entrepreneurs as there is no pressure to pay back the funds or dilute control of your startup.
- **Friends and Family:** This is also a commonly utilized channel of funding by entrepreneurs still in the early stages. The major benefit of this source of investment is that there is an inherent level of trust between the entrepreneurs and the investors
- **Business Plan/Pitching Events:** This is the prize money/grants/financial benefits that is provided by institutes or organizations that conduct business plan competitions and challenges. Even though the quantum of money is not generally large, it is usually enough at idea stage.

Validation/Seed Stage

This is the stage where your startup has a prototype ready and you need to validate the potential demand for your startup's product/service. This is called conducting a 'Proof of Concept (PoC)', after which comes the big market launch.

- **Incubators:** Incubators are organizations set-up with the specific goal of assisting entrepreneurs with building and launching their startups. Not only do incubators offer a lot of value-added services (office space, utilities, admin & legal assistance, etc.), they often also make grants/debt/equity investments
- **Government Loan Schemes:** The government has initiated a few loan schemes to provide collateral-free debt to aspiring entrepreneurs and help them gain access to low-cost capital. Some such schemes include CGTMSE, MUDRA, and Stand-up India.
- **Angel Investors:** Angel investors are individuals who invest their money into high potential startups in return for equity. Reach out to angel networks such as Indian Angel Network, Mumbai Angels, Lead Angels, Chennai Angels, etc. or relevant industrialists for this.
- **Crowd funding:** Crowdfunding refers to raising money from a large number of people who each contribute a relatively small amount. This is typically done via online crowdfunding platforms.

Early Traction/Series A Stage

This is the stage where your startup's products or services have been launched in the market. Key performance indicators such as customer base, revenue, app downloads, etc. become important at this stage. Funds are raised at this stage to further grow user base, product offerings, expand to new geographies, etc. Common funding sources utilized by startups in this stage are:

- **Venture Capital Funds:** Venture capital (VC) funds are professionally managed investment funds that invest exclusively in high-growth startups. Each VC fund has its own investment thesis – preferred sectors, stage of startup, and funding amount – which should align with your startup. VCs take startup equity in return for their investments and actively engage in mentorship of their investee startups.
- **Banks/NBFCs:** Formal debt can be raised from banks and NBFCs at this stage as the startup can show market traction and revenue to validate their ability to finance interest payment obligations. This is especially applicable for working capital. Some entrepreneurs might prefer debt over equity as they debt funding does not dilute equity stake
- **Venture Debt Funds:** Venture Debt funds are private investment funds that invest money in startups primarily in the form of debt. Debt funds typically invest along with an angel or VC round.
- **TReDs:** To decrease the financing concerns faced by MSMEs in India, RBI introduced the concept of TReDS in 2014, an institutional mechanism for financing trade receivables on a secure digital platform. Trade Receivable Exchanges such as M1xchange, standardizes the process of funding MSMEs via Invoice Discounting. TReDS addresses the gaps in MSME industry as enterprises face challenges in getting their payments on time, thus creating working capital discrepancies.

Guidelines on equity policy and foreign investment in Malaysia

Malaysian Investment Development Authority (MIDA), Malaysia
http://www.mida.gov.my

Equity policy in the manufacturing sector

Malaysia has always welcomed investments in its manufacturing sector. Desirous of increasing local participation in this activity, the government encourages joint-ventures between Malaysian and foreign investors.

Equity policy for new, expansion, or diversification projects

Since June 2003, foreign investors could hold 100% of the equity in all investments in new projects, as well as investments in expansion/diversification projects by existing companies, irrespective of the level of exports and without excluding any product or activity.

The equity policy also applies to:

- Companies previously exempted from obtaining a manufacturing licence but whose shareholders' funds have now reached RM2.5 million or have now engaged 75 or more full-time employees and are thus required to be licensed.
- Existing licensed companies previously exempted from complying with equity conditions, but are now required to comply due to their shareholders' funds having reached RM2.5 million.

Equity policy applicable for existing companies

- Equity and export conditions imposed on companies prior to 17 June 2003 will be maintained. However, companies can request for these conditions to be removed and approval will be given based on the merits of each case.

Protection of foreign investment

Malaysia's commitment in creating a safe investment environment has attracted more than 8,000 international companies from over 40 countries to make Malaysia their offshore base.

Equity ownership

A company whose equity participation has been approved will not be required to restructure its equity at any time as long as the company continues to comply with the original conditions of approval and retain the original features of the project.

Investment guarantee agreements

Malaysia's readiness to conclude Investment Guarantee Agreements (IGAs) is a testimony of the government's desire to increase foreign investor confidence in Malaysia. IGAs will:

- Protect against nationalisation and expropriation
- Ensure prompt and adequate compensation in the event of nationalisation or expropriation
- Provide free transfer of profits, capital and other fees
- Ensure settlement of investment disputes under the Convention on the Settlement of Investment Disputes of which Malaysia has been a member since 1966.

Malaysia has concluded IGAs with the following groupings:

- Association of South-East Asian Nations (ASEAN)
- Organisation of Islamic Countries (OIC)

Convention on the settlement of investment disputes

In the interest of promoting and protecting foreign investment, the Malaysian government ratified the provisions of the Convention on the Settlement of Investment Disputes in 1966. The Convention, established under the auspices of the International Bank for Reconstruction and Development (IBRD), provides international conciliation or arbitration through the International Centre for Settlement of Investment Disputes located at IBRD's principal office in Washington.

Kuala Lumpur Regional Centre of Arbitration

The Kuala Lumpur Regional Centre for Arbitration was established in 1978 under the auspices of the Asian-African Legal Consultative Organisation (AALCO) - an inter-governmental organisation cooperating with and assisted by the Malaysian government.

A non-profit organisation, the Centre serves the Asia Pacific region. It aims to provide a system to settle disputes for the benefit of parties engaged in trade, commerce and investments with and within the region.

Any dispute, controversy or claim arising out of or relating to a contract, or the breach, termination or invalidity shall be decided by arbitration in accordance with the Rules for Arbitration of the Kuala Lumpur Regional Centre for Arbitration.