BUSINESS AS MISSION
GLOBAL THINK TANK

ISSUE GROUP REPORT

# No Water, No Fish

## Funding is Vital to Business as Mission Success and Sustainability

bamthinktank.org

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**Report by the Business as Mission Think Tank Group**
**Business as Mission Funding**
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BUSINESS AS MISSION GLOBAL THINK TANK


**Executive Editors**
Jo Plummer and Mats Tunehag

# Reports in this Series

## BAM Think Tank Issue Group Reports

**Papers will be available on the following topics†:**

| |
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| | |
|---|---|
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| Singapore | India |
| Bangladesh | Central Asia |
| Iran | Turkey |
| East Africa | Nordic Countries |
| Netherlands | Haiti |
| Latin America | North America |

† Preliminary list as of October 1, 2013

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# Foreword

The Business as Mission Global Think Tank has opened up a unique forum for collaboration among practitioners and leaders from around the world. When we began this second Think Tank initiative, we focused on a key word: *invigorate*. The purpose of the Think Tank has been to *invigorate* the global business as mission movement, to equip and encourage those who want to serve God and the common good in and through businesses—among all peoples.

To that end we launched over 30 national, regional and international working groups. Some of these groups focused on a particular issue in the BAM movement while others concentrated on BAM in and from a particular region or country.

The objectives for these groups were to 'listen, learn, share and connect'. We developed tools and templates for the working groups to effectively collaborate through virtual meetings, as well as face-to-face consultations. Each group has produced materials, including papers, analyses, case studies, tools and resource directories, as a result of this dialogue.

To enable a meaningful and constructive conversation in and between groups, we have used the following working definition of business as mission:

Business as mission is:

- Profitable and sustainable businesses;
- Intentional about Kingdom of God purpose and impact on people and nations;
- Focused on holistic transformation and the multiple bottom lines of economic, social, environmental and spiritual outcomes;
- Concerned about the world's poorest and least evangelized peoples.

This definition emerged from the first Think Tank on BAM, which among other things produced the Lausanne Occasional Paper on Business as Mission, as well as the BAM Manifesto: http://www.lausanne.org/docs/2004forum/LOP59_IG30.pdf.

The Think Tank project has resulted in a massive global gathering of both intellectual and social capital for the BAM movement. As well as the written materials, we have built networks and gathered together in person at the working group Leaders Forum and the Global Congress on Business as Mission, both held in Thailand in April 2013. The intention is to now share and disseminate these gathered resources as widely as possible.

This report is one in a series of papers from the 30 plus working groups. Hundreds of leaders in the BAM community, from every continent, have contributed to these reports. Additional Think Tank reports may be found at http://bamthinktank.org/reports.

These reports are not the end or the final destination of the BAM Global Think Tank, but should rather be seen as important reflections by BAM practitioners and other leaders who will continue to journey together. We need to continue to grapple with issues, and address needs and gaps. Some groups will continue and new initiatives will emerge. The BAM movement is on the move!

It has been a privilege to facilitate this unprecedented and global collaboration over the last two years. Looking back we can see at times we have achieved less than we have hoped and planned for. But we have also witnessed that God is able to do more than we could have ever imagined.

Our sincere thanks goes to all those who have co-laboured with us to bring the Think Tank initiative to fruition. We want to especially thank the Steering Group, the Issue and Regional Group Leaders, the Support Team and our spouses Mark and Jennifer for their steadfast support.

We pray that these papers, case studies, tools, recommendations and resources would go out widely, and encourage and equip you as well as invigorate the global BAM movement.

*"Now to him who is able to do immeasurably more than all we ask or imagine, according to his power that is at work within us, to him be glory in the church and in Christ Jesus throughout all generations, for ever and ever! Amen"* (Eph. 3:20-21, NIV).

Jo Plummer & Mats Tunehag　　September 2013
Co-Chairs　　chairs@bamthinktank.org

# Executive Summary

## No Water, No Fish
## Funding is Vital to Business as Mission Success and Sustainability


The convening of the Business as Mission Global Think Tank and Congress marked the first time the issue of funding for business as mission (BAM) companies emerged as a focus issue on a broad-based, international level. The necessity of capital for any endeavor highlights funding as an essential component of the BAM discussion.

The objective of this report is to provide assistance to the global BAM movement by educating and motivating BAM practitioners and funders so that responsible, appropriately contextualized, innovative, and successful allocation of financial resources may be more widely achieved. The vision is for capital to flow more efficiently to BAM companies, allowing them to be more effective in transforming their spheres of influence for the greater glory of God.

Perhaps best described as being in an infancy stage, funding for BAM is quickly moving toward adolescence. It should come as no surprise that the needs, challenges and opportunities for BAM parallel those for secular global businesses. Emerging BAM funding is showing early signs of matching important, prudent, and generally accepted elements of the broad spectrum of funding types available in global financial markets.

Some critical needs were identified for business as mission funding. One area of funding need is the availability of capital to fund start-ups. Greater creativity is vital to meeting this challenge. Another area of need is for more investment-worthy companies. The continued development of excellence in business approaches and seasoned operators will increase the potential for profitability and enhance attractiveness to potential investors. Alongside this, the nonnegotiable principles of integrity in identity and practice, integration of work and ministry, and intentionality of Kingdom purpose are crucial to successfully move enterprises from start-up to sustainability.

The report observes that hybridization, as a possible way to fund a business through a strategic mixture of capital, has both positive and negative ramifications. It addresses the variables of commercial and non-commercial funding for the business and/or compensation for the practitioner from a combination of both business and donor funding.

The research presented also notes there exists a certain tension between appropriate contextualization of funding models and the need for some measure of ‘best practice’ principles which are more widely understood, embraced and implemented in the business world. This paper argues there is no ‘one size fits all’ funding template that can or should be applied to the complexities of the global BAM movement.

The key recommendations of this report include: Firstly, a need for better communication between investors, as well as between investors and BAM practitioners. Secondly, over the next few years, there is an opportunity and need to identify and replicate successful funding models. Thirdly, the way to nurture this paradigm shift in investing is to initiate dialogue around the theology of wealth and investing. Developing an archetype rooted in Scripture that integrates missional competence with commercial proficiency is essential to the shaping of expectations, motivation and furthering of the BAM movement.

# No Water, No Fish

## Funding is Vital to Business as Mission Success and Sustainability

## Introduction

### A funding fable

He was a simple man living a simple life. Each day he rose and went to the same job, ate the same food, and talked to the same people. One day he decided he wanted to do something different, something more for his family. He remembered a story he had once heard of someone who had caught and eaten a fish. He thought it would be a wonderful thing for his family if he could catch a fish for them to eat.

The man began asking everyone about fishing. There were many who had heard of fishing and had opinions about what he should do. There were even a couple of people who knew others who had been fishing and caught fish. He listened carefully to each of them.

The day finally came when he had applied all the things he'd heard and assembled everything everyone believed he needed to fish. He set out along the road. Not long into his journey he met a wise, aged man who asked where he was going. As he explained his desire to do something more for his family, to catch a fish for them, the sage began to shake his head in disbelief. "My son," he said, "all the days you spent learning of fishing, all the time you've spent gathering what you need to fish, did you ever stop to think that there is no water here in the desert? Without water, you cannot fish."

Water covers approximately 70 percent of the earth's surface (Ward 2003). So it would seem that finding water is a trivial task. Yet more than 97 percent of that water is salty, and nearly 2 percent is locked up in snow and ice. That leaves less than 1 percent for the entire planet's human consumption (McNulty 2010).

Global wealth mirrors water. A 2011 Boston Consulting Group report says 1 percent of the world's population holds 61 percent of its wealth (Becerra 2011). Many people who want something different, something more, and many who just desire to meet basic needs, have 'no water and cannot fish'.

What an achievement it would be if this report could answer how to move funding from areas of abundance to areas of opportunity and need. Our hope is that these pages give proven steps to improve the viability of business as mission start-ups and lower investment risk.

Different types of structures are shared in this report, best practices encouraged, lessons learned and links to a variety of resources offered. However, the question remains, where is the water to fish?

*And walking along the Sea of Galilee, He saw two brothers…casting a net into the sea; for they were fishermen." Matthew 4:18 (NASB)*

**Issue Group process**

The convening of the 2013 Global Congress on Business as Mission (BAM) marked the first time the issue of funding for BAM companies emerged as a focused issue on a broad-based, international level. For one year before the event, through the BAM Global Think Tank, extensive research was done by an Issue Group composed of members from more than half a dozen countries, a variety of economic contexts, and with a diversity of skills and experience in business, finance and mission.

The subject was also frequently visited in discussions of other BAM Global Think Tank Issue and Regional Groups as well as at the pre-conference Leaders Forum. It was no surprise, then, that through these processes the necessity of capital for any endeavor highlighted the place of funding as an essential component of any BAM discussion.

This paper is the culmination of that year-long process of listening and sharing, fact-finding case study research, and search for and vetting of new ideas and theories. Its objective is to provide assistance to the global BAM movement by educating and motivating BAM practitioners and funders so that responsible, appropriately contextualized, innovative, and successful allocation of financial resources may be more widely achieved. The vision is for capital to flow more efficiently to BAM companies, allowing them to be more effective in transforming their spheres of influence for the greater glory of God, to whom our work is dedicated.

Funding is approached from a variety of perspectives and it is important to understand this in order to accurately address resources for funding business as mission. Often, the capital provider and the one receiving funds use different lenses for viewing this process. Also, multiple motivations, perspectives and measures of success inform the 'business as mission' concept. Some see business primarily as a 'vehicle' for missions (a ticket in) and others focus primarily on BAM as a path to move people out of physical and spiritual poverty, still others have a more integrated approach.

In light of this, and in hopes of keeping the report clear and succinct, the materials are presented without correlating them to any particular perspective or motivation. Readers are encouraged to form their own conclusions and applications after digesting the information, integrating other data on the topic, praying, and discussing with peers. BAM funding is certainly not a 'one size fits all' concept.

## Funding Enables Business as Mission

When people who have been gifted as business people or entrepreneurs answer the call to use their skills to reach the world for Christ, they engage in an effective model of ministry that affords opportunity to connect with people at their point of need.

However, business as mission is still business and the reality is that any business starting without adequate capital, sustainable revenue or an effective business plan will inevitably struggle. Just as no ministry is effective if the demands of the ministry diminish focus, no business is effective if the lack of necessary capital prohibits achieving profitability.

So how do we effectively 'irrigate' the BAM funding 'desert'?

Throughout history, humans have found ingenious ways to transport water (Copeland 2009). We have learned that “water is not always an easy thing to move: it’s heavy, it can become unsanitary, and there are limited ways to carry it.” The most effective way is “by re-routing it.” (Ibid.). Just as the Romans built aqueducts to carry water, well-organized, competent channels must be established in order for funding to reach the areas it is needed most. Certain basic ‘engineering’ principles should inform the design of these waterways. ‘Purification tanks’, in the form of investment readiness guidelines, are essential.

Funding, like water, will find its own level, and BAM companies must be viable, profitable operations in order to attract capital. Bronno Mulder, a community development adviser, aptly reminds that we should, “...invest in people before investing in business” (Mulder 2013). Where financial capital originates should be less of a concern, provided the use of that capital (including end beneficiaries) is reasonable and fair in how it brings blessing and reward to all stakeholders – not just shareholders who may be oceans away. The money should follow the good people with the good business ideas – wherever it, and they, may go.

One of the greatest sourcing challenges in business as mission is start-up funding. To channel large amounts of cash to a variety of end points, new canals must be built and existing ones dredged in an intentional effort to create a viable network of global monetary resources.

Parallel canals are vital to expanding the impact of the original canal (like the Ismailia Canal which became a strategic fresh water source when it was built parallel to the Suez Canal). Too often in Christian endeavors parallel work never realizes the impact that partnered work could accomplish. Care must be taken so that not everyone is pulling from the same sources, lest we dry up smaller streams while ignoring rivers of fresh water.

There must be a willingness to explore new sources for these canals, such as philanthropic funding (impact investing), which incorporates grants to infuse business start-ups and utilizes incubating models to move entities toward investment readiness. A recent survey found that impact investors had set aside $9 billion for investment in social enterprises, often at below market rates (Saltuk 2013). This is a much larger pool than current BAM ponds.

Another challenging issue in the task of getting funds to strategic areas of need is a willingness to shut down ineffective channels. Using dams and reservoirs to reserve funds and replace nonfunctional sources with more effective ones may be perceived, by some, as restricting growth in the short run. Long term, these difficult decisions produce the best flow of resources and impact. This does not imply a ‘command central’ that turns the faucets on and off to manipulate the flow of monies. However, it does acknowledge there will be situations where reservoirs and new channels will allow growth to better meet demand.

At times, more innovative transport models should be considered and, again drawing from the water metaphor, we see in Africa a new possibility. The Aquaduct water-filtering bike “allows the rider to pedal to a water supply, load up the cycle with 20 gallons of water (enough for a family of four’s daily usage), and ride home; meanwhile, the pedaling action engages a pump that cleans the water while it’s transported.” (Copeland 2009).

Building microcredit bases into larger-scale funding providers would open a vast network of reproducible sourcing. Imagine thousands of 'filtering' devices that instead increase the potential of funds to do good. Microfinancing can create a cycle of sustainable business multiplication that not only improves the lives of the business owner and his/her employees, but also creates reproducible funding sources.

## Approaches to Business as Mission Funding

### Funding definition

The word 'funding' refers to the spectrum of financial resources required for a business venture through the normal life-cycle phases of every business: start-up, growth, maturity, and decline. It includes a range of monetary sources, each with attributes unique to each stage of growth. Funding takes on many shapes and sizes, from self-funding to crowdfunding, microcredit to bank loans, and seed funding to venture capital.

Broadly speaking, the subject of funding includes sources, structure, application and management of monies in all areas of the business. In the context of business as mission, perceptions and actions relative to both the business and the capital should be informed by Biblical principles.

In a broader context, funding is distinguished as being financial capital – such as debt or equity – alongside other forms of capital input, such as intellectual, human, social, spiritual, infra-structural and natural.

### BAM funding models

Traditional sources of business as mission funding parallel those in typical business funding. In the majority of cases, profitability is the key issue that drives capital to those companies most likely to achieve viability. For most investors, profitability is a non-negotiable measure of success.

However, there are a growing number of investors looking for something in addition to a financial return. There is a growing interest in investing in social enterprises and 'freedom businesses' (companies involved in anti-human trafficking work), as well as investors looking for a Kingdom-purpose and viable BAM companies to invest in. While profitability remains central (the reality is that large amounts of money will not flow to unprofitable businesses), there are many other factors that contribute to an investor decision. The Managing Principal of Sovereign's Capital, André Mann believes, "People will ultimately make a decision with their heart. Hearing both sides of the story, seeing both a potential for profit *and* a Kingdom purpose will inform investor decisions."

The following is a brief summary of a variety of funding methods. Many will overlap with other models and two or more may be combined to fund a business.

#### *Self-funding*

This source is often referred to as 'family, friends and fools'. Funding is based on the business owners personal funds or funds donated and/or loaned by family and friends willing to take the risk. 'Fools' refers to those that aren't friends or family, and are not professional investors, but believe in the idea enough to invest anyway. 'Bootstrapping' is a term often used when an entrepreneur starts a company 'on a shoestring'; they primarily use their own cash or available credit and start up with as little capital as possible, and then reinvest any and all available cash flow to grow the company organically from the cash generated by the business operation. Often, this limits the pace at which a business is able to grow, but for the initial stages can often be a prudent way of getting a business off the ground.

***Collateralized debt***

Collateralized debt results from borrowing money from a lender, usually a bank or other financial institution. It typically requires pledging collateral or signing a personal guarantee to secure the monies loaned. It is difficult for start-ups to secure loans as they usually do not have the consistent cash flow to service the debt. In most cases, the cash flow would be better used to fuel business growth. Small-to-medium enterprises with established track records are more likely to be viewed favorably by lending establishments. Qualifying criteria and terms, such as loan costs, interest rates, release prices, loan-to-value, etc., vary greatly from country to country.

***Donor-based or hybridized funding***

In this category, monies are donated to the business enterprise through church support, mission agency support or other sponsoring groups. While in the United States there are major restrictions to donor-based funding for business, other countries may not regulate this avenue as strictly. This model may include loan guarantees by a mission agency or hybridizing nonprofit and for-profit resources. For more analysis of this category, see the Appendix L – Hybridizing of Nonprofit Resources and For-Profit Business in BAM.

***Microcredit***

Microcredit is defined by the Oxford American dictionary as “the lending of small amounts of money at low interest to new businesses in the developing world.” This practice dates at least back to Jonathan Swift and his Irish Fund Loans to the poor of Dublin in the early 18th Century.

***Crowdfunding***

A newcomer to the funding spectrum is ‘crowdfunding’. This is “the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet.” (Prive 2012). Crowdfunding allows individuals to participate in capitalizing efforts for both businesses and nonprofits, with or without a financial return. Most investors are looking for social equity—the knowledge that their money is going to equip individuals or organizations for the greater good.

***Mezzanine debt***

Just as a mezzanine floor supplies a bridge between levels of a structure, mezzanine debt bridges collateralized debt and equity funding. Like equity, it is not secured or pledged against the assets of the business or the assets of the business manager(s). Interest and repayments are only paid out of the positive cash flow of the business and additional funds raised by the business, just as dividend and share redemptions are only paid out of the positive cash flow of the business or additional funds raised by the business. Mezzanine debt is like collateralized debt in that interest at a pre-agreed interest rate is due each year and capital repayable over a confirmed number of years.

***Equity funding***
In equity funding, the investor "requires ownership of an agreed proportion of the company and, in exchange for this, is rewarded with returns from the profits in proportion to the equity in the company." (Jeffery 2012a). Types of equity funding are described by Jane Jeffery in her article, Funding Your Dream (Jeffery 2012a):

- Seed funds – "A seed, a very small amount that is in a fund specifically designed to meet the needs of companies at a very early stage… The idea is to spread small amounts of funds as widely as possible to capture a wide market in the hope that at least some will be successful… Seed funds are often established by governments to encourage specific sectors of the community to start their own business as a way of reducing unemployment."
- Angel funds – "...Established by individuals or groups of individuals who often have an interest in assisting entrepreneurs beyond the desire to make money. They often are willing to invest in ventures, which are too risky for the venture funds. Angel investors use their own money and often take a 'hands on' approach to assisting start-up companies. The amounts of funds are usually small. The mentoring the investors give and the development that the investment allows entrepreneurs can become more attractive to venture funds."
- Venture funds – "Larger funds that invest in companies with high potential for success. The investments they make are usually substantial and they require a sound business model and market potential. They expect to make a return on their investments in three to five years so the companies they invest in have a track record, a proven idea and a customer base with potential for substantial growth. The aim of the venture funds is to make money for those who have contributed to the fund."

***Franchising***
Once a business has reached sustainability, further options may include franchising. This is simply duplicating the business paradigm in other locations and is an avenue for additional income. Although franchising is not strictly a funding method, it can make funding more easily attainable for several reasons, including funding sources classifying the activity as an expansion or duplication of an already successful business endeavor. See the BAM Franchising Think Tank report for further information on franchising in business as mission.

***Impact investing***
There is a high chance that BAM enterprises will explore the pool of impact investing capital as being an option over conventional forms of financing. Impact (or philanthropic) investments are made into companies, organizations, and funds with the intention of generating measurable social and environmental impact alongside a financial return. They may be made in both emerging and developed markets and target a range of returns from below market to market rate, depending on the circumstances. Impact investors actively seek to place capital in businesses and funds that can harness the positive power of enterprise.

From the Global Impact Investing Network (2009 – 2013):

> The impact investing industry continues to manifest itself in a wide range of innovations and entrepreneurial activities around the world:

- Private equity funds that aim to provide growth capital profitably to businesses that provide social services are proliferating and expanding access, for example, to educate, better healthcare, and decent housing for poor people around the world.
- Clients of leading private banks and pension funds are calling on their investment managers to offer impact investment options.
- Prominent family offices are actively seeking investment partnerships that can help them source, vet, and execute impact investment deals in sectors ranging from sustainable agriculture to healthcare to urban infrastructure.
- Private foundations are seeking to partner with investment banks and development finance institutions to make impact investment in areas related to their social missions.

The impact investing industry has the potential to steer significant sums of money to market-based solutions to the world's most pressing challenges.

## Benefits, Challenges and Best Practices for Funding Models

Most business as mission models share many of the same principles and practices as secular businesses. As one would expect, these principles and practices are what any capital provider would look for as they evaluate funding of BAM opportunities. These include risk-reward analysis, worst case scenario evaluation, liquidation values, return expectations, sales ramp, currency exchange, rule of law for business locale, ownership structure, management team composition, experience, organizational practices, etc. Those seeking funding must be prepared to address such concerns.

As in mainstream business funding, different funding models are more suited for different stages of business development. Appendix N gives a summary of how a BAM company might go about assessing suitable options for capital sources, depending on their level of risk and stage of maturity.

BAM funding organizations also mirror the secular, commercial world. For example, in regards to types of funding, one can identify Warren Buffet-style holding company investing mirrored in the form of Pacific Resources International; venture capital-style investing through Business Professional Network; private equity as per Sovereign's Capital, and mezzanine funding as practised by Transformational SME. The well-known secular micro-finance sector, with its own particular characteristics, has a corresponding presence through 'base of the pyramid'-focused groups such as Partners Worldwide. (A review of funding organizations is included in Appendix A. In addition, investor profiles of a selection of funding entities are found in Appendices B to G).

In addition, there is also a remarkable parallel in challenges faced between the secular funding world and the BAM funding sector, for example: cheap credit, the 'missing middle' of small-medium enterprise finance, inadequate capital flows to particular higher risk markets, expectations of investors, and so on.

### *Self-funding*

According to Jane Jeffery with CiB's Australian-based program 'Live Your Dream', "From the very earliest stage, even when dealing with family and friends, it is vital to ensure that everyone involved knows clearly what is expected." (2012a p.25). Family and friend investors see themselves investing in the person while recipients tend to believe the investors are putting money into a business. These perspectives make managing expectations difficult.

There is value in having one's own funds invested not only to ensure the business is treated seriously, but also to show future investors that the founders have 'skin in the game'. However, the use of private funds should be tempered with set-asides for personal and family needs. Throwing all your savings into the start-up without providing funding for sustaining daily living needs is a recipe for disaster. One Issue Group member familiar with this concept shared, "Time to become financially autonomous must be built into the entire project, not just the production phase."

### *Collateralized debt*

Loans from banks or other institutions often come with restrictions, these can include: constraints against faith-based principles, limits on additional debt or leveraging by the company, variable interest rates, loan-to-value requirements and pledges of collateral and/or personal guarantees. Many advise against borrowing in this manner as a start-up and if borrowing when the business is more established, doing so only on a short-term basis. Money management guru Dave Ramsey (2011) suggests creativity to avoid debt for large items when starting businesses:

- Rent until you can pay for it. Your facilities may not be the best but, "That's just motivation to buy (and remodel) them as soon as possible."
- Outsource. Look for any projects you can outsource to keep costs down. (In BAM this translates into opportunities to build good relationships in your community).
- Buy used (and ugly). Particularly in America, great time and expense go into appearances. Take the pulse of your business neighborhood and find ways to furnish your business locally and frugally.
- Pay cash. Ramsey says, "Save systematically until you can pay cash."

If you must go into debt, have a firm plan to pay it off as soon as possible and then put an equally firm plan in place to make future large purchases with cash.

Care should particularly be taken when borrowing money for BAM ventures in hostile environments. For more information on risk management in those situations, see the BAM Global Think Tank paper on BAM in Hostile Environments.

### *Donor-based or hybridized funding*

One current proposed model in donor-based funding operations is selling the business to private owners, including the BAM entrepreneur(s) who started it, once the entity is profitable (usually 3 to 5 years after start-up).

Another model that may evolve is to utilize the mission agency as a guarantor. A guarantee from a financially healthy entity can reduce the risk for the lender, which will result in lower borrowing costs. An established entity may be able to borrow at five percent interest because its ability to repay the loan is greater while a BAM start-up may be forced to borrow money at much higher rate due to it having fewer financial resources, no proven track record, etc. If, however, a mission agency or donor offered to cover the losses if the business venture failed, the risk to the lender is reduced and so is the cost of capital. For example, if a BAM start-up needs $50,000 to prototype a new business, traditionally the risk would create a high interest rate for borrowing. However, if an established mission agency says it will guarantee the debt owed if the start-up fails, then the investment is a much lower risk. Even if the company fails, the lender will still be repaid by the mission agency. Therefore, the start-up company can borrow at lower rates. The challenges for this kind of arrangement include whether the nonprofit's charter allows it to guarantee such ventures and whether it has sufficient liquid assets to attract potential lenders at an attractive interest rate.

Another option is hybridizing the financial resources for the BAM practitioner(s). In this case, donor support can be properly documented through the mission organization including a clear statement of the role, expectations and evaluation of those in the field in fulfilling the mission agency's charitable purpose agenda. This would be separate from the job requirements the individual(s) might have in regard to running the business commercially. The dangers in this scenario are security issues and the need for an appropriate firewall between the practitioner and their agency to avoid potentially hostile scrutiny from the host country. The clarifying question here is whether agency funding is likely to pre-empt or erode genuine business credibility and success while at the same time facilitating service to "the least, the lost and the lowliest." (Tunehag 2010)

For more detailed analysis of this concept, see Appendix L – Hybridizing of Nonprofit Resources and For-Profit Business in BAM

***Microcredit***

Critics argue that microcredit "has not had a positive impact on gender relationships, does not alleviate poverty, has led many borrowers into a debt trap, constitutes a 'privatization of welfare', and does not improve health and education." (Wikipedia 2012) Others say it offers only an "illusion of poverty reduction." (Ibid.).

Partners Worldwide is one well-known microcredit organization in the BAM movement. Their lending is divided among a number of funding structures—fund matching, loans, self-funded community lending groups and incubation models. Most microcredit organizations follow one or more of the structures Partners Worldwide so adeptly facilitates. For a short descriptions of each, see Appendix M – Partners Worldwide Microcredit Models. Partners Worldwide believes that microcredit can have a positive impact, especially in the context of partnership building, "The very idea of partnership breaks the long-standing mold of one-way aid and charity. In its place, partnership establishes a two-way relationship forged for the advancement of God's kingdom and the eradication of poverty through job creation." They go on to say, "This level of engagement is transformational and effective, yet we also recognize that partnerships and cross-cultural relationships are challenging. We walk alongside people committed to partnerships by offering training, tools, lessons learned, and best practices to help equip them for the task." (Partners 2012). Incubation is one of the keys of success in this model. For consideration of how business incubation relates to funding, see the Incubation Think Tank report.

***Crowdfunding***
The advantage *and* disadvantage to crowdfunding is that it requires a great deal of effort on the part of the project creator. Much time goes into a crowdfunding campaign and time is a scarce commodity in a business start-up. The ability to sell yourself, your company and its potential products or services is essential to successful crowdfunding. This involves more than just passion. You may have a distinctive ethos among your family and friends but on a crowdfunding site you are one of many pitching 'the greatest concept ever'.

Succeeding in crowdfunding means:

- Setting yourself apart from similar projects.
- Communicating realistic goals and assessments of your business.
- Building relationships with potential backers and,
- Hopefully finding the key concept that connects them to you and your business.

Crowdfunding overlaps with microcredit through various groups, such as Kiva. In the Kiva process, crowdfunders are actually loaning amounts as low as $25 to a borrower whose project is posted on their website. As the loan is repaid, they may opt to underwrite another loan, donate the funds to Kiva or withdraw the cash.

***Mezzanine debt***
Freedom from collateralized debt is an important advantage of mezzanine debt financing as this model does not usually contain constraints, such as restrictions against faith-based principles, limits on additional debt or leveraging by the company, variable interest rates, loan-to-value requirements and pledges of collateral and/or personal guarantees. As with equity funding, mezzanine debt financing also tends to bring advisory skills to the business through valuable experience, managerial or technical skills, contacts, networks, and credibility. As the business develops and grows, this close involvement with the business means mezzanine debt financiers are often willing to provide additional funding.

***Equity funding***
Freedom from debt is an important advantage of equity financing where, unlike lender financing, you do not make repayments on investments. Another advantage is that investors tend to bring advisory skills to the business through valuable experience, managerial or technical skills, contacts, networks and credibility. As the business develops and grows, they are often willing to provide additional funding. (Queensland Government 2012).

On the other hand, in return for investment funds, you may be required to give up certain controls of your business. Investors not only share profits, they have a say in how the business is run. Consider carefully how much control you are willing to surrender. If investors are also family or friends, those relationships may be affected should the business fail. Becoming investment ready is demanding of time and resources. (Ibid.) Those who approach BAM from a mission organization background soon learn raising money through investors is just as challenging as raising support.

***Franchising***
For information on best practices for franchising, refer to the BAM Franchising Think Tank report.

***Impact investing***
It is important to remember that impact investors do not leave their values at the door. Many are Christians who have yet to discover BAM and would be happy to support such enterprises. However, other impact investors may hold strong positions against Christ and will actively seek to remove all Christian elements from an investment. BAM enterprises should be transparent about their Christian intentions when courting all investors.

Hybridization is also a consideration in this area. Traditionally, organizations either seek grants or investment capital. In reality, they can seek both. They can be creative about structuring investments in such a way that different funding sources are complementary. For example, if a BAM company receives a grant, rather than spending the grant, they could set aside the money as a contingency fund or loss reserve fund. Those funds could be used to attract additional equity or debt. In the case of equity, the nonprofit could co-invest in the BAM or even use its funds as the first risk dollars to attract equity. In the case of debt, the funds could be a source for repaying any debt incurred by the BAM company in order to lower the cost of capital. Such structures could allow the BAM company to raise more funds quicker. There is no set way to blend different forms of capital. It is a creative process that, when done well, provides additional security to investors and lenders and leverages the intent towards social impact of the donors.

“From Blueprint to Scale: The Case for Philanthropy in Impact Investing” (Koh et al 2012) is a recommended resource for further information on impact investing.

***Additional funding sources***
A source of funding not otherwise explored in this report are funds from the like of USAID or Asia Development, for example. Some BAM enterprises are in exploratory stages with these organizations and at least one endeavor has been invited into a USAID funded project in the area of sourcing and trading a product. The success of this particular company’s model coupled with their application of social enterprise best practices into their company core values helped cross this new partnership bridge. This would be a strong consideration of any BAM endeavor pursuing this area of funding.

## The Future of BAM Funding

What does the future hold for funding business as mission?

The impending global economic shift from West to East will be mirrored in a shift of fertile investment sources from West to East. Funding for business as mission must acknowledge, address, and answer the issues raised by the emergence of this economic dynamic. Asian financial capitals, such as Hong Kong and Singapore, will play a key role in the future of BAM funding.

While most BAM funding is grounded in Western thought, theology, and practice, funding of businesses with a Kingdom purpose is prevalent among Korean, Chinese and other Asian capital centers. Partnerships with these effective, active movements offer opportunities to learn from those who have the advantage of geographical proximity and cultural understanding of the majority of the remaining unreached people groups.

Intentional efforts must be made to invest in markets on the African continent, partnering with those on the ground who are working to transition theses rich resource areas from dependency to independent, multiplying economies.

The future of BAM funding must give careful consideration to the infusion of business incubation services into the start-up process, allowing more companies to effectively achieve investment-ready status. Investors note that finding deals worthy of investment or deals in locations where transfer of funds is a practical possibility is often their greatest challenge.

The future of business as mission funding will move outside the box of traditional approaches and towards approaches such as impact investing and guarantor models mentioned in this report. The face of BAM funding will look much different in the years to come as it reflects and adjusts to the growing globalization of business. Failure to embrace this change may greatly stifle the growth of the BAM movement.

Work is also needed on the potential role of mission agencies as 'BAM business brokers' among their constituents. Relationship-based, strategic collaboration in business as mission is needed. As each participant brings to the table their particular strengths and competencies, the possibility increases for overcoming fragmentation and replication, and more quickly building critical mass for effective business as mission funding.

## Conclusion

Now emerging from the stage of infancy, funding for business as mission is 'growing up'. The needs, challenges and opportunities for BAM largely parallel those for secular global businesses. Emerging BAM funding is showing early signs of matching important, prudent, and generally accepted elements of the broad spectrum of funding types available in global financial markets.

Hybridization, is a particular approach to funding that may have greater application in the case of BAM companies. This model of funding through a strategic mixture of capital has both positive and negative ramifications. It includes a wide variety of structures and approaches that have the potential for greater exploration and application in the future.

There are some critical needs in business as mission funding. One area of funding need is the availability of capital to fund start-ups in particular. Greater creativity is vital to meeting this challenge.

Another area of need is for more investment-worthy companies. The continued development of excellence in business approaches will increase the potential for profitability and enhance attractiveness to potential investors. Alongside this, the nonnegotiable principles of integrity in identity and practice, integration of work and ministry, and intentionality of Kingdom purpose will be crucial to successfully move enterprises from start-up to sustainability.

To return to the water metaphor, as an Issue Group, we have walked the aqueducts, dredged the canals, inspected the dams, and uncovered the creativity of water-filtering devices in every way possible. However, so much more could be said here about funding. As the Apostle John put it, "…if they were written in detail, I suppose that even the world itself would not contain the books which were written." (John 21:25b). Ultimately, we believe that the source of life-giving funding to the business as mission movement rests in continually seeking God and His provision. This often means discarding all we know, asking for His guidance, trusting His answers, and doing what you must do to help people find the 'water to fish'.

## Recommendations for Business as Mission Funding

There is first of all a need for better communication between capital sources as well as between these investors and BAM practitioners. Without this improvement, BAM will suffer from confusion and inefficiency, limiting its effectiveness and stalling growth of viable, sustainable enterprises.

Secondly, over the next few years, there is an opportunity and need to replicate successful funding models. With the strengthening of the BAM funding market, scaling it to respond effectively through multiplying the number of BAM initiatives will be an important challenge. In turn, this is predicated upon Christians everywhere understanding their investment decisions are an essential element of the holistic practice of discipleship.

Thirdly, the way to nurture this paradigm shift in investing is to initiate dialogue around the theology of wealth and investing. Developing an archetype rooted in Scripture that integrates missional competence with commercial proficiency is essential to the shaping of expectations, motivation and furthering of the BAM movement.

Those wishing to communicate with the editors or the contributing group regarding this Report or these Recommendations and Action Plans may do so at info@bamthinktank.org.

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# Glossary

## Abbreviations

**BAM:** Business as Mission

**BMTT:** Business as Mission Think Tank

**NGO:** Non-governmental organization

**SME:** Small-to-medium enterprise

**LC3:** A low-profit Limited Liability Company (see definition in "Glossary of Terms")

## Glossary of Terms

Some definitions are taken from www.dictonary.reference.com. These are designated by quotation marks without other references.

**Angel funds –** Funds capitalized by investors who often take a "hands on" approach to assisting entrepreneurial start-ups or existing companies that are too risky for bank or venture fund financing.

**BAM Practitioner –** A businessperson actively using business as a means to reach people cross-culturally for Christ. BAM practitioners typically focus on a four-fold bottom line.

**Bank loans –** "An amount of money loaned at interest by a bank to a borrower, usually on collateral security, for a certain period of time."

**Business as mission –** As defined by Mats Tunehag in "God Means Business: An Introduction to Business as Mission" – "Business as mission, BAM, is a relatively new term but is based on Biblical concepts. Other expressions often used include 'transformational business, 'great commission companies' and 'kingdom business'. BAM concept is holistic in nature, believing that God has the power to transform people and communities; spiritually, economically, socially and environmentally. The dichotomy between sacred and secular is not Biblical, but this false dichotomy has deeply affected our views on work, business, church and missions. BAM is a part of a wider global movement, recognizing and responding to God's call to take the whole gospel to the whole man in the whole world. Applications of BAM may vary from country to country and from business to business."

**Capital inputs –** "A measure of the flow of services available for production from the stock of capital goods. Growth in the capital input differs from growth in the capital stock because different types of capital goods (such as equipment, structures, inventories, or land) contribute differently to production." (From http://www.teachmefinance.com/Financial_Terms/Capital_Input.html) For the purpose of BAM, capital inputs may include intellectual, human, social, spiritual, infrastructural and natural investments.

**Capital investment –** "The total funds invested in an enterprise."

**Collateral –** “Security pledged for the payment of a loan.”

**Crowdfunding –** “The practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet.” (Prive 2012)

**Donor-based funding –** Business funding sourced through church support, mission agency support, nonprofits or other sponsoring group sources.

**Entrepreneur –** “A person who organizes and manages any enterprise, especially a business, with considerable initiative and risk.”

**Equity funding –** In equity funding, the investor “requires ownership of an agreed proportion [stock in] the company and, in exchange for this, is rewarded with returns from the profits in proportion to the equity in the company [dividends].” (Jeffery 2012a)

**Four-fold bottom line –** Generally understood to mean measured results based on outcomes in the areas of spiritual, economic, social and environmental impact.

**Funding –** “To allocate or provide funds for.”

**Global business affiliate –** Defined by Partners Worldwide as a “team of Christian business professionals who provide coaching, prayer and financial support to a Local Business Affiliates are focused on ending poverty in their own communities by supporting the growth and development of sustainable business.”

**Impact investing (philanthropic funding) –** As defined on Wikipedia, investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.”

**LC3 – Low-Profit Limited Liability Company -** The Low-profit Limited Liability Company is a cross between a nonprofit organization and a for-profit corporation. The entity is designated as low-profit with charitable or educational goals. (Found at http://www.sec.state.vt.us/corps/dobiz/llc/llc_l3c.htm)

**Mezzanine funding –** The provision of funding in between collateralized debt and equity funding.

**Microfunding/Microcredit/Microlending/Microfinance –** “The lending of very small amounts of money at low interest, especially to a start-up company or self-employed person.”

**Nonprofit/Not for profit –** “Not established for the purpose of making a profit.” In the United States, requires a special legal designation.

**Outsource –** “To obtain goods or services from an outside source.”

**Private inurement –** Defined generally as when an insider (someone with inside knowledge of an organization) receives benefits from an activity associated with that organization greater than he or she provides in return.

**Seed funding –** As defined on Wikipedia, “A form of securities offering in which an investor purchases part of a business. The term *seed* suggests that this is an early Investment, meant to support the business until it can generate cash on its own, or until it is ready for further investments. Seed money options include friends and family funding, angel funding and – recently – crowdfunding.”

**Self-funding –** Funds invested into a start-up or early enterprise by the person or persons starting the business.

**Small-to-medium enterprise (SME) –** Although the specific parameters vary from organization to organization and among countries and economic entities, SMEs are generally considered to be businesses with 15 to 250 employees and an annual income of up to $1 million USD or more.

**Sustainable income –** Generally considered an amount of income to sustain or grow a business venture.

**Venture capital/venture fund –** "Funds invested or available for investment in a new or unproven business enterprise. Also called risk capital."

# Appendices

# Appendix A – Review of Funding Organizations

This is by no means a complete list. There are key funding sources omitted for protection of their identity in sensitive areas. Also, in the following reviews, there are instances where the description of the organization is taken directly from that group's website. Secular organizations are listed here because they provide services not currently available through business as mission networks (these distinctive services are highlighted with italics).

ACE Development Fund at www.acedevelopmentfund.org

Has a goal to plant 10,000 businesses in the next 10 years. As part of that framework, they offer a revolving seed fund making initial capital available for pioneer business planting. In addition, they teach the basics of entrepreneurship and business in interactive, onsite training programs and follow-up continuing education and resources. ACE coaches also connect regularly to mentor and guide new entrepreneurs. They provide a network of partner organizations and social media fundraising campaign.

Asia Development Bank at http://www.adb.org/

Secular funding organization focused on improving lives in Asia and the Pacific. Invest in infrastructure, health care services, financial and public administration systems as well as help nations prepare for the impact of climate change or better manage their natural resources. Their main devices for assistance are loans, grants, *policy dialogue, technical assistance* and equity investment. Entities with strong social enterprise components would be good candidates.

Business Profession Network at http://www.bpn.ch/index.php?id=3&L=1

BPN assists with the development and growth of small and mid-sized businesses in developing countries. It offers loans, business know-how, training, and personal coaching to entrepreneurs who have the ideas and potential for success but are lacking the means. The vision is to create a maximum number of sustainable places of employment, thus giving new perspective to employees, their families, the community, and the entire country. BPN is based on a Christian philosophy and fosters values such as personal sense of responsibility, commitment, honesty, reliability, diligence, transparency, integrity, and a responsible use of resources. (See also Appendix B).

CGAP Microfinance Gateway at  www.microfinancegateway.org/p/site/m/organizations/

CGAP is an independent policy and research center (housed at the World Bank) dedicated to advancing financial access for the world's poor. One service they offer is *Microfinance Gateway, which is an online resource of up-to-date information on global microfinance. On that site is the above link where you may search for financing organizations by type, region, country or base of operations. You may also market your organization to Gateway users from around the world.*

Christian Super at www.christiansuper.com.au

Not-for-profit industry retirement fund that invests globally in areas of high social impact, with companies aligned with its Christian values. It engages with companies to improve their ethical performance and participates in a range of industry initiatives aimed at lifting the overall standard of ethical investing in Australia and globally. (See Appendix B for further information). (See also Appendix C).

Double Harvest at www.doubleharvest.org

Operates in third world countries to establish and develop agricultural projects by providing capital resources and implementing best practices to increase food production and build local economies.

ECLOF at www.eclof.org

A microfinance organization working to enhance human dignity so that everyone has access to the resources they need to become providers for their families, employees, churches and communities.

Five Talents at www.fivetalents.org

Focused on fighting poverty, creating jobs and transforming lives through empowering the poor in developing countries. Uses innovative saving and microcredit programs, business training and spiritual development to restore dignity to individuals impacted by natural disasters, ravaged economies or broken political systems.

GoFundMe at www.gofundme.com

Crowdfunding site that bills itself as the most popular crowdfunding website for personal causes. The service operates in the U.S., Canada, Australia, the U.K. and in E.U. countries that use the Euro as their currency.

Grameen Foundation at www.grameenfoundation.org

Focuses on the world's poorest – especially women – and provides access to appropriate financial services, life-changing information and unique income-generating opportunities through microloans and other financial services. In addition, they help microfinance institutions and other poverty-focused organizations become more effective and efficient by helping them find financing and providing products and services that enable them to measure their results and better understand their customer. *Are also focused on fighting information poverty through mobile phone-based technology projects and business opportunities for poor entrepreneurs.*

HOPE International at www.hopeinternational.org

A network of microfinance institutions operating in 16 countries around the world. Provide biblically based training, savings services, small loans, mentoring and discipleship. Their microfinance plus programs incorporate health care, literacy training and other community empowerment initiatives. They also have small and medium enterprise development programs.

Integra USA at www.integrausa.org

Provide training and loans for aspiring entrepreneurs in Central Asia, Eastern Europe and Russia. Their microenterprise development program works largely with women who have lost a husband (through death or divorce) or who are married to an individual who is disabled. Clients in this program are usually not believers and Integra Staff see this as a 'cup of cold water' ministry. Their SME program is for larger Christian entrepreneurial businesses employing from 5 to 250 individuals. Investments range from $10,000 to $250,000. Owners are encouraged to see their work as ministry and communicate the love of Christ to employees, customers and others in the community.

KIVA at http://www.kiva.org

One of the more successful crowdfunding sites. Its aim is to leverage the Internet and a worldwide network of microfinance institutions to alleviate poverty and create opportunity around the world. *Individuals may lend as little as $25 to featured projects. Field Partners vet, distribute and administer loans. Upon repayment they may withdraw their funds or reinvest in another project.*

Lightbearers Ministries at www.lightbearersconnects.com

Through a simple model Lightbearers buy apartment complexes, house and disciple college students and give the profits away. Lightbearers funds grants for specific projects to advance the Kingdom. Recent projects included a watering station in the desert of northern Africa, a strategic way to reach nomads in the region. (See also Appendix E).

Living Stones Foundation at www.lsfoundation.org

Grants focused on projects relating to community transformation, family values, business as mission and evangelism. Not currently accepting applications.

Mennonite Economic Development Associations (MEDA) at www.meda.org

MEDA focuses on rural financial services, investment in SMEs, youth and financial services, deposit mobilization and women's economic development. They also consider agricultural development, involvement in the business of health (through accredited drug dispensing outlets, insecticide treated nets and pharmaceutical value chains) and growth of sustainable support.

Microfinance Council of the Philippines at www.microfinancecouncil.org

National (Philippine) network of microfinance outlets including 47 institutions. Key programs include advocacy, social performance management and consumer protection in microfinance, capacity building for microfinance institutions, performance *monitoring and benchmarking, and the establishment of a knowledge and research center for microfinance*.

Mission Resource International at www.missionresource.org

Provides financial resources in the form of start-up capital for materials and equipment to fund business ventures. They also mentor/coach new entrepreneurs in the skills and stages of business start-up and development. Funded projects at the time of this writing included a canopy and chair rental business (for weddings, funerals and conferences) that provides income for a cross-cultural evangelist in northern Ghana.

Oikocredit at www.oikocredit.org

One of the world's largest sources of private funding to the microfinance sector, also *provides credit to trade cooperatives, fair trade organizations* and SMEs in the developing world.

Opportunity International at www.opportunity.org

Provides financial products and strategies in the developing world through loans, savings, microinsurance and training. *Have developed electronic and mobile technology to bring services to the marginalized and remote people. Also crowdfund.*

Partners Worldwide at www.partnersworldwide.org

Network and partnership organization providing models and tools for success and sustainability – including training mentoring, access to capital, microfinance, and advocacy tools. (See also Appendix M).

Sarona Asset Management at www.saronafund.com

Sarona is a private equity firm, investing growth capital in companies and private equity funds in frontier and emerging markets around the world. The company was spun out of Mennonite Economic Development Associates Inc. (MEDA) in 2011 through a management buyout. (See MEDA information above.) Its particular focus is the small to mid-market companies that meet the growing needs of the rising middle class in those markets. The goal is to achieve superior returns by creating world class companies employing highly progressive business strategies, and operating to the highest standards of business, ethical, social and environmental excellence. (See also Appendix F).

Sovereign's Capital – www.sovereignscapital.com

This fund focuses on early growth-stage companies with US$1-10 million in revenue. They look for companies with exceptional growth potential in expanding markets. In addition to a clear path to profitability and exit, they are most interested in a proven management team that is running the company with strong ethical values. Sovereign's Capital primarily focuses on Healthcare, IT, and Consumer products and services – industries that will benefit from the rapidly expanding middle class. The fund aligns deep expertise among its principals and advisers in these focus areas. They invest in emerging markets with consistently high GDP growth rates and rapidly expanding middle class populations. The fund looks for scalable and replicable business models that show some traction in the marketplace. They invest $250K - $2M USD behind teams of excellent like-minded operators with the talent to execute and win in their industry. For more information please contact Andre Mann at amann@sovereignscapital.com.

Transformational SME at www.transformationalsme.org

Since 2002 has made over $5 million of mezzanine loans to support the growth and development of more than 40 Christian-owned and managed SMEs in the Arab world and Asia. TSME adds further value through mentoring, coaching and other forms of assistance. (See also Appendix B).

Urwego Opportunity Bank of Rwanda at www.uob.rw

Serves Rwandans who are economically active but whose banking needs are underserved. As a Christian microfinance bank, they provide opportunities for those in poverty to transform their lives through typical banking services and loan products that include traditional, microbusiness, micro-consumer and other flexible loan types.

Videre at http://www.videre.org

Provide business training, Christian discipleship and funding to local entrepreneurs in developing markets.

# Appendix B – Investor Profile: Transformational SME

## Capitalizing Growth-Stage SME's

Transformational SME (TSME) was established in 2001, after two and a half years of market research and business plan development. Their goal is to capitalize growth-stage SMEs with patient, strategically integrated financial, intellectual and human resources to achieve economic, social, environmental and spiritual impact in the Arab world and Asia.

TSME is a BAM company, composed of an investor-capitalized fund, which operates as a Bare Trust under UK law, and a professional fund management company registered in Canada. TSME provides primarily mezzanine loans to carefully screened, Christian-owned and managed SMEs which through genuine business as mission seek to achieve the so-called "quadruple bottom line".

In addition to mezzanine finance, TSME provides mentoring and coaching to investee companies and a variety of technical advisory services, for example, pre-investment consulting to start-up companies, and a range of input to strategic mission partners such as mission agencies wishing to engage in BAM. They also engage in strategic talent search for key professional roles within BAM companies.

The vision, mission, strategy and operational practices of TSME are intentionally Christ-centred, and reflect the Judaeo-Christian worldview of the founders and all subsequent investors. A professional team of businessmen and women from around the world manages TSME with deep experience in all areas of business, finance, entrepreneurship and cross-cultural experience in the Muslim, Hindu and Buddhist world.

The fund operates on an "evergreen" basis, with capital being continuously raised and returned, invested and repaid with a dynamic inventory model of investors, deal flow, due diligence and mentoring provided by TSME team members. Between 10-20% of TSME investors have served in a volunteer capacity as mentors and coaches to companies in the fund portfolio.

Introduced through relationships with a strategic mission partner, the first two loans of $25k and $50k (US Dollars) were made in early 2002 to companies in Nepal and North Africa following a thorough review of their commercial and spiritual impact plans. By year-end 2014 TSME had made loan offers ranging from $25k to $400k, cumulatively in excess of $5.3 million, to 42 companies in 23 countries in 18 industry sectors. Numerous companies have successfully applied for sequential, supplementary loans. Compatible with its mandate, TSME has made one equity investment. To date only one loan ($25k) has been written off (made to a company in a very difficult country struggling with civil war and an archaic legal system). By year-end 2014, nearly $4.7 million had been invested in the fund by more than 200 investors from 16 countries around the world. Since inception, invested funds have been offered back to investors on an annual basis, with investments maturing broadly in line with expectations. Redemption rates are low (less than 7% by investor number), with most investors choosing to reinvest in the fund.

Loan applicants provide a coherent business plan, combined with a thoughtful spiritual impact plan reflecting their intentional BAM focus. Following a careful due diligence process by the TSME team, investment proposal are evaluated and decided upon by an independent Investment Committee. Interest rates and loan initiation fees are comparable to those available to SME's in rich world countries despite the extremely high risk of making loans in marginal countries and economies. Loans are made to investee companies based on projected cash flow, and are not collateralised or securitised. This approach is a realistic one for the contexts in which these business owners operate, and is supported by very thorough due diligence and on-going mentoring. It is driven by a desire to honour Christ by not putting the owner and his/her family at personal financial risk beyond their already significant capital investment in the company. Loan agreements are carefully tailored to specific company needs, with appropriate conditions, fully documented, and framed in an atmosphere of trust befitting covenantal agreements between followers of Christ.

TSME is grateful to God and its global community of committed participants for all that has been achieved over the past 14 years. Individuals and families have found and been taught the way of Christ, local congregations have been strengthened, government and other officials have been profoundly influenced, policies have been changed, corruption has been challenged, goods and services adding value to life have been made and sold, jobs with dignity have been created, marginalised individuals have been affirmed and liberated, a professional business culture with a Christian conscience has been stimulated, a responsible attitude to debt and equity has replaced a debilitating dependency upon financial handouts, mission co-workers have been encouraged, and above all, our Father in heaven has been glorified. There is much more to do!

**Seven Lessons Learned:**

1. There is a clear and present need and opportunity for patient mezzanine funding in the BAM space, certainly in the Arab world and Asia and likely in other regions as well. A related observation is that it is extremely difficult to do this well. That said, it is possible to invest with modest expectations of financial return into these most-difficult environments and, risk of loss notwithstanding, see a full return of capital and a modest return on capital.

2. BAM in the region in which TSME operates is still quite weak with relatively few, albeit a growing number of, companies being able to meet TSME's rigorous standards. On the other hand, responsiveness to experienced input has enabled companies to grow and develop into better-managed and effective models of Christ-honoring business. TSME has found that relationships, based on integrity and trust within the Christian community, bring remarkable risk-reducing benefits. Company owners are admirably open and honest in their applications and conduct of their business affairs, and often make significant personal sacrifices in order to serve Christ, and to honor the loan obligations of their companies;

3. A hybridized financial model is both a pragmatic necessity and apparently sustainable, in at least some contexts. A pragmatic necessity, if we are to reach the least reached particularly in less-affluent contexts, and sustainable, when motivated by an understanding of the eternal generosity of God. TSME team members operate on a variable compensation/remuneration basis, depending on personal circumstances, along a spectrum from pro-bono volunteer to modest 'needs based' income to paid staff.

4. There is a clear value proposition for investors and mentors in the BAM funding space. In the case of TSME, investors are offered back their capital invested in the fund, while simultaneously foregoing any additional incremental personal wealth derived from fund profits. In doing so, they are living out the injunction "to love justice, do kindness, and

walk humbly with their God" as they steward a portion of their investible assets specifically for Kingdom-advancing BAM initiatives. Mentors (who are also investors in the fund) pay their way, in some cases with tax benefit, to serve companies in the TSME portfolio. This arrangement offers them an opportunity to have firsthand involvement in missional businesses in closed countries in order to utilize their God-given business-related gifting.

5. There is a compelling value proposition for BAM companies and their investors in receiving competent, wholistic mentoring. In the case of TSME, the mentoring provided has been vital in building relationships of trust with the companies, which then facilitated their growth and acceptance of TSME's advice to their operations. TSME mentoring has been instrumental in early recognition of looming problems with timely solutions protecting against financial and other loss.

6. There is a subversive value proposition through investing and mentoring through increased interest in BAM with investors and mentors often becoming local advocates for BAM and world mission.

7. Several lessons have been learned in regards to the monetization of services provided to BAM companies and other strategic partners, among them:

    a) Most company managers have commented that their cost of capital from TSME is more than justified by the value of the mentoring received;

    b) Charging for consulting has proven difficult as many in the BAM space seem to believe that services from Christians should be provided for free;

    c) Many companies and mission agencies have been willing to pay appropriately for services and recognize the logic of a commercial service in the BAM world.

Website: www.transformationalSME.org

# Appendix C – Investor Profile: BPN

## Business Professional Network: Creating Sustainable Places of Employment

Business Professional Network (BPN) is based in Berne, Switzerland. Founded by Jurg Opprecht, it has been in operation since 1998.

BPN assists with the development and growth of small and mid-sized businesses in developing countries. It offers loans, business know-how, training, and personal coaching to entrepreneurs who have the ideas and potential for success but are lacking the means.

The vision is to create a maximum number of sustainable places of employment, thus giving new perspective to employees, their families, the community, and the entire country.

BPN is based on a Christian philosophy and fosters values such as personal sense of responsibility, commitment, honesty, reliability, diligence, transparency, integrity, and a responsible use of resources.

They work under the assumption that if you aim for a healthy and sustainable growth and profitability for the entrepreneurs and businesses they support, they will in turn pass on the support they were given thus increasing exponentially the enterprises receiving support.

The Opprecht family has generously established the Opprecht Family Trust Fund, which pays all of the Swiss administrative costs. Any donation and investment goes directly to the designated countries.

BPN assists and supports small and mid sized business endeavors in Kyrgyzstan, Nicaragua, Rwanda, Benin, and Mongolia. It offers business know-how, personal coaching, and loans under fair conditions to select entrepreneurs and businesses.

BPN works in selected developing countries, which are viewed a having minimal barriers to success for small and mid-sized entrepreneurs. Vital to this success is a basic level of infrastructure (i.e. mobility, electricity), political stability, and a fundamental amount of democratic rights for the people (i.e., freedom of speech, opinion and religion).

The goal is to create as many job opportunities as possible in these countries thus giving the employees, their families, and the entire country a new and positive outlook. Often people in these countries are dependent on the purchase of expensive imports, even though they would have the raw materials to produce these products themselves. One area of business that BPN focuses on is manufacturing, where not only the need for these imports is reduced, thus saving the locals money, but also new jobs are created, which support the local economy.

An entrepreneur who wishes to be accepted into the BPN program must first undergo a thorough evaluation. Initially the local BPN team reviews the application, interviews the candidate, and makes a recommendation. Next the Swiss Operations Director visits the applicant at his place of work and talks to him/her about his/her proposal before granting final approval. This procedure guarantees quality, integrity, and a reliable foundation for the four-year investor program.

BPN connects people in the West with entrepreneurs in developing countries. They find investors who are willing to provide interest free loans of 3,000 – 20,000 Swiss francs to finance small and mid-sized enterprises.

Investors provide a loan to ‘their’ entrepreneur, plus a scholarship during a period of four years. At the end of the four years, the investor gets the principal back and the interest paid by the entrepreneur goes into an investment fund from which secondary loans are provided.

One of the unique aspects of BPN is that 100% of all loan funds and donations received from investors and donors are used for repayable loans and training in the designated countries. The administrative costs of BPN are covered by a Swiss foundation.

Website address: http://www.bpn.ch/index.php?id=3&L=1

# Appendix D – Investor Profile: Christian Super

## Adding values to money

Operating since 1984, Christian Super is a member-owned industry retirement fund whose members are mostly employees of Christian churches, schools or ministry organisations. The fund invests globally but the vast majority of its 25,000 members are based in Australia. Christian Super has a staff of 18 and Funds Under Management (FUM) at AUD $780m

The fund takes a distinctly Christian approach to investing in four main ways:

1. It seeks to invest in areas of high social impact e.g. Microfinance, BAM Enterprise Finance, Social Enterprise Finance, Community Infrastructure, Sustainable Agriculture etc.
2. It excludes companies from its portfolio that it views as being antagonistic to Christian values. The fund has formal investment policies on a range of issues including alcohol, tobacco, uranium, child labour, environmental stewardship etc.
3. It engages with companies to improve their ethical performance. As an example, the fund recently completed a successful engagement with a multi-billion conglomerate, which agreed to source its phosphate from more sustainable regions.
4. The fund participates in a range of industry initiatives aimed at lifting the overall standard of ethical investing in Australia and globally e.g. UNPRI, GIIN etc.

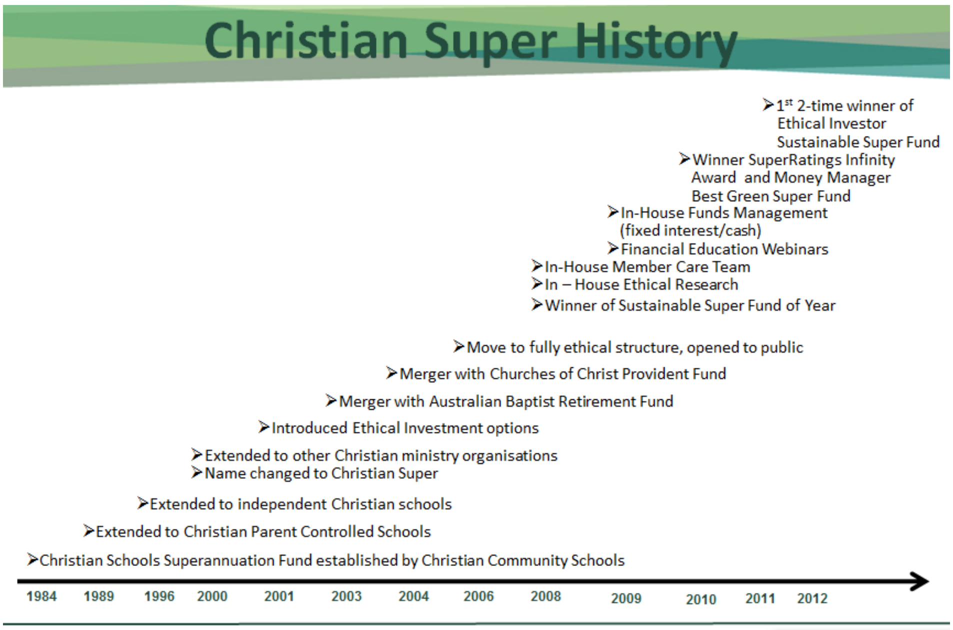



Figure 1. Showing the History of Christian Super

The fund is non-denominational but deeply missional with an evangelical leaning. All staff are Christian and we seek to minister to our members for whom we regularly pray and the broader finance sector for which we often host evangelical events.

Peter Murphy is the Chief Executive Officer, his passion for Christian Super: To see members living with financial freedom through Biblical stewardship principles.

Tim Macready is the Chief Investment Officer, his passion for Christian Super: To see biblical principles applied in investment and to see people with resources and opportunity to continue to serve God in ministry well into retirement.

**Strategy and Vision**

***Purpose***

a. Biblical Investment – Serving as a faithful steward, Christian Super will preserve and grow our members' retirement savings. We will grow our investment capacity to efficiently implement an effective investment strategy, underpinned by Biblical values, as a pioneer of responsible investment.

b. Honouring Members – As the trusted expert in superannuation for the Christian community, Christian Super delivers a uniquely Christian and professional service that promotes purposeful retirement. Our membership and funds under management will increase as we offer superior products and differentiated education.

c. Healthy Management – Nurturing Christian Super's position as a leading Christian organisation operating in the superannuation and responsible investment space, Christian Super's culture will be grounded in professional governance, intentional leadership and empowered staff.

***Values***

Our values as a Christian financial services organisation are based on our desire to be consistently obedient to a Biblical understanding of finance. This means:

- We display integrity through ethical dealings with our clients, our providers and ourselves.
- We are a relational organisation with a 'people over process' focus.
- We will be intentional and prudent in all our activities.
- We are professional in the products, people and processes of the organisation.
- We will be innovative as an organisation and as individuals.

***Business goals and objectives***

Investments: We aim to underpin our investment strategy with Christian principles applied to the investment process. We will actively seek ways to further apply considered Biblical investment beliefs, be active owners of our investments and continue to pioneer and broaden responsible investing.

Members: We will grow our membership base and FUM at a greater rate than the broader industry.

Management: Being well connected and independent within the Christian community, Christian Super will be highly regarded in the superannuation industry as a pioneer of responsible investment.

***Impact Investments:***

- Clean Technology – $12.2m
- Microfinance - $12.6m
- Sustainable Agriculture – $10.3m
- Community Finance - $6m
- Community Infrastructure – $15.8m
- Microinsurance - $4m
- Social Impact Bonds - $1m
- BAM Enterprises - $1m

**BAM Investments**

To date, Christian Super has two BAM investments on its books and is looking for more. One of these is a BAM private equity fund targeting high growth businesses in Asia and the other is a Social Benefit Bond managed by the Uniting Church social welfare division in Australia. The fund looks for investment opportunities greater than $1m in size and is legally bound to seek market rates of return commensurate to risk.

The fund is open to offers of investment and has strong internal capabilities in the area of funding structures and co-investments. Investments with some degree of risk absorbing co-investment (e.g. first loss debt) are looked upon favourably.

Success for the fund is to see our members living with financial health and understanding. This goes beyond strong financial returns but also includes an understanding or spiritually purposeful retirement. Success also includes a portfolio of investments that generate strong kingdom, social and financial returns.

**Summary**

The fund is an old hand at ESG (Environmental, Social and Governance) and impact investments but is a relative newcomer to the BAM funding space. To a degree many of the principles that apply to impact investments also apply to BAM funding, though there are added complexities that the fund is still seeking to understand better.

Other than financial returns, social/kingdom/environmental returns are not formally monitored. Financial data and returns can be found in the Annual Report (See http://www.christiansuper.com.au/free-stuff/pds-publications/annual-report-archives/2014-annual-report)

The fund also seeks to build upon recent collaborative efforts with other Christian asset owners. The fund established the Association of Christian Superannuation Funds (ASFA) and hopes to build a broader domestic and international asset owner network.

**Recommendations**

The fund would benefit strongly from access to Christian investors with a higher risk appetite looking to leverage their capital in a layered deal. The fund has ample capital but a low risk appetite and would complement other agencies with higher risk appetite but lack of capital.

Research: Jai Sharma
Website: http://www.christiansuper.com.au

# Appendix E – Investor Profile: Lightbearers

Lightbearers Ministries International is located in Fayetteville, Arkansas, USA. It was founded in the 1990's but has developed its funding model only since 2007.

Lightbearers is a nonprofit with a dual purpose: to disciple college students living in property owned by Lightbearers and fund mission projects from profits.

**Renewable Funding Model**

Lightbearers owns rental property near college campuses in two States – Arkansas and Oklahoma – and uses the profits to fund mission projects. Missionaries request grants from Lightbearers and rental income from the properties is sent to the mission field.

Mission project are funded approximately US$160,000 annually from profits.

Grants are made for projects only, not salaries or general funds. Grants are available to both locals and expats. Examples of projects funded include a coffee roasting business and camel watering stations.

In the case of the camel watering station business, partner in Northern Africa plans to drill a large well that will provide pure water for 5,000 camels, other animals and 1,000 people. The people in this area depend heavily upon their animals for health and welfare and see water as a direct blessing from God. This project opens the door for Jesus to be presented as the true source of Living Water.

Grants are usually small, e.g. US$5000 – 3000 for a project. Lightbearers has recently started funding some BAM projects, but this is a potential growth area since BAM fits with their sustainability focus.

Grant application is a simple process, but is based upon relationships. People and organizations who have a relationship with Lightbearers submit to an advisory board, that makes representations to the Board who then evaluate applications and select projects.

Website address: http://www.lightbearersconnects.com

# Appendix F – Investor Profile: Sarona Asset Management

## Deploying Private Capital to encourage entrepreneurship

Sarona Asset Management is located in Waterloo, Ontario in Canada. It has been in operation for over 20 years with CD$200M in assets under management.

Sarona's vision is to be a leader in an industry where private capital is deployed to encourage entrepreneurship and growth while having a significant positive impact on social communities and the environment. The goals is to do so in a sustainable and scalable manner. Sarona's objective is to catalyze significant amounts of private capital to facilitate growth opportunities for private equity teams and companies based in frontier and emerging markets.

**History**
From the Sarona website:

> Sarona is a young company, but we have a rich history. We trace our roots back to 1953 when a group of business people formed a private investment company to invest in the Sarona Dairy in South America.
>
> The Sarona Dairy investment was different from other investments. It aimed to generate financial returns, but it was meant to do more than that. The investment was intended to stimulate the development of the struggling local economy. This combination of sound investment principles and social values paid off. The community flourished and the investment itself ultimately spawned an industry that served 70% of Paraguay's dairy market.
>
> Over time the original private investment company became an international development organization called MEDA. In 2010, Sarona Asset Management spun out of MEDA, through a management buy-out, to become a privately-owned, independent investment firm. This decision was driven by the desire to build a more scalable business and, today, Sarona is an institutional-quality investment firm with its management team's interests fully aligned to that of its investors, and with MEDA retaining a 10% stake in the company. The objective however remains the same: to deliver capital to entrepreneurs in under-served markets and help them develop their companies and their communities profitably and sustainably.

**Business Goals**
Sarona believes that grants, donations and philanthropic solutions are appropriate and invaluable in particular cases. There is, however, an increasing need for well thought-out and professional capital markets solutions to large social and economic disparities.

Sarona sees itself as a bridge between private capital markets and the increasingly important small and medium size enterprise sector in developing economies. There is a direct correlation between the growth of the low and middle classes and the profitable business opportunities for local entrepreneurs and service providers. They estimate that 60-85% of the capital raised currently by private equity funds in Sarona's investable universe comes from Development Finance Institutions ("DFI") and International Financial Institutions ("IFI"). Relatively little international private capital has had access to this growing and profitable segment of the market. Sarona's mission is to close this gap by bringing such investment opportunities to private investors using a thoughtful and diversified investment strategy.

Sarona Asset Management is a private equity firm founded under Mennonite Economic Development Associates (MEDA). It now has four funds. Two funds invest directly in frontier and emerging markets, one fund is a managed account for MEDA and the other is a private limited partnership. The other two funds are fund-of-funds which invest in firms in frontier and emerging markets that invest in small to mid market companies. Sarona focuses on triple bottom line impact (profit, people, planet). It should be noted that Sarona gives no consideration to the spiritual objectives of companies it invests in and may in fact see BAM companies as a liability.

**Summary of services**

- Direct Funds – Sarona manages two funds that invest directly in private companies in frontier and emerging markets. One fund is a managed account for MEDA, and the other is a private limited partnership.
- Funds of Funds - Sarona manages private equity funds-of-funds in frontier and emerging markets, with a focus on companies in the small to mid-market sector.
- Advisory Services – Sarona offers guidance to institutions and portfolio investors wishing to maintain final investment discretion.
- Managed Accounts – Sarona can construct tailored and dedicated managed accounts for investors who wish to outsource their products without committing to a commingled vehicle.

Website: www.saronafund.com

# Appendix G – Investor Profile: SWF

## Investing in for-profit Biblically managed businesses

After researching the space of investing in Kingdom businesses for several months, AM and HK started SWF; a 501c3 (nonprofit) fund that invests in for-profit biblically managed businesses in November 2011. As a natural outgrowth of this process and from discovering the amount of quality businesses that fit an investment profile, a US$20M for-profit private equity fund was founded in July 2012. As of July 2013, the Fund had raised $12M, and expects to invest in 10 to 12 deals. As of Nov 2012, the Fund had made two investments, one in a company based on the Indian subcontinent that does Business Process Outsourcing, and a second in a USA-based medical device company with global operations. Both companies have strong missional components.

SWF is an emerging Private Equity manager investing in growth-stage businesses in the rapidly accelerating markets of the developing world. Our approach focuses on companies with Biblical values that can deliver outstanding financial and spiritual returns. The business exists to match up investors who want to invest with the Kingdom in mind, with entrepreneurs who seek like-minded capital.

As believers who have been transformed by a personal encounter with Jesus and who are active in seeing the advancement of the Kingdom of God, we invest in companies that have:

- Theology of work that values and drives to excellence.
- Biblical management style, resulting in the highest level of:
    - care for employees,
    - ethics and integrity.
- Leaders who actively seek opportunities to proclaim the reason for hope that they have in Christ, and do so with gentleness and respect.

**Professional background**

HK is a seasoned business operator with experience in multiple industries including an online telecommunications company, which he and his business partner grew from $0 to $130 million in revenue.

AM is a multilingual international business operator with 18 years of business experience in Latin America and Central Asia; expertise in banking and consumer products.

LR is executive with 12 years of commercial leadership experience in Fortune 500 and venture backed companies; extensive experience in global product management; broad expertise in medical technology and consumer products.

TD is seasoned private company investment professional with more than 20 years of experience running successful funds in groundbreaking industries; currently overseeing more than $2 billion in assets under management.

**Strategy and Vision**

Purpose: Provide outstanding financial returns to our investors by investing in privately held companies in emerging markets that are biblically managed.

Advantages of investing in Biblically managed companies are:

- Highest ethical standards – ensure responsible and transparent business practices
- Improved diligence – committed church membership and leadership assists in triangulating character and track record; 'boots on the ground' assets provide key insights.
- Corporate culture – caring for employees and the community leads to increased bottom-line returns and customer loyalty.
- Shared perspective -- common biblical understanding of morality, ethics, and business improves cross-cultural interaction.
- Pipeline -- companies seek like-minded capital for growth, sometimes exclusively, providing an advantage on entry valuation.

**Opportunities**

Transformation happens in the Marketplace. In the book of Acts, we see that much of the spread of the church happens as regular church members: traders, merchants, soldiers, spread the gospel as they went about their daily lives. We believe that there is a unique opportunity to be part of the expansion of the Kingdom of God through our role as business leaders.

Free Enterprise is the key to sustainable economic development and ministry. We believe that a business with an integrated spiritual impact plan can bring:

- More sustained economic impact—through the creation of jobs and economic activity—than aid.
- More powerful social impact—through a vastly different management style that is biblically based and values the individual as God would—than social activism,
- Spiritual impact—through providing a context for evangelism and discipleship on a Monday-Friday basis rather than just a Sunday Christianity—if done in partnership with the local church.

The emerging middle class around the world presents a historic economic opportunity, especially since this shift in economic activity overlaps much of the least reached areas of the world. As Asian and African economies develop, and former poor people enter the middle class, there is tremendous opportunity for businesses to grow. Most of the emerging middle class belongs to populations that have very little access to the gospel. Thus, there is an opportunity to create successful businesses that can also expose these populations to the gospel.

Christian entrepreneurs who have intent to see Spiritual transformation through their businesses seek like-minded capital. Integrating spiritual impact into the management of the company enhances rather than detracts from the financial returns of the company.

**Business goals and objectives:**

- Raise a $20M fund and invest in 10-12 Kingdom Companies with high growth potential that will yield 20% ROI for our investors.
- Focus on companies in emerging markets with potential for significant growth.
- Target companies with at least $1 million in revenue.
- Invest in industries that will capitalize on the growing middle class (e.g. Consumer Goods and Services, Healthcare, IT, etc
- Invest in proven entrepreneurs who manage according to Biblical values, leading to the highest level of integrity, care for employees, and commitment to excellence
- Create value by capturing growth opportunities, providing management guidance, and actively partnering with companies as they scale.
- Managing Principals and a broad network of advisors leverage their industry and regional expertise to assist in strategic planning, staffing and negotiations.
- Provide access to domestic channels to market.
- Rely on growth, rather than leverage or financial engineering, to drive investment returns.
- Seek attractive valuations and emphasize exit strategies throughout the investment process.
- Identify potential strategic and financial buyers before making an investment; work with management on alternative exit strategies when and where appropriate.
- Implement strategies designed to make portfolio companies attractive acquisition targets.
- Establish plan to ensure ongoing spiritual impact after exit event.

SWF is looking to invest in biblically managed companies that provide great financial and spiritual returns, with $1MM in revenue that need growth revenue to reinforce success, and that can provide attractive risk-adjusted returns for our investment. Success is to invest significant financial resources to businesses that advance the Kingdom of God, and provide our investors with a higher return than they could have gotten by investing with a secular firm. We are targeting to invest $20MM by the end of 2013, and to provide our investors a 20% ROI. We expect to see measurable kingdom impact through the businesses we invest in, and are tracking these company-by-company.

**BAM Experiences**

We are seeking scalable, replicable biblically managed businesses that will sustain high growth, and thus have a continuing and growing impact for the Kingdom as they provide excellent financial returns to investors. Unfortunately, many BAM businesses we have encountered thus far, are not good investment prospects. This may be due to a lack of business experience on the part of most BAM practitioners, a lack of vision for the level of impact the entrepreneur can have as they lead a growing business, corporate structures that are burdened with legacy ownership by nonprofits and/or ministries, and lack or access to talented managers.

The BAM movement has an opportunity to increase the level of impact for the Kingdom by mobilizing a new set of resources. Churches are filled with experienced business managers, entrepreneurs, engineers, lawyers, and accountants who have all the skills required to manage the best run, high growth companies in the world. Further, these church members have an increasing desire to live a life of impact and significance in an integrated manner. Finally, investors are increasingly inclined to invest purposefully behind companies that promise great financial returns while doing good, whether through their environmental practices, social policies, or spiritual impact. As Christians, we have the opportunity to mobilize these general society trends toward the advancement of the gospel, the only impact with eternal consequences. While this is beginning to happen, there is a huge need for those who have been BAM practitioners over the past 5-10 years to increase their level of professionalism to play in a globalized world market by tapping into the resources of the church body.

# Appendix H – Case Study: Ethnic Mining Ltd.

## Mining in West Africa: Learning in Real Time

A mining company launched in the early 2000's in West Africa served as a real time learning experience for its founder and others involved.

After researching the mining industry, Etienne Atger prepared a business plan for a gold mining company. The goal was to create jobs, develop an alternative economy based on fairness and to educate people to adopt better practices in the gold mining industry.

Atger recruited a group of Christian investors who accompanied him on a two-week fact-finding trip to Burkina Faso. Ethnic Mining Ltd. was launched with initial seed money from this group. Three difficult years later, at a time where it was agreed more money was needed for the project and new partners were joining in the endeavor, the original financial partners made the decision to fire the management team and remove Atger. Eight months later, the company folded.

Atger offers the following lessons learned in this process that he hopes inform other start-ups:

**Business as mission is all about relationships**
"Our weakness right at the beginning of the process was the lack of relationship with the investors," he says. Relationship has to be intentional and recurrent. Build into your business plan ways to give the investors on-site time with your project, whether in person or through frequent visual contact with the operation (Skype, video, etc.).

**A healthy, balanced worldview is crucial**
When investing in a business far removed from your country of origin, part of the investment is taking time to understand the operational culture and environment. Be prepared to change perspectives of how a business should operate based more on the culture of the business base than on the culture of the investors' origin environment. The concept of time is drastically different between cultures and, in Ethnic Mining's case, tensions over time frame were a deal-breaker for the investors. "Mining and mission take time," Atger explains. "In many places in Africa, the concept of 'tomorrow' doesn't exist. So expectations from the investors were totally impossible when working with the people group we were targeting."

**There is no room for micromanagement in distance-based investing**
Ethnic Mining's investors had accounting and management expectations that were unrealistic in the cultural environment. "It took an incredible amount of time, energy and money to answer the way investors expected financial indicators. Our partners from the West did not understand management of people. In Africa, laws and ways of doing something (such as firing, recruiting, correcting an employee) were considered weird by the investors who then adopted a perspective that I was just using these things as an excuse to not give them what they expected."

**Investing in business as mission requires an integrated approach**
There should be an understanding that the two areas of business and mission are distinct but cannot be divorced. “Not all BAM investors are trained as missionaries and not all BAM practitioners are trained in business.” Atger observes. For survival’s sake, effort must be made to fully grasp both viewpoints.

**Markers of success must be measured**
“Seeing a change in mentality and seeing people come to the Lord takes a lot of time and perseverance,” Atger admits. “Actually, it is quite easy to have new churches with people going to church every Sunday. But it doesn’t mean that things have really changed in depth.” BAM investors must integrate spiritual and social returns into their expectations of return on investment.

**Undercapitalization is a significant challenge**
Although the start-up phase is the place where investors are most hesitant to release their money, Atger says lack of funding during this time makes or breaks the project. “Investment is not just for the first few months of the business operation for the business to become financially autonomous. It is essential for the time of development the project, during the business plan phase, site trips, etc.” Atger admits that the pressure he lived under during this underfunded time – to support his family, to pay employees, to secure the necessary paperwork – was definitely a contributing factor to the breakdown of the relationship with the investors.

**Timing is everything**
Even if everything in Ethnic Mining’s process had gone smoothly, one particular situation was a deal breaker. Because the investors kept stalling the transfer of funds, EM didn’t receive their operational money until the beginning of the rainy season when it is forbidden to mine in Burkina Faso. Added to this was the increased political unrest and the corruption that went with it. “A new gold rush was starting and the government was not ready for it. This brought a lot of corruption and mismanagement by authorities in the mining sector,” Atger says. A commitment to not make bribes meant EM waited eight months for their mining permits (rather than the maximum 40 days by law). This was in addition to time lost in the actual project work.

**It is crucial to be prepared for spiritual warfare**
According to Atger, “As a team, we faced situations like never before in our life. We had a ‘contract’ against our heads through witch doctors all over the country.” He believes having a good intercessor network and a grounded, disciplined capacity to come to the Lord personally and daily are just as important, if not more important, than funding.

# Appendix I – Case Study: Catal Cashews

## Cashew Processing: Retaining Jobs and Profits

The cashew processing project is located in Guinea-Bissau and is a small start-up having been launched in 2012.

**Overall vision and purpose for the business**
The overall vision of the business is to see the lives of people in Catel and surrounding communities transformed holistically (spiritual, economic, social, environmental). Guinea-Bissau is one of the poorest countries in the world, but it is also one of the leading producers of cashews. Cashews account for 90% of their exports, but 95% of the crop is sent to India for processing and from there it is distributed to North America and Europe. We hope to introduce processing in the country to retain the jobs and profits associated with processing and directly link to buyers in North America. This will retain a significant part of the value chain in country and contribute to the economic development of Catel and surrounding communities. We are working through enterprising leaders in the church who see this as an opportunity to bless their community and share good news of God's kingdom.

**About the business**

The product is processed cashews with a customer base of wholesale food distributors in North America. The business facilities include a basic processing and storage facility.

Goals of the business:

- Spiritual goals: Evangelism and discipleship among cashew growers through relationships developed in the business.
- Economic goals: Generate enough profit in the first year to reinvest in another shelling machine.
- Social goals: Generate a spirit of trust, respect and cooperation among cashew growers.
- Environmental goals: Use sustainable technologies such as solar power to operate machinery.

**Summary of funding model**
In the seed stage, we decided to run an online crowdfunding campaign through Faithfunder.com. We set a goal of $30,000 and offered rewards of cashews from the project and other gifts for contributions at various levels. We succeeded in raising about $30,700 from 220 unique donors. The campaign generated a lot of interest, but it is also a bit risky to run a campaign like this when you are starting something new as there are so many unknown variables, and if something goes wrong you could end up disappointing a lot of people.

Read more at: http://www.emm.org/most-recent-stories/item/345-from-missionary-messenger-magazine-hands-untied

Contact: Andrew Stutzman – andrewstutzman144@gmail.com

# Appendix J – Case Study: PRI

## Holding Company in China: Multiplying Impact

Pacific Resources International is located in Beijing, China plus historically ten other cities in China with rep offices or equity-holding operations. The business has been in operation for over 25 years. The total annual revenue of all our connected companies (where we have minority-status) is in $50 million range.

**Overall vision and purpose for the business**

Mission: To start and grow larger-sized world-class Great Commission companies in China. To train interns and staff with skills and vision to run the GC companies

Values: Integrity, Teamwork, No Negative Politics, Accountability, Morality

Vision:

- 20 profitable, thriving, world-class companies, established in unreached areas of China, all partly owned and managed by PRI
- At least 50% of the staff in each company being actively discipled as believers, and continual outreach occurring at all levels of the companies.
- The community around these companies being positively impacted and blessed by these companies both spiritually and materially.

**About the business**

PRI is involved in mid-high technology manufacturing of component parts in a variety of industries. It also has a consulting division and media/publishing division. The customer base varies among different factories but typically majority of sales are within China to demanding international customers, some export and some sales to locally-owned entities.

The bottom line impacts/results (spiritual, economic, social, environmental) of the business:

- Spiritual goals: evangelism and discipleship that potentially leads to church planting.
- Economic goals: 17% ROI for our investments minimum
- Social goals: Local families encouraged and strengthened through parenting and relationship classes. Assistance provided to local migrant school children: scholarships and day camp experience. Also Red Cross classes were offered at one of the factories, providing input to both workers and surrounding community.

**Summary of funding model**

Funding sources include: owner's personal cash, retained earnings, and some outside investors. For small percentage of workers that work less than 10 hours per week in business, they have some charitable donation support, but none of this comes through the business or to the business.

Website: www.priusa.com

# Appendix K – Case Study: Funding Stages for Growth

## A Wholistic Approach

**Financing Stages**
This business' beginnings defy conventional wisdom and odds. Before the co-founders knew what the business was going to be or had a business plan, an individual stepped forward who wanted to facilitate ministry impact in their geographic area. That person invested $100,000 of seed money.

Aware that typically no serious financier would have considered such an investment, the two counted their blessings and proceeded to develop a concept, business plan and launched a company. "And, if we hadn't wanted to scale our business," co-founder "Joe," says, "that might have been the only investment we needed." They opened in 2009 and saw steady, profitable growth through 2010.

In 2011, realizing they'd like to add import products to their dynamic, they sought and were awarded the first half of another $100,000 investment from a Christian venture capital firm. The remainder was funded to them in the summer of 2012, at which time they made the decision to expand operations to include processing facilities, production areas for another product and a company headquarters.

The next move, according to Joe, was equity financing. "We were a stable company, growing and seeing a profit for three years." With that portfolio, they were able to attract equity investors. They sold 30% of their company to investors for another $300,000. Several of their investors were actually their own employees. At this point, there were only two non-native employees among 46 total employees.

"All three phases of funding were really critical to our continued growth," says Joe. "The seed money, then, once we had a proof of concept, the working capital and then the huge chunk from the investors allowing more growth. At this point, we're getting reading to go into a fourth phase of raising capital and we don't know what that's going to look like yet. We're looking at another $500,000 to $600,000 of a hybrid, a healthy mix of convertible debt instrument and equity.

"We have two stores open right now with one connected to a training center, a factory and one franchise store. We are hoping to open one more franchise and three more stores (including out-of-country) by year's end. We anticipate our fifth phase of capitalization to be a reinvestment of profit. That has been a continuous core value for us. We're trying to get to a tipping point where our profits are enough to have continued, sustainable, rapid growth just from reinvestments of profit."

**Lessons Learned**
It may be easy to think that part of this company's smooth ride rests in delivering a product attractive to their culture. But the truth is, their product is not a "natural fit" for their geographic area. In fact, it is countercultural to centuries of tradition. It is best business practices, a focus on building community relationships and a reputation for unwavering dedication to their core values, that have attracted customers and community leaders to their product, their business and their impact. An American businessman who serves the same product in the United States observed this. "When I became involved in business, I

soon saw that all the things I'd learned in Bible college about reaching people for Christ, about attracting people to Him could be applied in the business world."

This BAM company has at its core an understanding that business and mission cannot be divorced; that doing one at the expense of the other is not an option. They consider that a wholistic approach fosters success and attracts not only investors – but also customers, vendors, community leaders – to Christ.

*The identity of this BAM entity has been protected as the entity operates in a closed country/hostile environment.*

# Appendix L – Hybridized Funding

## Hybridizing of Nonprofit Resources and For-Profit Business in BAM

**Overview**

Missions in the 20th and 21st centuries have been largely supported through nonprofit organizational structures and, particularly in the West, have been granted special tax privileges over other types of organizational structures. These tax privileges may come in the form of no tax on income to the organization as well as tax breaks for individuals and organizations that contribute to the nonprofit. As the world of 'missions' has embraced for-profit business as way to further God's Kingdom and preach the Gospel throughout the world, there have been attempts to leverage the benefits of nonprofit structures in establishing for-profit BAM endeavors.

This case study is to explore models of 'hybridization' of resources from nonprofit organizations, such as mission agencies, to establish and operate for-profit business. Evaluating all of the legal, ethical, and practical issues that arise when hybridizing resources is outside the scope of this case study. Rather this case study serves to explain models that have been pursued by some organizations. Specifically, this case study is profiling models that have been utilized by a mission organization based with its central office in the United States, referred to as 'AMO' throughout this paper.

There are two primary resources of the nonprofit organization that will be explored:

a) Using nonprofit funds to capitalize a BAM enterprise and,

b) Using mission agency personnel to staff a BAM enterprise.

The purpose of this case study is not to explore all potential options but, again, to provide examples of what one missions organization has done.

**Capitalizing a for-profit business with nonprofit funds**

AMO started a dairy business in an Eastern European country. The purpose was to engage in business as mission. Through the business operations, AMO personnel could share the Gospel and make disciples of Jesus. The business would create the added benefits of economic development among poor dairy farmers. It was registered as a limited liability company under the laws of the country where the business operated.

AMO raised funds for the startup capital, approximately US$120,000. Because AMO is a tax-exempt organization under the Internal Revenue Code of the United States, it was able to issue tax-deductible receipts to the American citizens that contributed to this project; however, those contributors had no ownership rights in the business. AMO, for all intents and purposes, was the moral owner of the business because all of the start-up capital flowed through AMO and was expensed in its program budget. However, the owner on record within the country was one of the missionaries on the AMO team, this was done primarily for security purposes.

The dairy business became cash flow positive very early on and decently profitable by year five. However, all of the missionaries left the field and AMO was unable to recruit additional workers. Very competent local employees were managing the business, but they were not believers and the business ceased to be a center of incarnational witness to Jesus.

AMO decided that it was imprudent to continue investing its resources administrating this business since it ceased to align with its model of witness. They decided to sell the business and first offered it to a group of American agricultural consultants from its constituency who contributed significantly to the establishment of the business as well as the local employees who were currently managing the daily operations. The consultants and local managers agreed to buy the business. An AMO staff person conducted a valuation analysis and the value of the business was determined to be approximately US $31,000. The primary considerations driving down the value of the business were the risk inherent to doing business in this country, the dairy industry in general, and the nature of small business, which relies heavily on a few employees and customers.

**Application of this model**

In this example, a nonprofit organization capitalized the startup of a for-profit business with tax-exempt contributed dollars. This is not likely a unique circumstance. Many other mission agencies have likely capitalized business endeavors. What is perhaps unique is that the mission agency actually sold the business within about 5 years from start-up. While the facts of this case study reveal that the BAM efforts of AMO in this project did not succeed in certain significant respects (i.e. making disciples of Jesus), evaluating the missional strategy of the BAM enterprise is outside of the scope of this paper (though certainly worth its own case study). This analysis is intended to look more specifically at the possibilities realized in this example when nonprofit funds are used to capitalize a for-profit business.

AMO has no desire to own BAM initiatives for a number of reasons; however, it does desire to support BAM initiatives and encourage BAM entrepreneurs to start new initiatives. Most BAM enterprises are inherently very risky which may be a factor in reducing the number of people willing to engage in BAM. While these are generalizations, BAM enterprises are often characterized by the following: they operate in unstable economies, have access to limited or poor infrastructure, are subject to corruption and/or organized crime, are small, and are often start-ups. While some BAM enterprises do become profitable, profits are generally low to moderate. This makes BAM rather unattractive from a financial investment perspective, making it difficult for BAM entrepreneurs to solicit startup capital.

As a nonprofit organization, when a project substantially furthers AMO's mission and objectives, AMO is not primarily concerned with whether or not it sees a financial return. Because of this, AMO could be seen as a helpful financing partner by raising start-up capital via tax-exempt contributions and assuming a significant portion of the inherent risk in the startup phase. Financing the startup would put AMO in a position of ownership, which it does not desire, so the role is more as an incubator with the intent to resell the business to private owners, including the BAM entrepreneur, in a period of 3-5 years. This would be the expectation from the start of the BAM initiative.

For that transaction to occur, it must be at arm's length, meaning the new owners must purchase the business at its fair market value from AMO. A valuation analysis can be conducted to assign an appropriate value to the business. That value is not determined by the historical investment but rather the ability of the business to generate profits to the new owner as well as its inherent risks. The case study above reveals that in a five-year period, even though the business was cash flow positive and profitable, the value of the business at the time of sale was about 75% less than the total initial capital investment. This would not be uncommon of star-tup businesses.

One potential benefit of this approach is that a nonprofit organization, which does not consider financial gain, assumes the most significant portion of risk in the BAM initiative startup phase. It is an incubator, serving to encourage more BAM entrepreneurs to start new initiatives. There are many other implications of this approach to be considered; however, they are outside the scope of this paper.

**Funding of personnel involved in the BAM entity: 4 Models**
Besides funding the initial capital investment, there are additional considerations when attempting to hybridize financial support for BAM workers. Personnel involved in a BAM enterprise may receive income from the business and/or the mission agency; however, it is important that employment roles are clearly distinct, particularly when the BAM initiative is privately owned. Here are four possible models that have been adopted by AMO which help define the worker's relationship to the mission agency.

***Model 1: Dual-employment***
When a missionary is working in a privately owned business (whether they or other individuals are the owners) the worker must be considered 'dually employed' if he/she receives compensation and benefits from the mission agency. Their employment with the mission agency must maintain clear distinction from their employment with the business. Job descriptions and responsibilities with the mission agency should be specific to achieving ministry objectives (i.e. language and culture learning, evangelism, discipleship, church leadership development, and perhaps other charitable and educational goals). The mission agency job description should include nothing related to business operations or responsibilities. This separation is very critical in the case of privately owned business because use of tax-exempt resources (which includes staff of nonprofits) may not privately benefit individuals. An exception to this dual employment policy could be if there was a role within the business that was exclusively dedicated to a charitable purpose and clearly did not further the commercial interests of the business, for example, a chaplain role within the business. The following guidelines are recommended to maintain this distinction in employment:

1. *Mission agency job descriptions should describe ministry responsibilities only, and should not describe any specific business responsibilities.* When a missionary is involved with a privately owned business, they must be considered dually employed in order to maintain an arm's length relationship.

2. *The workers must be accountable for how ministry objectives are being furthered; therefore, it is suggested that periodic written reports be prepared by workers and submitted to their supervisors.* These reports should align with the responsibilities outlined in the worker's job descriptions and should avoid description of specific business responsibilities. They serve as important documentation for the mission agency's legal purposes.

3. *The worker should receive a reasonable wage from the business for their work in the business.* Many countries have labor rules, which impose minimum wages for different industries and job positions, sometimes referred to as a 'prevailing wage'. The worker should receive the equivalent of the prevailing wage that applies to their position in the business. An exception to this could be allowed if local laws permit unpaid internships and apprenticeships. This would only apply if the worker does not currently possess the prerequisite skills or experience for the position they are

taking; however, it would be expected that the apprenticeship should be for a limited time (i.e. no more than 3 years).

4. *The worker is requested to inform their mission agency supervisor of wages received from the business.* The amount of income received from their work in the business should reduce the amount of compensation the worker draws from support funds. This addresses moral obligations to donors supporting ministry activities, maintains equity in support levels for workers on the mission team, and aligns with the mission agency's cost-of-living support philosophy. It is noted that the mission agency cannot legally require earnings from their second employment to be reported; therefore, this is a request.

5. *The worker should obtain approval from their mission agency supervisor as to how much time may be given to their work in the business.* A number of factors should be considered in how much time may be given to work in the business, including: degree to which involvement in the business furthers ministry objectives, minimum number of hours required to maintain visa status, and minimum hours required by the position held in the business. Mission agencies that provide support on a cost-of-living philosophy do not base financial support on number of hours worked on specific ministry tasks, level ministry responsibilities, or the merit of the worker. Rather this philosophy is based on providing adequate support to the missionary in order to engage a ministry assignment in a specific location. Ministry is not a narrow set of tasks, but rather ministry through the power of the Holy Spirit occurs in the whole of a person's words, deeds, and being. Therefore, it would be incongruent to assert that time spent in the business is excludable from furthering ministry objectives. Working in a BAM initiative can further ministry objectives; however, there must be evidence to support that ministry objectives are furthered through activities which are distinctive from the commercial interests of the business. This may include, but is not limited to, evangelism, discipleship, equipping leaders, prayer ministry, leading Bible studies and worship times, and other distinctive ministry activities.

***Model 2: Appointed but not employed by the Mission Agency (Marketplace Worker)***
Another possible model to maintain an arm's length relationship is for the worker to be appointed by the mission agency as a "Marketplace Worker". Marketplace Workers do not receive any compensation or benefits which create an employment relationship with the mission agency; therefore, there is no potential conflict of interest in the worker's employment with the BAM initiative. In the case of a married couple, one spouse could still receive support from the mission agency, while the other spouse is appointed as a Marketplace Worker. Guidelines for this model are as follows:

1. *The worker will go through the appointment process and will be appointed as a Marketplace Worker.* If the worker is married, both spouses must be appointed; however, one spouse may be a Marketplace Worker, while the other spouse is appointed as a mission agency employee.

2. *In the case of a married couple, the spouse who is employed by the mission agency must have specific ministry responsibilities for which they are accountable to their supervisor.* It is suggested that periodic written reports be given to the worker's supervisor describing how ministry objectives are being furthered.

3. *In the case of a married couple where one spouse is receiving support from the mission agency, it is requested that the earnings of the Marketplace Worker be reported to their mission agency supervisor.* If field earnings of the Marketplace Worker, plus the support received by the mission agency employed spouse, exceed the allowance for married couples under the mission agency's cost-of-living support, the excess will be deducted from funds that the mission agency employed spouse may withdraw from support funds. This is to address moral obligations to donors supporting ministry activities, maintain equity in support levels for workers on the mission team, and align with the mission agency's cost-of-living support philosophy. It is noted that the mission agency cannot legally require earnings from the Marketplace Worker to be reported; therefore, this is a request.

***Model 3: Ownership interest in BAM company is assigned to a nonprofit***
Many models of BAM have charitable aspects such as economic development in economically disadvantaged areas, job creation for a disadvantaged class of people, providing a product or service that meets a social need such as access to clean water or education, and planting churches. However, furthering charitable purposes is only one part of the equation for using tax-exempt resources. The second part is that the use of tax-exempt resources must not privately benefit individuals, except for reasonable compensation. If a privately owned BAM initiative intends to and actually does significantly further a charitable purpose *and* all of the owners of the business have agreed to assign their ownership rights over to a nonprofit organization or irrevocable charitable trust, then mission agency employees may be seconded to the BAM entity. Guidelines for this model are as follows:

1. *Legal counsel should be sought in drafting documents which assign ownership rights to a nonprofit organization or irrevocable charitable trust.* This is a highly complex solution and very uncommon; however, with proper legal counsel, it is feasible. There are multiple legal facets to be considered in structuring a company like this which require expert counsel in order to execute properly. An important and relevant factor is the enforceability of the agreement.

2. *Business earnings must not be distributed or distributable in any way to individuals.* While reasonable compensation is allowed, profit-sharing plans or anything that directly connects compensation of individuals to the earnings of the business would not be allowed.

3. *A memorandum of understanding must be developed between the mission agency and the business entity which describes the relationship and seconding of workers.* In this model, the worker's job description may include responsibilities related to the business (again, only if the BAM significantly furthers charitable purposes and there is no private inurement).

***Model 4: Nonprofit owns the BAM***
All of the above models assume private ownership in the business. However, if the business is legally owned by a nonprofit organization, mission agency personnel may work in the BAM initiative as a part of their assignment if the business meets the two-part test of (a) charitable purpose and (b) no private inurement. A memorandum of understanding should always be developed to articulate the relationship.

# Appendix M – Partners Worldwide Microcredit Models

The following are as described by Derek Hoogland of Partners Worldwide, Canada, in communication with our group:

**The traditional matching model** – an entrepreneur deposits savings regularly for six months (during which time he or she is receiving business training and writes a business plan). That savings is returned to the entrepreneur and matched once by its global business affiliate (GBA) and once by PW's 'Global Fund' then disbursed as a loan to be repaid to the local affiliate, which in turn grows its loan reserve.

**PW's Global Fund** provides loan capital to established partner financial institutions at a low interest rate (established on a case-by-case basis) allowing the local entities to re-lend that money at a higher (but still reasonable) rate. Often times PW will team with an established third-party financial depository so that it can offer the loans for the clients of community partners that don't have their own loan allocations.

**Village Savings and Loans** are indigenous groups that self-organize and self-fund. They gather regularly and buy 'shares'. From those investments, lower than market rate loans are disbursed and repaid. After loans are repaid the dividends are paid out to the shareholders.

**Partners Worldwide Entrepreneurs (PWE)** is a private for-profit L3C, which invests in individual enterprise opportunities growing out of existing relationships with local affiliates. These businesses must be intentionally connecting large business to the 'base of the pyramid' with a focus on providing markets for small businesses and job creation.

# Appendix N – Matchmaking BAM Companies and Funding Providers

The diagrams below (Figures 1 and 2) offer one possible framework to assist the BAM funder select suitable options for their capital, whether provided in the form of grant, debt or equity. Figure 1 provides a basic set of criteria to enable the investor to assess the holistic 'attractiveness' of the BAM initiative from their particular perspective and set of priorities, which will likely be quite distinct from that of another investor. Figure 2 (a variation of the GE-McKinsey 9-box matrix) gathers up an overall holistic attractiveness and matches it against the potential for profitability, for example, or growth (or some other chosen metric). The arcs drawn through the '9-box' quadrants suggest regions into which BAM companies under consideration might be grouped, from which the investor will then make considered choices appropriate for their risk and preference profile.

Figure 1: Selecting companies for investment

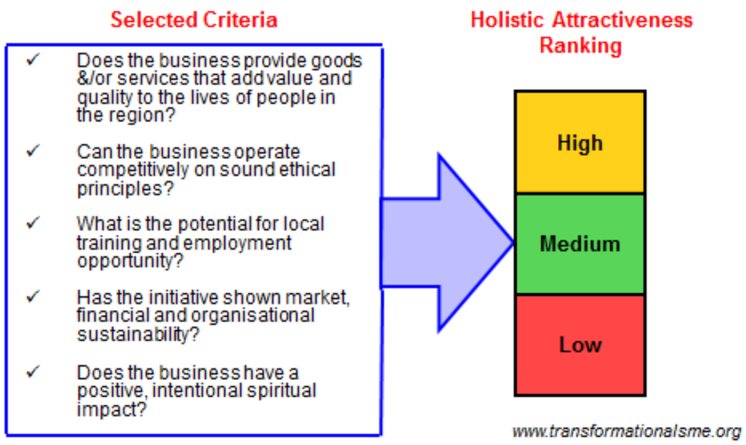
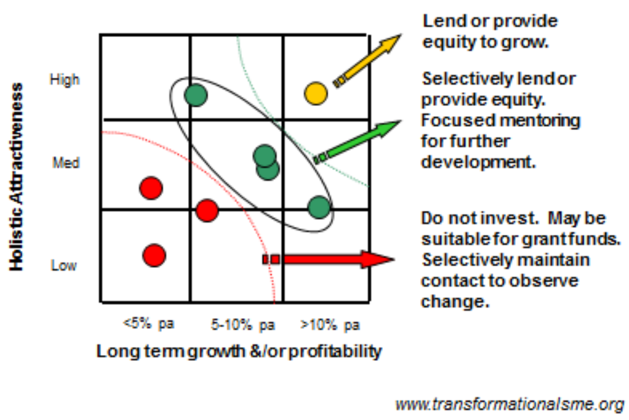
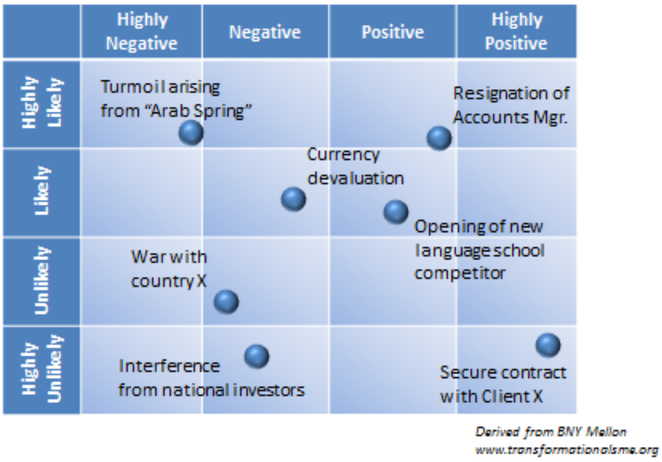



Figure 2: Selecting companies for investment




The BAM funder will also attempt to address risk. Few if any BAM funders would attempt to apply the same risk measurement methodologies or risk/reward strategies typical practiced in the commercial world. The matrix below (Figure 3) offers one possible "visual" approach to analyzing risk type, its likelihood of occurrence, and its impact on a BAM company should it transpire. Of course, there is a virtually endless list of possible risk eventualities; Figure 3 suggests only some to illustrate the concept.

Figure 3: Risk Analysis Framework
Scenario Likelihood and Impact on BAM company




It is critical for the BAM practitioner to appreciate how funders think. Understanding the matrix models above for example, can help them shape their business plan in a manner that achieves better alignment with funders expectations.

The matrix below (Figure 4) offers a guideline for the BAM practitioner in their selection of suitable funding options. The additional element introduced in this particular matrix is the time/stage factor representing companies in the start-up, growth, and mature phases. In particular, the timing suggested for each phase may be shorter or longer than in actual fact; BAM practitioners and funders alike may well be overly optimistic in regards to how long each phase may take. The system of colour (red, yellow and green) and symbol coding is intended as a guide to the relative availability and/or advisability of applying a particular type of funding to a business at any particular stage.

Figure 4: Capital sources for BAM companies

| | Start-up (-2 to + 3 yrs) | Growth (+3 – 7 yrs) | Mature (>7 years) |
|---|---|---|---|
| Personal Funds as Equity and/or Debt (terms most lenient, but capacity limited) | ✓✓ | ! | X |
| Friends, Family and "Fools" as Equity and/or Debt (terms generally lenient, capacity limited) | ✓✓ | ✓ | X |
| "Angel" investors (using own cash as Equity and/or Debt, firm terms, in addition often provide counsel) | ✓✓ | ✓ | X |
| Venture Capital (Equity), ownership, exit strategy, management influence, returns & growth are key issues, specialised sectors (institutional vs. BAM VC) | ✓ | ! | X |
| Mezzanine finance (debt with equity characteristics, cash flow, longer time horizon, repeated cycles) | X | ✓✓ | ✓ |
| Institutional investors/lenders (more aggressive terms, require security/collateral, rates/returns variable) | X | ! | ✓✓ |
| Donor/grant funding (transparency, some conditions; grantors may require return) | ! | ! | ! |
| Retained earnings (most flexible, combined with strategic dividend policy) | X | ! | ✓✓ |