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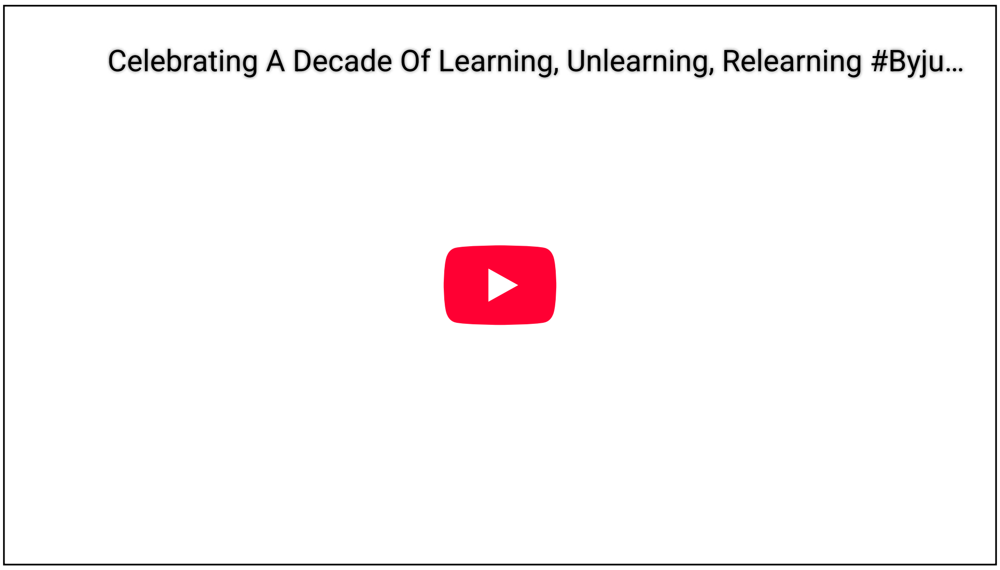
The big picture

Business in the educational technology (EdTech) sector is booming. Even before the COVID-19 pandemic, there was a growing number of new businesses offering a wide range of technology-based educational services. Some of these businesses provide services to schools. You may even use some of their products, for example virtual learning platforms, student information management systems or language apps. Other examples of these businesses provide tutoring services directly to students and their families, or a hybrid of services.

A well-known example of an educational technology company is BYJU's in India, a for-profit private limited company set up in 2011. BYJU's app provides online lessons to more than 150 million student users; and the business has more than 12 000 teachers. The video highlights some of BYJU's achievements on its 10th anniversary in 2021.



Video 1. BYJU's celebrates a decade of learning.

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Investors are always looking to fund new businesses in rapidly growing sectors of the economy. As a result, the funding sources for new EdTech businesses are many and varied; many businesses like BYJU's are able to access multiple sources of finance in order to start up and grow. In 2022, BYJU's plan to go public was reported. Selling shares on the stock market would allow an early investor in the business to sell its portion of the company and potentially earn a large payout.

All new businesses need to be funded in some way. But all funding sources come with consequences that can include risk, issues around ownership and control, and potential conflicts with the purpose and values of the business. New businesses need to consider their sources of funding – and possible consequences – carefully. They need to ensure that the funding aligns with their objectives, as choosing the wrong funding source could lead to conflicts in the business and even insolvency. The appropriateness of different sources of financing will be explored in Section 3.2.3 (/study/app/business-hl/sid-351-cid-762729/book/ext-sources-of-finance-debt-id-39292/).

Concept

Sustainability (economic)

Businesses/entrepreneurs are risk-takers and strive to make a profit that sustains the activity of the business. Sustaining business activity is important when businesses are providing for human needs, supporting the wellbeing of diverse stakeholders in the community or providing tax revenue to support public services and infrastructure.

Lack of finance is the main reason that businesses fail. Identifying and securing enough finance and the right kind of finance is one of the most important parts of business operations. Finance is the fuel that keeps the business running.

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Figure 1. All businesses need 'financial fuel' to get started and sustain operations.

Credit: Getty Images

Theory of Knowledge

The hype and hope around new startups can sometimes seem quite irrational. There have been startups that raise millions in funding with no history of profitability. It is sometimes clear that the scale that comes with funding will enable the business to earn a profit. But this is not always the case. It seems that there is often a level of emotion involved in investor decisions, particularly when charismatic founders are involved.

- What roles do reason and emotion play when evaluating financial performance?

Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Distinguish** between sources of internal and external finance (AO2)
- **Evaluate** and **recommend** appropriate sources of short- and long-term finance in a given situation (AO3)

3. Finance and accounts / 3.2 Sources of finance

Internal sources of finance

Internal sources of finance Internal sources of finance

An internal source of finance is money that is raised from the business's or owner's existing assets. Internal sources of finance involve using money the business or owner has previously earned. These sources do not have to be repaid, so there is less risk or cost associated with using them when compared to external sources.

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There are three main internal sources of finance (**Figure 1**):

- personal funds
- retained profits
- sale of assets

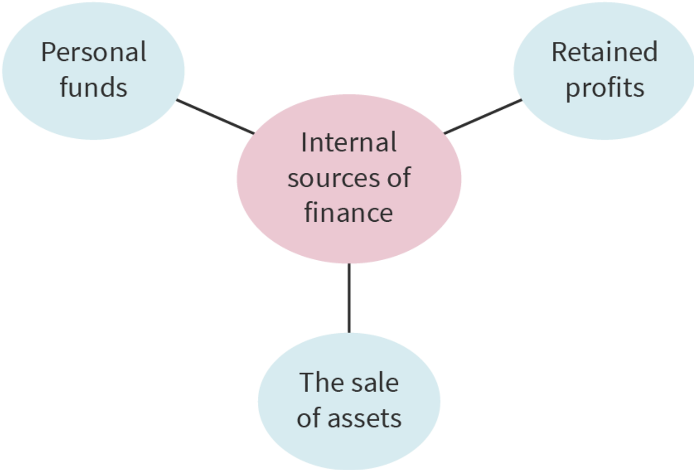

Figure 1. Internal sources of finance.

More information for figure 1

The diagram shows four circular nodes connected by lines. In the center is a pink circle labeled "Internal sources of finance." Connected to this central circle are three blue circles:

1. The top left circle labeled "Personal funds."
2. The top right circle labeled "Retained profits."
3. The bottom circle labeled "The sale of assets."

The lines show the relationship of these individual sources with the central concept of internal sources of finance.

[Generated by AI]

Personal funds

Personal funds refer to money invested by the owner or owners of a business. When businesses are first set up, the owners may need to invest their own money to start the business. This investment comes with a risk for the owner: if the business goes bankrupt, the money will be lost. As discussed in Subtopic 1.2 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36507/), owners will receive shares in return for their investment. Share ownership

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comes with two significant benefits: a right to any future dividends that are paid and the power to make business decisions. In a partnership, it is likely that the partner who invests the greatest amount of personal funds will receive the most profits and greatest control over the business.

For sole traders and companies with little experience, personal funds may be the only source of finance available to them. However, even the owners of larger established companies may be forced to invest their own funds in times of crisis. During recessions and periods of falling sales, many owners are forced to risk their personal funds, just to keep their businesses going.

Retained profit

Retained profit, sometimes called accumulated profit, is money a company has left at the end of the trading year after paying all costs, expenses, dividends and taxes. It is the primary source of finance for all businesses. Retained profits are a business's savings. They are built up over time. If a business wants to invest in new capital expenditure, such as a new building, it may choose to save its retained profits each year until there is enough to pay for construction.

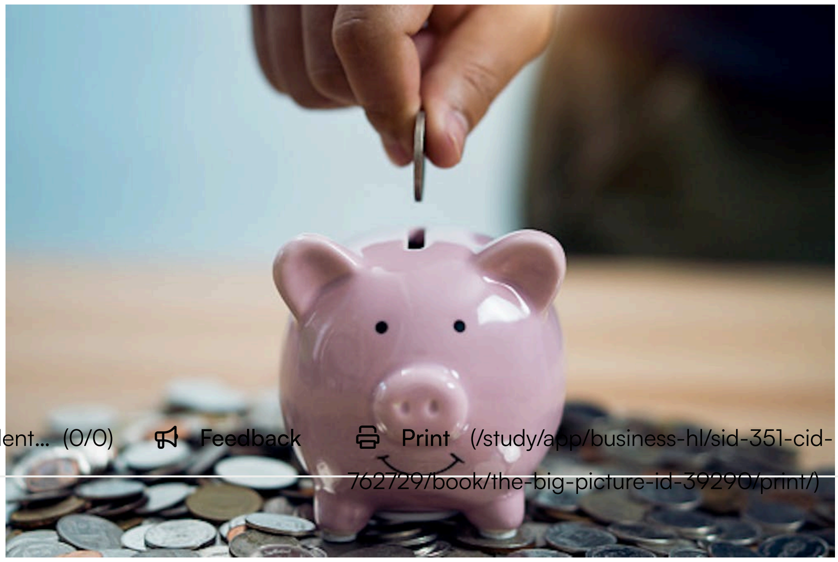

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Figure 2. Retained profits are savings made by a business, which can be used for financing investments.

Credit: Thana Prasongsin, Getty Images

The disadvantage of this is that it may take many years before the funds are in place. Another disadvantage associated with using retained profits is the loss of dividends. Entrepreneurs may be reluctant to use retained profits as a source of finance because they may want the cash to be paid to themselves in the form of dividends. However, the advantage of using retained profits is

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that they do not have to be repaid. Therefore, if the new investment project is not a success, the business will not be responsible for a debt that might otherwise have been incurred and for which there would be no new income to pay.

Some businesses have very large retained profits that can be used for investments. An example of such a company is Apple, which records tens of billions of US dollars in retained profits every year. However Apple has not always used that money to invest in the business. In recent years, a proportion of the money has been used to purchase shares from shareholders. This helps increase the stock price of the company, thus increasing the wealth of the remaining shareholders.

There is some controversy around the large reserves of cash held by Apple and other technology companies. Some people see these cash reserves as an indication that the companies are not distributing value among stakeholders. Others would like to see the money used to develop the business further. Others also note that many large multinationals have large cash reserves yet avoid paying taxes in the countries in which they operate; they see ethical issues associated with the cash reserves held by some companies.

Sale of assets

An asset is something a business owns. Fixed assets are items of property that have value and are owned by a person or business, which the business plans on holding or using for longer than one year. Fixed assets usually generate income for the company. They can be tangible, such as land, building or machinery. Or they can be intangible, such as patents or brand names. When a business needs money, it may choose to sell one of its fixed assets. This can raise large amounts of money that can be reinvested into new projects.

There is, however, a cost associated with selling assets. This is called an opportunity cost. An opportunity cost is the potential cost of missing an opportunity by choosing one option over another. The opportunity cost of selling assets is that any future production or revenue from that asset will be lost. Selling assets may be appropriate if a business changes its objectives and needs money to invest in a new strategy.

A situation in which selling assets is often appropriate is when a business wants to update its technology. An example of this might be if a company wanted to replace its fleet of delivery vehicles. One option would be to sell the old vehicles in order to raise some of the money needed to pay for the new ones. However, it is unlikely that the money raised would be sufficient to cover all costs of the new vehicles. So additional sources of finance would be needed.

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Another option would be to sell and lease back the equipment. This would provide a cash injection, making payments easier to manage and making it much easier to replace old equipment.

Figure 3. Businesses need to be careful with the sale of assets such as fleets of vehicles, as these may still be needed for production and distribution.

Credit: GoodLifeStudio, Getty Images

Short-term, medium-term and long-term finance

Depending on their use, sources of finance can be classified by time (see **Figure 4**).

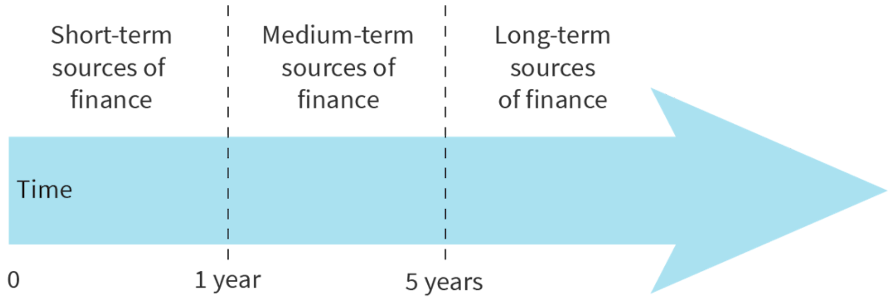

Figure 4. Short-term, medium-term and long-term sources of finance.

More information for figure 4

The diagram presents a horizontal timeline in the form of a large arrow pointing right, labeled with the word "Time." The timeline is divided into three sections, each representing different terms of financial sources. The first section is labeled "Short-term sources of finance," covering up to 1 year. The second section is labeled "Medium-term sources of finance," spanning from 1 year to 5 years. The final section is labeled "Long-term sources of finance," indicating durations beyond 5 years. Vertical dashed lines separate the different sections, marking key time points at 1 year and 5 years.

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view

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Short-term sources of finance

Short-term sources of finance are those that are repaid within 12 months (less than one year). These are normally used to solve cash flow problems or to pay for revenue expenditure. For example, additional cash may be needed while waiting for a customer to pay an outstanding invoice. Some external sources of short-term finance tend to be expensive, so should not be used to finance capital expenditure. Short-term finance includes trade credit and overdraft facilities on bank accounts.

Medium-term sources of finance

Medium-term sources of finance are those that last longer than one year, but less than five years. The most commonly used medium-term source of finance is a bank loan. This would normally be used to finance capital expenditure or to purchase a fixed asset. Leasing and subsidies can also be classified as medium-term sources of finance if they are used for an extended period of time.

Long-term sources of finance

Long-term sources of finance are financial products that will be used for longer than five years. All forms of equity finance are included in this category. Equity finance is essentially never-ending. Once a new shareholder has made their investment and acquired ownership, they are entitled to a share of the dividends every time they are paid. Mortgages are also long-term sources of finance. These loans, used to buy property, are typically repaid over a period of 25 years.

Table 1 summarises the characteristics of the three main internal sources of finance.

Table 1. Characteristics of internal sources of finance.

Source	Length	Costs	Loss of control?	Suitable for

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Source	Length	Costs	Loss of control?	Suitable for
Personal funds	Long, medium and short term.	Opportunity cost — other actions that could have been funded with the money.	None	Small businesses without large funding needs.
Retained profits	Long, medium and short term.	Opportunity cost. Loss of dividends to shareholders.	None	All businesses. This is the primary source of finance for almost all businesses.
Sale of assets	Depends on the size of the asset.	Opportunity cost — loss of ability to use the assets for production.	None	Potentially all businesses, when fixed assets need to be updated. Changing corporate objectives.

3 section questions

Question 1

Two friends decide to set up an advertising agency together. To get started, they both sell their cars so they have money to invest in the business. Of which type of internal source of finance is this an example?

1 Personal funds ✓

2 Sale of assets

3 Retained profits

4 Subsidy

Student view

Explanation

As the money is coming into the business from the owners, this is an example of personal funds being invested. The cars are owned by the friends, not the company, so this cannot be considered a sale of company assets. The business also has no retained profits yet, and it has not received a subsidy.

Question 2

An international school plans to build a new student common room — a room where students have space to relax and work collaboratively. To pay for its construction, course fees have been raised and this additional income has been saved over many years. Of which type of internal source of finance is this an example?

1 Retained profits ✓

2 Sale of assets

3 Government grant

4 Personal funds

Explanation

The extra money from the higher course fees would have led to higher retained profits for the school. Each year these retained profits would have increased until there were enough funds to pay for the new building. No grant was used, assets were not sold, nor were any personal funds contributed to the project.

Question 3

A bank wants to update its computer systems. The current computers will be replaced, then sold to another, smaller bank. Of which type of internal source of finance is this an example?

1 Sale of assets ✓

2 Personal funds

3 Bank loan

4 Retained profits

Explanation

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Computer systems are an example of a fixed asset. When the computers are sold, they will generate income for the bank. Therefore, this can be considered an example of a sale of an asset. This is not an example of using a bank loan, personal funds or retained profits.

3. Finance and accounts / 3.2 Sources of finance

External sources of finance: Equity finance

External sources of finance External sources of finance

External sources of finance come from outside the business. They involve an external stakeholder taking a risk and investing in the business. External sources of finance can be grouped into three areas (see **Figure 1**):

- equity finance
- debt finance
- other sources of finance

The choice of external finance will depend on a large number of factors, such as the planned use of the money, the type and purpose of the business, the financial position of the business and the amount required.

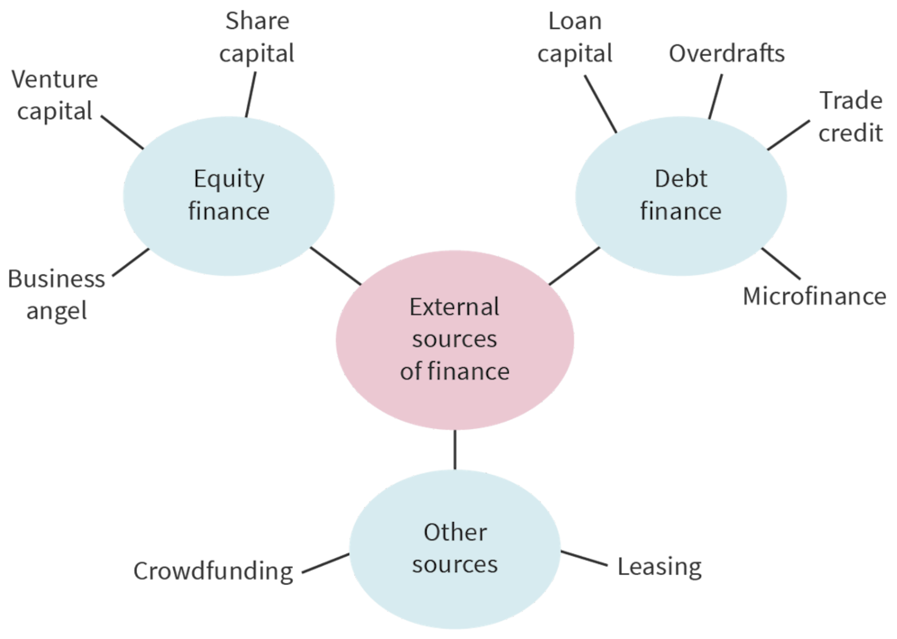

Figure 1. External sources of finance.

More information for figure 1

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The diagram illustrates the concept of external sources of finance, divided into three primary categories: Equity finance, Debt finance, and Other sources. At the center is a pink circle labeled 'External sources of finance,' connecting to three blue circles.

1. **Equity finance**: Linked directly to the terms 'Venture capital,' 'Business angel,' and 'Share capital.' This category emphasizes investment sources involving equity.

2. **Debt finance**: Linked directly to the terms 'Loan capital,' 'Overdrafts,' 'Trade credit,' and 'Microfinance.' This shows borrowing-based funding sources.

3. **Other sources**: Connected to the terms 'Crowdfunding' and 'Leasing.' This section highlights alternative finance means not covered under equity or debt.

[Generated by AI]

Equity finance

Equity finance is a type of funding where the provider receives part ownership of the business in exchange for the finance. Equity finance does not have to be repaid, and no interest is charged. Another advantage is that the risks associated with starting and growing the business are shared among multiple (or many) owners. However, the opportunity cost to the business of accepting equity finance is a loss of control and a loss of a portion of future dividends.

There are three broad categories of equity finance:

- business angel
- venture capital
- share capital

Business angel

A business angel is a successful, wealthy business person who invests their money into new businesses. Business angels provide funding to businesses who are not yet listed on a stock exchange. They often offer very early financing to a new business.

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You may have seen business angels in a version of the reality TV show Dragons' Den, the idea for which originated in Japan in 2001. The show has spread to dozens of countries, but sometimes with a different name. In the show, entrepreneurs pitch their business ideas to a panel of business angels. If a business angel likes the business concept, they will invest in the business and offer their skills to help the business grow. In return for their investment and guidance, business angels require part ownership of the business and a portion of future profits. Obviously, most entrepreneurs do not pitch their ideas on reality TV. However, entrepreneurs seeking funding from a business angel will need to persuade the investor to invest, by presenting a solid business plan and showing a convincing personality.

Business angels often, but not always, seek high growth and large returns on the investment. However, it is also the case that a business angel serves as a mentor to entrepreneurs, sharing expertise and business contacts to help the new business succeed. These high expectations and close contact can be beneficial to the new business. However, there can be conflicts if the business angel wants the business to be set up or grow differently from the entrepreneur. It is therefore very important that both parties share the same values and objectives.

Theory of Knowledge

Entrepreneurs usually have to pitch their ideas to possible investors, as shown in **Figure 2**. To do this effectively, entrepreneurs have to provide factual details about the business to show that the business has a chance of success. But just as important is the emotional appeal — telling a good story about the business and coming across as likeable, energetic and reliable. In fact, many investors say that they invest more often in people than in business ideas.

Figure 2. Entrepreneurs often have to pitch their business ideas to potential investors.
Credit: JohnnyGreig, Getty Images

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In this blog post (https://www.ycombinator.com/blog/the-airbnbs), Paul Graham, one of the founders of venture capital company YCombinator talks about what YCombinator saw in the founders of Airbnb.

- Which is more effective when applying for an external source of finance — objective facts or appeals to emotion?

Venture capital

Venture capital refers to financing that pools resources from a group of investors to fund new businesses. The fundamental difference between venture capitalists and business angels is whose money is invested. Business angels are private individuals who risk their own money. Venture capitalists are companies that use the money from their clients to fund investments. The aim with venture capital is to help the new business grow so that the investors can later sell their stake at a higher price.

There are many news sources that specialise in business startups; some focused on specific countries or regions. If you are interested in learning more about large-scale startup funding, here are a few:

- TechCrunch Startups (https://techcrunch.com/startups/?guccounter=1) (https://techcrunch.com/startups/?guccounter=1)(Global)
- Disrupt Africa (https://disrupt-africa.com/) and Startup Africa News (https://startupafrica.news/)
- Contxto (https://contxto.com/en/) (Latin America)
- Sifted (https://sifted.eu/) (Europe)
- The Economic Times (https://economictimes.indiatimes.com/tech/startups) (India)
- Nordic Startup News (https://nordicstartupnews.com/) (Nordics)

Case study

Venture capital comes in many different forms. Some venture capital companies specialise in technology businesses. These tend to be businesses that are looking for fast growth and an initial public offering, where they can sell their shares to the public and earn large sums of money from their early investment. These venture capital companies are profit oriented.

An example of such a venture capital company is YCombinator (https://www.ycombinator.com). YCombinator specialises in providing equity finance at the seed stage, which is very early financing for new business ideas. YCombinator has developed a new financing model, where it invests 500 000 USD each in a large number of early-stage businesses, twice per year. For three months, YCombinator

Student view

works with these businesses to refine ideas and prepare to seek funding from additional investors. One of YCombinator's most successful investments was in the company Airbnb.

YCombinator provides a free online Startup School (https://www.startupschool.org/) for entrepreneurs, in order to both support entrepreneurs as they start and to identify promising new businesses for their seed financing.

Other venture capital companies may focus on social enterprises. These venture capitalists are interested in making money from their investments, but are equally committed to meeting human needs and solving problems. These companies may be more patient. They are willing to forego fast growth and large returns to ensure the long-term sustainability of the business. They also want to ensure that the value created by the business is distributed widely among stakeholders. The kind of finance that these venture capitalists provide for social enterprises is called patient capital and is impact oriented.

An example of a venture capital business that focuses on social enterprises is the Acumen Fund (https://acumen.org/). The Acumen Fund invests money in young social enterprises around the world. It has investments in a diverse selection of sectors such as agriculture, education, energy, workforce development and financial inclusion. The Acumen Fund also provides education for social entrepreneurs through its Acumen Academy (https://acumenacademy.org/). Many of the courses provided by the Acumen Academy are free and cover a range of interesting and practical topics such as non-profit fundraising, storytelling for social change, designing for environmental sustainability and impact, along with many others.

Questions

1. Define equity finance. [2 marks]
2. Distinguish between the equity investment objectives of YCombinator and the Acumen Fund. [4 marks]

Question 1

Equity finance is a type of funding where the provider receives part ownership of the business in exchange for the finance. The funding provider will be able to share the profits with other owners.

Define is an AO1 level command term, requiring a precise meaning of a word.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.
- Definitions do not require application to the stimulus material.

Question 2

The equity investment objective of YCombinator is profit oriented. Profit-oriented venture capital companies fund new businesses that look like they may grow very quickly. They can earn profits from those businesses that reach

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profitability. They may also sell their shares at a profit when the business has an initial public offering. YCombinator invests in a large number of early-stage businesses and supports those businesses intensively for three months to help them prepare for finding more investors and reach growth targets.

On the other hand, the equity investment objective of the Acumen Fund is impact oriented. Impact-oriented venture capital companies seek to meet human needs and solve problems. They provide patient capital and are willing to wait longer and receive lower returns than profit-oriented venture capital companies. Impact-oriented venture capital companies are also willing to share the value created by the business more widely among stakeholders. The Acumen Fund provides finance to new businesses in education, energy, agriculture and other sectors. Like YCombinator, the Acumen Fund also provides training, but oriented on social entrepreneurship.

Distinguish between is an AO2 level command term, requiring that you make clear the differences between two or more concepts or items.

- Two marks each are given for an appropriate explanation of revenue expenditure and capital expenditure with reference to the case study. To access full marks, however, the difference between the two terms needs to be clear, perhaps through a sentence that makes the difference explicit.
- To achieve full marks, you must always include theory and application to the case study in your responses.

Exam tip

You should not face an exam question involving venture capital because this source of finance is not listed in the syllabus. However, this is a very important finance source for businesses, and you may see references to it in your research for the internal assessment or extended essay.

Share capital

Share capital is money that is raised through the issue of shares to new investors on a stock market. As you learned in Section 1.2.2 (/study/app/business-hl/sid-351-cid-762729/book/forprofit-commercial-enterprises-id-36509/), privately held companies that wish to access large amounts of financial capital this way will ‘go public’ in an initial public offering (IPO), whereby the business sells all or part of the business to external shareholders for the first

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time. The initial public offering results in the company becoming a publicly held company (public limited company). As owners of the business, shareholders usually receive a portion of the profits earned, called a dividend.

Vast amounts of money can be raised using share issues. The largest ever IPO was from the Saudi Arabian oil company Saudi Aramco, which raised more than 25 billion USD in 2019. Of course, most IPOs do not generate this level of funds, but going public can generate large sums of money for the business to develop. Early investors, both business angels and venture capital companies, can also sell their shares at this point, often earning vast returns on their financial investment.

International Mindedness

Stock exchanges, where publicly listed company stocks are sold, are international in nature. While based in a particular country, stock exchanges typically have listings from companies based all over the world. To take the earlier example of BJYU's, the EdTech company is reportedly considering listing shares in the United States or in India.

Activity

Learner profile: Knowledgeable

Approaches to learning: Thinking skills (transfer)

Complete a table in which you outline the key characteristics of sources of equity finance. You could set up your table as shown here, and you could refer to **Table 1** in Section 3.2.1 (/study/app/business-hl/sid-351-cid-762729/book/internal-sources-of-finance-id-39255/) (which outlines internal sources of finance) as an example.

Source	Length	Costs	Loss of control?	Suitable for
Business angel				
Venture capital				
Share capital				

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Source	Length	Costs	Loss of control?	Suitable for
Business angels	Long term.	Reduced ownership and control.	Yes	Small companies with rapid growth potential.
Venture capital	Long term.	Reduced ownership and control.	Yes	Small companies with rapid growth potential or companies needing patient capital.
Share capital	Long term.	Reduced ownership and control.	Yes	Companies and corporations.

3 section questions

Question 1

What term is used to describe the type of finance whereby shares are sold on a stock exchange to raise money for a business?

Share capital ✓

Accepted answers

Share capital

Explanation

Share capital is a type of equity finance, where shares — or part ownership — of a company are sold on a stock exchange to raise money for a company.

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Question 2

A 1 Business angel ✓ is a successful, wealthy business person who invests their money into exciting new businesses, with a high growth potential.

Accepted answers and explanation

#1 Business angel

Question 3

A small technology company, located in Silicon Valley in California, has invented a new way of using smartphones to interact with home appliances. If the idea works, it could be worth billions to its owners. However, the company does not have the very large finances needed to fully develop its ideas. Suggest a source of finance it could use.

1 Equity finance ✓

2 Personal funds

3 Sale of assets

4 Retained profits

Explanation

Equity finance, for example from business angels or venture capital companies, is usually appropriate for high-growth companies that have the potential to earn large future profits.

Internal sources of finance such as personal funds will likely be too small to fund this business. There are unlikely to be assets or retained profits to use yet.

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3. Finance and accounts / 3.2 Sources of finance

External sources of finance: Debt and other finance

External sources of finance External sources of finance

Some entrepreneurs do not want to give up partial ownership of their business in exchange for financing. For those who want to keep full control and ownership of their business, there are other sources of finance they could use.

Debt finance

Debt finance is money that is borrowed from a bank or other financial institution. The borrowed money is made available quickly to fund investments. In exchange for the finance, the business usually pays an interest rate to the lender.

There are several forms of debt finance:

- loan capital
- overdrafts
- microfinance
- trade credit

Loan capital

A loan is a medium or long-term source of finance, often used to buy fixed assets. A mortgage is a special type of long-term loan that is used to purchase land or buildings. Other bank loans are usually considered medium-term loans and may be used to purchase capital equipment.

To receive a loan, businesses usually provide collateral. Collateral is an asset that is offered to a lender in the event that the business does not pay back the loan. Many small- and medium-sized businesses, especially in low-income countries, do not have collateral. Therefore, they may find it difficult to acquire a loan.

Student view

The key advantage of a loan is that money is available immediately for investments, but is repaid in small chunks, over a period of years. Businesses can use loans to buy profit-generating assets, such as trucks or machines, immediately and pay for them with the revenue

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they generate.

Overdrafts

An overdraft is a high-cost, short-term loan, attached to a bank account. An overdraft allows the account holder to withdraw an amount of money that is greater than they currently hold. An overdraft must be arranged in advance with the bank. Imagine, for example, that you have just $20 in your bank account and you want to purchase something that costs $100. An overdraft will allow you to do this. After you have paid for your $100 purchase, your account will now have –$80 in it. You are $80 into your overdraft. In effect, the bank has lent you a small amount of money, so that you can make a purchase. As money is paid into the account, the overdraft will be paid back first, before any positive balance is recorded in the account.

The overdraft allowance will be limited, and the bank will charge a very high interest rate. Overdrafts are one of the most expensive forms of borrowing. Overdrafts are useful because they enable businesses to meet day-to-day expenses while they are waiting for revenue from selling goods and services.

Microfinance

Microfinance involves providing financial services to individuals who have very limited income and assets and are not able to get services from traditional banks. Financial services can include transaction and savings accounts as well as insurance products.

Microcredit is a subset of microfinance. It refers to small loans that enable someone to start up or continue to finance a small-scale business, such as a bicycle repair service, a woodworking, sewing or knitting workshop, a kiosk, and so on. Often these loans target women, with the aim of empowering them and improving their financial independence.

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Figure 1. Microcredit is often given to women, in order to finance their businesses, improving their financial independence and empowerment.

Credit: hadynyah, Getty Images

Microcredit does not usually require collateral. To make the loan more secure, microcredit is often given to small groups of borrowers in a community, so that the borrowers can support one another if one of them faces difficulties repaying the loan. Loan amounts are small and range from less than 100 dollars to several thousands of dollars when given in higher-income countries. The loan period tends to be relatively short. The interest rates are typically high, but are lower than those charged by unethical lenders (known as 'loan sharks') who take advantage of poor borrowers by charging excessively high interest rates.

Microcredit has expanded rapidly in the past few decades. There are now hundreds of millions of people who use microcredit to fund their business activities. The 2006 Nobel Peace Prize was awarded to Mohammed Yunus and the Grameen Bank (http://www.grameenbank.org/) for their role in the reduction of world poverty through microcredit.

Making connections

Microfinance and microcredit are also covered in the IBDP Economics course as an economic development strategy.

Trade credit

Figure 2. Trade credit.

Section Student... (0/0) Feedback Print (/study/app/business-hl/sid-351-cid-762729/book/ext-sources-of-finance-equity-id-39291/print/) Assign
More information for figure 2

This diagram illustrates the trade credit process between a supplier and a retailer. On the left, there is an image of a delivery truck labeled as the 'Supplier' with goods in the back of the truck. On the right, there is a storefront labeled 'Retailer.' Between these two images are two arrows creating a circular flow. The upper arrow points from the retailer

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back to the supplier with the text 'Retailer promises to pay supplier in one month.' The lower arrow points from the supplier to the retailer with the text 'Retailer receives $100 of goods.' This shows that the supplier delivers $100 worth of goods to the retailer, and in return, the retailer commits to paying the supplier after one month.

[Generated by AI]

Trade credit involves a business receiving goods and services from a supplier immediately, but paying for them at a later date (see **Figure 2**). This is usually for a term of 30, 60 or 90 days. No interest is charged during this credit period. It is normal business practice for suppliers to offer trade credit to their regular customers. Using trade credit gives a business time to sell the goods and services they produce; they can then use that revenue to pay their suppliers.

Both the business and the supplier benefit from trade credit. Extending credit agreements keeps suppliers' customers happy. The business that is using trade credit will have extra cash on hand for production, at least for a time. The business will want to pay for goods within a reasonable time to keep a good relationship with suppliers.

Activity

Learner profile: Knowledgeable

Approaches to learning: Thinking skills (transfer)

Complete a table in which you outline the key characteristics of sources of debt finance. You could set up your table as shown here, and you could refer to **Table 1** in Section 3.2.1 (/study/app/business-hl/sid-351-cid-762729/book/internal-sources-of-finance-id-39255/) (which outlines internal sources of finance) as an example.

Source	Length	Costs	Loss of control?	Suitable for
Loan capital				
Overdrafts				
Microfinance				
Trade credit				

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Source	Length	Costs	Loss of control?	Suitable for
Loan capital	Medium and long term.	Interest.	None	Potentially any medium- or long-term investment.
Overdrafts	Short term.	Short term.	None	To cover short-term cash flow problems only.
Microfinance	To cover short-term cash flow problems only.	Interest.	None	Small businesses, borrowers with low income/asset levels.
Trade credit	Short term.	None	None	When buying goods and services from established suppliers.

Other forms of finance

Sometimes a business needs to increase funding but does not want to lose ownership or take on debt. Two options for doing this are:

- leasing capital equipment
- crowdfunding

Leasing

Leasing involves renting (hiring) a fixed asset over a period of time, rather than buying it.

Student view

The key advantage of leasing is that a business can use an asset without having to fully finance it up front. However, the business does not own the asset. Therefore, if the business wants to continue using the asset, it must continue to pay the leasing fee.

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An additional benefit of leasing equipment and not owning it is that the business can always lease the latest model and return the asset when the business no longer needs it. The business usually does not need to worry about maintaining or repairing the equipment either. This can also lower costs.

Figure 3. Expensive farm equipment may be leased if used infrequently.

Credit: Edwin Remsberg, Getty Images

Crowdfunding

Crowdfunding is a form of finance whereby many people, perhaps thousands, invest small amounts of money to fund a business or project. There are several different types of crowdfunding:

- **Peer-to-peer lending**: the many investors are providing a loan that earns interest.
- **Equity crowdfunding**: the many investors acquire a small share of ownership in the business.
- **Rewards-based crowdfunding**: the many investors receive a non-financial reward at a later date, such as a good or service produced by the business.
- **Donation-based crowdfunding**: the participants are donors rather than investors, and do not receive anything in return. This type of crowdfunding can work when the organisation seeking the funds has a strong social, environmental or ethical objective or project that donors feel passionate about.

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view

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Crowdfunding is a relatively new source of finance, made possible because of changes in technology. To facilitate crowdfunding, the business and the investors usually need a platform for the exchange. There are many such platforms globally, one of the most well-known of which is Kickstarter. As of early 2022, more than six billion USD has been pledged to more than 200 000 Kickstarter projects. Businesses that use Kickstarter must pay a fee to the platform.

Making connections

Though not covered in this syllabus section, the IBDP Economics course includes another source of finance for businesses called subsidies. Subsidies are government payments to businesses, often used to increase or stabilise production in critical industries.

A further source of finance not in the syllabus, but especially important for non-profit social enterprises is grants. These are donations, often from private foundations or from government institutions, that target specific activities.

Activity

Learner profile: Inquirers
Approaches to learning: Research skills (information literacy)

The Kickstarter crowdfunding platform (https://www.kickstarter.com/?ref=nav) works with businesses that use a rewards-based or donation-based model. Other platforms use debt or equity crowdfunding models. Carry out some quick research on the internet to see if you can find a few examples of crowdfunding platforms, perhaps in your own country.

- How do debt or equity crowdfunding platforms work?

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (transfer)

Complete a table in which you outline the key characteristics of leasing and crowdfunding as sources of finance. You could set up your table as shown here, and you could refer to **Table 1** in Section 3.2.1 (/study/app/business-hl/sid-351-cid-762729/book/internal-sources-of-finance-id-39255/) (which outlines internal sources of finance) as an example.

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Source	Length	Costs	Loss of control?	Suitable for
Leasing				
Crowdfunding				

Source	Length	Costs	Loss of control?	Suitable for
Leasing	Short and medium term.	Continued payments while the asset is used.	None	Assets that are required for a short period. Situations whereby the company cannot afford to purchase the asset.
Crowdfunding	Short and medium term.	Depends on the model: interest, equity, rewards. Fees to the platform that organises the exchange.	Only with the equity model.	Small businesses that have a large supportive community. Funding of defined projects.

2 section questions

Student view

Question 1

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What is the form of financing that involves renting (hiring) a fixed asset over a period of time, rather than buying it?

Leasing ✓

Accepted answers
Leasing

Also accepted
lease

Explanation
When a business needs a capital asset, such as storage facilities or vehicles for delivery, it may decide to lease them rather than buy them. Leasing involves renting (hiring) fixed assets for a period of time, and can free up working capital that can be used for other purposes in the business.

Question 2

1 Crowdfunding ✓ may be used as a source of financing when a business has a large, supportive community that is willing to provide funding through debt, equity, rewards or even just through donations.

Accepted answers and explanation

#1 Crowdfunding

3. Finance and accounts / 3.2 Sources of finance

Evaluation of sources of finance

Appropriateness of sources of finance Appropriateness of sources of finance

Businesses need to choose their finance sources wisely. The origin and type of finance will have a large impact on how a business functions. In Section 1.3.5 (/study/app/business-hl/sid-351-cid-762729/book/strategies-and-tactics-id-36521/), you watched a video in which Kate Raworth explained how businesses can be designed to be regenerative and distributive. The financing of a business is closely related to the ownership of a business, the business's purpose and objectives, and the networks and governance of the business.

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Raworth points out that some investors could demand fast and high growth of the business for the sole benefit of the early equity investors who wish to exit the business with large, quick profits. Some investors, and other sources of finance could represent more patient capital. Patient capital is long-term financing where investors are willing to wait longer to see returns and expect a fair, not excessive, return on their money. Patient capital is especially important for social enterprises that are looking to distribute the value they create more widely.

A business needs to consider carefully where and from whom it sources financing, because those who provide funding may or may not have the same objectives as the entrepreneur and employees. It is important that the business owners and those providing the finance have the same objectives. Financing needs to make sense given:

- the type and size of the business
- the purpose of the business and the objectives of the financing
- the risk tolerance of the business or owners

Exam tip

If you are asked to recommend an appropriate source of finance for a business, you can frame your response by considering the three areas discussed below: the type and size of the business, the purpose of the business and objectives of the financing, and the risk tolerance of the business or owners.

Ownership type and size of business

Not all sources of finance will be available to every business. Sole traders and partnerships, for example, have limited choices. Banks are not likely to loan sole traders and partnerships large sums of money because they are usually small and often have limited experience. Loaning money to such enterprises would be risky for the bank. These ownership types are not able to offer share capital to new investors, without first changing their legal ownership status. Business angels also may not be interested in these small enterprises. Therefore, sole traders and partnerships must often use personal funds for financing new investments.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (critical thinking)

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Carry out a quick review of what you learned about different types of businesses from Subtopic 1.2 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36507/).

Using what you know about business types, and about the various sources of finance:

- Download and complete the table below to indicate which sources of finance may be appropriate for the various business types. The columns for sole traders and partnerships have been completed for you based on the information already discussed.
- Share your table with a partner or discuss with the class. It may be that some sources are possible, but not likely or fully appropriate; discussing your thoughts can be helpful to clarify the situation. You could indicate these with a question mark. Note that the solution includes question marks too. These can be areas for interesting discussion.

Now check the Solution table on the second page of the Download.

While those sources of finance marked with an asterisk (*) are possible, the social enterprise needs to ensure that the investors agree to its social and/or environmental objectives and to distribute value more widely. This is discussed further below.

Download file (https://d3vrb2m3yrmyfi.cloudfront.net/media/edusys_2/content_uploads/3.2.4 tables for download.docx (1).pdf.3b481632d42045fd46c8.zip)

Purpose of the business and objectives of the finance

The sole or main purpose of some businesses is to generate profits for shareholders. These businesses are usually for-profit commercial enterprises. In the case of these businesses, investors may be able to agree with the business to generate large profits as a priority for shareholders including outside investors.

However, in the case of for-profit social enterprises, the choice of finance needs to be made carefully. For these businesses, maximising profits will not be the main objective. It is therefore important for the business to ensure that any outside investors provide patient capital that is in line with the social or environmental purpose and objectives of the business. If these businesses are providing goods and services in a way that is regenerative and distributive,

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profits (known as surplus) may be lower and take longer to realise. Investors need to be aware of that. There are business angels and venture capital companies, such as the Acumen Fund, that specialise in this kind of patient capital.

Figure 1. Social entrepreneurs need to choose their sources of finance carefully to ensure that investors provide patient capital.

Credit: lisegagne, Getty Images

In order to select the right source of finance, the business will also need to consider the purpose of the finance. A small investment may be funded in a variety of ways, even through short-term finance sources. For example, a small business can free up more working capital through leasing rather than buying equipment, or through negotiating longer payment terms with suppliers. But a large investment may only be funded by sources that are able and willing to provide large sums of money, perhaps over a longer period of time. This will more likely be venture capital, share capital or bank loans.

Risk tolerance

Finally, businesses need to consider their own and others' tolerance for risk when choosing a source of finance. The good thing about having multiple investors, such as business angels, venture capital and share capital, is the ability to share risk among multiple people or groups.

However, when a business borrows money to make capital investments or to grow the business in other ways, the burden of repaying the loan is more concentrated. Loan capital creates large risks for the business, especially where the external environment is uncertain or the business

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plans are risky. Among other risks, interest rates can change over time, depending on the loan type. This can make the loan more expensive for the business. The benefit, however, is that the business owners do not lose ownership and control of the business through the financing.

Generally, it is best for a business to borrow money only in a lower-risk situation. Where risks are higher, particularly if the possibility of rewards are also higher, then sharing risk with business angels or venture capital companies may be a more appropriate financing option.

Making connections

Higher level students will learn about the concept of gearing in Subtopic 3.6 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-39311/). Gearing refers to the level of a business's debt relative to the equity in the business. A business is said to be highly geared when debts are large relative to the value of equity. Low-geared means that the debt is low relative to the value of equity.

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (critical thinking)

For each of the following scenarios, identify and explain an appropriate source of finance for the business. Make sure to justify your choice with evidence from the scenario and your knowledge of business management theory.

1. A small technology company, located in Tel Aviv, has invented a new way of using smartphones to interact with transportation networks. If the idea works, it could be worth billions to its owners. However, the company does not have the large sum of finance needed to fully develop its ideas. Suggest a source of finance it could use and explain your reason.
2. A wholesaler buys food and drink from producers, then sells it on to local retailers. While it is waiting for a large customer to pay, it is having cash flow problems. The customer has been using the wholesaler for years and has never been late paying. Suggest a source of finance the wholesaler could use.
3. A company that manufactures fireworks has highly seasonal demand, with 80% of its sales occurring in the run-up to a major festival. It now needs a warehouse to store the fireworks that it will sell shortly. However, it only needs the warehouse for a few weeks. Suggest a source of finance for the company.
4. A hotel in a mountain resort wants to develop its business in more sustainable ways. It is also concerned about climate change and knows that it might not be able to rely on revenues from winter sports as global warming accelerates. So, it is interested in developing other revenue streams, such as providing cycling, water sports and other summer sports, as well as developing sustainable alpine

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agriculture and a cooking school focused on regional cuisine. The hotel has hundreds of loyal customers, some of whom have been visiting for twenty years or more. The hotel has previously taken out large bank loans to add more hotel rooms. But the owner of the business is ageing and does not want to leave his children, who will take over the hotel, with unreasonable debt levels. He also does not want to lose control of the business to other owners.

1. Venture capital would be a suitable source of finance. Venture capitalists (usually groups of investors who pool resources) invest in small- to medium-sized businesses that have the potential to scale rapidly in order to earn large future profits. They offer financial and non-financial support such as business contacts, advice and mentoring. For example, if the venture capitalists like the notion of using smartphones to interact with transportation networks, they will invest in the company and offer their financial and networking skills to help the business to grow. Given the widespread use of smartphones and the number of transportation networks, this is likely to be attractive to venture capitalists who are looking for very large profits.

Other sources of finance like trade credit and overdrafts, are far too short-term a solution to the lack of capital in this instance.

Note that business angels may not be appropriate as they are single individuals that are often involved in smaller startups. Venture capital, on the other hand, typically comes from groups of investors, who pool their resources in order to provide funding for startups that need larger sums of capital.

2. An overdraft would be a suitale source of finance. The wholesaler could use an overdraft as a source of finance. An overdraft refers to a situation whereby the business temporarily takes out more money from the bank than it has in its account. For example, the wholesaler can use an overdraft temporarily to make payments for its recent purchases, while it is awaiting payments from its customers. The wholesaler should be able to cover its overdraft soon with the incoming revenues. Overdrafts provide flexibility for businesses that might occasionally face cash flow problems.

3. Leasing would be a suitable source of finance. Leasing a warehouse for a short period of time seems like the right choice. Leasing is when a company pays to use physical facilities or capital, such as a warehouse or equipment, for a particular period of time. For example, the fireworks company could lease a warehouse closer to the festival time when sales are at their highest. This will also mean that the company has more cash for other purposes within the business. Because the fireworks company only needs space for a few weeks, it would be unwise to spend large amounts of money on purchasing a space.

4. Debt and equity finance may not be the best options for the hotel owner, because he does not want to increase the debts of his children or lose control of the business. The owner could try crowdfunding for his development plans. The scenario says that the hotel has hundreds of loyal customers who have been

visiting the hotel for decades. These loyal customers may be willing to provide finance in exchange for discounts on hotel rooms or other benefits, such as vouchers, to attend cooking school or to learn about sustainable agriculture.

Case study

Figure 2. Students at ToU can study from anywhere in the world.

Tomorrow University of Applied Sciences (ToU) (https://www.tomorrow.university/) is a new, remote-first university specialising in entrepreneurship, sustainability and technology. It offers the following three bachelor's degrees:

- BA in Responsible Entrepreneurship
- BA in Sustainable Product Management
- BSc in Artificial Intelligence and Sustainable Technologies

ToU's digital learning platform makes it possible for students to learn from anywhere in the world. The programme emphasises learning-by-doing, with challenge-based exercises to solve real-world problems. Mentors and a global network of learners to support students through the programme. The degrees are fully flexible. New cohorts are admitted every three months. If students want to pause their learning, for example to complete some full-time work experience, they can simply rejoin the programme with a later cohort.

ToU was set up as a non-profit enterprise in 2022. The founders set up ToU as a non-profit enterprise in order to meet their responsibilities under Sustainable Development Goal 4 (SDG4) (https://sdgs.un.org/goals/goal4) relating to quality education. This is the human need in the social foundation of the Doughnut Economics Model that you learned about in Section 1.1.2 (/study/app/business-hl/sid-351-cid-762729/book/the-doughnut-economics-model-id-36500/). Non-profit status was important for the

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founders because they want to ensure that any surpluses generated by ToU are reinvested in the business to improve and expand education for students. They want to distribute value to a wide range of stakeholders.

However, the founders of ToU realised that, to meet their objectives of growing their programme through advanced digital technologies, they would need large amounts of financial capital. This amount of funding would be difficult to raise for a non-profit organisation. So they founded a second business called Tomorrow's Education, which is a for-profit social enterprise. For-profit status makes the business more attractive to investors, who may be seeking some level of fair return on their investment. ToU is a subsidiary of Tomorrow's Education.

The two founders used personal funds to set up and register Tomorrow's Education. To acquire the finance needed to build the digital learning platform for ToU, the founders sought funding from several other sources. Initially, Tomorrow's Education received 1.1 million euros of 'pre-seed' funding from several business angels and a venture capital company called Emerge Education (https://emerge.education/), which specialises in financing EdTech businesses. In another round of seed funding, Tomorrow's Education received 3.4 million euros organised by a Dutch venture capital company called Mediahuis Ventures (https://www.mediahuis.com/en/activities/mediahuis-ventures/). Both rounds of funding were in the form of equity finance.

So, the founders of ToU have set up both a for-profit social enterprise — with the ability to raise funds from investors — and a non-profit social enterprise — to deliver education for responsible entrepreneurs. By doing this, they are working towards their objectives to deliver quality education to large numbers of students with adequate funding from interested investors.

Questions

1. Define business angel. [2 marks]
2. Explain one advantage and one disadvantage for Tomorrow's Education of using equity finance as its main source of finance. [4 marks]
3. Explain how setting up both a non-profit social enterprise and a for-profit social enterprise helps the business deliver education services on a large scale. [4 marks]

Question 1

A business angel is a successful, wealthy business person, who invests their money into new businesses. Business angels provide funding to businesses who are not yet listed on a stock exchange. They often offer very early financing to a new business.

Define is an AO1 level command term, requiring a precise meaning of a word.

- One mark is given for a vague definition.
- Two marks are given for a complete definition.

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- Definitions do not require application to the stimulus material.

Question 2

One advantage for Tomorrow's Education of using equity finance as its main source of finance for starting up its business is that equity finance does not have to be repaid. This contrasts with debt finance, where the entrepreneur or business owner has to repay the amount borrowed, in addition to interest. In order to develop its digital platform and hire staff, Tomorrow's Education has acquired equity financing from business angels and venture capital companies including Emerge Education and Mediahuis Ventures. However it does not have to repay that money. Instead, investors receive a share of ownership and can receive a portion of profits once the business is operational.

But this leads to one disadvantage of equity finance. With this form of financing, the founders (entrepreneurs) have to share ownership of their business with other investors. They will also share the profits and some decision-making about the business with investors. With other forms of financing, the founders of Tomorrow's Education would retain ownership and decision-making power over their business. Given the importance of the social and environmental mission of Tomorrow's Education, it would be very important that the investors and the founders have the same objectives, which likely requires patient capital.

Explain is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *why* and explain *how*.

- Only one advantage and one disadvantage need to be explained. Other responses beyond those explained here are possible and would be rewarded if appropriate.
- To achieve full marks, you must always include theory and application to the case study in your responses.

Question 3

A non-profit social enterprise is a business that works to improve social or environmental outcomes. To qualify for non-profit status, organisations typically need to prove their social or environmental purpose to the government. They also need to reinvest surpluses into the business in order to grow their impact. This type of legal structure is appropriate for educational institutions like ToU that work to expand learning opportunities in their communities. For ToU, having non-profit status helps reduce or eliminate conflicts between stakeholders that may arise from any surpluses generated. It is clear that these need to be put back into the business for the good of the learning community.

A for-profit social enterprise is a revenue and profit-making business, but it integrates social and/or environmental impact directly into its business model. It combines the efficiencies, innovation and financial resources that can come from for-profit businesses, with the vision and values of social enterprises. Tomorrow's Education needed significant financial resources to develop its

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digital learning platform. It is easier to acquire large amounts of financing through a for-profit social enterprise, because investors have the possibility of financial return.

Explain is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *why* and explain *how*.

- To access full marks, you need to explain how setting up a non-profit social enterprise would provide an appropriate legal structure to deliver quality education in line with SDG4 (Doughnut Economics Model education in the social foundation) AND you need to explain how setting up a for-profit social enterprise would provide an appropriate legal structure to access large amounts of funding from investors.
- To achieve full marks, you must always include theory and application to the case study in your responses.

3 section questions

Question 1

Under which condition is loan capital likely to be an appropriate source of funding for a business?

1. A low-risk environment where the owner(s) or the business will likely have little problem paying back the loan. ✓
2. A high-risk environment where there may be problems paying back the loan.
3. A situation where there is no collateral to back up the financing in case the business fails.
4. A situation where large amounts of financing are needed, but profits are expected to be low.

Explanation

When a business borrows money to make capital investments or grow the business in other ways, the burden of repaying the loan is more concentrated. Unlike venture capital or with business angels, loan capital creates large risks for the business, especially where the external environment is uncertain or the business plans are risky. So, it is appropriate to use loan capital when there is a low-risk environment, where it will be fairly easy for the owner(s) and/or the business to pay back the loan.

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Question 2

Which of the following is **least** likely to be considered by a business when choosing a source of financing?

1 Whether the product is a good or a service ✓

2 Ownership type and size of the business

3 Purpose of the business and objectives of the financing

4 Risk tolerance of the owner(s) and/or business

Explanation

Ownership type and size of the business, purpose of the business and objectives of the financing, and the risk tolerance of the owner(s) and/or business are all very important factors affecting the decision about source of financing.

Whether the product is a good or service is much less likely to be a factor, unless it is directly related to the business purpose of financing objectives.

Question 3

If a business already has high levels of debt (is highly geared), which source of finance may not be available to it?

1 Loan capital ✓

2 Finance from a business angel

3 Finance from a venture capital company

4 Share capital

Explanation

If a business already has a high level of debt relative to equity, a bank may be reluctant to lend it additional capital. The other three options are not provided by banks, so the total amount loaned to the business may not be as important (but may still factor into their investment decisions).

Terminology exercise

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

An source of finance is money that is raised from the business's or owner's existing assets. These include personal funds, retained profits and the sale of assets. These sources of finance are often the only ones available to small businesses such as sole traders and .

One external source of finance is finance, where a business borrows money to fund investments. This can come in the form of loan capital, overdrafts and microcredit. Another external source of finance is , where a business delays paying suppliers for a period in order to free up working capital for business operations and investments.

Another, newer form of finance is , where many people, perhaps thousands, invest small amounts of money to fund a business or project. This form of financing only works when a business or entrepreneur has a large following of loyal supporters.

Generally, when choosing a source of finance, businesses need to consider their ownership type and size, the purpose of the business and their financing objectives, as well as tolerance. It is important for a business to choose the right source of finance in order to avoid conflict and prevent .

partnerships | insolvency | debt | internal | crowdfunding | risk | trade credit

Check

Interactive 1. Mastering Finance.

Checklist

What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
  - internal sources of finance
  - personal funds
  - asset
  - retained profits
  - external sources of finance
  - equity finance
  - business angel
  - share capital
  - debt finance
  - loan capital
  - overdraft
  - microfinance
  - trade credit
  - leasing
  - crowdfunding
- distinguish between sources of internal and external finance (AO2)
- evaluate and recommend appropriate sources of short- and long-term finance in a given situation (AO3)

Reflection

Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	**Learner profile:** Balanced
2	**Learner profile:** Risk-takers
3	**Concept:** Creativity
4	**Learner profile:** Thinkers
5	**Concept:** Ethics

Students can submit their reflections to you by clicking on 'Submit'. You will then see their answers in the 'Insights' part of the Kognity platform.

Reflection

In this subtopic you learned about internal and external sources of finance.

Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click 'Submit', your answers will be shared with your teacher.

1. What motivates some investors to put money into startups with no history of profit and/or track record of successful business propositions?

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2. Should business owners who have gone through insolvency get different financing terms from potential lenders?
3. Should the firms with the most creative and innovative ideas receive the most funding?
4. Which of the sources of finance that you learned about in this subtopic do you find to be most stable? Which ones are riskier?
5. To what extent do investors have an obligation to finance social enterprises before other businesses?

⚠ Once you submit your response, you won't be able to edit it.

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Submit

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Student
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