INVESTOR FOUNDER
DISCOVERY PLATFORM

CHOOSING THE RIGHT FUNDING INSTRUMENT

Choosing the right funding instrument is an important decision for your startup. Different options offer unique benefits and trade-offs in ownership, repayment, and risk. Here's a simple guide that explains these instruments in a non-technical language.

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EQUITY FINANCING

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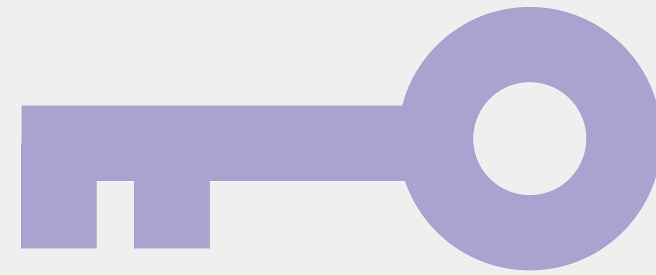
What it is

You sell part of your company (shares) to investors in exchange for cash



Key Consideration

There’s no obligation to repay money, but your ownership gets "diluted" (your percentage of the company decreases as more shares are issued).

When to use?

Best if you’re aiming for rapid, scalable growth and you don’t mind sharing ownership.

CONVERTIBLE NOTES & SAFES

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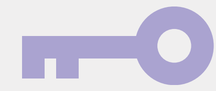
What they are: These are agreements where investors lend you money now, and their investment will later convert into equity (shares) when you raise a bigger round.



Key Considerations

Convertible Note: Functions as short-term debt that converts into equity, often with an interest rate and a discount on future valuation.

SAFE (Simple Agreement for Future Equity): Similar to a convertible note but simpler—no interest accrues and it avoids some legal complexities.

Plain Language: They let you postpone deciding your company's value until you're further along.

When to use: Ideal for early-stage startups that need funds quickly and want to delay valuation discussions.

REVENUE-BASED FINANCING

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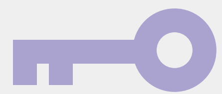
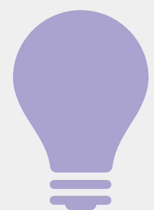
What they are: Investors give you money in exchange for a fixed percentage of your future revenues until you repay a multiple of your initial investment.



Key Consideration: It's **non-dilutive funding**—this means you don't give up any ownership in your company while raising funds.

Plain Language: Instead of selling shares, you agree to share part of your sales until you've paid back the investor's money (plus a little extra).



When to use: Best if you already have predictable, recurring revenues and want to avoid diluting your ownership.

GRANTS & COMPETITIONS

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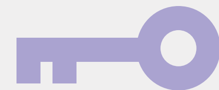
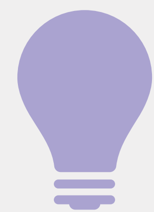
What they are: Non-dilutive funding provided by governments, foundations, or through contests—no repayment or equity is exchanged.



Key Consideration: They provide money without reducing your ownership, but they can be highly competitive and may have specific conditions you must meet.

Plain Language: It's like winning a cash prize for your business idea, with no strings attached (except for reporting or performance benchmarks).



When to use: Ideal if you have an innovative idea with social impact or if you're in an industry where grants are common (such as tech or sustainable development).

DEBT FINANCING

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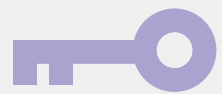
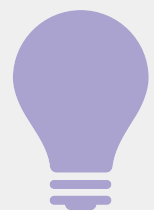
What they are: You borrow money from a lender that you must repay with interest over time.



Key Consideration: It's non-dilutive (you retain full ownership), but regular repayments must be made regardless of your revenue..

Plain Language: Think of it as a business loan—you're taking on debt that you need to pay back, similar to a mortgage, which can strain cash flow if your revenue is not steady.



When to use: Suitable for startups with predictable cash flows or established assets to serve as collateral.