FINANCING GUIDE FOR IMPACT VENTURES

MAY 2021

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24. **Peggy Segal**, Board Member, Echoing Green
25. **Noor Sweid**, Co-Founder and Managing Partner, Global Ventures
26. **Owen Woodhouse**, Investment Manager, Jasmine Social Investments

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Impact Ventures

Impact Ventures (also referred to as Social Enterprises) are organizations, either for-profit or nonprofit, that apply commercial strategies to pursue social and environmental goals. In the case of a for-profit impact venture, this may include maximizing social impact alongside profits for external shareholders, whether as a concession to profitability or in addition to market-rate returns.

A Guide for Impact Venture Founders

The UN estimates that there is a $2.5 trillion financing gap per year between what is currently being spent and how much is needed to achieve the SDGs by 2030. It is also estimated that achieving those goals could open up as much as $12 trillion of market investment opportunities in four categories – food and agriculture, sustainable cities, energy and materials, and health and well-being.

As an impact venture founder, it is likely that this is not news to you and the question on your mind is – how can I build an organization that will effectively address some of the world's biggest problems in a scalable way?

Finding the right sources of capital and effective fundraising is crucial to achieving that goal. As a former founder and leader of an impact venture, I struggled to understand what kinds of financing were available to me and how I should go about raising different types of funding. This guide aims to provide the resource I wish I had, to other impact venture founders.

This brief guide is a summary of what impact venture founders need to know about raising funding critical to getting their organizations off the ground. It is not intended to be a complete guide to financing and includes only the basic knowledge most impact venture founders will need. The information here is compiled from a myriad of sources and drawn from interviews with 26 eminent practitioners - from funders and investors to successful impact venture founders. Where relevant, the guide also includes links to other resources for a deeper dive into specific topics covered.

Introduction

Focusing on early-stage impact ventures with a profitable business model, operating in emerging economies

The guide begins with a section on how to decide if your impact venture should be structured as a for-profit or non-profit organization. The rest of the guide will focus on impact ventures that have a profitable business model. This is because while more general fundraising guides exist for traditional donor-driven non-profit organizations, there is almost no information available for impact ventures that have a profit model and how to choose what types of funding to pursue. If your impact venture falls into the former category and you would like a starting point on what funders might be suitable for you, there is a comparison table in the appendix that includes information on select grant funders.

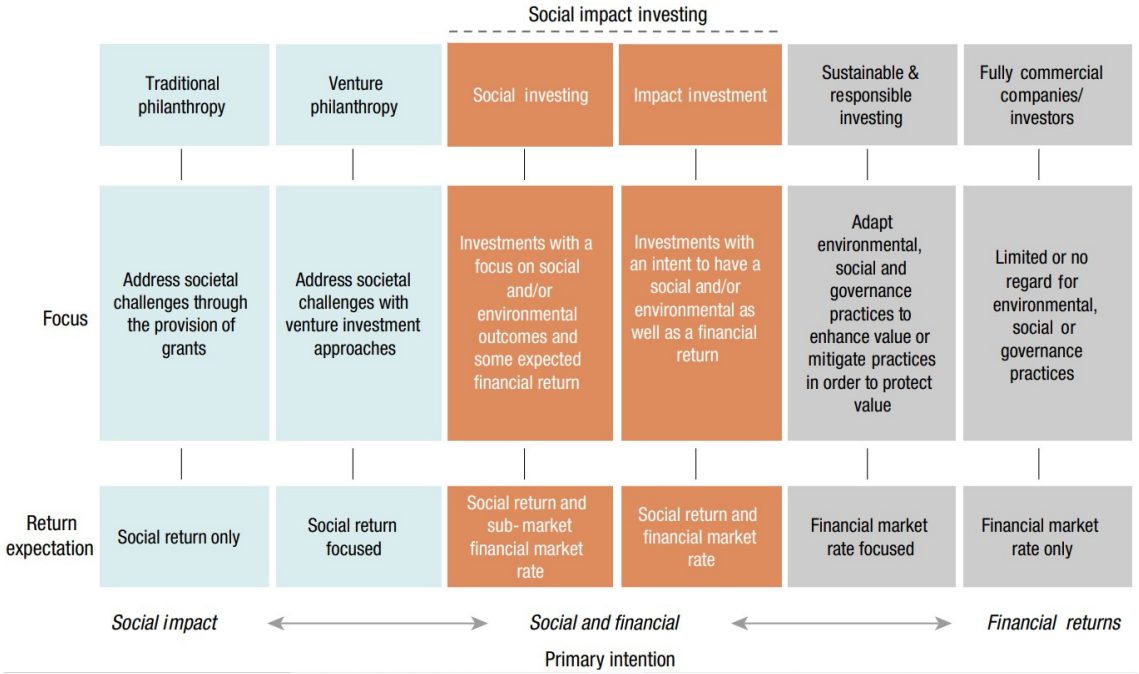
The guide also focuses largely on early-stage funding as this is where capital is most crucial in getting impact ventures off the ground. While impact venture founders are typically able to raise their initial start-up capital through competitions, angel investors, family and friends, many impact ventures fail to raise sufficient follow-on capital in the early stages to get to the growth stage. Once at the growth stage, as defined by an organization having validated their business and impact model and is primed for scaling, it is easier to raise growth stage capital either through Development Finance Institutions (DFIs), commercial investors or select growth stage impact investors.

Lastly, this guide focuses on impact ventures serving developing economies. While there are undeniable deep and extensive social issues in developed economies, these do not compare to the scale of development problems faced by people in emerging economies, where social entrepreneurship and catalytic capital can move the needle in solving many of these problems.

Overview of Funding Landscape

The Spectrum of Capital

The funding landscape lies on a spectrum with traditional philanthropy on one end and fully commercial investors on the other as the returns expectation and focus slides from social returns to financial returns respectively. In this section, I will touch on traditional philanthropy and venture capital (a form of commercial investors) but will focus primarily on venture philanthropy which encompasses social impact investing, as I believe that is most relevant for early-stage impact ventures in developing economies.



Source: OECD

Traditional Philanthropy

While a philanthropist's choice may be affected by religious, political or moral beliefs over the years, philanthropy in general has evolved to be more outcomes oriented. The four core elements of an outcomes framework are clearly defined goals, evidence-informed strategies for achieving them, monitoring progress in order to make appropriate course corrections, and evaluating ultimate success.

According to the Global Philanthropy Tracker 2020, cross-border philanthropy continues to play a significant role in global development. In 2018, 47 economies contributed USD 68billion in philanthropic outflows. This sum was contributed by diverse players including individuals, corporations, foundations and other philanthropic organizations. *You can read the Global Philanthropy Tracker 2020 for more information on cross-border philanthropic trends*

Overview of Funding Landscape

Venture Philanthropy

Venture philanthropy is a type of social financing that practices a high-engagement approach and consists of both grant-making and social impact investments (also known as impact investments) across a range of organizations with a social mission, from charities and non-profit organizations to socially driven businesses. Venture philanthropy provides these organizations with both financial and non-financial support in order to increase their social impact. Venture philanthropists apply venture capital principles, including long-term investment and hands-on support.

The key characteristics of venture philanthropy include:

- Tailored financing using a variety of financial instruments (including grant-making and impact investing)
- Organizational support to help impact driven organizations build strategic and operational capacity
- An emphasis on impact management at both organization and funder levels

> "If you can show that you are able to make money while doing good and living your values, that will have a powerful demonstration effect for investors, employees, and customers. If you can show impact in the for-profit realm, you will have a bigger ripple effect than if you're an effective non-profit because so much of the world operates in the for-profit mode. Impact investing occupies this intermediate ground between philanthropy and capitalism."
>
> CHARLES EWALD, FORMER FOUNDING CEO OF NEW ISLAND CAPITAL

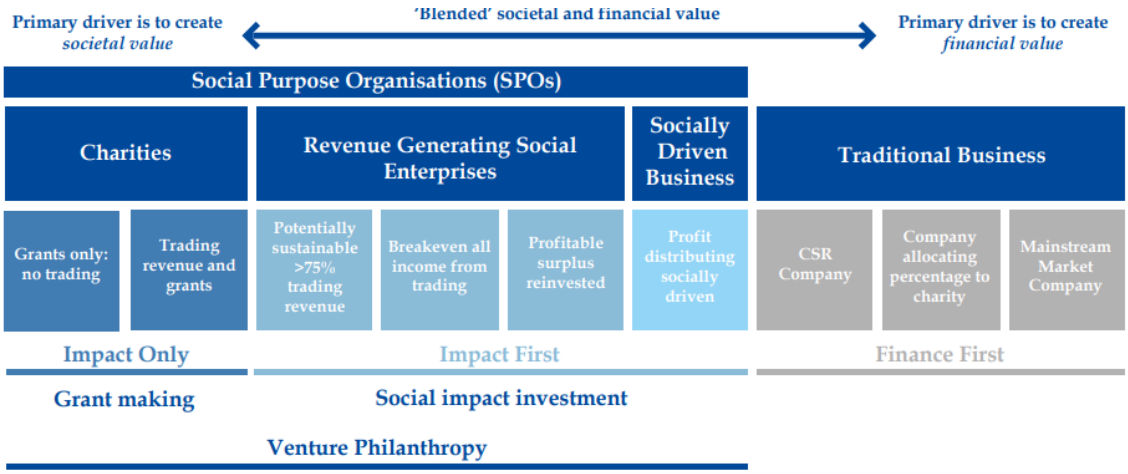
Venture philanthropy includes both grant funding and social impact investments:

1. Grant funding is the provision of non-repayable donations to mission driven organizations and focuses only on impact.
2. Social impact investment provides financing to addressing social needs with the explicit expectation of a measurable social, as well as financial, return. A core characteristic is the measurement and management of social and environmental outcomes alongside financial returns. Impact investments are better suited for revenue generating impact ventures and socially driven businesses. Impact investments are different from more passive socially responsible investments because they have a deliberate strategy for generating measurable social impact.

Venture philanthropy can operate across a spectrum of organizational types from charities and non-profit organizations through to socially driven businesses. Those that are typically considered for investment by venture philanthropy funders will generally fall into the Charities, Revenue generating Social Enterprise and Socially Driven Business categories.

Overview of Funding Landscape

Venture philanthropists generally want to direct their resources to young, small to medium-sized organizations with growth potential or to organizations that are at an inflection point. According to a report by the European Venture Philanthropy Association (EVPA), "the most common age of investee organizations is 2–5 years (80%). Some venture philanthropists also target early-stage organizations with an age of 0–2 years (61%), others take the risk of incubating start-ups (27%), and about 29% of venture philanthropists invest in more mature organizations that are more than 5 years old".



Source: EVPA

A Note about Venture Capital

While commercial capital sits on the financial end of the spectrum of capital, I will focus on Venture Capitalists (VCs) as this is the subset of commercial capital that invests in early-stage ventures. VCs are private equity investors that provide capital to companies with high growth potential in exchange for an equity stake. VCs are willing to risk investing in such companies because they can earn a massive return on their investments if these companies succeed.

Once promising startups have been identified, the pooled investor capital is deployed to fund these firms in exchange for a sizable stake of equity. The VC fund will buy a stake in startups looking to commercialize their idea, nurture their growth and look to cash out with a substantial return on investment.

Overview of Funding Landscape

Venture capitalists look for a strong management team, a large potential market and a unique product or service with a strong competitive advantage. Typically, VCs do not fund impact ventures. There may be an occasional VC which would consider a start-up with a social mission (several are included in the table in the appendix) but even then, all VCs are financial returns first and typically expect 10x returns on investments within 8-10 years. Where there might be a convergence between the high returns expected by VCs and backing mission driven organizations is in VCs operating in emerging economies.

"We have strong conviction that mission-driven founders can generate returns that are superior to others. We have seen this in public markets, with companies like Unilever, and we expect private markets to be no different. Accordingly, we invest across all industries, but engage actively with founders that are mission driven. As a venture capital firm, financial returns will always come first, but working in a part of the world that is massively underserved in terms of basic needs, such as financial services and healthcare, there is a huge opportunity to deploy capital intentionally, with founders that are looking to do well and do good. For example, the Middle East and Africa region has a quarter the number of doctors per capita as compared to Europe and the US, and still has 58% of people who don't have access to any sort of finance. These are examples of sectors which are not only interesting financially, but also from the perspective of improving millions of lives.".

NOOR SWEID, CO-FOUNDER & MANAGING PARTNER
GLOBAL VENTURES

Legal Structure

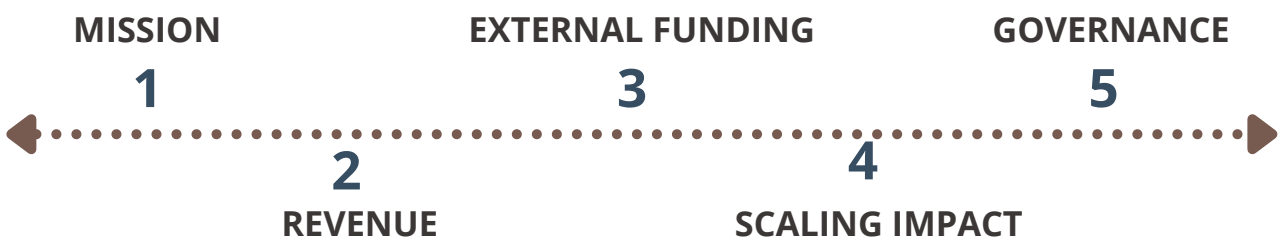
For-Profit or Non-Profit Organization: Considerations

The first question that you should ask yourself as an impact venture founder is whether to structure your organization as a for-profit or non-profit entity. For-profit organizations earn revenues, have shareholders and will distribute profits to these shareholders. Non-profit organizations do not typically have shareholders, can never distribute profits to them, and while they can earn revenue, all profits are recycled back to the organization.

The legal structure of your venture will govern your relationship with key stakeholders and have implications on your financing options, growth options, governance and decision-making. In this section, I cover the key considerations and implications of structuring your impact venture as a for-profit vs non-profit. I also discuss some models that have emerged out of these trade-offs between profit and non-profit structures: hybrid structures and the B-Corp.

Begin with The Business Model

Because so many of the implications of your legal structure is related to the kinds of funding you can raise and the financial decisions you will have to make, it is crucial that you figure out your business model and develop financial projections before deciding on the structure. You need to understand what your business model, gross margins, net margins and capital requirements are going to look like as they will have an implication on what kinds of funders will be interested in your organization. The Social Business Model Canvas template developed by the Stanford Graduate School of Business (GSB) Center for Social Innovation (CSI) and adapted from the lean start-up principles is a great tool in helping you think through your business model.



Five Key Factors to Consider:

The Stanford GSB CSI's Social Enterprise Legal Structure guide identifies seven factors to consider when deciding on the legal structure of your organization. Here I focus on what I consider to be the five most important factors.

Legal Structure

1. Mission

The first thing to consider is whether your business model has profit-purpose alignment or profit-purpose tension. Profit-purpose alignment is when the purpose is so integral to the profit model that the greater the impact achieved the higher the profits. Conversely, profit-purpose tension is when the greater the impact achieved, the lower the profits. Organizations that have greater profit-purpose alignment are more likely to be able to be for-profit organizations without compromising on the mission as compared to companies that experience profit-purpose tension.

Mission and profit are in alignment when:

- Revenue and impact are derived from the same activities
- Resources needed to generate impact don't take away from resources needed to grow profit
- When the best interest of the user/beneficiary is also the best interest of the payer
- When mission and profit are in alignment, impact venture founders can leverage synergies between the two in a self-reinforcing, positive feedback loop that maximizes both impact and profit

Mission and profit are in tension:

- When the need to generate revenue pushes the organization to prioritize a higher-paying customer segment over the intended beneficiary, or
- When delivering products or services to fulfill the social mission adds operational costs that would otherwise be avoided.

> "If you're working with communities that have had negative experiences with past initiatives, being a non-profit may help contribute to more positive community perception. Where you're really asking people to put their trust in you as an organization, e.g. when your work is children's services or health-related initiatives, there are reasons to consider being a non-profit that may supersede business model considerations."
>
> NAOMI BAER, PRACTITIONER-IN-RESIDENCE, STANFORD GSB CENTER FOR SOCIAL INNOVATION

For-profits have a legal obligation to pursue profits for shareholders, though there is much debate around whether there is an obligation to maximize profits. Directors typically have a great deal of latitude in making decisions particularly in making operational decisions for corporations with an explicit social or environmental mission. However, just because a board can take into account such goals, it does not mean that shareholders will always agree with mission-driven decisions. Being a non-profit organization then allows you to "avoid some legal liability and give yourself more legal room to make those kinds of decisions to trade off financial return for social benefit" (Charles Eesley, Associate Professor, Management Science and Engineering, Stanford Technology Ventures Program). Sometimes it is also a matter of building trust with the communities you are serving.

Legal Structure

2. Revenue

Both for profit and non-profit organizations can earn revenue. However, deciding on the structure of the organization will depend on who your target user is and their ability to pay for the goods and services you want to provide. For example, "an organization involved in advocacy where there are no paying clients or many non-profits that are serving the very poor. Even if they charge something for their services, their expenses are greater than whatever revenues they are getting...then I don't think they have any possibility of being a for-profit organization" (Paul Brest, Faculty Co-Director, Stanford Center on Philanthropy and Civil Society). Non-profit organizations can earn revenue and sell products or services to diversify their income streams. In the US, if these activities are in alignment with the organization's mission, the revenue they generate is tax-free. However, earned income that isn't mission-aligned is taxable, and too much can threaten your organization's tax-exempt status. Such regulation may differ from country to country so be sure to check with your local regulators to see what restrictions might apply. In for-profits, profits help fund continued growth and attract external funding, but unfettered pursuit of profits can exert extreme pressure (to reduce costs, increase prices, lower quality, cut resources etc.) which may not align with the pursuit of impact. As Stephanie Cornell, Managing Director of DRK Foundation, describes it, it makes sense for an impact venture to be a for-profit "if the product or service they are delivering has tight alignment between the mission and the slice of the marketplace they are serving and the pricing is accessible for the segment of the market. If that isn't true, what are the mechanisms that are going to keep the mission at the heart of their decision making?" This is especially the case given that for a for-profit to be successful, they need to be able to attract investments and return money to investors. Founders need to ask themselves if their organization's alignment with the marketplace supports their ability to do that.

3. External Funding

Your legal structure may constrain the types of funding available to your impact venture, so it's important to understand your funding needs before committing to a structure. Some questions to ask yourself include, "will you generate enough revenue to produce market rate financial returns and attract institutional investment capital? Or will you need to rely on donations to fund the work you do?". Your business model, including your financial projections, will help define your need for external funding and inform your choice of legal structure, so that you can access the types of capital that will best support your goals.

Non-profits can accept tax-subsidized money in the form of grants, program related investments and charitable donations. Non-profits are not permitted to distribute

Legal Structure

profits to individuals, so cannot raise investment capital. However, non-profits can access commercial capital, in the form of debt.

Institutional investment capital is by far the largest category of funding, with trillions of dollars invested globally. Although charitable donations can be an appealing source of "free" capital for nonprofit organizations, the pool of charitable capital is much smaller than investment capital.

For-profit ventures can raise financing in the form of equity, debt, and in some rare cases for proven impact ventures, philanthropic funding through Program-Related Investments (PRIs). However, PRIs are rare and foundations often face legal constraints around giving money to for-profit entities. If your venture has the potential for significant scale and profitability, you will likely look to raise investment capital to fund growth. "PRIs are only about 1% of the total capital deployed by US Foundations. There's not a lot of Foundation capital available for for-profit companies willing to take outsized risk or lower returns in exchange for impact. If you are a social enterprise but can generate strong returns, then it's easier to raise commercial capital." (Matthew Bannick, former Managing Partner of Omidyar Network).

Traditional institutional capital looks for a high internal rate of return, so some investors may worry that your social impact goals could hinder profitability. Impact investors seek profit as well as social impact, but the priorities of each investor vary.

4. Scaling impact

Other questions to ask yourself as you decide whether to structure your organization as a for-profit or non-profit are "What is your ambition? How far and wide do you hope to reach? What is your path to scaling impact? What do you need to scale?".

Being a non-profit has several advantages in scaling, the main one being the "Halo Effect". Nonprofit organizations can scale their impact through strategic partnerships, government adoption, advocacy, and thought leadership. These approaches to scaling impact benefit from the trust and credibility associated with many mission-driven non-profits, and often rely less on expansion of a venture's physical operations in multiple sites. An example of an organization that benefited from being a non-profit was Kiva, a crowdlending platform that provides loans to low-income entrepreneurs and students.

Legal Structure

As Matthew Bannick, who had formerly invested in them as part of Omidyar Network explained, "Kiva considered whether to organize as a for profit or a not for profit, and could have gone either way, as they had a strong business model. Kiva decided to remain a not-for-profit for a host of reasons, including lower online marketing costs and the brand halo associated with being a not-for-profit." Still, resources are required to fund highly skilled staff with time to focus on these highly complex approaches to delivering impact at scale. However, raising sufficient external funding to scale your impact by growing your organization can be challenging. Few donors and foundations focus on this stage of organizational growth, and there is a huge gap in philanthropic capital for this approach to scaling impact in the non-profit sector. "If you need to build significant manufacturing capacity or invest heavily in technology, you may simply require more start up capital than most foundations are willing to provide. Unfortunately, relatively few foundations provide large scale funding to not for profits without a track record." (Matthew Bannick, former Managing Partner of Omidyar Network). An example of this is Bridge International Academies, a for-profit private network of community schools across Africa which Jasmine Social Investments invested in.

"These are all means to an end. We always have to remember – the end goal is what's going to serve impact at scale."

MATTHEW BANNICK, FORMER MANAGING PARTNER OF OMIDYAR NETWORK

"It made a lot of sense for Bridge International Academies to raise equity because their view of how to improve education required a fundamental shift in the tools of delivery. In order to achieve that shift they needed to invest heavily in R&D, and it can be very challenging to raise large amounts of grant funding for innovation."

OWEN WOODHOUSE, INVESTMENT MANAGER, JASMINE SOCIAL INVESTMENTS

Earned income provides a stream of unrestricted funds that can be directed toward growth and new initiatives. Earned income is also unhampered by the fundraising process and donor constraints, and generally increases as the organization becomes more successful. However, earned income usually grows slowly over time, not in large spikes, raising the risk that the timing of the organization's growth opportunities will not correlate with a spike in earned income. Thus, as a funding source for growth, earned income can rarely match the funding that private investors provide to for-profit ventures, which is one reason that nonprofits have a harder time scaling through growth than for-profit corporations.

Legal Structure

This decision may also be industry specific. For example, impact ventures operating in the financial services or fintech space require large amounts of capital to build and scale. This large capital requirement implies that "it makes no sense to start a non-profit in Fintech as compared to the education space where 90% of organizations are non-profits. Fintech companies are capital hungry and there won't be sufficient scale capital in the non-profit space." (Arjuna Costa, Managing Partner at Flourish Ventures).

In summary, different types of donors and investors are attracted to different strategies for scaling impact. A for-profit model is best suited when your impact strategy requires growing the organization, producing more products, developing sales, and expanding to reach new markets. Growing to serve millions takes money. A for-profit impact venture that has proven its business model, mitigated risks, and established a strong stream of profits typically attracts funds more easily to achieve exponential scaling.

	NONPROFIT	FOR-PROFIT
LEGAL DUTY	To the corporation and the public in general	To the corporation and its stockholders
FOCUS	Mission, impact, fundraising	Growth and profit maximization
ROLE OF FOUNDER	Paid Executive Directors and staff should not have a vote on the board. Help with board member recruitment, setting agendas for meetings	Founders may have a "CEO" seat on board, but can lose that seat if displaced as CEO. Founders can request a "founder's seat" on the board, but some investors will resist
ROLE OF SHAREHOLDERS	No shareholders on board	Board includes shareholders
SELECTION OF NEW MEMBERS	Elected by existing board members	Elected by shareholders

Source: Stanford GSB CSI

5. Governance

In non-profit organizations, board directors' duties are to corporation and to public in general. They are responsible for overseeing the creation of positive social impact in accordance with the organization's mission. In the US, the first board members of a non-profit organization are selected by the founder. Subsequent board members are elected by the existing members of the board, so the selection of an initial board of directors can have a long-term impact on the organization's governance. Whether a founder serves on the board will often depend on whether he receives compensation from the nonprofit. Ultimately, most states do not prohibit the executive director or other paid staff members from serving on their organization's governing board, but this type of arrangement is discouraged given the increased potential for conflicts of interest stemming from the board's oversight role. In most cases the executive director will have a voice, but not a vote, on the board.

In for-profit organizations, board directors' duties are to corporation and stockholders. At the time of incorporation, the founder is the first board member of a for-profit organization.

Legal Structure

Over time, investors get added to the board. The founder often loses his or her board seat if displaced as CEO. Founders of impact ventures should consider how changes in governance might threaten their social or environmental mission. Preferred stockholders often wield disproportionate influence within the board and possess veto powers over management decisions. The typical lack of a permanent founder's voice, coupled with the over-weighting of the investors' voice, tilt the for-profit model in favor of financial returns, often at the expense of the social impact goals originally intended by the social entrepreneur.

Hybrid & Tandem Structures

Given the trade-offs between being a non-profit vs for-profit organization detailed above, you might decide to pursue a hybrid or tandem structure. Here are ways to achieve this structure and important factors to consider.

In the case of for-profit hybrids, protecting the mission through legal design is especially relevant when a for-profit impact venture's business model puts its social mission in tension with its profit motive. When mission and profit are in tension, it takes intentional legal design and careful balancing of short term and long term trade-offs to ensure that both profit and mission-related goals are met. You can see examples of various revenue and impact models here under For-profit Hybrids: https://web.stanford.edu/group/circle/csi/ipo/SE_LegalStructure/

There are 2 approaches to anchoring a for-profit's social mission and the link above also provides more details on various options for each:
1. Choose an innovative corporate form
2. Supplement your traditional Corporate Structure with Mission Anchoring Design Features

In the case of tandem structures, entrepreneurs seeking the best from both for-profit and nonprofit structures will sometimes work to combine the two into what is commonly referred to as a "tandem" structure. A tandem structure entails the creation of two separate legal entities which are linked by legal design:

- A tax exempt nonprofit eligible for charitable grants, and
- A for-profit that can raise unrestricted funds from angels, VCs, and institutional investors and can make tax-deductible donations to the nonprofit entity

Legal Structure

Impact venture founders typically seek a tandem structure when:

- A nonprofit's unrelated business income threatens its nonprofit status.
- A nonprofit desires a separate liability shield for its profit-generating activities, so that in the case where liability attaches, donor contributions are not at risk.
- A nonprofit desires to establish a fund for investing.
- Operating overseas results in advantages for the nonprofit to operate through a for-profit subsidiary.
- A for-profit needs to differentiate its philanthropic work from its core business.
- Grant funding for for-profit impact ventures at the seed stage is rare as there are legal constraints around foundations giving money to for-profit ventures. As such impact venture founders may choose to have a tandem non-profit structure that can accept grant capital.

B Corp Certification

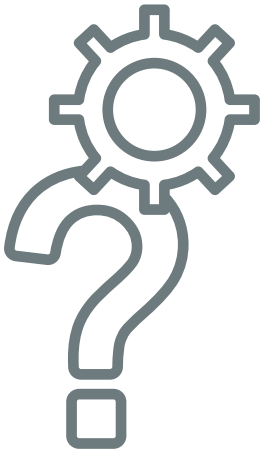
Certified B Corporations are businesses that balance purpose and profit and are legally required to consider the impact of their decisions on their employees, customers, various part of their supply chain, the community, and the environment. Certifying as a B Corporation goes beyond product- or service-level certification and is the only certification that measure a company's entire social and environment performance. Getting certified requires a rigorous process that needs to be renewed every 3 years and as such can be seen as a commitment to continuous improvement in social and environmental performance.

Being B-Corp certified then could potentially make the company more appealing to funds that are required to report on how they are managing their ESG risks as "not having good social and environmental management in the company is a huge risk. Many companies find that going through the B Impact Assessment helps them understand how to mitigate their own social and environmental risks and how to do better as a company" (Josefa Monge, Executive Chair of Sistema B Chile). Another benefit of being B Corp certified is the ability to attract mission-oriented talent and to ringfence your mission as it becomes part of your company charter. However, being a B Corp also has some potential downsides, for example "some VCs don't want to invest in B Corp companies because they want all their money to go towards making profits, which limits to some degree who you can get money from" (Stephen Ciesinski, former President of SRI International). On the other hand, some VCs who operate in emerging markets with an impact lens do see the B Corp certification as an advantage, "We love B Corp companies because it signals the founders' commitment to their mission" (Federico Antoni, Co-Founder and Managing Partner, ALLVP).

Things to Consider When Fundraising

Once you have decided on whether to structure your impact venture as a for-profit or non-profit, the next set of questions are centered on fundraising. This section provides information on the fundraising process and things to consider. It builds on and adapts information provided in Y Combinator's A Guide to Seed Fundraising to impact ventures specifically and incorporates additional insights gathered from interviews and research.

Why raise funds?



The reality is that most startups will run out of money without external funding because founders usually cannot finance the amount of money needed to take a startup to profitability. This is even more so in the case of impact ventures in developing economies which often take longer to reach profitability due to market and infrastructure challenges present in developing country contexts. A few startup companies do successfully bootstrap (self-fund) themselves, but they are the exception.

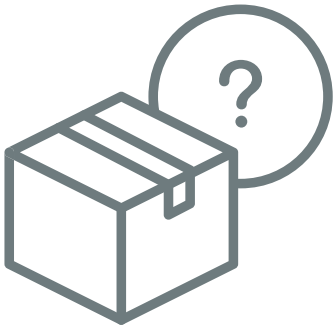
Raising a substantial amount of external funding allows startups to survive and grow and provides a competitive advantage in crucial areas such as hiring key staff, marketing, product development and sales. So, while the process of fundraising is often long, arduous and discouraging, being able to raise funds successfully has extensive benefits to sustaining and growing your organization.

When to raise funds?

The answer is – as soon as you can make a compelling case to funders. Funders will only write checks when 1) the idea is compelling, 2) they are convinced that the founding team can realize its vision and 3) that the opportunity is real and sufficiently large. In the case of impact ventures, the size of opportunity is defined by potential scale of social impact (for impact-led funders) and/or commercial success (for returns-led funders). Founders will only raise funding successfully when you are able to persuasively establish all three. Most of the time, this would require an idea, a product and some evidence of customer traction. Therefore, founders should raise money when they have figured out what the market opportunity is, who their target customers are and when they have developed a product that matches their target customers' needs.

Things to Consider When Fundraising

How much to raise?



In the ideal world, you should raise as much money as you need to reach profitability. However, oftentimes funders will only provide as much money as you need to get to the next "fundable" milestone which is usually 12 to 18 months later. In choosing how much to raise, you are trading off between how much progress you can make with the funds raised, credibility with investors, and dilution. Aim to give up as little as 10% of your company in your seed round, but realistically most rounds will require up to 20% dilution and you should try to avoid more than 25%. More importantly, the amount you are asking for must be tied to a realistic growth plan. That plan will persuade funders that their money will be used effectively in helping you achieve your goals and continue to grow. You should also create multiple plans, each assuming different amounts raised, and compellingly articulate your belief that the company will be successful whether you raise the full or some lesser amount, and that the difference will be how fast you can grow. One way to determine the optional amount to raise in your first round is to decide how many months of operation you want to fund. If you are raising for Z months (usually 12-18), and the cost of operations per month is $Y, you will need $X, where X = Z*Y, which will usually be between $10k and $2 million at the seed stage. As noted above, you should give multiple versions of Z and a range for $X, giving different possible growth scenarios based on how much you successfully raise.

What types of funding to raise?

For impact ventures, there are three main sources of funding:

1) Grants

Grants are a type of funding in the form of a gift of cash that impact-led funders offer impact ventures. Grant funders typically do not foresee any type of repayment or any financial returns to be given back to the funder.

2) Debt

Debt financing involves the borrowing of money and paying it back with interest. They are used when the investor is looking for a fixed term and fixed return but do not allow the investor to have any control over the decisions of the impact venture. The interest charged can vary depending on the risk profile of the investee, its potential social impact and on the securitization and repayment priority of the loan e.g. senior vs subordinated loan.

Things to Consider When Fundraising

3) Equity

Equity financing involves selling a portion of a company's equity in return for capital. If the impact venture is successful, the equity share holds the possibility of a financial return in the form of dividend payments and/or the capital gain at the exit. In addition, it allows for the possibility of a transfer of ownership to other funders in the future. An equity round means setting a valuation for your company and thus a per-share price, and then issuing and selling new shares of the company to investors. If you intend to raise equity funding, it is important to have an exit strategy as an exit is the main way equity investors achieve their financial returns targets. Exit strategies are discussed further below.

	PROS	CONS
GRANTS	No repayment. Well suited for non-profit impact ventures where generating earned income is highly unlikely, undesirable or difficult to achieve within the investment horizon of the funder. Non-dilutive.	Potential to create dependency in impact venture if does not come with adequate non-financial support to strengthen the financial sustainability of organization. May take a long time to secure and sometimes money is disbursed based on reimbursement rather than given out upfront.
DEBT INSTRUMENTS	Non-dilutive i.e. does not require founders to give up a portion of ownership.	Require monthly payments which eats into capital available to grow the business. Too much debt makes it harder to raise equity funding.
EQUITY INSTRUMENTS	No obligation to repay the money acquired. No additional financial burden on the company.	Requires founders to give up portion of ownership. Potential loss of control over company.

Different types of exits

The two main types of exits are strategic acquisitions and an Initial Public Offering (IPO). For impact ventures 90% of exits (if they happen at all) are strategic acquisitions.

Strategic Acquisitions

A strategic acquisition is when a company acquires another company in the same industry because the buyer believes that the two companies combined will be greater than the sum of their separate individual parts and aims to integrate the purchased entity for long-term value creation. A strategic buyer will purchase a company that they feel fits strategically with what they already own and are usually in the same industry as the target company. The acquirer typically does so because it sees an opportunity to expand product lines in the same market, branch out into new regions, secure additional distribution channels, or generally boost operational efficiencies.

Things to Consider When Fundraising

Initial Public Offering

An initial public offering (IPO) refers to the process of offering shares of a private company to the public in a new stock issuance. Public share issuance allows a company to raise capital from public investors. The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes share premiums for current private investors.

Additional Financing Instruments

Recoverable Grants

Recoverable grants are grants that may include an agreement to treat the funding as a grant if the impact venture is not successful, but to repay the funder if the impact venture meets pre-agreed KPIs. Recoverable grants are designed to motivate impact ventures to focus on sustainability and to reduce its risk of grant dependence.

Soft Loans

Soft loans are debts that funders offer impact ventures with no interest (0% interest rate loans) or with a below-market rate interest. The main difference with recoverable grants lies in the repayment scheme, which is agreed ex-ante between the two partners and is not conditioned on any specific KPI.

Convertible Debt

Convertible debt is a loan an investor makes to a company using an instrument called a convertible note. That loan will have a principal amount (the amount of the investment), an interest rate (usually a minimum rate of 2% or so), and a maturity date (when the principal and interest must be repaid). The note converts to equity when the company does an equity financing. These notes will also usually have a "Cap" or "Target Valuation" and/or a discount. A Cap is the maximum effective valuation that the owner of the note will pay, regardless of the valuation of the round in which the note converts. The effect of the cap is that convertible note investors usually pay a lower price per share compared to other investors in the equity round. Similarly, a discount defines a lower effective valuation via a percentage off the round valuation. Investors see these as their seed "premium" and both of these terms are negotiable. Convertible debt may be called at maturity, at which time it must be repaid with earned interest, although investors are often willing to extend the maturity dates on notes.

Things to Consider When Fundraising

Simple Agreement for Future Equity (SAFE)

SAFEs were created by Y Combinator in 2013 as an alternative to convertible notes. A SAFE is a convertible security that acts like convertible debt without the interest rate, maturity and repayment requirement. The negotiable terms of a SAFE will almost always be simply the amount, the cap, and the discount, if any. It is typically seen as more founder-friendly and less complex than a convertible note. You can read more about SAFEs in YC's SAFE Primer.

Revenue sharing agreements (or royalty-based financing)

Revenue sharing agreements are a financial instrument in which the funder lends money to the impact venture against its future revenue streams. The initial capital plus an additional interest has to be repaid by the company until the pre-established amount is paid back ("royalty cap"), with repayments only starting when the company generates positive cashflow. Investors obtain returns as soon as the investees reach an agreed level of revenue.

As an impact venture founder, you may also have the opportunity to raise a combination of different types of funding. The most desirable and common investing vehicle is convertible debt or equity as grant funding for for-profit impact ventures at the seed stage is rare.

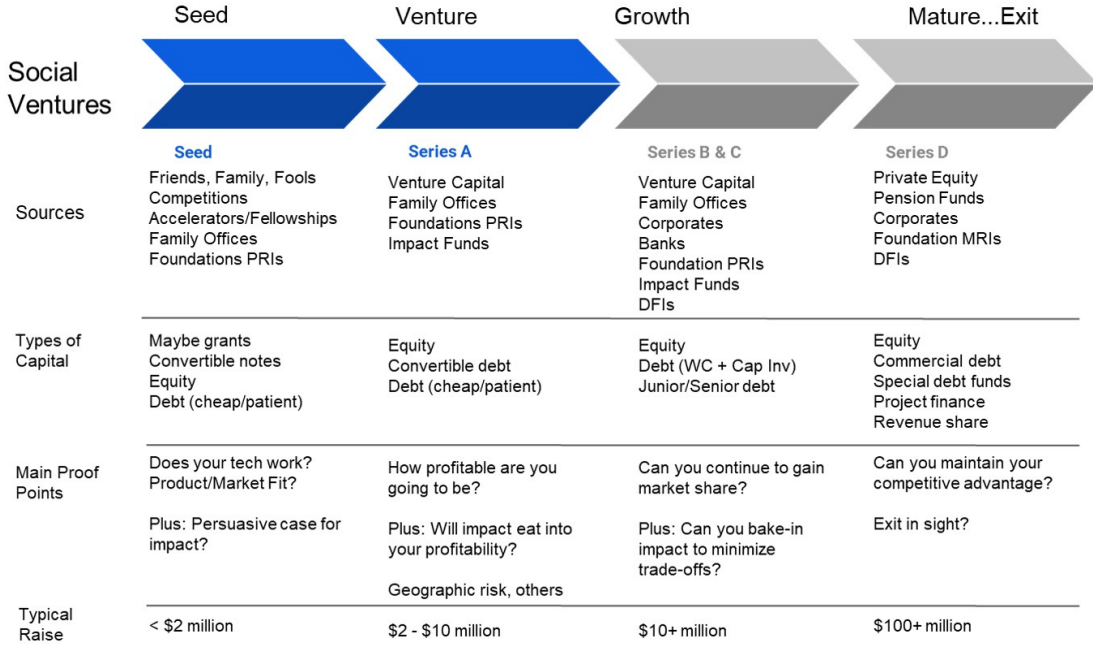
What types of funders to approach?

In approaching funders, there are a few simple rules to follow. Firstly, ensure that you are approaching the right funders. Impact venture funders are segmented in several ways, namely by stage of funding, whether they are impact-led or returns-led and by geography or sector. While some funders might be more stage agnostic and some might have flexibility in terms of expected returns, funders in the impact space typically do not budge from their geography or sector focuses.

Stage of Funding

Like commercial investors, impact investors are typically segmented based on stage of funding which has implications on their typical check size and the stage of development of the impact venture that they will fund. The chart below summarizes the different stages and respective sources of funding which I will cover in greater detail in this section.

Things to Consider When Fundraising



Source: Mulago Foundation

Seed

Seed funding is the first official funding stage. It typically represents the first official money that a business venture raises. This early financial support is crucial in helping you turn your initial ideas into an actual venture by building your first products or services, conducting market research and defining your target market, helping you find product/market fit. Seed funding is used to employ a founding team to complete these tasks. Specific to impact ventures, seed funding is also used to build and test the case for intended impact.

There are many potential investors in a seed funding situation: founders, friends, family, incubators, venture capital companies and more. One of the most common types of investors participating in seed funding is a so-called "angel investor." Angel investors tend to appreciate riskier ventures (such as startups with little by way of a proven track record so far) and expect an equity stake in the company in exchange for their investment. Seed funding for impact ventures specifically can come from a range of sources from competitions to accelerators, family offices and Foundation Program-Related Investments (PRIs). PRIs are a flexible financing tool that allow foundations to invest in solutions to social problems, while also recycling that money for new investments. However, while sources of seed funding are diverse, the most common are still friends, family or angel investors.

While seed funding rounds vary significantly in terms of the amount of capital they generate for a new company, it's not uncommon for these rounds to produce anywhere from $10,000 up to $2 million for the startup.

Things to Consider When Fundraising

Venture (Series A)

Once a business has a working Minimum Viable Product (MVP) and good indications of product/market fit i.e. promising data, that company may opt for venture funding (Series A) to further optimize its user base and product offerings. In this round, it's important to have a plan for developing a business model that will generate long-term profit. Oftentimes, seed startups have great ideas that generate a substantial number of enthusiastic users, but the company doesn't know how it will monetize the business. It is therefore important for founders to use Series A capital to test and validate the economics of their ventures and determine level of profitability. Specific to impact ventures, it is also important to understand if there is greater purpose-profit alignment or purpose-profit tension i.e. will impact eat into your profits as the organization scales. Typically, Series A rounds raise approximately $2 million to $10 million.

At this stage, investors are not just looking for great ideas. Rather, they are looking for companies with a strong strategy for turning that idea into a successful, profitable business. Sources of funding for impact ventures are likely to come from family offices, foundations PRIs, impact funds and occasionally venture capital. It's also common for investors to participate in a more structured process where a single investor may serve as an "anchor" or "lead investor". Once a company has secured a first investor, it's often easier to attract additional investors. Lead investors set the terms and other investors come in based on those terms and may have a preexisting relationship with the lead investor. Angel investors also invest at this stage, but they tend to have much less influence in this funding round than they did in the seed funding stage.

Growth (Series B, C)

Once a business has developed a track record (an established user base, consistent revenue figures, or some other key performance indicator), growth stage funding (or Series B and C funding in the venture capital world) is when capital raised is used to take businesses to the next level, past the development stage. This is typically achieved through expanding market reach, developing new products or expanding into new markets. By this stage, companies should have already developed a substantial user base and proven that they are prepared to scale their operations to meet increasing levels of demand. Specific to impact ventures, founders also need to determine how they can integrate impact into their business model to minimize trade-offs between impact-return and financial-return at this stage.

Things to Consider When Fundraising

Growth stage funding is similar to venture funding in terms of the processes and key players. Growth stage funding is often led by many of the same characters as the earlier round, including a key anchor investor that helps to draw in other investors. The difference with growth stage funding is the addition of a new wave of other funders that specialize in later-stage investing including corporates and banks. Specific to impact ventures, growth stage funding can also be provided by Development Finance Institutions (DFIs) like the IFC.

Mature (Series D)

Most commonly, a company will end its external equity funding with Series C. However, some companies can go on to Series D and even Series E rounds of funding as well. Generally, companies raising hundreds of millions of dollars in funding at this stage are prepared to continue to develop on a global scale. Many of these companies utilize mature stage funding to help boost their valuation in anticipation of an IPO.

New funders such as private equity firms and pension funds are also at play in addition to the corporates, Foundation MRIs and DFIs actors seen in the previous round.

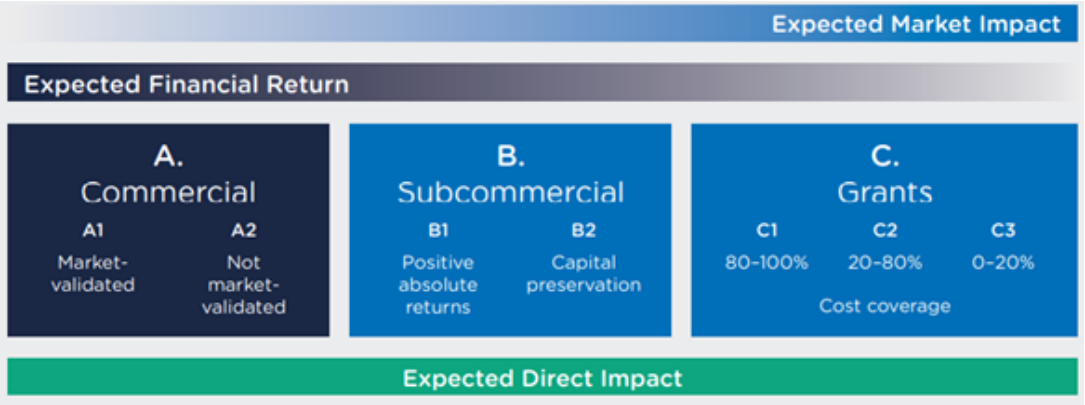
Impact-led vs Return-led

Another way that funders are segmented is in accordance to whether they are impact-led or return-led. Impact-led investors focus on social or environmental returns and can range from accepting full loss of capital to disproportionate risk-adjusted returns to achieve capital preservation. Return-led funders accept competitive risk adjusted returns in return for notional impact. Non-profit impact funds tend to be more impact-led than funds where the investors are expecting their money back plus a percentage of the fund profits.

Another way to understand this is by putting funders on a continuum of capital with pure financial gain on one side and pure social return on the other (refer to graph below).

Things to Consider When Fundraising

Larger funders may also deploy different financing strategies for different investments depending on expected financial and impact returns. For example, Omidyar Network deploys a returns continuum framework where they categorize their potential investments into 3 broad categories and vary the expected market impact and expected financial return accordingly (refer to graph below). You can also read more about their returns continuum framework here.



Source: Omidyar Network

Category A – Commercial Investments

Omidyar Network expects all investments in this category to achieve positive social impact and strong financial returns. To reduce the risk of mission drift, they target companies that have social impact "embedded in their business model"—regardless of whether they explicitly pursue such impact. These companies follow a model that ensures that they will deliver direct social impact simply by serving their customer base.

Category B – Subcommercial Investments

For investments in this category, Omidyar Network accepts the prospect of lower financial returns in exchange for the promise of significant market impact. Just because a company creates market impact does not mean that it will generate strong financial returns. Companies that pioneer new models in new markets frequently need time to overcome market-specific barriers and to establish the viability of their model. Similarly, companies that are building out market infrastructure or working to influence policy often fall short of generating commercial returns.

Category C – Grants

Omidyar Network does not expect to receive any capital back from any of the grants that they make, and they hold all grants to a high expectation of market-level impact. But within this category, they divide grants into subcategories that reflect the degree to which a grant recipient will cover its costs through its operations.

Things to Consider When Fundraising

Another example of larger funders deploying different financing strategies for different investments is the Bill & Melinda Gates Foundation's blended financing of bKash.

bKash is a mobile payment company developed to improve financial inclusion of the poor in Bangladesh. Because bKash was not ready to attract commercial investors, Gates Foundation staff had no doubt that it required a subsidy to grow. It was determined that bKash would require $15 million to fund its growth through the point of cash flow breakeven. To determine whether any portion of the company $15 million need might appropriately be met through a grant, the Gates Foundation evaluated the use of the funds. They identified $4 million of planned activities that provided significant charitable value to low-income people in Bangladesh but provided only marginal support for bKash's mobile payments business. These activities included improvements in data collection, pilot programs with nonprofit partners, and exploring interoperability with other banks with the aim of broadening access for those most in need.

But it was also important for bKash to raise additional commercial funds to begin to demonstrate sustainability. The Gates foundation team hoped that an investment would support bKash's rapid growth in low-income and underserved areas and help attract commercial investors to the next round of financing. They ultimately decided on a combination of an $11 million equity investment and a $4 million grant. For more information, you can read the case study here.

> "It is important to the Gates Foundation that we are able to leverage our funding to achieve a higher level of impact beyond the dollars. This could be in the form of pulling in government entities, other philanthropists or private sector funding"
>
> STEVE DAVIS, SENIOR STRATEGIC ADVISOR & INTERIM DIRECTOR, CHINA COUNTRY OFFICE, BILL & MELINDA GATES FOUNDATION

Geography and Sector Focus

Lastly, impact investors are also segmented based on geography and sector focuses. Some impact investors might choose to focus only on specific regions such as Africa or South Asia or only choose to focus on specific sectors such as Agriculture or Financial Inclusion. Such impact investors are unlikely to change their region or sector focuses and will limit their investments accordingly. As such, it is worth looking into the geography and sector focuses of each potential funder before embarking on fundraising.

Things to Consider When Fundraising

How to Choose Funders?

While typical startup founders usually choose funders (if they have a choice) based on the terms of funding, impact venture founders have additional factors to consider in choosing funders. In this section, I list 6 important factors to consider.

1.Mission alignment

By far the most important factor to consider when choosing funders as an impact venture is whether you have mission alignment. As mentioned above, different funders occupy a different position on the impact-led vs returns-led spectrum and it is crucial to determine what their position is as you meet with them as this will affect your decision-making as you grow the company. For example, as an impact-led funder, DRK Foundation not only takes a board seat but also prefers that they not be the only impact-led funder on the board. On the other hand, returns-led funders are more likely to advocate for decisions that prioritize financial returns.

> "You need to decide what you are going to measure your success on and be as transparent as possible about what you want to do. The best cases are when investors have bought into the whole vision"
>
> XAVIER HELGESEN, FORMER CO-FOUNDER & CEO OF OFF GRID ELECTRIC (ZOLA ELECTRIC)

While it is ideal that a for-profit impact venture is able to have profit-purpose alignment, the reality is that this may not always be the case as the company or market develops, even if it was at the start. As such, while you may have to tailor your pitch to the various types of funders, you should have clarity regarding what your mission and vision for the impact venture are and that should be consistently communicated to any potential funder.

2.Expected financial return

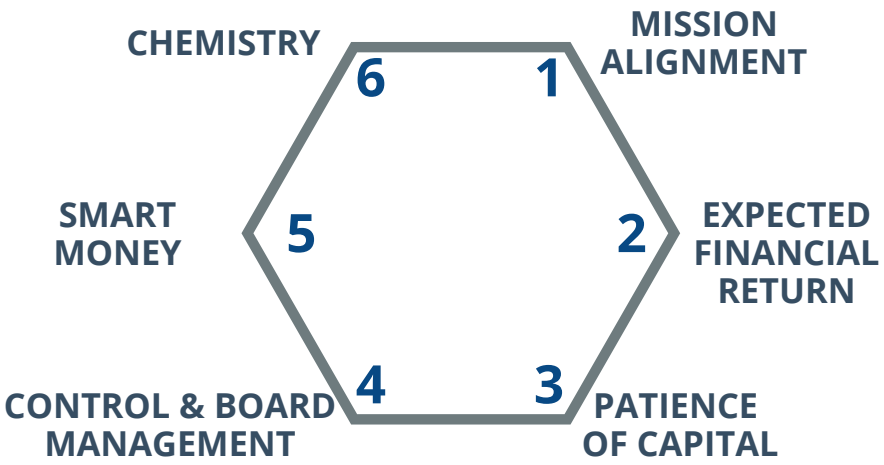
Different funders also have very different expected rate of returns that is both tied to the funding mechanism and type of investor. An impact-led impact investor may choose to give grants where they are not expected to recover any money at all to investments at concessionary or market rate returns. Returns-led investors typically expect market rate returns while venture capital investors would expect outsized returns.

Given the potential range of expectations, you need to consider how much uncertainty is in your model. All start-ups face 4 major sources of risk:

Things to Consider When Fundraising

- Product/Technology: These are risks associated with the feasibility, quality, customer satisfaction, production and unit economics of your products or services.
- Market: These are risks related to your target customer, market size, customer acquisition, competition, barriers to entry, lifetime value of your customer and any other political or regulatory risk associated with your chosen market.
- Team: These are risks associated with your team's skillsets and experience, business related abilities, technical capability, team dynamics and potential conflict and execution.
- Capital: These are risks related to your capital structure, investors, burn rate, dependence on external funding, outstanding debt, shareholder obligations and ability to raise funding.

As you think through what risks your impact venture faces, and work to address these risks, you would be better able to understand how much financial return you can provide your funders at different stages of your development, and choose the most suitable funders accordingly.



3.Patience of capital

Different funders also have different investment horizons i.e. how long they would typically continue to invest in a venture and when they expect to see returns (in the case of investments). As such, another key consideration is how much time do you need to proof different aspects of the business? "I knew that growing an education business was going to take time. So although we received 10 signed term sheets from investors including some of the biggest VCs, it was non-negotiable to us that the term of investment be at least 10 years" (Ashish Rajpal, Co-Founder & CEO, XSEED Education). This is an important consideration because it is much easier to raise funding from an existing investor than it is to raise funding from new investors. An investor's investment horizon may also affect their strategy for the company e.g. an investor with a shorter investment horizon may try to push for an exit sooner.

Things to Consider When Fundraising

4.Control and board management

Different funders have different policies around whether they will take a board seat or not and the rights that they would like to have as board members which will directly affect how much control they have over the organization. Impact venture founders should view board members as a resource, but they should not be making operational decisions or interfere with your business. A term sheet, which is the document that establishes the nature of the relationship between the investor and the impact venture founder, will set out the rules around board composition and the investor's ability to block or dictate operational decisions made by the board.

5.Smart money

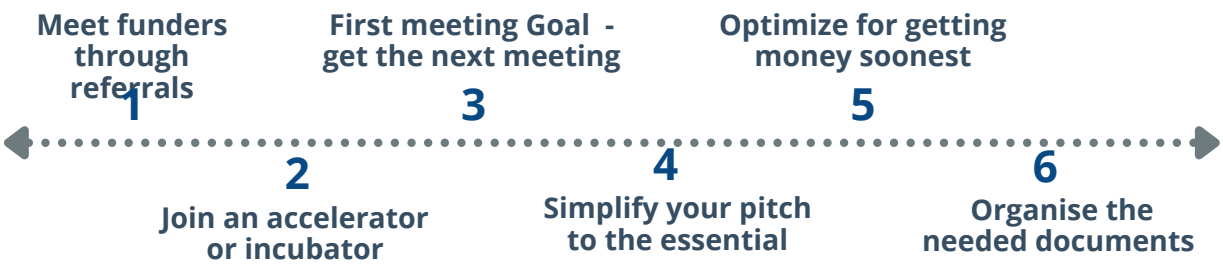
While your funders should not be making operational decisions, you also want funders with the connections, experience in market and other expertise, who can bring value and act in your interest. As such "not all money is equal and you need the expertise, advice and engagement of your investors in addition to the capital they are providing" (Narges Baniasadi, Co-Founder and former CEO, Bina Technologies), and you should choose your funders based on the value they can bring to your organization.

6.Chemistry

Lastly, perhaps the hardest to define but no less crucial is the chemistry between the impact venture founder and the individual investor. An investment in a company is a long-term commitment and all start-ups go through ups and downs. Having an investor who trusts you, likes you and feels connected to your outcome will make all the difference when things are rough. As such, when choosing funders, you not only want to look at the funding organization, but also the individual leading the investment, who is most likely going to be the person sitting on your board.

How to approach funders?

Finding, meeting and raising funding from funders is a daunting and intimidating task. However, there are many resources on how you can increase your chances of effectively doing so. Paul Graham's article on how to raise money is a good one that applies to most ventures. Here I've included 6 tips which I think are most helpful and relevant to impact ventures.



Things to Consider When Fundraising

1. Meet funders through referrals

By far, the best way to meet funders is through a referral or warm introduction. While some funders will entertain cold calls and applications, your chances of receiving funding from that funder increases when you are introduced by someone they know and respect. "We don't do open applications and only entertain founders who come to us through someone already in our network. The referral process acts as a powerful filter as it shows that someone familiar with our work already thinks that this could be a good opportunity" (Arjuna Costa, Managing Partner at Flourish Ventures). As such, generating leads by reaching out to your existing networks and asking people you know to refer you to 1 or 2 other potential funders they know is incredibly important. The best type of introduction is from a well-known investor who has just invested in you. So when you get an investor to commit, ask them to introduce you to other investors they respect.

2. Consider joining an accelerator or incubator

Another great way to meet many funders at once is to join an incubator or accelerator. This not only provides a chance to improve and test different aspects of your impact and business model, they also typically organize demo days where they bring together a concentrated and motivated group of seed investors. Here I've included four accelerators/incubators (there are certainly many more globally):

a.FastForward

Fast Forward mobilizes the funding, resources and support tech nonprofits need to create positive impact at scale. It runs an accelerator program which provides a $25K philanthropic grant to support early growth while learning from leaders of the tech and social sector. They have supported 59 organizations, which have gone on to raise 275M in follow-on funding. You need to be legally structured as a nonprofit to join Fast Forward's accelerator. "We support leaders who are building original technology, tailored to a specific market with the ability to scale their impact" (Rekha Pai Kamath, Board Member of FastForward).

b.Echoing Green

Echoing Green is an incubator that runs a full-time fellowship program where they find people working on a plan to make the world better in a big way. Echoing Green then helps them become impactful leaders by connecting them with the tools, resources and communities they need to bring their ideas to life. As part of their fellowship, they provide 80K over 18 months in grants (nonprofits) or recoverable grants (for-profits). "We provide catalytic funding crucial to their launch at an early stage to help founders develop a proof of concept. Oftentimes, fellows are able to raise follow-on funding through the signaling effect of being selected into our program" (Peggy Segal, Board member of Echoing Green).

Overview of Funding Landscape

In 2021, Echoing Green decided to center their fellowship program on advancing racial equity, defined as an end-state where all people have equal opportunity and resources to thrive. You can read more about their racial equity focus here.

"The changes came out of the vast disparities we were seeing in our fellows community around barriers in access to capital which were broken down clearly along racial lines. We felt it was important to more explicitly name that as a focus for us as an organization and signal the importance of that to other funders and resource providers"

LIZA MUELLER, VP(THOUGHT LEADERSHIP) AT ECHOING GREEN

"We started C3 almost a decade ago because we saw a gap in support for social entrepreneurs in the region. Many social entrepreneurs were bootstrapping for years due to the lack of funding and expert support and there was a lot of debate around what a social enterprise is in the first place"

MEDEA NOCENTINI, FORMER CO-FOUNDER & CEO OF COMPANIES CREATING CHANGE

c.Y Combinator

Twice a year Y Combinator invests 100K-125K in start-ups including several non-profit organizations. They work intensively with the companies for three months, to get them into the best possible shape and refine their pitch to investors. Each cycle culminates in Demo Day, when the startups present their companies to a carefully selected, invite-only audience. In 2013, Y Combinator made its first nonprofit grant and have since then supported over 30 non-profit organizations with 100K in funding. Y Combinator prefers "nonprofits that have a revenue model and want to be able to cover their operational costs by charging customers" (Tim Brady, Partner at Y Combinator).

d.Companies Creating Change (C3)

C3 is a UAE-based social enterprise helping entrepreneurs in the Middle East, North Africa and Turkey unlock their growth potential and maximize their positive impact on the community. They run the C3 Social Impact Accelerator program – powered by HSBC, which supports social entrepreneurs to maximize their impact on society and the environment, achieve financial sustainability and, ultimately, solve major social challenges at scale. Since their founding in 2012, C3 has supported more than 500 social entrepreneurs in the MENAT region engaging a community of more than 2,000 experts and over 100 investors.

e. Accelerating Asia

Accelerating Asia runs a flagship accelerator program which invests up to SDG200K (~USD150K) in select startups. The program is 100 days and is split into intensive weeks with masterclasses, investor meetings and pitch coaching with weekly activities such as Entrepreneur in Residence sessions. The final month of the program includes demo day with a curated group of investors and partners. Their portfolio includes 36 startups from 10 countries and 10+ verticals.

Things to Consider When Fundraising

3. Your goal for the first meeting is to get the next meeting

Funders will seldom choose to commit the first time they hear your pitch, regardless of how brilliant it is. Instead, use the first meeting to gain feedback on both your idea as well as your pitch, "people love being asked for advice, people hate being asked for money. Approach investors with a genuine desire for feedback, if they are interested in investing the conversation will progress naturally" (Owen Woodhouse, Investment Manager at Jasmine Social Investments). Continue to engage funders as your company grows, especially at the early stages and as you hit milestones.

4. Simplify your pitch to the essential

All the investors interviewed mentioned that in making their decisions, they look at three things 1) Founding team, 2) Market size and 3) Product/Service, often in that order. So your pitch needs to be able to provide a compelling story around what and how big is the problem you are trying to solve, why is this a great product/service to solve it and why you are the right team to do so. Who you are and how well you tell your story are most important when trying to convince funders to give you money and funders are often looking for a combination of grit and perseverance, "I look for founders who are eternally irrepressible" (Laura Hattendorf, Head of Grants and Investments at Mulago Foundation), as well as expertise and experience in the sector they have chosen. Also, make sure you do your research on how investors assess potential opportunities, funders sometimes have key metrics that they look at e.g. 100K revenue/month, or globally scalable solutions or a specific investment thesis which will guide their decision making.

At the same time, do what you can to connect with the investor. An investment in a company is a long-term commitment and most investors see lots of deals. Unless they like you, they will most certainly not write a check, "one thing's for sure, no investor has ever funded a founder they didn't like" (Xavier Helgesen, former Co-Founder & CEO of Off Grid Electric). Lastly, be transparent about what you know and don't know and the potential challenges and risks of your business. This helps to build trust with your potential funders and shows that you have thought through your approach. "We like leaders that are super honest in all aspects of their company especially the risks, as this gives investors more confidence that they will do a good job in being transparent with us and we don't have to go digging for hidden problems" (Michael Rieser, Associate Director (Social Finance) at UBS Optimus Foundation).

Things to Consider When Fundraising

5. Optimize for getting money soonest

Contingent on the factors listed in the previous section, it is worth meeting as many investors as possible but focus on those most likely to close i.e. take a breadth-first search, weighted by expected value. Expected value is a calculation of how likely an investor is to say yes, multiplied by how good it would be if they did both in terms of funding amount as well as signaling effect. As such, when you talk to funders, you should do it in parallel (rather than sequentially). The hardest part is to get the first money in the company and the biggest factor in most funder's opinions is the opinion of other funders. Once you start getting investors to commit, it becomes increasingly easy to get more to do so. Focus on landing that first investor, that is not friends or family, regardless of amount.

6. Documents you need

For early stage fund raising, you want an executive summary and a slide deck you can walk funders through. The executive summary should be one or two pages (one is better) and should include vision, product, team (location, contact info), traction, market size, and minimum financials (revenue, if any, and fundraising prior and current). If you are pitching to impact led funders, you will also need to include a hypothesis of change and magnitude of impact (number of people impacted).

Your slide deck should include:

1. ***Your company / Logo / Tag Line***
2. ***Your Vision*** *- Why your impact venture exists.*
3. ***The Problem*** *- What are you solving for the target community--what is their pain?*
4. ***The Customer*** *- Who are they and how will you reach them?*
5. ***The Solution*** *- What you have created and why now is the right time.*
6. ***The (huge) Market you are addressing*** *- Total Available Market (TAM) >$1B if possible. Include the most persuasive evidence you have that this is true.*
7. ***Impact Thesis*** *– Number of people you will be helping, how you are helping them, what is the intended impact and how will you measure it?*
8. ***Market Landscape*** *- including competition, macro trends, etc. Insights about the market you may have.*
9. ***Current Traction*** *- list key stats, plans for scaling and future customer acquisition.*
10. ***Business model*** *- how users translate to revenue. Include actual financials, projections, and margins.*
11. ***Team*** *- who you are, where you come from and why you have what it takes to succeed. You can include pictures and bios. Please specify roles.*
12. ***Summary*** *- 3-5 key takeaways (market size, key product insight, traction)*
13. ***Fundraising*** *- Include what you have already raised and what you are planning to raise now. Any financial projections may go here as well. You can optionally include a summary of company roadmap (6 quarters max) indicating what an investment will achieve.*

Final Thoughts

In my 10 years working in the impact sector, many people have asked me what the key ingredient to creating change as a social entrepreneur is. Almost all of them assume my answer would be passion. But in reality, the answer is resilience.

As a social entrepreneur, you have chosen to channel your talents, time, efforts, and resources to solving some of the world's biggest problems and that work is inherently difficult. You will often be paid less than your public or private sector counterparts, your hours will be long and you will take on the emotional burden of trying to change entrenched systems of inequity.

The good news is, there are numerous people and organizations on your side, ready to lend their support to help you achieve your vision. They say it takes a village to raise a child, it certainly takes a universe of partners to grow a successful impact venture. But today, more than ever, that ecosystem exists, and there has never been more money, talent or resources channeled to solving development problems than there are today. So do not give up in your journey to serve the underserved, to give a voice to those who do not have one and to create a better future for us all.

If you would like to find out more about the information I've presented here, or would like support in your journey as a social entrepreneur, feel free to reach out to me at samleesl@stanford.edu / samanthaleesiuling@gmail.com. I will do my best to help you in whatever way I can.

> **"It is not your responsibility to finish the work of perfecting the world, but you are not free to desist from it either… Know that you are part of the living chain of people who have dreamed, worked for a better world and carried on this mission for four thousand years in an unbroken covenant" – Rabbi Tarfon**

Appendix

The table below provides a non-exhaustive list of funders and details of their specific investment segments.

Type of Organization	Name of Organization	Stage of Funding	Types of Capital	Cheque Size (USD)	Regional Focus	Sector Focus	Evaluation Criteria
Traditional Philanthropy	Open Philanthropy	Agnostic	Largely grants	No stipulated cheque size, funding has ranged from 370-55M	Global	1.Global health & development 2. U.S. policy 3.Global Catastrophic Risks	1. Importance 2. Neglectedness 3. Tractability
Social Investments	Silicon Valley Social Venture Fund (SV2)	Early stage	Grants & Equity Investments	30K to 3M	Companies must be registered in the US, but can operate globally	Agnostic	1.Financial sustainability 2. Product/market fit 3. Differentiated impact thesis 4. Deep knowledge in sector 5. Clear way of measuring and evaluating impact
Social Investments	Bill & Melinda Gates Foundation	Agnostic	Grant & Equity Investments	Wide range from 100K to tens of millions	Global	1.Gender Equality 2.Global Development 3.Global growth and opportunity 4.Global Health 5. Global Policy and Advocacy 6. US program	1.Impact of funding 2.1:1 leverage through other investors 3.Scalable and sustainable solutions 4. Level of impact 5.Capacity as value-added investors
Social Investments	DRK Foundation	Post-pilot, pre-scale: 3-5 years	Grants & Equity and Debt investments	300K total for 3 years	Global	Agnostic	1.Evidence of focused alignments, systemic social change, data-based decision making 2. Understanding of opportunity and communities they serve 3. Scalability: able to serve at least 10,000 people a year 4. Team: is the leadership going to be able to attract resources and lead the team to continue to learn and pivot on work they are doing if need be.
Social Investments	Mulago Foundation	Early stage	Grants and Equity Investments	100K-500K	Low income countries	1. Livelihoods 2. Health 3. Conservation 4. Energy 5. Education 6. Amplifier	1. Meets the basic needs of their target population (very low income people in low income countries) 2. Scalable, lasting impact 3. Excellent leadership and management 4. Early Stage (1-5 years of operations)
Social Investments	Jasmine Social Investments	Early stage	Grants, Equity and Debt investments	100K – 500K	Globally but mostly Africa and South Asia	1. Health 2. Education 3. Better Livelihoods 4. Environmental Sustainability	1. Durable solutions that can reach over 100,000+ beneficiaries 2. Clear model with evidence of effectiveness 3.Strong management team 4.Sound governance, and 100% transparency
Social Investments	UBS Optimus Foundation	Seed to Series A	Equity, Debt, impact-linked instruments (e.g., impact loans/ impact bonds)	500K – 1M	Low to middle income countries	1. Health 2. Education 3. Environment	1. Impact strongly embedded in the business model 2. established proof-of-concept 3. strong roots in the region they operate 4. prioritize companies with diverse boards including women representation

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Social Investments	Flourish Ventures	Seed to Series A	Grants, Equity Investments	300K – 3M	Low to middle income countries	Fintech and financial services	1. Invests in companies addressing unmet gaps in the market based on vision for the market 2. Company must show initial traction i.e. customers value the product/service 3. Look at impact both on direct beneficiaries and market level impact
Social Investments	Elevar Equity	Early growth capital	Equity Investments	500K to 3M (usually around 1.5M)	India & Latin America	1. Agriculture 2. Education & Employability 3. Financial Inclusion 4. Healthcare 5. Housing 6. Market linkages 7. MSMEs	Target businesses with low average revenue per user and high or healthy Wallet Share i.e. company is providing affordable essential products and services with positive margins at a unit level
DFI	IDB Labs	Seed to Series B	Grants, Recoverable Grants, Co-funding required, Equity Investments, Debt Products	150K - 1M (for grants) 700K – 2M for equity investments 1M – 3M debt products	Latin America & the Caribbean	Agnostic	Different types of funding have different evaluation criteria: https://bidlab.org/en/products#financing
DFI	IFC	Series A to Growth stage	Equity investments, Debt, Blended Finance	>1M	Emerging markets	1.Agrotech 2.e-Logistics/e-Mobility 3.Consumer Technology 4. EdTech 5.Enterprise Technology 6. Health Tech 7.Cleantech/ Smart Cities	Different types of funding have different evaluation criteria: https://www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Solutions/Products+and+Services
Venture Capital	Global Ventures	Early growth stage	Equity investments	$0.5 - $4M	Middle East & Africa	Agnostic but focused on tech-enabled solutions that can reach global scale	1. Producing at least 1M in revenue a year, or 100K/mth 2. Solving a well-defined problem 3. Globally scalable
Venture Capital	ALLVP	Seed to Series B	Equity Investments	2M – 11M	Mainly Mexico but also rest of Latin America	1.Health Services 2. Smart Cities 3. Financial Services 4. Consumer Internet	1.Companies that develop innovative, scalable, and cost-effective business models using new technology. 2.Exceptional teams that efficiently deliver basic and value-added services to newly accessible customers.
Venture Capital	Enduring Ventures	Agnostic	Equity investments	Agnostic	Agnostic	Small and medium businesses with exceptionally big moats	1. organic sales growth, little to no spending on sales & marketing, and relatively high margins 2. Business of any sector with at least 500K in earnings, 50% gross margins and 20% or greater operating margins.

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Incubator	Echoing Green	Pre-seed	Grants/Recoverable Grants	Fellowship program provides 80K over 18 months	Global	1. Climate Change 2. Education 3. Health 4. Human Rights 5. Poverty 6. Racial Justice	Applicants: 1. Leadership skills 2. Purpose Alignment 3. Relationship to and expertise on the issue Organization: 1. Innovation 2. Changing Systems 3. Racial Equity
Accelerator	FastForward	Pre-seed/ Pivot or New product	Grant	25K	Global	Tech nonprofits	1. Leadership 2. Tech talent 3. Potential for Impact 4. Scalability 5. Lived experience with the problem 6. Alignment (FF is best poised to help scale)
Accelerator	YCombinator	Pre-seed	Grant (for non-profits) Equity investments (for-profits)	100K - 125K	Global	Agnostic	1. Team 2. Big problem + big solution 3. Provable or promising program 4. Y Combinator fit: groups who are building a tangible product or service that they can help measure and grow
Accelerator	Companies Creating Change (C3)	Pre-seed	Cash Prize	30K (plus a lot of in-kind)	Algeria, Bahrain, Egypt, KSA, Kuwait, Oman, Turkey, and UAE.	Agnostic	1. Operational & revenue generating for at least two years. 2. Contribute to at least one of the UN Sustainable Development Goals. 3.Full-time commitment from at least one of the founders. 4.Fluent in written and spoken English.
Accelerator	Accelerating Asia	Pre-Series A	Equity Investments (SAFE note)	50K - 200K	Southeast Asia and South Asia	Startups focused on 1.Stronger communities 2. Equal opportunities 3. Adaptive Industries	80% of portfolio startups address the SDGs, 65% either have female founders or providing solutions for female empowerment, fund founders with deep domain expertise