Funding opportunities for Social Enterprises

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A. Kick-starting the process: personal resources

- To get off the ground, social entrepreneurs frequently rely on personal resources (“bootstrapping”). Once they get some momentum going they try to approach investors.

B. Build early stage momentum: crowdfunding, competitions, programs and grants.

- Crowdfunding or impact-focused competitions and programs can supply capital at the early stages, for companies preparing to become more ‘**investment-ready**’ for traditional types of funding.
- Such processes also offer non-financial benefits such as mentorship, networks, and exposure.

Crowdfunding

- Crowdfunding is the process of campaigning towards a funding goal by collecting small amounts of money from many people.
- Usually, crowdfunding is rewards-based, contributors receive a product or ‘perk’ in exchange for supporting the campaign. A less common type of crowdfunding is equity crowdfunding, where backers receive a share of the company. Many backers may also pool their funds together into a loan that is expected to be repaid with interest.

Pros	Cons
excellent way to validate your product and show future funders there is market demand and willingness to pay for your product.	It can be time consuming to run a successful crowdfunding campaign.
Campaigns build social capital (a community of supporters) in addition to financial capital	Not all funds raised will be available for business needs because some part will go towards supplying backers with ‘perks’.
Crowdfunding can supersede systemic barriers faced by women and people of color.	

Competitions

- With the rise of social entrepreneurship, there are an increasing numbers of business competitions for purpose-driven startups.
- Example: the Hult Prize, which awards 1 million dollars to a team tackling a bold challenge aligned with a large market opportunity.

Pros	Cons
Presenting at competitions provides a platform for greater exposure to your community, as well as potential funders, supporters and partners.	Preparation for Pitch Competitions can be very time-consuming.
Competitions generally come with a set of judging criteria that force participants to clearly articulate the fundamentals of their business, including ideal customers, business model, and financials.	

Programs: incubators and accelerators

Incubators and Accelerators are programs that provide participating entrepreneurs with the *resources* and *support* they need to grow.

Most programs have an application process and are quite selective. Many come with funding, but not all. Typically, for-profit accelerator programs provide funding in exchange for equity in the company, usually around 5%-10%.

Regardless of whether or not they provide funding, accelerators and incubators provide a mix of:

- access to mentorship,
- networks,
- office space,
- professional services (such as legal or accounting support).

Pros	Cons
There are many incubator and accelerator for social entrepreneurs that come with various levels and structures of funding.	Participating in these programs can be very time consuming. They can also be distracting if program goals are not aligned with the priorities of your stage of business and your organizational values and goals.
Being selected to participate in a competitive program can boost your enterprise's credibility and exposure.	
They can provide an excellent opportunity to get connected with the right investor networks if you plan to pursue more equity investment.	

Grants

- Securing grants from governments, foundations, or corporations can be a great option for early-stage social enterprises. Grants can be crucial for sectors with high start-up costs and where investments are generally riskier to private funders, such as medicine, information technology or energy production.

Pros	Cons
Grant funding does not need to be repaid, and there is no additional cost associated with it.	Applying for grants can be time-consuming. Grants require progress reporting and/or auditing to monitor use of funds and to confirm the level of impact that is generated.

C. Impact investing: debt and term loans

- Debt funding is required to be paid back to the lender, typically the full amount plus interest accrued throughout the lending period.
- The most common types of debt come from banks in the form of term loans, revolving lines of credit, or credit cards. Typically, debt needs to be secured by assets, which means that in the event of a default - when the borrower cannot repay the loan as agreed - security will be taken by the bank to recover their funds.

Term loans

Pros	Cons
Term loans can be a good option for financing assets and equipment that will increase efficiency or production. The revenue gains produced can service (pay) the debt payments.	Term loans generally have set repayment terms including monthly installments and term length. Loans require repayment regardless of financial performance.

D. Equity capital: angel investment, venture capital

- In contrast to debt capital, equity capital is received in exchange for a share of the company, typically in the form of stock. Although equity capital doesn't need to be repaid, it does come with the expectation that value creation will exceed the initial investment as well as certain governance and reporting responsibilities to investors and shareholders. It also leads to decreasing control over the direction of the organization, since more owners means more decision-makers at the table.
- In order to determine what percentage of equity to give in exchange for the equity capital, you will first need to determine the total value of your company.
- Three types of equity capital: angel investment, patient capital, and venture capital.

Angel investment

- Angel investors are high-net worth individuals who invest their own money in entrepreneurs and companies based on their individual investment thesis, which can be based on their experience in a sector, recognition of a trend, or area of interest.

Pros	Cons
The capital does not need to be repaid.	If the investor is not aligned with your company's values and mission, there could be disagreement about strategic direction and financial decisions.
	Securing angel investing can be contingent on your network, making it much more challenging for those traditionally excluded from capital opportunities - females, people of color, and companies based outside of hub cities.

Venture capital

- Venture capital is provided by venture capital firms. This type of capital is usually invested in companies that have already proven their business model, product-market fit, a sustainable market demand, and are ready to scale quickly.
- Venture capital deals are **sizeable** when compared with other types of capital. The expected equity exchange can be up to 30% or more.
- Roughly half (52%) of all venture capital was invested in the United States, with China and Europe representing 16% and 11% respectively.

Pros	Cons
Venture capital can provide large injections of capital needed to scale quickly	By giving up shares in the company in exchange for funding, you cede some of the decision-making control
VC funding is often called 'smart money' because investors provide additional services, insights, and connections to help the company grow.	Raising VC funding can be a lengthy and time consuming process that takes focus away from the running of the business
Venture capitalists are invested in your success for the long-haul, typically until the company is sold or goes public. This can be a huge asset.	

E. Four types of capital specialized for Social Enterprise

- While many social enterprises will do well in looking for traditional funding available to for-profit and nonprofit organizations, sometimes a more specialized option is a better fit.

Patient capital

- Acumen defines patient capital as debt or equity investment capital with a long-term investment horizon of seven to 12 years, a high tolerance for risk, and a goal of maximizing both social and financial returns.
- Acumen Founder and CEO, Jacqueline Novogratz, explains it as taking, “the best of the markets as well as philanthropy and aid.” The patient capital model is funded by philanthropy which allows it to go where no other capital is willing to go.

Social impact bonds (SIBs)

One of the newest financing options on the scene, Social Impact Bonds (SIBs) are designed to fund impact outcomes. SIBs require significant coordination between the key stakeholders involved:

- SEs who receive upfront funding needed to deliver a proven intervention to a community in need,
- Impact investors, who provide the capital to the SEs and later receive a return when agreed upon targets are met, and
- The government, who pays investors the return after the intervention has been completed and measured.

SIBs allow the government to shift risk to investors and only pay for results.

Quasi-Equity: Revenue Sharing Agreements

- Loans are offered by financial institutions but repayments are linked to the future financial performance of the borrower. That is to say, when the organization generates higher income, the repayments of the loan are higher.

Program-Related Investments (PRIs) and Mission-Related Investments (MRIs)

- PRIs and MRIs are a funding option that allows *foundations* who typically fund nonprofits to invest in for-profit companies with a social mission. it can provide SEs with less expensive capital than traditional debt or equity.
- McConnell Foundation describes how each types of investment differs:
- Mission-Related Investments (MRI): MRIs are either for-profit or non-profit enterprises with the intent of achieving mission-related objectives and normally earning market-rate financial returns.
- Program-Related Investments (PRI): PRIs for-profit and non-profit enterprises to further the Foundation's program objectives, but, unlike grants, they also aim to generate financial returns, with a tolerance for below-market returns.

EU funding opportunities

- The Commission:
- helps social enterprises access investments of up to EUR 500,000 *via public and private investors* at national and regional level, as part of the **EU Programme for Employment and Social Innovation (EaSI)**.
- supports social enterprises through pilot equity investments under the **European Fund for Strategic Investments (EFSI),** namely via funds linked to *incubators/accelerators* and co-investments with *social Business Angels*.
- *co-funds projects* focusing on boosting the development of the demand and supply side of social finance markets in Europe.
- The Commission also supports social enterprise via the European Social Fund.

SE funding opportunities in Greece

- According to the EU Commission Report on Social Enterprises and their Ecosystems in Europe (2019), Greek social enterprises are more likely to receive donations, grants or in-kind donations than receive repayable loans and mortgages.
- The EU funds the majority of actions that promote and support Greek SSE organisations. More specifically, these actions are funded through the ESF and European Regional Development Fund (ERDF).
- The total EU budget for SSE related actions for the period 2014-2020 is about 160 million EUR. These funds are managed by both the Ministry of Labour and Greek Regional Authorities.