

## **2016 Social Enterprise Financing Survey for Colorado Fall 2016**

Over the last several years, social enterprise development in Colorado has been on the rise. In part, this is due to an increase in awareness of the need for, and potential of, revenue-generating activities to support mission-based programs of nonprofits. Several local social enterprise models are achieving success and national attention for their work creating jobs (economic opportunity) for those they serve. Capacity building programs supporting this type of activity have been funded by area foundations and businesses leading to an increase in training, technical assistance and consulting support for nonprofits wishing to explore social enterprise. Overall community interest in so-called double bottom-line options for social change has also increased through efforts such as the Unreasonable Institute, Colorado Impact Initiative, Social Enterprise Alliance Colorado Chapter, Impact Hub Boulder and many smaller-scale, independent efforts. Finally, interest in supporting social enterprises started by nonprofits has been increasing from grantmakers, individual donors and impact investors.

As foundations, community loan funds and others are entering the startup financing market, there has been a lack of data to show whether loans or Program-Related Investments (PRI) were appropriate mechanisms for funding startup social ventures run by nonprofits. There was also uncertainty as to whether these tools were desired by the nonprofits developing and launching new businesses. Anecdotally, the Colorado Nonprofit Social Enterprise Exchange (The Exchange) could offer that the majority of the 21 graduates of its Social Enterprise Cohort began the process wary of debt. Yet, during the social enterprise development process, and with some education around appropriate uses of debt instruments, became more comfortable with the idea leading several graduates to access startup PRI funding.

With this increasing interest in social enterprise both by nonprofits and funders/investors, and limited data to understand the current situation and potential opportunity of this market, a baseline study was in order. In the summer of 2016, The Exchange, in partnership with The Denver Foundation and an anonymous statewide funder conducted a survey of Colorado nonprofits on the subject of funding and financing for social enterprises and earned income activities. The intent was to:

- I. Understand the size and scope of social enterprise and earned income activity currently underway at nonprofits across the state
- II. Explore how currently operating social enterprises were or are financed and/or funded
- III. Gather data on emerging social ventures across the state
- IV. Determine need, scope and interest in various types of funding and/or financing for startup and growth of social ventures

Additionally, the funders of the study were interested in making this data available to other funders, impact investors, capacity builders, intermediaries and nonprofits across the state as they all explore how to best build financial products and services to support emerging and growing social ventures in Colorado.

The electronic survey was developed by the project partners and distributed across the state of Colorado by The Exchange team, as well as over forty funders, support organizations, consultants, clients and others contacted directly by The Exchange. Additionally, the survey was shared widely on Facebook, Twitter, LinkedIn and through emails to listservs and foundation grantees. **One hundred and twenty nonprofits participated in the financing survey<sup>1</sup>.**

## The Survey

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The survey was structured in three main sections. First respondents shared information about themselves and their organizations. Next they answered a series of questions about existing social ventures and earned income activities, including the nature of the ventures and how they have been funded. Finally, respondents shared information about potential future earned income activity or social enterprises, including what they would need from a financing and capacity building perspective to move these concepts forward.

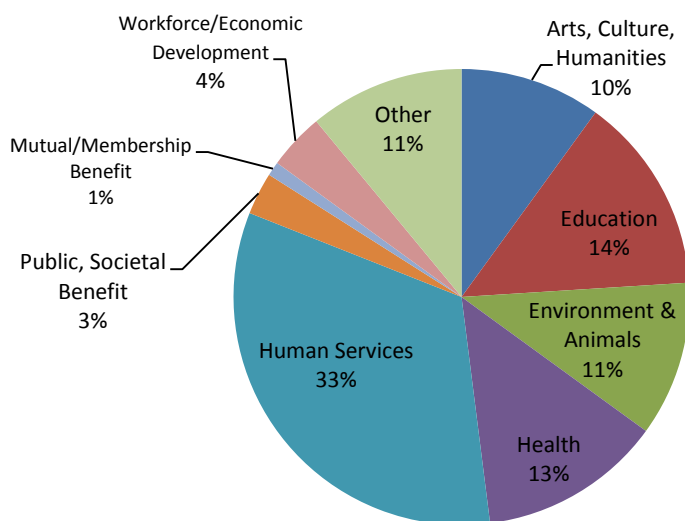
The following survey report includes the raw data for closed-ended questions. It also includes summarized /categorized data for responses where respondents were asked to describe their social venture or earned income activity, as well as discuss their needs and challenges related to financing social ventures.

## Survey Respondents and Their Organizations

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People from **all levels of Colorado nonprofits** completed the survey. This included executive directors (56%), board members (9%), development staff (9%), program staff (9%), administrative team members (8%), deputy directors (2%), and seven people representing other roles such as consultants.

**The primary focus of service of the nonprofits participating in the survey** broke down as follows.



**Additional service focus areas included:** youth development (non-academic), advocacy, early childhood, law/civil rights, youth mentoring and cross-focus area nonprofits.

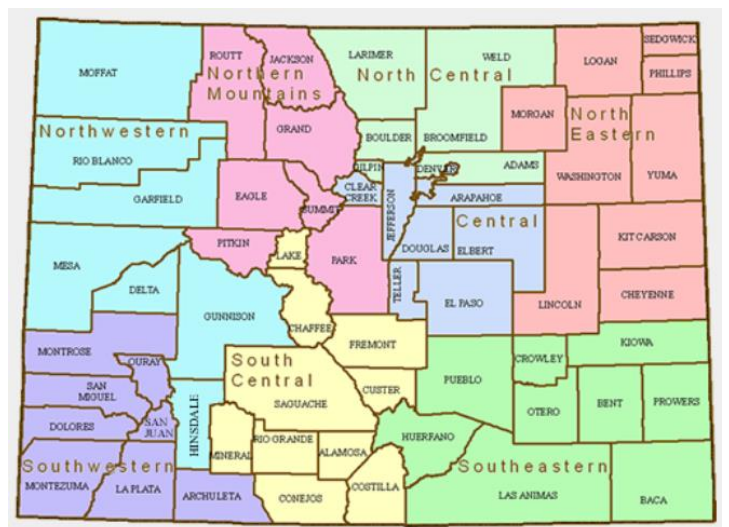
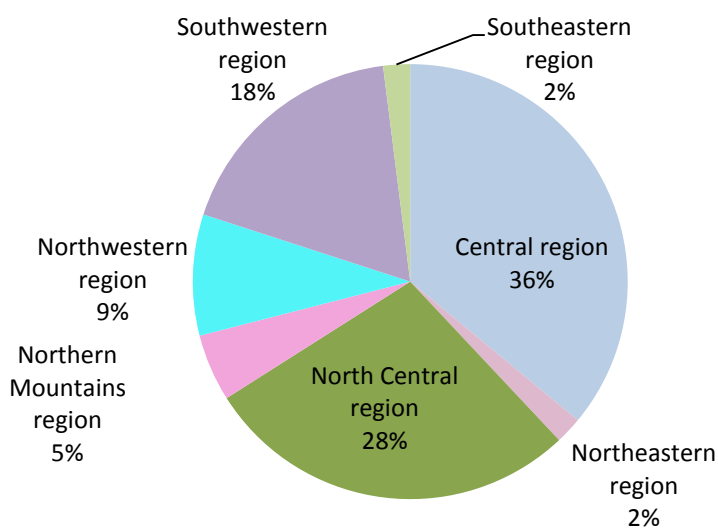
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<sup>1</sup> Note that not all questions were required and not all respondents answered all questions. Because this is the case, some percentages and number counts (n=) may not track to the total of 120 surveys.

The **annual operating budgets** of the organizations participating in the survey ran the full-range with the majority of organizations having budgets of less than \$1M.

Value	Percent	Respondents
Less than \$250,000	34.2%	41
\$250,000-\$499,999	13.3%	16
\$500,000-\$999,999	13.3%	16
\$1,000,000-\$2,499,999	22.5%	27
\$2,500,000-\$4,999,999	10.0%	12
\$5 million and greater	6.7%	8
Total		120

Respondents **represented nearly the entire state of Colorado** with the highest concentration of nonprofits focused on Colorado’s Front Range.



Physical location can vary from service area, and respondents also shared in **which geographic areas they provide programs and/or services.**

Value	Percent	Respondents
County/multi-county	66.0%	77
City/neighborhood	46.2%	54
State	18.8%	22
National/regional	7.7%	9
International	1.7%	2
Other	0.9%	1
Total		117

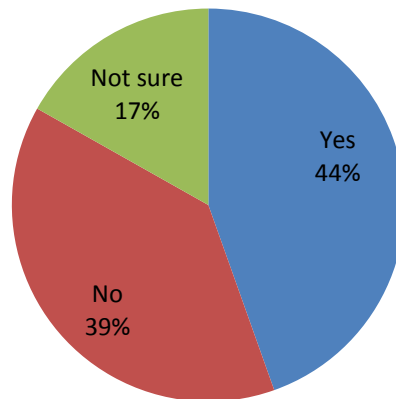
Finally in terms of organizational overview, the survey asked for more **detail about the number of employees and board members at each organization.**

	0-5	6-10	11-20	21-50	51 or more	Responses
<b>Full-time employees</b>	47.4 % 55	17.2 % 20	13.8 % 16	15.5 % 18	6.0 % 7	116
<b>Part-time employees</b>	70.9 % 83	13.7 % 16	8.5 % 10	4.3 % 5	2.6 % 3	117
<b>Seasonal employees</b>	90.5 % 105	5.2 % 6	1.7 % 2	0.9 % 1	1.7 % 2	116
<b>Board Members</b>	19.7 % 23	41.9 % 49	36.8 % 43	1.7 % 2	0.0 % 0	117

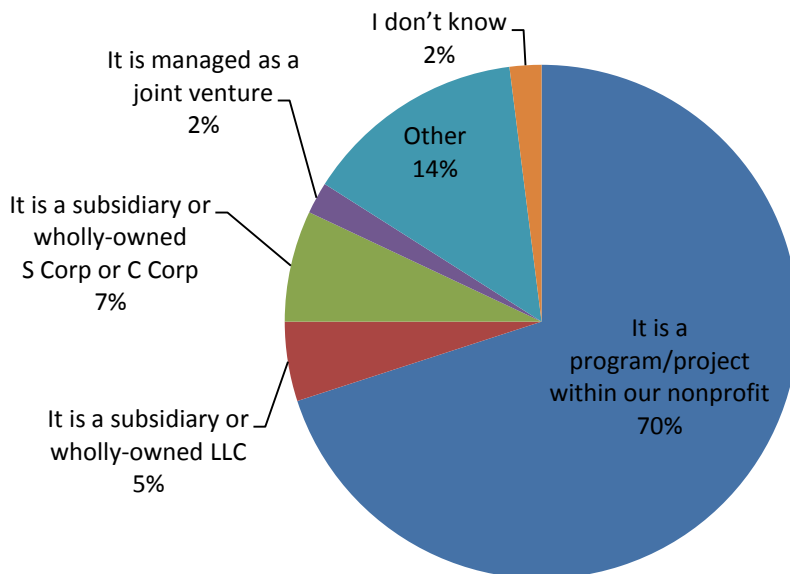
## Existing Social Ventures & Earned Income Activities

Utilizing a definition of social enterprise that combined that of the Social Enterprise Alliance and the Colorado Nonprofit Social Enterprise Exchange, respondents were asked **whether their nonprofit currently runs a social enterprise** (n=101).

**Social enterprise:** *A business whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas. (Source: former definition from Social Enterprise Alliance) For purposes of The Exchange, social enterprise is further defined as: the founder or developer of the social enterprise is a nonprofit organization and the social enterprise creates sustainable, unrestricted revenue or economic opportunity; preferably both.*



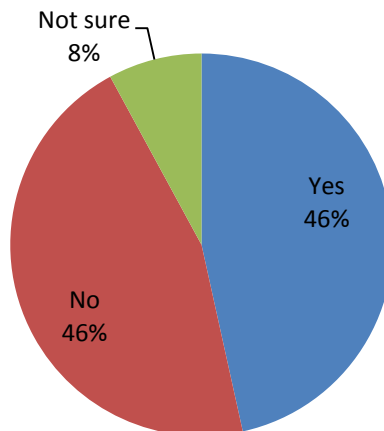
Of those organizations that indicated they are currently operating a social enterprise, the survey sought to learn more, including **how the social venture is structured** (n=50).



Additional responses to this question included:

- It is the core mission of the nonprofit
- Separate 501c3, then donate back to nonprofit
- Still in development

Organizations were also asked a follow-up question to understand whether there is **significant earned income activity at the nonprofit** regardless of whether the nonprofit operates a social venture. (n=101)



### **About Their Social Ventures / Earned Income Opportunities**

Survey respondents who indicated their nonprofit operates a social venture or has significant earned income activity provided additional information about the nature of these activities.

Thirty of the organizations indicated that they **charge a fee for services** that are also offered as part of their mission-based activity such as charging for educational events, providing training and technical assistance, tuition-based programs for families that can afford to pay, legal services, commercial rafting trips, energy audit contracts, spay and neuter services and workshops/classes.

Thirteen respondents work with/for nonprofits that generate revenue through **running a store, restaurant or other retail space**. Examples include: a coffee house, thrift stores, a safety store (selling home and personal safety equipment for children), cafes, a gift shop, a full-service grocery, an art gallery/studio, a Habitat ReStore and an online store.

Another category included **services developed specifically for sale** (v. those that began as mission-based programs and expanded to include a fee component). Of the eight organizations taking this approach, some of the services include: home health care, legal services, adoption, a real estate company, a staffing company and an accounting/bookkeeping company.

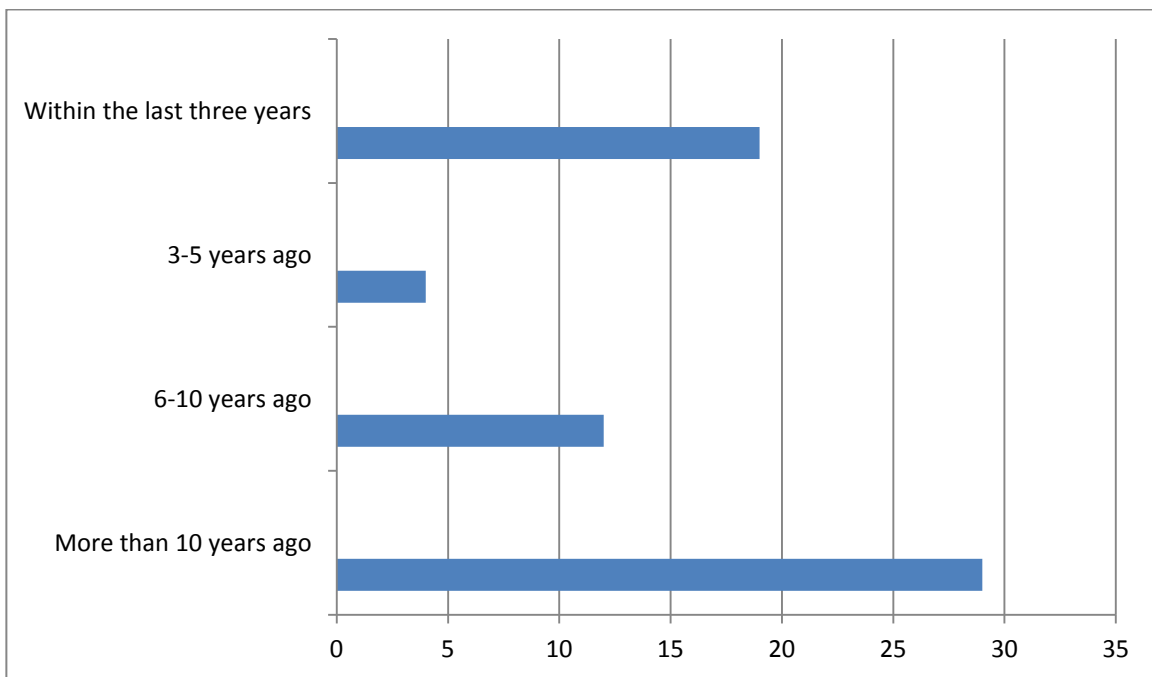
Six of the respondents offer some type of **product sales** (separate from a store or retail space), and four **rent space** (conference rooms, land leases, labor or shop space) to earn revenue.

Other responses included a variety of earned income strategies:

- Interest income
- Making Program-Related Investments
- Transaction costs
- Medicaid reimbursement
- Stewardship fund for conservation easements (earnings go to mission-based programs)
- Sale of Medicare-related medical benefits
- Energy audit contracts

An important consideration of The Exchange and survey partner The Denver Foundation, related to economic opportunity created by existing social ventures. Respondents shared whether their social enterprise or earned income activity **employs the people served through mission-based programming?** Fifty-six percent of respondents indicated they do employ people served by the nonprofit, thirty-eight percent do not and 6% were unsure. (n=64)

In seeking to understand both trends in social enterprise (are more being started now than in the past) and longevity of these enterprises, respondents shared **how long their current social enterprise or earned income activity had begun operating.** (n=64)



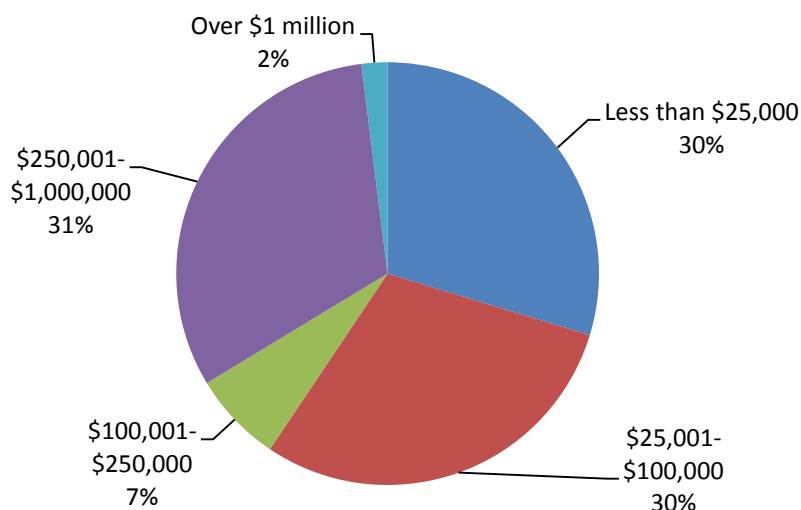
In addition to length of operation, respondents were asked **approximately what percentage of their organization's budget comes from social enterprise or earned income activity**. The majority (over 65%) receives less than 50% of their organizations budget from social enterprise or earned income sources.

Percentage of Budget from Social Enterprise or Earned Income	Percent of Respondents	Number of Respondents
0-25%	46.9%	30
26-50%	18.8%	12
51-75%	12.5%	8
76-100%	17.2%	11
I'm not sure	4.7%	3
Total		64

**Funding Social Ventures and Earned Income Activities**

Of those operating a social venture and/or with significant earned income activity (n=64), 68% of them had **accessed outside funding**. Thirty percent had not, and two percent were unsure.

**Amounts of outside funding raised by organizations represented in the survey (n=44) varied as follows:**





As did the **types of funding raised at the various stages of development.**

	Internally funded	Grants (foundation, corporate, gov't)	Gift or donation	Traditional loan (bank or other financial institution)	Community loan source (CO Nonprofit Loan Fund, <del>Accion</del> , Community Enterprise Fund, etc.)	Program Related Investment (PRI)	Equity investments	N/A	Responses
Seed, launch or startup funding	36.4 % 16	54.5 % 24	45.5 % 20	0.0 % 0	2.3 % 1	11.4 % 5	0.0 % 0	13.6 % 6	44
Operating or working capital	40.9 % 18	77.3 % 34	59.1 % 26	6.8 % 3	2.3 % 1	13.6 % 6	0.0 % 0	4.5 % 2	44
Capital to grow or scale	27.3 % 12	45.5 % 20	36.4 % 16	2.3 % 1	4.5 % 2	2.3 % 1	0.0 % 0	38.6 % 17	44

Organizations that indicated they had **funded their social venture or earned income activity with debt instruments (including PRIs) provided additional detail about these investments including dates, sources, amounts, terms and interest rates. (n=12; 1 with 3 loans, 5 with 2 loans, 6 with 1 loan)**

Loan #1						Loan #2						Loan #3					
PRI?	Loan Orig Date	Loan Source	Loan Amount	Loan Term	Loan Interest Rate	PRI?	Loan Orig Date	Loan Source	Loan Amount	Loan Term	Loan Interest Rate	PRI?	Loan Orig Date	Loan Source	Loan Amount	Loan Term	Loan Interest Rate
Yes	2015	Foundation	\$25,000	3 years	2%	Yes	2015	Foundation	\$35,000	3 years	2%	Yes	2015	Foundation	\$50,000	3 years	2%
Yes	2016	Foundation	\$10,000	4 years	2%												
Yes	2016	Foundation	\$50,000	unsure	unsure	Yes	2016	Foundation	\$50,000	5 years	unsure						
Yes	2014	Charitable Organization	\$75,000	5 years	3%	Yes	2014	Charitable Organization	\$15,000	3 years	0.05%						
Yes	2016	Foundation	\$25,000	5	3%												
Yes	2016	Foundation	\$50,000	N/A	0%	Yes	2016	Foundation	\$50,000	N/A	3%						
No	N/A	Foundation	N/A	N/A	N/A												
No	2015	Bank	\$5,000	18 months	0%												
No	6/2016	Mile High Community Loan Fund	\$540,000	3 years	5.40%												
No	2000	Bank	\$100,000	1 year LOC	4%	No	2010	Federal Gov't (USDA)	\$765,000	40 years	3.75%						
No	2013	Foundation	\$72,000	72 months	2%	No	2015	Bank	\$15,000	LOC	6%						
Yes	2016	Foundation	\$75,000	6 years	1.5%												

### **Future Funding for Current Social Enterprises or Earned Income Activities**

Of the sixty-four nonprofits with existing social enterprises or earned income activities, the survey asked respondents to consider the **potential of needing funding today or within the next two years to grow or scale their existing social enterprise or earned income activity?**

An overwhelming majority, 81%, indicated they anticipate needing future funding, with eight percent expressing that they were not sure. Only 11% of respondents stated their organization or earned income activity would not require future funding.

When asked **how much funding the organizations anticipated they would need**, the 52 respondents to this question answered as follows:

<b>Value</b>	<b>Percent</b>	<b>Count</b>
Less than \$25,000	11.5%	6
\$25,001-\$100,000	34.6%	18
\$100,001-\$250,000	23.1%	12
\$250,001-\$1,000,000	19.2%	10
Over \$1 million	9.6%	5
Not sure	1.9%	1

Fifty percent of these respondents indicated they would be unlikely or extremely unlikely to **consider loan funding to grow or scale** with 35% being likely or extremely likely, and 15% indicating they were unsure.

Respondents also provided **their thoughts based on experiences funding or financing social enterprises or other earned income activities. (n=58)**

Feedback on this question varied greatly with a few key themes emerging. These included the need for funding/financing options for social venture startups, need for funders/investors to understand nonprofits as well as the need for nonprofits to understand the field, concerns related to start-up funding and advice/ideas for others heading down the path.

#### ***Funding/financing options***

- Flexible financing options are important
- Funding options are especially needed in low-income counties
- More “patient capital” is needed
- Traditional investors are skeptical, traditional philanthropy is skeptical; need education for both options

### ***Understanding of and by nonprofits***

- Need more lenders with knowledge of nonprofits
- Lenders have trouble catching the vision
- Investors expect nonprofits to be agile
- Funders/investors expect nonprofits to prove themselves before providing adequate funding
- Philanthropic capital is necessary to start the business; *“no for-profit in the business world would think of starting with as little funding as [nonprofits]”*

*“We have been told by [funders] that we are too sophisticated, but if we went to a bank or investment company, we feel they would suggest our business plan needs a higher level of sophistication.”*

*“At first, we had a hard time keeping up with the pace of business-oriented investors. Nonprofits work at a different speed due to our structure.”*

### ***Concerns related to start-up funding***

- Start-ups are considered too new to evaluate by funders
- Small start-ups struggle to attract attention and funding/financing
- Funders are hesitant to support social ventures until they are running and successful
- Organizations need funding at start-up to achieve success
- Lack of interest by funders and investors to take a risk

*“My experience is that only larger groups are being considered for funding yet there are some wonderful small enterprises doing great work and just cannot make it to scale. Several funding sources will not even look at a group unless they have a \$250,000 or larger budget.”*

### ***Advice from existing social ventures***

- Start-up and growth will probably take longer than desired; plan accordingly to allow for mistakes and course corrections
- NPOs can jeopardize tax exempt status if they operate a venture that is not-related to their purpose
- It is a challenge to balance the needs of a for-profit venture with a nonprofit board

*“To survive, nonprofits must look beyond soliciting donations year in and year out. We must all engage in earned income activities of social enterprises to thrive and grow and benefit our community.”*

Respondents were asked **what has prevented them from accessing loans to support their social enterprise or earned income activities.** (Respondents were asked to check all that apply.)

Value	Percent	Count
Prioritized other financing/funding sources	33.9%	20
Our board does not support debt financing	32.2%	19
We did not need loan funding	18.6%	11
Unsure how to access, structure or manage	15.3%	9
Not sure	6.8%	4
We were unable to secure approval for a loan	5.1%	3
Loan terms offered to us were unfavorable	0.0%	0
Other	15.3%	9

“Other” responses ranged from those just starting out (assuming to mean they are not yet in need of debt funding) to being risk averse, and from having no sense of market stability to being unsure that the earned income could balance a loan.

Respondents were also asked **if these barriers were removed how likely they would be to consider loans to finance their new or growing social enterprise or earned income program** (n=47):

Likelihood	Respondents
Highly likely	11%
Likely	19%
Neutral	17%
Not likely	23%
Not at all likely	15%
Not sure	15%

Next, the survey asked respondents to share more **detail about what their nonprofit would need to increase the likelihood of seeking and accessing loans.** Several people (n=3) were unsure and several more (n=9) indicated that they would not take on a loan regardless of what was offered.

*“Our board would prefer that the SE not be built on debt that the nonprofit then owns. If the business is viable, it will stand on its own; that’s how they feel.”*

*“We really do try to avoid [loans], preferring to fund our ventures through philanthropy and earned income.”*

Respondents (n=4) also indicated that they would need a more reliable revenue stream to increase the likelihood of taking on loans. And others shared thoughts that did not fit within the above categories:

- Might be open to the option if risks are mitigated
- Work under county commissioners and this would be objected to
- Would need to grow in order to be eligible
- Need an expansion plan
- Would consider a social impact investment tied to other community programs

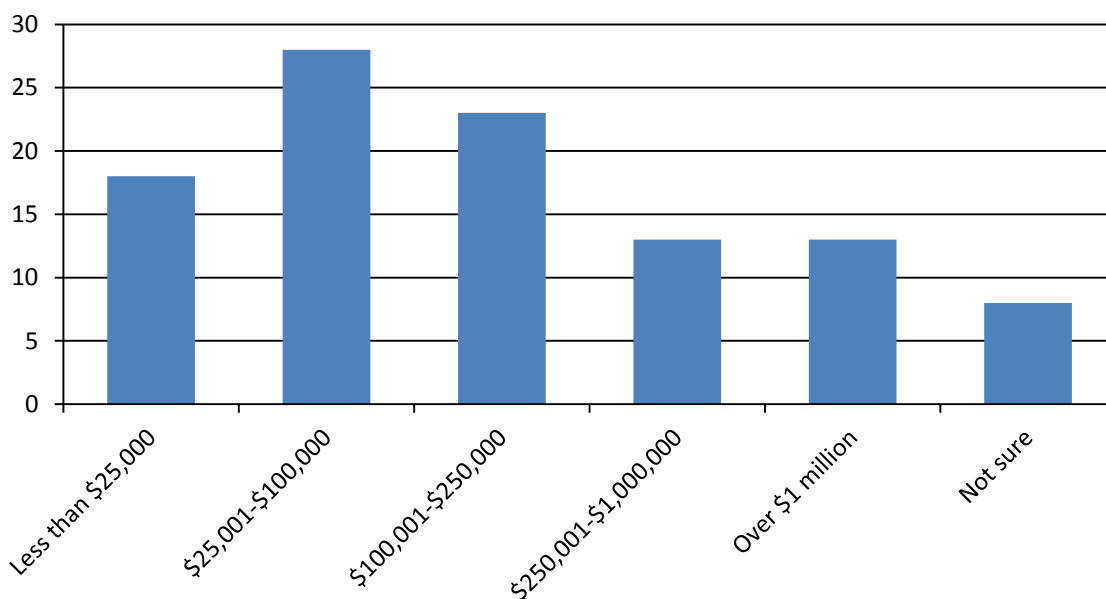
## Emerging Social Enterprises

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Of those surveyed, 42% **have a new social enterprise or earned income idea on the drawing board or in the works** (n=40). Twenty-three percent of these respondents **anticipated launching their social venture** by the end of 2016 with another 67% anticipating launch in 2017 or 2018 and 10% believing it would be 2018 before their new venture or earned income activity gets off the ground.

Sixty-seven percent (n=27) of those anticipating a **launch expect their new social enterprise or earned income activity will employ or otherwise create economic opportunity for the people they serve**. Thirteen percent are not sure and twenty percent do not plan to create employment opportunities through their new venture.

Most nonprofits with a new venture in the making do not intend to bootstrap. Respondents **estimated the amount of funding they anticipate raising** to launch this social enterprise or earned income activity. The following chart represents the percent of responses for each range.



Respondents shared **from which sources they anticipate raising these funds.** (Multiple selections were allowed.)

Source	Percent	Number
Gifts or donations	80%	32
Grants (foundation, corporate or government)	47.5%	19
Program-Related Investments	42.5%	17
Community loan source (Colorado Nonprofit Loan Fund, Accion, Community Enterprise Fund, etc.)	27.5%	11
Internal funds	47.5%	19
Traditional loans (banks or other financial institutions)	15%	6
Equity investments	10%	4

In order to better inform funders, investors and capacity building providers about the needs of nonprofits related to social venture development, respondents were asked **which of the following they would be interested in learning more about.**

Capacity Building Options	Percent	Count
Program-related investments, recoverable grants, impact investing or other “new” financing options	60.0%	60
Funding/financing sources for social enterprise	54.0%	54
Growing or scaling social enterprise	47.0%	47
Developing a social enterprise or earned income activity	40.0%	40
Legal structures for social enterprise	28.0%	28
None of the above	12.0%	12
Other	1.0%	1
Non-Medicaid revenue streams		1

## Summary

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As funders and investors seek to support nonprofits and social enterprises in new and meaningful ways, it is critical to understand which types of capital are desired and at what points in the venture development process capital is most needed. Principals at The Exchange regularly hear two sentiments: 1. “There are no deals out there. I’d like to finance social enterprises, but where is the deal flow?” and 2. “Where can I find money for my social enterprise? It’s so hard to access capital.” Two sides of the same coin, of course, and understanding more about this disconnect is key to beginning to solve it.

Based on this study, it is clear that creative financing is an important tool for new social ventures and earned income activities. A few key takeaways from existing social ventures:

- Over 2/3 of organizations with earned income activities or social enterprise accessed outside funding primarily in the form of grants and gifts or donations; debt financing was not heavily utilized
- Of those utilizing outside funding, the vast majority (98%) secured less than \$1M
- Funding was spread across all stages of development from seed and startup to operating / working capital and capital to grow or scale

Not only did the study benchmark how existing social ventures are raising needed capital, it also offers insight into how the demand for social venture financing may change in the next several years. A total of 35% of *existing social ventures* indicated they would consider debt for future financing needs. Yet, for those ventures on the drawing board, interest in debt financing is higher with 42.5% indicating they would consider Program-Related Investments, and 27.5% exploring financing from community loan sources. In total, 70% of *emerging social ventures* intend to be in the market for financing in the near future.

As with any survey or study, the findings and insights lead to more questions. For additional information about these data, to understand specifics related to geography, organization size or mission-focus, or to learn more about financing options for nonprofits launching and running social enterprises, please contact The Exchange: [www.sustainablenonprofits.org](http://www.sustainablenonprofits.org).



## Acknowledgements

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Our sincere appreciation goes out to:

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Colorado Impact Initiative / Impact Finance Center	Mile High United Way
Colorado Innovation Network	Northern Colorado Community Foundation
Colorado Nonprofit Association	NowHere Foundation
Colorado Nonprofit Development Center	Regis University Master of Nonprofit Management Listserv
Colorado Nonprofit Loan Fund	Rose Community Foundation
The Colorado Trust	Social Enterprise Alliance – Colorado Chapter
Community Foundation Serving Boulder County	Social Venture Partners Boulder County
Community Foundation Serving Southwest Colorado	Social Venture Partners Denver
Community Resource Center	Southern Colorado Community Foundation
Cultivation Center	Telluride Community Foundation
Denver Office of Strategic Partnerships	United Way of Larimer County
Emily Davis Consulting	United Way of Routt County
Estes Park Nonprofit Resource Center	United Way of Weld County
Young Nonprofit Professionals Association	



is a project of:



[jvoyles@gmail.com](mailto:jvoyles@gmail.com)

[caryn@interSectorL3C.com](mailto:caryn@interSectorL3C.com)

[rick@interSectorL3C.com](mailto:rick@interSectorL3C.com)