How To Find The Right Capital For Your Social Enterprise

Getting funding can be difficult for any entrepreneur, but how do you seek out a funder whose mission aligns with your company's? RSF Social Finance's vice president of lending advises on how to do just that.

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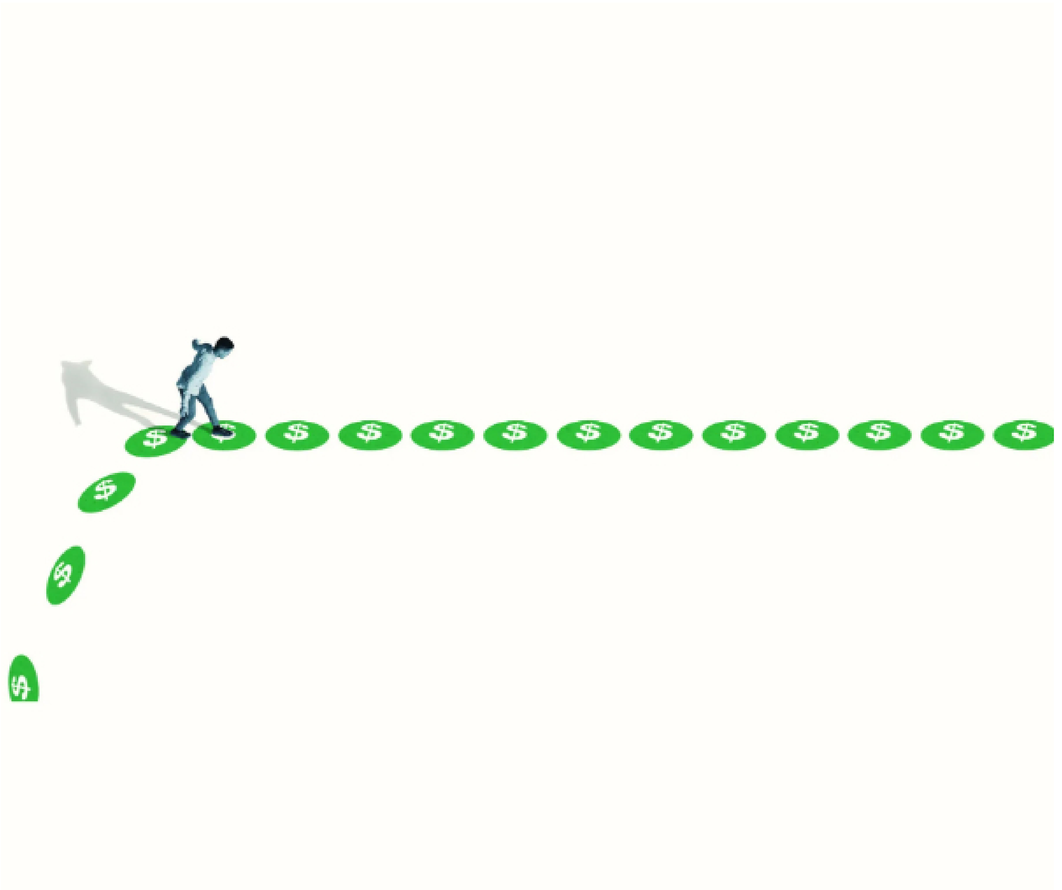

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Asking for money is hard. Founders seeking funding for a new venture often feel like they're on the losing side of an uncomfortable power dynamic. But any conversation about funding should be as much about the entrepreneur evaluating the funder as the funder evaluating the entrepreneur. Each party has the right and responsibility to vet the other to determine whether goals and philosophies align—and that's particularly important when you're a social entrepreneur seeking mission-aligned capital.

Asking yourself and potential funders the following questions can help you find the best match for your social enterprise.

Am I Ready for Funding?

Mission-aligned funders seek founders who are deeply aware of their own strengths and shortcomings and know how to hire other talented people to fill in the gaps. A strong team with the skills to achieve your mission will signal to funders that you can survive inevitable setbacks. Equally important is a clearly defined mission and products or services that express that mission.

Yve-Car Momperousse, founder of Kreyòl Essence, nailed that when introducing RSF Social Finance to her clean beauty company, which works with Haitian farmers to sustainably produce black castor oil for its

"The thing that sets Kreyòl Essence apart is that Yve-Car has always had a really clear vision of where she wanted to take the business, not just in terms of financial success but also in terms of the impact she envisioned making in Haiti and the beauty industry," said former RSF senior credit associate Alexandria Cabral.

You also need to demonstrate that you understand what is happening at your organization financially. If you're an early-stage social enterprise, having a system in place to track revenue and expenses is crucial. The cost to do it later is significant. This may sound like a given, but I've met plenty of enthusiastic founders who can spend all day talking about their mission, but don't want to get bogged down in the details. If this is you, hire someone to take care of this—financial sustainability serves your purpose.

How Fast Do I Want to Grow, and What Kind of Capital Do I Need to Do So?

Your social enterprise's anticipated growth rate should determine the kinds of funding you seek. Some funders, including most venture capitalists, will want you to grow quickly and at all costs. If that matches your mission, great; rapid growth is key to solving many of the world's biggest challenges, such as scaling up renewable energy. But others require slow-growing solutions—this is true of most local food systems enterprises, for example. Figure out where your enterprise fits on the spectrum and seek funders that have corresponding growth expectations.

What are your options? Social entrepreneurs have the same options as everyone else—private equity (angel investors, venture capital) and debt (banks, private lenders, community development financial institutions)—but also one you might not have thought of: integrated capital. This financing model coordinates different forms of financial capital and non-financial resources to support an enterprise that's working to solve complex social and environmental problems. Funding could include equity investments, loans, loan guarantees and, if your enterprise is structured as a nonprofit, grants.

Does the Funder Have Expertise in My Field, and Do I Require Additional Support?

A funder with deep expertise in your field can give you much more than money; their knowledge of key players in your field, supply chains, business models that have been tried and failed and evolving market conditions can help you accelerate your growth and avoid pitfalls.

Also, it's common for enterprises to need diverse funding. A primary funder may not be able to provide every piece of the puzzle, but those with strong networks can bring in others to fill the gaps. Seek a funder that listens to your needs and helps you design custom solutions rather than trying to force you into a product that works for them.

Does This Funder Share My Values, and How Do They Work With Enterprises Through Tough Times?

Most importantly, look for a funder whose value system aligns with your organization's mission and values. Asking a funder about their own mission can be revealing. Pay attention to how they describe their goals, how they talk about reaching them, and what is not being said. If they say they value something, they should have concrete examples of how that plays out. You'll get a gut feeling about whether you believe them. Trust your gut.

The COVID-19 pandemic offers the perfect framework for answering these questions. Did your potential funder stick by its portfolio companies and help them serve their mission? Were they patient and flexible? Did they offer bridge capital, payment holidays or interest-only periods on loans to help them preserve cash and weather COVID-19? These aren't unreasonable expectations of funders that say they're focused on impact.

In July 2020, when RSF borrower and fair trade coffee importer Cooperative Coffees hit a cashflow bump and needed to pay its farmers, RSF happily increased their line of credit because their mission is so aligned with ours. They're paving the way for a fairer and more transparent coffee-buying ecosystem, and we didn't want them to compromise on their mission.

"The risk analyses of mission-aligned investors are apt to include the potential loss of the positive social impact of the companies they have supported," ImpactAlpha editor Dennis Price pointed out in a review of impact investors' response to the pandemic shutdown. "That makes patience and flexibility a form of 'catalytic capital' that can generate, or at least preserve, both financial and social returns."

A final word to the wise: Initial funding decisions can be hard to unravel and will have a significant effect on your enterprise's development. If a funder doesn't feel right, walk away.

There are plenty of resources to help you find better options. Advising organizations like Uptima and funders like Runway Family provide BIPOC entrepreneurs with early-stage funding and holistic business support to bridge the racial wealth gap. Opportunity Finance Network has a national database of CDFIs and their areas of expertise. Social Venture Network, GIIN and SOCAP also have links to great impact funders across the United States. There are also organizations that specialize in particular fields. Explore all your options; it's worth the effort to find a perfect fit.