



Blueprint for Enterprise Capital

**A STRATEGY FOR
ALIGNING CAPITAL AND
CAPACITY TO MAGNIFY
NONPROFIT IMPACT**

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Acknowledgments

The *Blueprint* is truly the result of a collective effort by more people than I could ever hope to credit. They shaped my four decades of experience in the nonprofit sector and pioneered brilliant models for reinventing the nonprofit capital markets. First among them is Clara Miller, founder of the Nonprofit Finance Fund and president emerita of the Heron Foundation, who revolutionized my understanding of nonprofit finance and whose intellectual and personal generosity enhanced every aspect of this report.

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In August 2019, when I stepped down after 15 years as president of Prosperity Now, a dear friend told me: “You just had the greatest job that anyone could have. Remember that.” This judgment captures the extraordinary experience of leading a rapidly growing, dynamic nonprofit organization that aimed to reduce wealth inequality in America while navigating the turbulent financial waters created by 9/11, the great recession, and the 2016 election. It ignited my passion

for addressing the weaknesses in how nonprofits are funded while sparking deep gratitude for the wisdom, commitment and support of the board of directors and my colleagues during 27 years at the organization. My time there taught me that advancing social change takes more than a village. It requires engaging with an entire ecosystem filled with people of extraordinary talent and passionate commitment to economic, social and racial justice. It taught me that our problems are too big for any one person or organization to solve, but we can solve them when we work together. I dedicate this *Blueprint* to them all.

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This Blueprint creates a holistic guide for assessing an organization's financial position and the optimal structure of assets and liabilities for financial strength and resilience. Financial capital plays a crucial role in sustaining a firm's mission—but not all capital is created equal. Equity, or enterprise capital, is as important to a nonprofit as to a for-profit business. By hosting Andrea Levere as an Executive Fellow, the ICF wanted to advance this effort to apply familiar financial principles to investment in nonprofits, whose work will be essential in reshaping our post-pandemic economy. Reading this Blueprint won't substitute for an MBA, but it delivers a masterful shortcut to essential principles that any funder will want to consider.

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MEETING THE NEEDS OF THIS MOMENT

Our nation is in crisis. The coronavirus pandemic has exposed the deep disparities in our society created by a confluence of factors—structural racism, wealth inequality, the disinvestment in public systems and the consequences of climate change. This crisis has shaken our economy to its foundation, revealing the breadth and depth of financial insecurity at the household level and increasing the ranks of the poor by millions. [1] Our short-term economic future looks increasingly uncertain as the nation fails to meaningfully control the pandemic or provide the necessary federal stimulus funding to those most in need.

This crisis has also revealed the role of nonprofits and social enterprises as major drivers of hope and change. Fundamentally, nonprofits operate as “small businesses” pursuing missions that give them a tax status different from for-profit enterprises. They employ 12.3 million people nationally, a number equal to 10% of the private workforce. The weaknesses of many of our public systems have elevated their stature as “essential workers” of our communities. These small- and mid-sized local enterprises have a long history of engineering community stabilization, fueling economic and health recovery, and building trust to bridge the deep divides that both cause and limit solutions to our problems. Independent Sector reports that as of October 2020 “...7% of nonprofits are estimated to close due to the pandemic and almost 1 million nonprofit jobs have been lost.” [2]

Yet, in times of crisis, these organizations rarely garner the kind of public or corporate support that for-profit businesses receive. Gaps in public funding mirror how the “capital markets” that serve the nonprofit sector—a mix of institutional philanthropy, private donors, public agencies and

corporate giving—often fail to provide funding in ways that deliver the greatest value. Overall, funders too often provide short-term, program-restricted grants, with larger foundations reporting that they target 72% of their grants for specific purposes rather than structuring capital in the ways that organizations need to build their financial strength and resilience. [3]

Even in normal times, nonprofits scramble to raise capital across multiple fronts, resulting in differing requirements imposed by various capital sources that too often reflect the funder’s priorities rather than the nonprofit’s purpose. These funding practices fragment effort, distract from focus, and create complexity that requires management systems for which philanthropy rarely pays. In a sense, philanthropy has “reverse-engineered” these organizations to “chase the money” rather than providing capital flexible enough to fund their missions directly. But without the right capital—financial, social and human—these organizations cannot meet the challenges of this moment or of their missions.



ROC USA (CASE STUDY, PAGE 6)



BIG THOUGHT (CASE STUDY, PAGE 10)

The times require that the players in the nonprofit capital markets make fundamental changes in their funding and financing practices.

A growing movement in the philanthropic sector has emerged to respond to the pandemic and address the enduring racial inequities with reforms—most notably the *Call to Action: Philanthropy’s Commitment During Covid-19*, a pledge signed by almost 800 organizations. [4]

Three core principles in the *Call to Action* stand out:

- Provide flexible and/or unrestricted funding on current and future grants.
- Affirm the value and urgency of listening to communities being served—the voices of people of color and low-income people—to influence how funding is determined and delivered.
- Reduce administrative requirements for grantees and communicate decisions regularly and preemptively.

The *Call to Action* and subsequent high-profile philanthropic announcements signal the potential for changing the way philanthropists do business and for rethinking the balance of power between funders and grantees. For example, author and philanthropist MacKenzie Scott said:

There’s no question in my mind that anyone’s personal wealth is the product of a collective effort, and of social structures which present

opportunities to some people, and obstacles to countless others.... I began work to complete my pledge with the belief that my life had yielded two assets that could be of particular value to others: the money these systems helped deliver to me, and a conviction that people who have experience with inequities are the ones best equipped to design solutions. [5]

This *Blueprint for Enterprise Capital* seeks to capitalize on this moment and build on the *Call to Action* to ensure that new types of capital and pathways to capital remain open permanently. It promotes an approach that advances change from the ground up, driven by the enterprises rooted in these communities.

The *Blueprint* is organized into three main sections:

- “The Case for Enterprise Capital” describes the role and impact of “equity” in both for-profit and nonprofit enterprises and the value created by aligning capacity building with capital.
- “Investing Enterprise Capital” offers a product design and program delivery structure for use by funders and social investors.
- “Building 21st-Century Nonprofit Capital Markets” summarizes how and why enterprise capital can play an essential role in ensuring that philanthropic markets rise to the challenge of our times.



REACH RIVERSIDE (CASE STUDY, PAGE 16)



PREPARE + PROSPER (CASE STUDY, PAGE 21)

The *Blueprint* also includes a “Primer” in Appendix A that outlines a step-by-step process for funders to use in designing and implementing an enterprise capital approach. Appendix B offers a glossary of all the financial terms used in the *Blueprint* to ensure that this document is accessible and transparent to every reader, regardless of financial expertise.

The *Blueprint* offers a framework for scaling the delivery of “enterprise capital” in the philanthropic or nonprofit capital markets.

The design integrates both capital and capacity-building—a critical combination that has been demonstrated to improve organizational performance and increase impact exponentially, as similar practices have demonstrated in the private capital markets. Use of the word “capacity-building” does not signal the view that the nonprofit sector is “weak” or lacks the human capital needed

to succeed. Rather, it underscores the importance of having access to the talent necessary for growth or for solving a complex problem—often requiring new and untried solutions—to realize an ambitious vision and mission.

Enterprise capital can also help end “reverse engineering,” empowering nonprofits to determine their uses of funds rather than diverting capital that could advance mission-driven work to meet funder requirements instead. This flexibility would also enable these organizations to follow a cardinal rule of finance—to match sources of funds to their uses to enhance financial strength and resilience. Finally, the *Blueprint* encourages the expansion of market-driven capital-distribution solutions—from Go Fund Me pages to new technology-enabled platforms—to democratize and bring new efficiencies to a market now driven largely by relationships.

The goal of the *Blueprint* is to raise up enterprise capital as a best practice within the nonprofit capital markets so that it becomes an increasingly common product offered across foundations, individual donors, corporations and public agencies.

As we face challenges of a depth and breadth not seen since the 1918 influenza pandemic and the Great Depression, the call to sustain and strengthen the social sector has never echoed more urgently.

THE CASE FOR ENTERPRISE CAPITAL

Why Equity Matters

Finance is the lifeblood of all enterprises—regardless of structure or tax status—and operates according to core principles that encourage the best deployment of capital to support operations, build financial strength, and produce economic resilience in the face of change. Startup, expanding and public companies receive financial equity, widely viewed as the driver of growth, through multiple private and public markets.

Given the unique role it plays in an organization’s capital structure, equity’s availability is critical for the organization’s financial strength and sustainability. At its core, equity is the difference between assets and liabilities (also the definition of net assets), and this difference reflects the strength of the organization’s balance sheet. Organizations with higher net assets can deploy those assets to support operations, invest in high-impact activities and attract additional financing, including debt facilities, as lenders may determine there is sufficient capital to service the debt. Equity-like investments also create an alignment of interests between organizations and funders, representing a long-term financing commitment and measuring return on investment through impact.

But the philanthropic sector has largely failed to rise to the visionary call by Clara Miller, founder of the Nonprofit Finance Fund, to provide “philanthropic equity”—or enterprise capital—as a tool to build financial strength and resilience for nonprofits in pursuit of social and economic impact. She captures three benefits this capital delivers:

Planning for, raising, and deploying equity-like capital in a nonprofit fulfills three needs that are universal for a growing or changing enterprise, regardless of tax status: 1) capital investment—separate and distinct from regular income, or revenue—when growth or change occurs; 2) the benefits of shared “ownership” and shared risk by a concerted, expanded group of investors and, potentially, supporters; and 3) the adoption of a protective rather than an exploitative role for these stakeholders. [6]

This description captures the crucial difference between the roles played by equity capital and revenue in an organization—with equity used to “build” infrastructure and organizational capacity, while revenue is either earned or raised to support ongoing operations. Both of these uses drive the sector’s financial health and impact, but this *Blueprint* focuses on the “build” side of the equation. One demonstration of the scarcity of this type of capital is the lack of any data source in the sector that captures who is providing enterprise capital and how much is available.

In this time of unprecedented wealth inequality—especially for communities of color—how we structure and invest financial equity also has enormous implications for how we advance racial equity. Numerous researchers, philanthropic experts and racial justice leaders have documented the disparity in funding between organizations led by white people and those led by people of color; it should come as no surprise that the nonprofit sector replicates the racial wealth gap widely documented at the household level.

The amount of this capital by itself doesn't determine the capital's value; a commitment to invest over time—either through a large initial investment or a multi-year agreement—carries equal weight. Upfront or long-term investment helps an enterprise manage financial risk, and that enables it to make decisions differently. At the heart of the case for enterprise capital lies the golden rule of finance: the ability to match sources and uses of funds drives financial strength. In the private sector, this translates into matching long-term capital to long-term needs and short-term capital to short-term needs. That task becomes more complicated in the social sector, which also aims to address issues for which no market solutions exist—thereby requiring subsidy alongside long- and short-term capital.

Raising enterprise capital has some unexpected implications for social entrepreneurs. For some, the challenge of securing equity-like capital

highlights one distinction between a for-profit social enterprise and a nonprofit:

The Kenyan social enterprise Komaza “started out life as a non-profit, which chief executive officer (CEO) Tevis Howard says is harder work and can mean teams lack the focus to achieve long-term large scale impact. Non-profits, he says, end up chasing smaller, disaggregated check sizes that trickle in, US\$100,000, or US\$250,000 at a time. As such, it is much harder to make these bits of funding add up to a budget.” [7]

Mr. Howard changed his enterprise into a for-profit company.

For others, the ability to raise enterprise capital can scale the organization and unlock additional financing. The ROC USA case study outlines how a \$5 million philanthropic equity commitment helped it successfully “build” a national, scaled social venture in the manufactured-housing sector. This capital not only enabled the enterprise to survive a severe real estate recession but also to use this equity to attract high-quality debt that could open capital markets to people with very low incomes. As we navigate a time of historic economic uncertainty, the nonprofit community's ability and capacity to rise to this challenge will depend on multiple factors. Access to long-term enterprise capital will act as an essential driver of their success.



It should come as no surprise that attention is focused on the disparity in net assets in the nonprofit sector between organizations led by people of color and those led by white people similar to that documented at the household level.

Enterprise Capital Launches and Scales a Social Venture



ROC (resident-owned communities) USA, LLC, expands resident ownership of manufactured home communities (MHC, also known as “mobile homes”). The New Hampshire Community Loan Fund (NHCLF) pioneered this sector-defining strategy; the fund’s Paul Bradley and his colleagues spent almost two decades transforming the MHC marketplace in the state. Manufactured housing constitutes the largest source of naturally affordable housing in the nation. Almost 18 million people call MHCs home, but many face deep economic insecurity if their community doesn’t control the land underneath them. Resident ownership solves this problem.

In 2008, Bradley took on the challenge of designing an effective model to scale nationally, working in partnership with NHCLF and three national nonprofits—Prosperity Now, Capital Impact Partners, and NeighborWorks® America. Each made an equity investment in what became ROC USA, and all but NeighborWorks became a member of the nonprofit LLC that housed the social venture. In addition to providing enterprise capital, the organizations brought core competencies of policy/field-building, cooperative finance and CDFI lending, and national network and training systems. ROC USA formed a network of certified technical assistance providers (CTAPs), local and regional

housing and coop development organizations that identify communities for sale, organize the residents, provide technical assistance during the purchase, and offer ongoing management assistance to the communities after the sale. All the partners aligned around the mission “to make quality residential ownership viable nationwide and to expand economic opportunities for homeowners in manufactured home communities.”

The Business Model Drives Organizational Design and Delivery

To scale nationally, ROC USA began by developing a business model tailored to the mission and then determined the optimal capital structure for implementing it. Working with external financial analysts, the group developed an innovative structure in which it originated first mortgages, then sold them to a senior participant—while keeping a subordinate tranche on its own balance sheet. This whole-loan origination formula gave ROC USA an opportunity to lend, for example, at 5.5% and generate a higher return by charging the senior participant a servicing fee. The fee provided the income to pay for technical support to borrowers and to make investments in CTAPs and national systems to support borrowers.

The financial crisis of 2008-2009 extended the time required to break even from 5 to 10 years, but lending income now supports the organization’s headquarters, network operations, and homeowners →



directly. Bradley reports that, “We don’t want to help low-income homeowners gain ownership without the financial stability to partner with them and stand shoulder to shoulder through thick and thin.”

How Enterprise Capital Changed the Formula

Enterprise capital proved crucial to building a balance sheet that could support lending at scale and organizational resiliency. In addition to the four initial equity investors, the Ford Foundation provided a \$5 million initial grant and annual operating support during the start-up phase. ROC USA allocated \$3 million of that grant to the balance sheet which spurred a further \$2 million in investment by the three LLC members and a grant from NeighborWorks. The

remaining \$2 million from Ford supported the venture’s start-up operations. George McCarthy, who supported ROC USA for more than a decade when he directed the Metropolitan Opportunity Program at Ford, reflects: “The key for how you use enterprise capital is twofold: it gives people the room to experiment and learn without jeopardizing the financial stability of the organization, and it is the only way that nonprofits can meaningfully scale, as equity provides the resources to attract the staff you need while also leveraging debt.”

As a strategic partner, Ford made a multi-pronged investment in sectoral change that strengthened all aspects of the manufactured housing market; its equity investment enabled ROC USA to raise debt

capital to facilitate lending and increase net assets to \$15 million today. “We wouldn’t have survived without it,” says Paul Bradley. Without enterprise capital, ROC USA couldn’t have withstood the 2008-09 financial crisis or achieved profitability within 10 years, nor could it have attracted additional financing to scale its loan portfolio.

Organizational Achievements Enabled by Enterprise Capital

Enterprise capital and a robust network of partners have proved instrumental to ROC USA’s growth, resiliency, and field-building work. The organization has grown to 263 resident-owned communities in 17 states. Beyond the number of communities served, ROC USA has maintained a capacity to innovate and take creative →

risks in a way most nonprofits can't, such as creating an annual leadership training program for homeowners, testing new ways to finance single-family homes, and providing grants to help families weather hardship during the pandemic. This strength has equipped it to serve people who don't have access to capital markets or the means to build equity through home ownership—particularly people of color living in MHCs, in which the enterprise is investing growing resources. For example, it has served a growing Latinx population within MHCs, not only by expanding affordable housing opportunities, but also by providing grants to support community projects and co-op leadership.

"There are not many funders who take the time to

understand the ecosystem in which their grantees operate," says McCarthy, now president and CEO of the Lincoln Institute of Land Policy, "You look beyond the organization to build a field. The field is defined by the problems and how the business model of the nonprofit can address these problems effectively and how you integrate the learning component into this process. Adapting the model as you learn and change the field is essential to success. You must fund people who are patient with experimentation and patient with the failures that teach us."

Looking ahead, financial strength and credibility have positioned ROC USA to move beyond philanthropy and explore opportunities to tap private markets for fixed-rate bond financing that could allow

it to increase lending volume and improve margins to benefit both capital recipients and capital providers. Importantly, ROC USA's experience shows that enterprise capital invested in capital structure creates organizational resilience and produces better financial and social outcomes—both for the organization and for its target communities. As Bradley notes, "The capital, business and financial models, LLC partners, and allies have created a profitable organization serving very-low-income people that can be a resource and a problem-solver and...the helping organization we need to be." ■

"We will never say no to a community that has a viable opportunity and votes to convert to resident ownership."

PAUL BRADLEY
PRESIDENT, ROC USA



Realizing Equity's Full Value by Building Capacity

Seed, venture and other early-stage equity investors in private companies play many roles in supporting an enterprise's start-up and growth—through board service, technical assistance, referrals, networking and whatever else the enterprise needs to succeed. Nonprofits and social enterprises—operating with complex business models focused on achieving a double-bottom line of financial strength and social impact—need the same level of dedicated and customized support as do for-profit enterprises in order to realize their full value.

The challenge and possibility of enterprise capital doesn't rely solely on matching sources and uses of funds. Realizing the full value of this funding requires that the sources and uses of capacity-building products and services closely match the organization's needs, ambitions, and business and financial models.

This requires an organizational diagnosis of how current business and financial models drive impact from the start. This assessment

yields the knowledge the organization needs to direct the funding in the most productive ways and to focus on where it believes it needs to build capacity—rather than accepting whatever a funder might offer. The diagnosis should direct the delivery of technical resources, board leadership and training that support the implementation of the business model; guide the evolution of the financial model; and provide professional development opportunities to staff.

Big Thought, in Dallas, works to enhance the creativity of arts education for all students, but especially those in the city's most underserved communities. The Big Thought case study illustrates the power of investing in business and financial planning to shape access to and investment of enterprise capital. It also shows how the dynamics of a growing organization require different financial strategies at different times, and how nonprofits benefit from the wisdom of an active board and staff in meeting the challenges of a changing environment and evolving financial model.

Enterprise Capital Fuels The Growth of a Program for Advancing Equity



With a mission to “make imagination a part of everyday learning,” Dallas nonprofit Big Thought has worked for 33 years to “close the opportunity gap by equipping all youth in marginalized communities with the skills and tools they need to imagine and create their best lives and a better world.” The organization pursues its goal on several tracks by integrating creativity and arts education into classrooms, out-of-school programming, and summer learning, and by joining coalitions to change systems-level policy. Building in creativity helps empower young people with agency and equip them with the skills that economists, labor market experts, and employers say they’ll need to succeed in a

rapidly evolving economy. Across all its work, Big Thought maintains a powerful focus on racial equity and securing resources for the communities that need them most.

Building Organizations and Strategic Visions with Enterprise Capital

Big Thought has gone through multiple stages of growth over three decades, growing from a \$300,000 budget to a \$9 million organization. Three forces drove and guided its growth: active engagement of its board of directors; local philanthropic investment; and long-term investments by national foundations. Board members engage strongly in strategic and operational issues and contribute

pro bono expertise when needed—in addition to providing more traditional fundraising support. “The board,” says Gigi Antoni, president and CEO from 1990 to 2017, “brought high-level expertise and a ‘roll your sleeves up’ spirit that helped us make the changes we needed and made the funders who considered large investments comfortable with us. We had the reputation with our funders of being a well-run organization with the chops to scale up, scale down and execute.”

Big Thought focused on securing investment from local funders that would fuel its first decade of growth while also creating long-term partnerships. The group took a strategic approach from the start by asking donors to make multi-year commitments, with the view that it takes “10-year investments to build big things.” The staff holds a stakeholder meeting every year with funders, partners, and local officials. By reporting on progress and working collaboratively to chart future direction, the sessions strengthen an understanding that the partners play a crucial role in amplifying the value of Big Thought’s programs and extending their reach. This authentic, deep-dive involvement has helped build funder commitment to the organization’s long-term success. “These neighborhood-based community partners were the bedrock investors in our local institution,” says Antoni.

By 2003, Big Thought had attracted national funding for its work from the Ford Foundation. Then the Wallace Foundation selected →



Dallas in 2005 for major investment after researching the community and Big Thought. That in turn led to more than a year of planning with Wallace staff, the mayor's office, the Dallas Independent School District, and other partners. But the planning produced transformative results: Wallace's initial investment of \$8 million helped seed a community-wide effort that ultimately collected a total of \$25 million to build a sustainable arts education system for children in Dallas.

Throughout this funding partnership, the Wallace Foundation's research and evaluation capability provided objective metrics of impact that supported additional fundraising

and ongoing improvement. Antoni, now director of learning and enrichment at the foundation, sees how Wallace's work with Big Thought reflects its philosophy: "The Wallace Foundation pursues dual goals by making long-term investments in communities trying to make systemic change at the same time [that] we are building knowledge for the field—making our return on investment far greater than the money we have to give."

Flipping the Model: How Financial Models Evolve

The history of Big Thought's financial strategy reflects an iterative process of learning, analysis, and changing financial models. By the

2011-12 school year, Big Thought had received three funding cycles of grants (starting in 2008-09) from the Texas Education Agency. The funding came through the US Department of Education's 21st Century Community Learning Centers program, one of the largest sources of funding for academic enrichment outside of school hours. This infusion of public money transformed the financial model once again, requiring the staff and board to plan for the financial impact of a reduction in this source of funding.

Big Thought's board identified a need to diversify funding sources and decided to work with three organizations to build capacity: the Nonprofit Finance Fund, to →

help it plan for diversification of funding; RevJen, to help it craft earned-revenue strategies; and the Building High Impact Nonprofits of Color (BHINC) program through Prosperity Now, funded by JPMorgan Chase & Company, to help it deepen leadership and financial-management capacity. "When JPMorgan Chase and Prosperity Now brought the Building High Impact Nonprofits of Color Initiative to Dallas in 2018," says Courtney Hodapp of JPMorgan Chase & Company, "Big Thought had an impressive track record and had just transitioned from a long-time leader to current CEO Byron Sanders. It was a key moment to support the organization, and a

new leader of color, with coaching and other resources, as he and the organization looked toward the future."

These engagements led Big Thought to commit to a strategic effort to flip its financial model from 60% contributed and 40% earned funding to 60% earned and 40% contributed. As of mid-2020, with the pandemic having imposed another shift in the financial model, Big Thought stood at 34% earned and 66% contributed revenues.

More than the Sum of the Parts

A marriage of capacity-building and enterprise capital has enabled Big Thought to set visionary

ambitions and pursue them through attainable business models. This combination equipped Big Thought to improve and expand on its educational-equity work. Current President Byron Sanders says, "Our collective thriving requires everyone to have access to opportunity. The root-cause analysis of why that's not the case today pointed clearly at systemic racism. If we are to close the opportunity gap between Black and Latino communities and their white peers, then we must embed a racial equity lens in our strategy and organization. Big Thought is holding itself accountable for advancing a world where youth in marginalized communities can create the present and future of their dreams." ■



BLUEPRINT: INVESTING ENTERPRISE CAPITAL

Principles: Launching a Program

Enterprise capital differs from other uses of funding in its purpose: to build and/or strengthen an enterprise over time. This contrasts with the role of general operating support, which aims to subsidize delivery of products and services and/or fill gaps in nonprofit budgets caused by clients' inability to pay full price for products or services they receive. Each use of funds is essential, but the structuring and deployment of funds should match purpose.

One of the foremost practitioners of enterprise capital, Antony Bugg-Levine, CEO of the Nonprofit Finance Fund, defines enterprise capital as "... grant money whose purpose is to build the capacity of an organization to deliver social good in the future and to generate revenues from that activity that will allow it to sustain itself and grow its scale. It is a form of grantmaking in which the purpose is to enable an organization to become stronger and more sustainable, as opposed to a lot of other grants whose purpose is to enable an organization to deliver social value in the short-term." [8]

Before COVID-19, the role of enterprise capital largely focused on supporting growth, scale, and impact; the pandemic has elevated financial survival and racial equity as equally important uses. The purpose or use of funding doesn't require

an "either-or" choice—intention and application can shift over time from financial survival to stability to growth to meaningful scale as an organization increases its financial strength and impact.

Philanthropic funders and investors should start the process of designing an enterprise capital program by asking four questions:

- 1. Does the structure of your funding support the nonprofit as an enterprise, or do limitations restrict it to use for a specific program or activity?** Investing "enterprise capital" increases financial strength and resilience as it builds the organizational infrastructure, human capital, financial reserves and innovation that drive performance

and impact. It can equip leaders to make the investments that will matter the most to the organization now and in the future.

- 2. Can you simplify your funding requirements in ways that limit operational risk and assure mutual accountability?** Tracking and reporting on multiple metrics can add needless management complexity while increasing operational risk to the grantee—especially when managing these across multiple funders with multiple requirements. Treat grantees as partners and design key metrics that serve both you and them—and could also meet the needs of other funders.

- 3. Does the use and management of your funds advance the grantee’s mission or force it to reverse-engineer operations to meet your requirements?** Too often, nonprofits compromise pursuit of their mission and impact because practitioners spend more time tuning the engine to meet a funder’s expectations than watching the road to ensure that the organization keeps moving toward its impact goal.
- 4. Have you aligned your uses of capital with capacity-building services to deliver the full value of equity and equity stakeholders?** Providing technical assistance and training resources that strengthen organizational capacities to drive performance and impact can play a key role in unlocking the power of enterprise capital.



ROC USA

Parameters: Operating a Program

Target-Market Criteria: Nonprofit organizations and social enterprises need enterprise capital regardless of mission, products or services, communities served, size, or stage of growth. This *Blueprint* focuses on organizations that

- are organized around mission;
- led by and/or serve low-income communities and/or communities of color; and
- aim to create a more equitable and inclusive economy locally and beyond.

Each case study offers a closer look at a group that illustrates these characteristics.

Readiness: Each applicant must provide a business model or plan and a financial model or strategy tied to the business model (or commit to creating these products as part of the funding process). At the same time, funders should recognize the different ways readiness can show itself—especially in smaller, locally focused organizations—and the way funders too often overlook organizations led by people of color

for a “lack of capacity” to produce business and financial models. Consider building into an enterprise capital program the flexibility to serve organizations at different stages of readiness by adjusting the mix and timing of capacity-building support and delivery of capital; arranging alliances among funders and providers of technical assistance; and persuading institutional sources of support to help build readiness for this type of capital.

“The success of using philanthropic equity actually requires organizations to be strong and healthy,” observes Rodney Christopher, director of philanthropic services at Fiscal Management Associates, a consultancy that guides nonprofits to improve their internal management. “Surpluses are in fact necessary, and that means that you can’t always spend the dollar that’s in front of you for the thing that you think is the most important in that moment, that there’s a bigger context in which you are operating.” [9]

Four core program elements work together to amplify the impact of enterprise capital:

1. Demonstrating the uses of enterprise capital. An organization’s plans and/or models should show how it will deploy enterprise capital to advance its mission and strategic

goals and, if appropriate, contribute to a broader economic recovery agenda in its community.

- 2. Identifying existing and future sources of revenue:** Enterprise capital should help build or scale an organization. While it may strengthen the organization’s financial foundation, it must be paired with an analysis of other revenue sources that support ongoing operations. The financial model should identify existing and future revenue that can drive the organization’s sustainability.
- 3. Building balance sheet strength:** An organization should use enterprise capital to build equity or net assets on the balance sheet. This capital can also work effectively as a tool to build a balance sheet strong enough to attract other lenders and investors to provide additional equity and debt investments.
- 4. Investing in building financial capacity for the board and staff:** Managing the financial operations of a nonprofit or social enterprise presents issues as complex as those facing any small business. Nonprofits deserve and need staff and board members with experience to make sure these operations align with mission and strategy. At a minimum, organizations should have at least one FTE dedicated to finance, and an active board committee focused on finances.

Enterprise Capital Keeps A Community Moving in A Pandemic

CASE STUDY | REACH RIVERSIDE



Nonprofit REACH Riverside Development Corporation leads a \$250 million holistic revitalization effort in Wilmington, Delaware's Riverside neighborhood. The campaign combines redevelopment, education, community health and racial equity initiatives, and Kingswood Community Center—an established provider of essential community resources in the area—sits at its center. As part of its own organizational turnaround, Kingswood's board of directors developed a revitalization vision and brought in the national Purpose Built Communities network to help advance the implementation. These activities attracted an investment

from Prosperity Now's Building High Impact Nonprofits of Color (BHINC) initiative to help Kingswood navigate its new ambitions. The REACH Riverside campaign illustrates the impact of enterprise capital—and its power to transform a paradigm of scarcity into a paradigm of abundance.

Rebuilding the Business with Enterprise Capital

Following the 2015 revelation of severe mismanagement by former leadership, a new Kingswood board brought in Wilmington native and nonprofit veteran Logan Herring, first as a member and later as executive director. Mismanagement had put the community center in a precarious

financial state; it struggled through two years of cash-flow shortfalls. Nevertheless, thanks to patient investment by innovative funders and a firm commitment to a vision of impact, Kingswood's new leadership not only stabilized finances but also managed to launch The Warehouse, a youth-driven teen center, and join with REACH Riverside to work collaboratively on expansively defined neighborhood revitalization.

Essential to the success of Kingswood's turnaround: repeated investments of unrestricted funding by the Laffey-McHugh Foundation, a \$60 million private foundation that regularly provides seed and early-stage support to community groups serving low-income residents →



in Wilmington. Specifically, the foundation's then-executive director, Dave Sysko, drew on his experience as an investment professional to promote to the foundation's board the use of patient capital and tailored support, approaches commonly employed in private-equity and venture-capital investing. Sysko argued that the two seemingly disparate sectors shared key characteristics: "This is how entrepreneurs work—starting with an idea and little money, they build out the platform to attract money and make progress. REACH was analogous to a venture capital situation."

In addition to providing financial support, Sysko also worked with both Herring and the Kingswood board while opening doors that expanded access to

new funders. Support from these funders played a considerable role in helping the organization regain its footing and establish the credibility and momentum it needed to obtain larger, flexible, and longer-term grants from an array of funders. The turnaround demonstrates the ways in which enterprise capital operates not simply as unrestricted general operating support, but embodies a long-term, growth-oriented approach that incorporates hands-on engagement.

Sharing First: Creating an Abundant Future

REACH now serves as managing partner of the collaborative that includes the three organizations—working collectively as the "WRK Group" (The Warehouse, REACH Riverside,

and Kingswood Community Center). Today, each organization increasingly relies on different financial models for different purposes, ranging from capital contributions to revenue earned through memberships to soliciting individual donations for a COVID-19 relief fund. These various channels, which each member uses in different proportions, gives the collaborative much greater flexibility to match sources and uses of capital.

In addition to sharing a common pursuit of racial equity in everything they do, the REACH organizations also embody a commitment to "sharing first." In particular, shared costs have allowed them to attract and retain high-quality employees, providing leadership quality and high capacity that REACH Board Chair Charles McDowell identifies as two of the group's critical success factors. →





Beyond internal collaboration, the members of the WRK Group also support a broader ecosystem of smaller community nonprofits, and REACH leadership describes a commitment to a “Thanksgiving model,” in which “everyone brings their best and leaves with leftovers, rather than fighting over the scraps.” This model aligns perfectly with the group’s mission to move the community from poverty to broader mobility.

Even during the coronavirus pandemic, REACH and the other members of the WRK Group have been able to maintain and expand

programmatic impact, retain all staff, and even organize a fund to support distribution of direct relief. The evolution of REACH’s business and financial models helped position it to take part in BHINC. “By the time Building High Impact Nonprofits of Color came to Wilmington in 2018,” says Courtney Hodapp of JPMorgan Chase & Company, “REACH Riverside was deep into the process of stabilizing and expanding their local support. The model opened the door to resources—leadership coaching, financial and strategic planning—that could benefit the long-term sustainability of the

organization and its infrastructure.”

Kingswood Community Center’s transformation from nearly failing to fully thriving during a pandemic reflects the power of enterprise capital. Initially, that capital helped secure Kingswood’s survival; once the center got back on its feet, continued investment sparked community-shaping innovation. Enterprise capital, invested in this single organization, benefited an entire nonprofit ecosystem, pushing the renewed vigor of the original organization rippling outward through collaborative frameworks. ■

Designing the Investment

Structure: Assume multi-year investments, with outcomes tied to specific metrics developed jointly by the funder and grantee. Working within the legal form of the organization, structure investments to function as equity or net assets on the balance sheet. Determine the investment amount needed by analyzing the business plan and financial model in light of the vision and goals of the strategic plan.

To advance the goal of establishing enterprise capital as a best practice or “asset class” in the nonprofit capital markets, we should create “standard” capital asks that bring clarity to the use of these funds— although multiple uses will likely interweave over time:

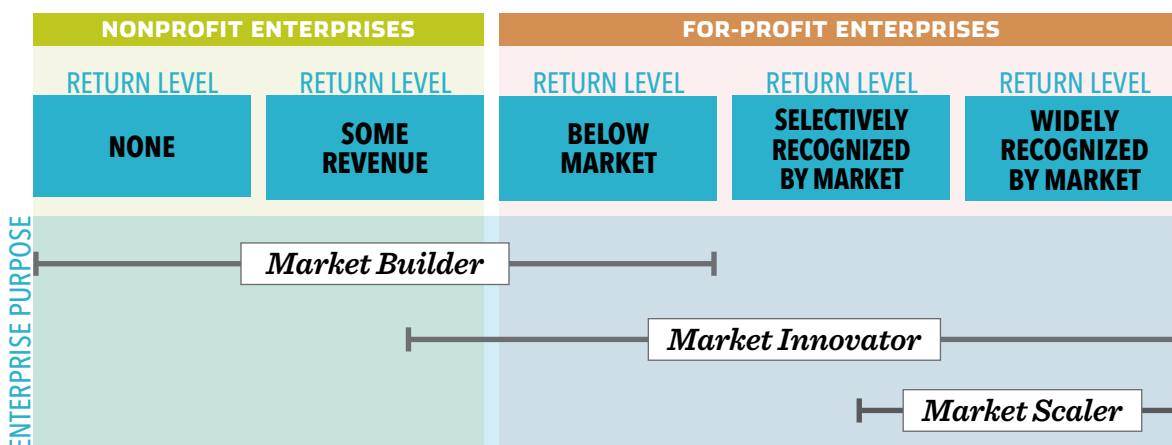
- **Launch capital**—used to start up a new organization, major program or significant expansion—functions like seed or venture finance, although the level of risk will vary by application. The start of a new program at an existing organization, for example, will likely carry less risk than the launch of an entirely new venture. ROC USA offers an example of enterprise capital invested in launching a new venture.

- **Growth capital** takes a product and/or service to meaningful scale in a geography or sector by building the infrastructure for its development and delivery. Big Thought demonstrates how funders can work together to provide enterprise capital designed for growth.
- **Stabilization capital** sustains operations, market penetration, or human capital needed to support an organizational transition, address unexpected financial setbacks or underwrite the delivery of essential emergency services to the community. Prepare + Prosper and REACH Riverside offer two examples of organizations delivering essential services that neither public nor private resources alone could support in a sustainable way.

Enterprise capital usually starts with a grant. The grant structure delivers the full value of equity by strengthening the balance sheet with enduring and flexible capital that doesn’t require repayment. Depending on the organization’s business and financial models, the capital structure can incorporate other types of capital—such as subsidized debt (e.g., Program-Related Investment, recoverable grants).

The “Continuum of Financial Risk and Return” diagram suggests a model of how funders or investors can assess the role and value created by

Continuum of Financial Risk and Return for All Enterprises



Adapted from Matt Bannick and Paula Goldman, *Priming the Pump: The Case for a Sector Based Approach to Impact Investing*, p8. Omidyar Network, December 7, 2014. https://issuu.com/impacttracker/docs/priming_the_pump_-_the_case_for_a_s, retrieved December 3 2020.

a grantee or a borrower in advancing impact and equity. [7] This continuum applies a basic private-capital market rule: capital that takes on higher levels of risk should deliver higher rates of return.

“We have used program-related investments as enterprise-level sources of financing specifically to help organizations double or triple their scale. It is not equity in the sense that they had to pay the debt back to us, but it serves that function of giving an organization money that it can place at risk,” says Debra Schwartz, managing director of impact investing at the MacArthur Foundation. “The key isn’t so much whether it’s equity or debt, but that, as a funder, you’re providing financing for the organization itself rather than for a project that the organization might carry out. [10]

Applying this model to an economy grappling with the impacts of the pandemic and the urgency of advancing racial equity requires us to adapt some of the classic rules of finance:

1. Each type of risk creates different challenges and requires a different investment approach. Enterprise capital gives us a powerful tool for helping an organization address the racial wealth gap and empowering that organization to support the broader community. At the same time, profound uncertainty about the economy’s future has upended all our models of risk. This new level of uncertainty makes it even more urgent to use

the funding and capital we have in ways that help nonprofits and social enterprises manage this environment as effectively as possible.

- 2. The nature of markets being served should drive subsidy.** This perspective asks two questions: Which products and services are provided? And how financially distressed are the customers being served? It’s no secret that capital markets aren’t open to every American, and the financial tools available aren’t always appropriate for the needs of certain communities. Capital may not move into areas where it’s most needed—including areas with inadequate market infrastructure and where commercial banks/investors refuse to participate—without getting subsidy.
- 3. Market scalers can tap commercial capital priced to deliver risk-adjusted rates of returns.** Rarely do organizations that address major market disparities, create infrastructure, and advance policy to build innovation “ecosystems” turn into companies that scale significantly. However, they do the work that makes it possible for more market-based entrepreneurs to play the role of scalers and can serve as a referral source to the commercial lending and investment banking part of the business.

Why Enterprise Capital Matters When You Have It— And When You Don't



Prepare + Prosper (P+P), a St. Paul nonprofit, describes its mission as supporting “individuals and families to build brighter financial futures.” Founded in 1971 by accountants looking to advance economic justice, the organization began by delivering pro-bono accounting services to small business owners. They expanded to preparing tax returns for lower-income taxpayers in recognition of the need for high-quality tax preparations for these taxpayers and the significant financial benefits these services provide. The quality and innovation of P+P’s business strategy gained national renown as the group added access to financial products and

services, financial coaching and policy advocacy. This broadening of services reflected a growing recognition that helping people move out of poverty requires a comprehensive approach.

Searching for Financial Security

Uncertainty and unpredictability have often stymied P+P’s efforts to achieve financial security and strength as an organization, undercutting long-term planning and financial commitments. The business model relies on a combination of paid employees and more than 550 volunteers who deliver high-quality tax preparation, coaching and financial services to

clients. P+P is part of a network of 3,700 VITA sites that collectively prepare more than 1 million tax returns at a 93% accuracy rate, one of the highest in the industry. The financial model that supports this work has evolved significantly over the past decade. As the budget has grown from \$900,000 to \$2.2 million, the organization has searched for more stable and diversified sources of revenue to support expansion. Current sources include state and federal funds, institutional philanthropy, and individual donors. Tracy Fischman, Executive Director since 2009, reports that “the search for funding is ongoing and seemingly endless, because ‘free tax prep’ really means free and requires ongoing subsidy.”

The growth and innovation of P+P’s strategy and services has attracted funders and encouraged them to make longer-term and grants with fewer restrictions. As the Northwest Area Foundation (NWAFF)—which already funded the tax prep services—searched for ways to address large numbers of unbanked residents, it knew that P+P had the expertise and scale to tackle this problem. That, says NWAFF Program Officer Nikki Foster, prompted NWAFF to combine these two activities in an unrestricted grant: “What is the risk of expressing trust through these unrestricted dollars?” she asked. “We combined the grant funding to incorporate both initiatives, as they became increasingly integrated. Let’s reduce the reporting, budget allocations, etc., which all seemed a waste of time.” This trust produced the expected return when P+P →

created the FAIR (Financial Access in Reach) Financial Solution in 2018 in partnership with Sunrise Banks. It offers checking, savings and credit-building products designed with the input of more than 150 community members to ensure that costs and features would meet their financial needs. To date, FAIR Financial Solution serves hundreds of unbanked residents in the Twin Cities.

Eric Muschler, program officer at the McKnight Foundation, values the foundation's belief in funding core operations over the long term. He quotes the management philosophy of founder William McKnight: "If you put the fence around people, you get sheep. Give people the room they need." Core funding sets the table for

organizational innovation. It reduces the time an organization's leadership must spend chasing funding, allowing leaders to focus on improving operations or service delivery to clients. McKnight's funding of P+P over time revealed how the executive director was "creating opportunities to create something different and then drive it into the organization," says Muschler. "You look for effective leaders all the time. They know what they are doing and want to be creative and innovative. The best thing you can do is to help them get money—general operating funds and reach out to other funders." NWAf's Foster adds that, "If you are less restricted in your funding, you see that most organizations are doing multiple things—and can learn so much more."

Yet despite the willingness of NWAf and McKnight to provide enterprise capital to Prepare + Prosper, the amount isn't enough to guarantee long-term financial security. Federal funding has remained static at \$109,000 for years, driving efforts by P+P staff to request direct state appropriations of \$400,000 per year and an additional \$200,000 from a state-administered pot for tax-preparation services. Intensive focus has helped expand private donations from \$20,000 to \$250,000 per year. But this success comes at a cost, says Fischman: "There are many funders—many of which provide smaller grants—that require the organization to jump through hoops, develop one-time asks, prohibit or greatly limit funds to cover salaries and/ →





or daily 'costs of doing business,' and more. The amount of energy we spend for \$20,000 is almost the same as what we spend for \$200,000."

I Would Raise Salaries First: The Human Cost of Financial Insecurity

Prepare + Prosper's experience shows that enterprise capital from a few funders is valuable but often not enough—especially for any nonprofit whose business model leans heavily on philanthropy to operate. P+P successfully diversified its revenue sources, lobbied for ongoing public funding tied to its mission, built an individual donor program, and cultivated and aligned with funders who believed in its mission and provided enterprise capital in all the right ways. Yet the ED reports constant anxiety, given the size of the organization: "We are just not where we should be... If I was

confident in our future revenues, I would raise people's salaries first! I would expand our retirement package and the percentage of what we contribute to health benefits for dependents. I would broaden engagement in economic and racial equity systems and advocacy work that put money in people's pockets and reduce barriers to wealth building. But I don't because every year I have a gap of \$200,000 or more in my budget to fill."

The challenge facing P+P grows from the design of the nonprofit capital markets and their failure to provide capital efficiently. These markets have largely organized themselves in response to funders' needs and priorities, rather than to serve the missions being pursued by current or future grantees—a reality referred to as "reverse engineering" by funders to nonprofits. While working with volunteers and donors

"I am a risk taker and must be open to failure to do transformative work. Yet I am risk-averse because I don't ever want to get to a place where we are in financial distress"

**TRACY FISCHMAN
EXECUTIVE DIRECTOR
PREPARE + PROSPER**

has driven growth of the donor program, "many people who give time also give treasure"—that is, increased donor funding hasn't really broadened P+P's base of support. Although securing a direct state appropriation has proved a success, P+P still lacks enough funding to add the staff who could boost its capacity to develop policy and advance systems change that magnify the group's impact. The message here couldn't be clearer—all the participants in our economy deserve the financial products and tools needed to build financial security. When that happens, everyone benefits—whether a low-income taxpayer or an organization that supports them. ■

Support: Building Capacity

Capacity building arms the organization with the added technical skills and human capital it needs to achieve its mission and vision. The organization must first ask what it could do if it had the resources to expand its capacity. The answer helps determine the kinds of services it needs, which could include a range of models funded by philanthropy, trade associations and capacity-building organizations.

Two groups profiled in the case studies have taken part in a national initiative called Building High Impact Nonprofits of Color. Managed by Prosperity Now and funded by the JPMorgan Chase & Co., the program fills a gap in offerings for nonprofits led by people of color and builds on two core principles of enterprise capital: aligning capacity to mission and focusing on “building” an organization. Courtney Hodapp at JPMorgan Chase & Co. spells out its mission: “The program combines coaching and training with local and national network building, with the goal of giving leaders a unique blend of resources to support both their personal development and the long-term growth of their organization.”

Creation of an **enterprise capital cabinet** represents a promising model for delivering capacity-building programs and services that align with enterprise capital. The most effective ones combine predictable service delivery with flexibility—tailoring the program to address specific organizational issues—all delivered at the stage of development when such support can help the most. An enterprise capital cabinet performs the function that equity stakeholders play in the private marketplace. It can include people assembled by the funded organization or a team selected jointly by the funder and grantee. It can operate as subcommittee of the board of directors or as an external advisory board. Each cabinet member brings specific competencies that can help the organization successfully implement its business plan and financial model. Together, the cabinet and organization develop a concrete structure and timeline for how the cabinet works, ideally over two to three years,

and use the investment agreement to set out clear expectations about types of expertise needed and reporting requirements. The funder and grantee can structure the cabinet as formally or informally as responsibilities, organizational culture and resources require, and they can add more traditional training when necessary or preferred.

Measuring and Reporting

Performance and impact metrics: The program should combine two types of metrics—organizational performance and impact measures—selected jointly by the funder and the enterprise, with full transparency between the parties. The design process should aim to identify a limited number of measures applied to the grantee; become part of the grant agreement; and ensure the availability of sufficient resources for defining, collecting and analyzing the data. In addition, the grantee, perhaps working with the cabinet, should identify additional metrics applicable to its mission, target population, community served or other factors that can enhance the assessment.

Reporting: Digital technology plays a crucial role in scaling design and delivery of enterprise capital. It supports efficient marketplace facilitation, team collaboration and transparency. Three core principles should shape the choice and use of digital tools, which should help the team:

1. Centralize program and participant knowledge.
2. Enable funder and organization collaboration and transactions.
3. Capture and analyze data to gain intelligence and improve outcomes for all stakeholders

This aligns with the growth of on-line philanthropic platforms created to foster collaboration among donors, foundations and impact investors. These platforms have also rewritten the rules of engagement for grantees and borrowers by lowering barriers to entry by replacing “relationship-driven” funding models with more transparent online access that often also results in expanding access for start-up enterprises and organizations of color to funding.

BUILDING 21ST-CENTURY NONPROFIT CAPITAL MARKETS

The current moment of crisis and change serves as an important impetus for redesigning and restructuring the nonprofit capital markets—a term that captures the diverse set of funders and investors who provide grants, below-market and market rate debt to nonprofits and social enterprises.

This *Blueprint* outlines a way to do that through enterprise capital, yet none of its ideas are new. The case studies show that funders, donors, public agencies and others have already grasped the value of long-term, flexible capital as the “high value” fuel for the nonprofit sector and have understood the importance of yoking it to the right technical and training supports.

Yet we also know that these practices haven’t been brought to scale in any meaningful way, despite proof points and trenchant criticisms by nonprofit leaders, philanthropic thought leaders and others. Every funder and investor should evaluate their current portfolio and grantmaking practices to assess the possibility of applying these practices and determining which grantees could benefit most from an enterprise-capital approach. Appendix A offers a “primer” for establishing an enterprise capital initiative.

Nonprofits and social enterprises rely primarily on philanthropic markets for their funding—largely inefficient, relationship-driven, and devoted (as much by habit as anything else) to burdensome restrictions on how and when recipients can use

philanthropic capital for liquidity and growth. Markets that could drive innovation and scale too often instead become drivers of complexity and missed opportunities. In this moment of profound change and need for the essential workplaces, embracing a new approach rises as a moral imperative on top of urgent economic, social and racial-equity demands.

In closing, we offer three recommendations intended to shape this marketplace that strengthen, not diminish, the funded organizations.

1. Simplify: Provide more flexible and less restricted capital at the enterprise level.

- Fund on an unrestricted basis, not a restricted one.
- Empower grantees at the enterprise level to invest where the funding will have the most value.
- Fund equity (grants), rather than debt, unless a program-related investment or similar product offers a better match for the organization.

2. Integrate: Align sources of funds, uses of funds, and capacity-building services to strengthen performance and impact.

- Support the development of business and financial models to build grantees' readiness for enterprise capital.
- Create models such as an enterprise capital cabinet to deliver high-value capacity building services and ongoing strategic guidance.

3. Collaborate: Reduce reporting requirements, create common metrics and covenants, and fund collectively.

- Develop metrics with grantees to create shared accountability and knowledge. Fund the process appropriately.

- Support new platforms that use technology to reduce the costs of accessing funding, especially for smaller organizations and those led by people of color.

We hope the *Blueprint* sparks a way to turn enterprise capital into an asset class—and perhaps catalyze innovations within the sector to design and deliver the most effective types of enterprise-level funding. We hope that you'll choose to join us in a movement to establish and promote enterprise capital as a widely adopted funding mechanism that sustains the sector.

Together, we can make that happen.



“What makes the concept of “enterprise capital” so powerful is that by removing restrictions, funders give their nonprofit partners the right type of capital and, therefore, the power to achieve the kind of systemic change they both have been seeking.”

ABIGAIL SUAREZ
VICE PRESIDENT OF GLOBAL PHILANTHROPY, JPMORGAN CHASE & COMPANY

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Setting Up An Enterprise Capital Program

Enterprise capital offers a flexible financial product that has proven effective for a diverse array of funders, geographies and focus areas. This primer lays out a sequence of recommended steps and poses questions intended to guide the design and implementation of an enterprise capital program.

I. Organizational (Funder) Readiness

- 1. Assess your current funding practices:** This will help you identify areas that already incorporate principles of enterprise capital, which you can expand or build upon.
 - > What percentage of your funding is multi-year, unrestricted, and/or provided at the enterprise (rather than program) level?
 - > How complex are your application and reporting requirements? How do you determine reporting metrics?
 - > Do using and managing your funds advance a grantee's mission, or do they require the grantee to meet your priorities?
 - > Have you integrated capacity-building services into your funding in ways that strengthen grantees' ability to identify their needs for technical assistance or training?
- 2. Determine what funding you have available for enterprise capital:** Enterprise-level funding can work at any financial scale; the amount necessary will vary with the size, business strategy and financial model of each organization.
 - > How much of your current grant-making budget could you devote to an enterprise capital grant initiative?
 - > Can you identify philanthropic partners who could increase the amount of funding and depth of financial capacity available for enterprise capital?
- 3. Determine organizational/staff capacity:** Required staffing will vary with the size of your enterprise capital initiative, but you won't need to change your normal grant-making practices.
 - > Does your current staff have the capacity to analyze grantees' financial models and business models?
 - > Would staff need additional training in this area to implement an enterprise capital initiative, or would it make more sense to add new capacity?

4. Identify organization alignment and barriers to implementation.
 - > Why has your organization chosen to implement an enterprise capital initiative? Has it made any statements or commitments in response to the COVID-19 pandemic and the urgent need to support racial equity? Could enterprise capital offer a way to support such commitments?
 - > How does your organization typically adopt new funding practices? Does it have a culture of innovation and pilot projects? If not, how can the pandemic, economic justice, racial justice or climate change serve as a call to action?
 - > Identify both internal champions of and resisters to enterprise capital. How can you enlist or engage them?

II. Alignment with Current Grantee Portfolio

1. **Assess your current grant portfolio:** Use this analysis to inform whether your initiative will focus on current grantees or seek to add new ones (see “Format,” below.)
 - > Use current grantee data to determine the proportion of funding focused on grantees’ primary financial needs: Launch, Growth, or Stabilization (see “Parameters: Operating a Program” on page 14 of the *Blueprint*)
 - > In general, do grantees have and use business plans and financial models?
 - > Do most grantee organizations depend on grant funding, or do they have multiple sources of income, including earned income?
 - > Do your current relationships with grantees include open dialogue and feedback?
 - > How does structural inequality show up in your portfolio? Do you see an under-representation of organizations led by people of color or organizations that serve individuals from low-income communities?
2. **Engage grantees in the design of the enterprise capital initiative:** Consider one-on-one conversations, surveys, and focus groups as opportunities to solicit feedback about grantee needs and preferences. This will dramatically increase the likelihood that your program meets the needs of your target community, and it will build potential grantees’ understanding of how this capital works.

III. Format of the Initiative

1. **Determine a program structure that matches your mission.**
 - > Will the initiative focus on current grantees? Expand your reach to new organizations? Both?
 - > Will the initiative work with groups chosen by invitation or by open application?



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- > What is the total budget available for the program?
- > How many grantees will it serve per year?
- > How long a funding commitment will you make to each grantee (it can be a range)?
- > Will you build in capacity-building services? How? Does your organization have specific strengths or partners that you can leverage?
- > Do you envision the use of an “enterprise capital cabinet” (see “Support: Building Capacity” on page 24 of the *Blueprint*)? How would it work?

2. Formalize internal processes to support to the initiative.

- > Are you prepared to commit to a certain number of grants over a multi-year period to test this initiative? When deciding, keep in mind the fact that results of long-term funding may not appear evident within the first few years.
- > How will you measure success? Your organization’s primary motivation for implementing an enterprise capital initiative—discussed in “Organizational (Funder) Readiness,” above—should directly shape the metrics you choose.
- > What internal timeline will you establish to review and assess the initiative?
- > What format will you use to capture lessons learned and strengthen the program over time?
- > Can you work with other funding organizations to form an enterprise capital collaborative within your community or focus area?

IV. Program Materials (refer to the “Parameters: Operating a Program” on page 14 of the *Blueprint*)

1. Design your outreach process and materials.

- > Consider your target market and other answers to questions in the “Format” section, above.
- > Be clear about requirements for the funding, including expectations of financial capacity and reporting requirements.

2. Design the application.

- > You can likely adapt the application from your existing forms.
- > Recommended application components include:
 - An explanation of how the grantee will use enterprise capital
 - A business plan, including existing and future sources of revenue
 - A description of financial capacity (grantees should have at least one FTE dedicated to finance and a board finance committee)
 - A description of additional capacity-building needs that the grant program could support, such as funding or technical assistance

3. Formalize the selection process.

- > Use the context and answers to the questions in “Format of the Initiative,” above, to shape your selection criteria.
- > Build in time to work with the final grantees to determine appropriate metrics for the to use in reporting (see “Measuring and Reporting” on page 24 of the *Blueprint*). You can apply these uniformly across all grantee organizations, or you can tailor them to each organization, depending on the similarity of the organizational focus areas and operations.

4. Prepare a model grant letter/memorandum of understanding and/or term sheet.

- > Make sure the terms match the requirements as you describe them in the other elements of the “Materials,” above.
- > Refer to the “Designing the Investment” on page 19 of the *Blueprint* for further guidance.
- > Consider any accounting implications of the finance structure for grantee organizations. For example, some organizations may benefit from having some funding released annually to smooth “revenue.” Others may benefit from a lump-sum distribution that enables them to show balance sheet strength. Consider tailoring terms to individual contexts.

*Andrea Levere welcomes inquiries from people or groups looking to learn more about the approach outlined in this *Blueprint* or interested in exploring other strategies for increasing nonprofit impact. You can reach her at andrea.levere@gmail.com.*

Glossary

See the Council on Foundations’ “Glossary of Philanthropic Terms” for other terminology.

Asset class: “A category of investments that exhibit similar characteristics and are subject to the same laws and regulations.” [1]

Balance sheet: “A statement of the assets, liabilities, and capital of a business or other organization at a particular point in time.” [2]

Business model: “A design for the successful operation of a business, identifying revenue sources, customer base, products, and details of financing.” [3]

Capacity-building: “Whatever is needed to bring a nonprofit to the next level of operational, programmatic, financial, or organizational maturity, so it may more effectively and efficiently advance its mission into the future. Capacity building is not a one-time effort to improve short-term effectiveness, but a continuous improvement strategy toward the creation of a sustainable and effective organization.” [4]

Capital (financial): “Wealth in the form of money or other assets available or contributed for a particular purpose.” [5]

Capital (human): “The skills, knowledge, and experience possessed by an individual or population, viewed in terms of their value or cost to an organization.” [6]

Capital (social): “The networks of relationships among people who live and work in a particular society.” [7]

CDFI/Community Development Finance Institution: “Private financial institutions that are 100% dedicated to delivering responsible,

affordable lending to help low-income, low-wealth, and other disadvantaged people and communities join the economic mainstream.” [8]

Debt: “An amount of money borrowed by one party from another. Debt is used by many corporations and individuals as a method of making large purchases that they could not afford under normal circumstances. A debt arrangement gives the borrowing party permission to borrow money under the condition that it is to be paid back at a later date, usually with interest.” [9]

Debt covenant: “A promise in an indenture, or any other formal debt agreement, that certain activities will or will not be carried out or that certain thresholds will be met. Covenants in finance most often relate to terms in a financial contract, such as a loan document or bond issue stating the limits at which the borrower can further lend.” [10]

Enterprise capital: Also known as “philanthropic equity”; “equity-like capital in a nonprofit [that] fulfills three needs that are universal for a growing or changing enterprise, regardless of tax status: 1) capital investment—separate and distinct from regular income, or revenue—when growth or change occurs; 2) the benefits of shared “ownership” and shared risk by a concerted, expanded group of investors and, potentially, supporters; and 3) the adoption of a protective rather than an exploitative role for these stakeholders.” [11]

Enterprise capital cabinet: “Performs the function that the equity stakeholders play in the private marketplace. It can comprise people assembled by the funded organization or a team selected jointly by the funder and grantee. Each cabinet member brings specific competencies that can help the organization successfully implement its business plan and financial model.” [12]

Equity (financial): “The amount of money that would be returned to a company’s shareholders if all of the assets were liquidated and all of the company’s debt was paid off in the case of liquidation.” [13]

Equity (racial): “The condition that would be achieved if one’s racial identity no longer predicted, in a statistical sense, how one fares. [...] racial equity [is] one part of racial justice, and [...] include[s] work to address root causes of inequities, not just their manifestation. This includes elimination of policies, practices, attitudes and cultural messages that reinforce differential outcomes by race or fail to eliminate them.” [14]

Financial model: “A summary of a company’s expenses and earnings in the form of a spreadsheet that can be used to calculate the impact of a future event or decision.” [15]

Funder: “A person or organization that provides money for a particular purpose.” [16]

Fundraising: “The seeking of financial support for a charity, cause, or other enterprise.” [17]

Funds (sources of): The origin(s) of “a sum of money made available for a particular purpose.” [18]

Funds (uses of): the planned application(s) of “a sum of money made available for a particular purpose.” [19]

General operating support: “also known as unrestricted or core operating support, invests in a grantee’s mission rather than specific projects or programs. It allows grantees to use funds as they see fit to reach their goals.” [20]

Grant: “an award of funds to an organization or individual to undertake charitable activities.” [21]

Grantee: “the individual or organization that receives a grant.” [22]

Metric: “a quantifiable measure that is used to track and assess the status of a specific [organizational] process.” [23]

Net assets: the difference between total assets and total liabilities; the nonprofit equivalent of shareholder’s equity in the private sector.

Nonprofit organization: “a business that has been granted tax-exempt status by the Internal Revenue Service (IRS) because it furthers a social cause and provides a public benefit” [24]

Philanthropy: “commonly refers to grants of money given by foundations to nonprofit organizations.” [25]

Program-related investment: “A loan or other investment made by a private foundation to a profitmaking or nonprofit organization for a project related to the foundation’s stated purpose and interests. ...Often, program related investments are made from a revolving fund; the foundation generally expects to receive its money back with limited, or below-market, interest, which then will provide additional funds for loans to other organizations.” [26]

Recoverable grant: “A financial tool in which nonprofits agree to repay private investors the principal amount and possibly an interest rate, based on their overall financial performance or that of a specific program, are an emerging form of patient, affordable, and flexible capital in the United States.” [27]

Revenue: Organizational income; in nonprofit finance, revenue can be contributed or earned.

Reverse-engineer: “Examine the construction or composition of another manufacturer’s product in order to create (a duplicate or similar product)” [28] in the context of nonprofit finance, this refers to grantee organizations that reconstruct their operations or program offerings to align with funding requirements rather than core mission delivery.

Risk: “In financial terms, the chance that an outcome or investment’s actual gains will differ from an expected outcome or return.” [29]

Social enterprise: “A business that has specific social objectives that serve its primary purpose. Social enterprises seek to maximize profits while maximizing benefits to society and the environment.” [30]

Structural racism: “Structural racism in the U.S. is the normalization and legitimization of an array of dynamics—historical, cultural, institutional and interpersonal—that routinely advantage whites while producing cumulative and chronic adverse outcomes for people of color.” [31]

Subsidy: “A benefit given to an individual, business, or institution, usually by the government. It is usually in the form of a cash payment or a tax reduction. The subsidy is typically given to remove some type of burden, and it is often considered to be in the overall interest of the public, given to promote a social good or an economic policy.” [32] In the context of nonprofit finance, the concept of subsidy describes the use of funds without expectation of financial return, particularly for organizations whose services cannot be paid for by the customer and whose missions address disparities in income and wealth.

Unrestricted: Refers to funds that are “not specifically designated to particular uses by the donor, or for which restrictions have expired or been removed.” [33]

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