FINANCING FOR SCALED IMPACT

Innovation Investment Alliance, Skoll Foundation, and CASE at Duke
Googling “social enterprise” calls up over 20 million links. Indeed, there are hundreds of thousands of new ideas for mission-driven ventures emerging around the world. And there are some notable social enterprise organizations who have started to solve social and environmental problems at scale. What can we learn from the experiences of these organizations? Their hard-won lessons can benefit other social enterprises, funders, and the surrounding ecosystem.

Social enterprises often work on problems that are deeply entrenched, depend on cross-sector collaboration, and require multiple pathways to scale their impact and create systems-level change. The road to scaled impact is a nonlinear, complicated journey. Along the way, the organizations have to overcome many challenges and roadblocks, including the following:

**Financing for Scale:** Determining which financing strategies best support their plan for impact at scale.

**Government Partnerships:** Effectively cultivating and managing partnerships with government and other actors in order to increase impact.

**Pathways to Scale:** Assessing which of the many pathways to scale will most efficiently and effectively drive towards their desired end game.

**Data:** Understanding how to best use data to drive performance, impact management, and decision-making as they scale.

**Talent:** Defining the different talent strategies needed to identify, train, and retain the human capital needed for scale.

The Scaling Pathways Theme Studies series dives into each of these topics in-depth, bringing to light lessons learned by successful social enterprises who have navigated these challenges on the road to scaled impact.

The Scaling Pathways Series explores the strategies that leading social enterprises have taken to scale their social impact. The series includes Pivoting to Impact, highlighting critical lessons learned across geographies and sectors for enterprises and funders trying to unlock impact at scale; in-depth Case Studies, chronicling individual social enterprises’ scaling journeys; and Theme Studies, distilling insights and advice from a sample of social enterprises related to the five challenges outlined above. Find the full series at www.scalingpathways.com.

Acknowledgements

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Financial viability is one of the most fundamental challenges that every social entrepreneur must master. It’s not enough to create solutions, with teams and stakeholders to carry out the work of achieving regular and significant impact. Social entrepreneurs must also generate a predictable inflow of cash to support operational needs.

For most for-profit entrepreneurs, external fundraising starts the first time the organization needs to spend more cash than the founders can provide and continues at key points as the company grows. But for nonprofit entrepreneurs, the resource generation process may never cease. And issues of financial viability become even more challenging as the organizations work to scale their impact. Most social enterprises reach for ways to generate more predictable revenue over time, so they can align the work they need to do with the amount of cash they have to do it.

As the enterprise’s journey becomes more complex, so too does the funding landscape. Sources of capital continue to evolve, with the field moving toward funding tied to performance-based milestones, syndications of multiple funders with similar objectives, leveraging of government and private dollars to bring organizations closer to measuring proven impact, and more.

The dance of achieving impact while fundraising is a two-part tango that nearly every social enterprise has encountered, often with both excitement and trepidation. It is a tough burden that is placed on social entrepreneurs aiming to help solve the world’s problems.

Luckily, the field now includes social enterprises that have been driving toward scaled impact for several decades and have tried many different strategies to more predictably manage resource needs. In this paper, Financing forScaled Impact, we hope to displace some misperceptions and improve practice for entrepreneurs and funders as they approach this task. This paper is not intended to be a step-by-step guide, but rather a sharing of lessons learned and advice, based on the personal experiences of some of the world’s most celebrated social entrepreneurs (see
EXECUTIVE SUMMARY

As social enterprises drive toward scaled impact, the journey can be accelerated—or significantly slowed—by the strategies and tactics used to manage resource needs. Accessing the right financing at the right points in the journey is critical to scaling success. As an analogy, consider the needs of a car with various options at the driver’s disposal to help navigate the road ahead.

In this analogy, if you are a social entrepreneur, the car is your enterprise and you are the driver. With your car, you travel over a bumpy road, moving closer and closer to your end game or your target equilibrium change. You can travel on many pathways, and, as outlined in Pivoting to Impact, you will face inevitable roadblocks and will need to make strategic pivots along the way. To be successful in financing this journey, you must set your course (understanding the rules of the road), determine which types of fuel you will use and when, and explore how you will use your car’s internal gears to help you navigate and accelerate.

SET THE COURSE: RULES OF THE ROAD
The organizations we interviewed use three interrelated “rules of the road” to ensure that their financing evolves in support of their scaling goals:

• Ensuring that cash follows use: Be strategic about pursuing sources and types of capital that fit within the enterprise’s strategic direction.

• Being cautious about the mission-financial sustainability balance: Identify natural limits toward achieving operational self-sufficiency.

• Maximizing financial “pivot-power:” Ensure the enterprise’s mix of capital will allow for the shifting of resources required to make strategic pivots.

FUEL UP: BRING IN EXTERNAL RESOURCES
External fuel helps you make continued progress. Fuel can blend various types of capital (e.g., grants, debt, contracts, and sponsorships) and sources (e.g., foundations, individual donors, and corporates). Our sample shared lessons and advice on three external fuel strategies that were important to their success:

• Finding flexible capital: The enterprises evaluated new sources of unrestricted funding, thought creatively about flexible uses of capital and crafted stories to attract funders to those uses, and leveraged business plans or milestone-based strategies to crowd in additional flexible capital.

• Diversifying sources and types of funding, including impact investing: The enterprises took the time to understand funder motivations, diligently avoided mission creep, leveraged key moments (such as positive impact evaluation results) to layer on new funders, and thought innovatively about using impact investing and spin-off structures to engage new funders.

• Leveraging results-based financing (RBF): Enterprises that have used RBF—including Development Impact Bonds—shared tips on clarifying the purpose for pursuing RBF, carefully selecting their best role within the structure, and using RBF to improve culture and systems in addition to financial sustainability.
Using this framework of engaging various external and internal levers, this paper provides lessons and examples drawn from the experience of leading social enterprises. The paper also includes key takeaways for entrepreneurs (the entrepreneur’s cheat sheet of takeaway advice by theme) and funder implications (the donor/funder/investor’s takeaways for sustainably supporting scaled impact).

We acknowledge that this Financing for Scaled Impact theme study in the Scaling Pathways series is yet another chapter in a story that will continue to be written by the intense experimentation that undergirds the global field of social entrepreneurship. We look forward to sharing what is being learned every day in the trenches in forms that make the lessons more easily shared, tested, and refined.

Methodology
The lessons and advice in this paper are driven by the experiences of leading social enterprises and funders focused on scaling impact. In developing this paper, the Scaling Pathways team:

- Surveyed 100+ social enterprises within the Skoll Foundation and USAID portfolios.
- Conducted literature reviews and analyses.
- Interviewed and included examples from ten leading nonprofit or hybrid social enterprises, identified by Skoll Foundation, USAID, and Mercy Corps as having relevant and broadly applicable lessons.
- Surfaced key lessons learned and advice from focus groups with major funders.

For more information about the methodology, see Appendix A (page 24).
For descriptions of the social enterprises referenced, see Appendix B (page 25).
The following section details the key mindsets and strategies that social enterprises in our sample pursued to finance impact at scale. We break down the strategies into succinct lessons, each with an example or two to illustrate the point. Below is a summary list of the strategies and relevant lessons you will encounter.

### SET THE COURSE: RULES OF THE ROAD

| Ensure Cash Follows Use | Beware the Mission-Financial Sustainability Balance | Maximize Financial Pivot Power |

### FUEL UP: BRING IN EXTERNAL RESOURCES

| Find Flexible Capital | Diversify Your Funding Sources and Types of Capital, Including Through Impact Investing | Leverage Results-Based Financing |

- Evaluate new sources of unrestricted funding as you scale.
- Carve out uses of cash that give you more flexibility.
- Use business and/or venture plans to help you crowd in other funders.
- Diversify funding to smooth out cash flows.
- Understand funder motivations and avoid mission creep.
- Leverage key moments to diversify, building on momentum.
- Use impact investing as a tool to engage new financial stakeholders.
- Clarify your overall purpose in being part of RBF.
- Align your role in RBF with your purpose.
- Recognize RBF’s potential to significantly affect organizational culture and strategy.

### PUT IT IN GEAR: USE INTERNAL OPERATIONAL LEVERS

| Reduce Costs | Earn Some of Your Income | Leverage Hybrid Forms |

- Seek opportunities for cost-efficiency.
- Consider buying vs. building.
- Be realistic about revenue goals.
- Use a metric that measures value or impact per dollar spent.
- Avoid mission creep as you seek sustained revenues.
- Explore ways to cross-subsidize within mission.
- Leverage hybrid forms to increase income and extend impact.
- Keep strategy and ownership aligned with mission.
Every organization undergoes an evolution of capital over time. But how do you ensure that that evolution supports your scaling goals instead of the whims of available capital driving your goals? The organizations we interviewed used three interrelated mindsets, or rules of the road, to set their course and make decisions about the best mix of external capital and internal/operational levers. So, before selecting your tactics, keep these elements top of mind:

**Ensure Cash Follows Use**
Generally, the most effective financing strategies stem from the organization creating a clear strategic direction and then working to find funders and sources that fit that strategy. This clarity allows social enterprises to make choices at each stage of their scaling journey about the best sources and types of capital, whether it be capital that allows for flexibility to test and iterate, to assess and prove impact, or to crowd in key stakeholders critical to scale. In the most sophisticated cases, financing serves an integrated function of both achieving a strategic goal and sustaining the organization.

In the early stages of Living Goods’ evolution, it raised flexible capital from philanthropic funders that allowed it to test and iterate its model. As it reached a point where it needed larger sums of capital to fuel scaling of its proven model, Living Goods (LG) evolved from focusing on only individuals, foundations, and corporations, to pursuing bilateral and multilateral funders. Although typically more constrained, this funding allowed LG to layer on larger tranches which it hopes to continue to grow over time. Looking ahead, LG seeks to further engage domestic governments to work in partnership on delivering health outcomes. It is pursuing this long-term strategy, in part, through the exploration of results-based financing in Uganda. LG believes this strategy could unlock a pathway to engage local governments more directly in performance-based contracts by creating a simple replicable mechanism to increase accountability of service providers and to allow the government to contract key outputs—rather than focusing on inputs and processes. In Kenya, LG is also working closely with government to develop a contracting template for community health that the government can then use to contract non-state actors for delivery of niche services that would complement existing infrastructure and strengthen the health system. This is inherently a lengthier, more customized process but one that LG believes is necessary to change systems around the developing world to effectively respond to health challenges.

**Beware the Mission–Financial Sustainability Balance**
Many social enterprises think about using revenues from their own work to drive towards sustainability, ideally to unlock new forms of capital needed to scale (e.g., impact investment capital) or to become less dependent on external capital. Social enterprises can make significant progress toward achieving operational self-sufficiency or sustainability. Yet there are very often natural limits in an organization’s ability to pursue this objective without sacrificing mission goals. Many of those who have navigated these natural limits have emerged with increased clarity that enables them to pinpoint a more feasible balance. In turn, they become more proactive in accepting only funding relationships that are aligned with this clarity.

In 2012, Root Capital launched a strategy for scaling impact that focused on growing and diversifying its loan portfolio. Knowing that margins on loans to small and growing agricultural businesses were small, one of the goals of this strategy was to achieve a high enough loan volume to become operationally self-sufficient. Root Capital funded this strategy by bringing in additional loan capital at the top of its capital waterfall—i.e., those expecting the greatest return. After two years of executing the plan to significantly grow and diversify its loan portfolio, Root Capital began to see that many of its new loans were going bad. Its aggressive scaling plan to achieve operational self-sufficiency had pushed Root Capital outside of the natural limits of its market. Root Capital decided to write off the bad debts, but also mined the data it had to understand the drivers of risk and impact. This data analysis turned into a framework called the Efficient Impact Frontier. The framework allows Root Capital to pinpoint an efficient goal point when trying to blend financial and social return at the portfolio level and to communicate this with clarity to stakeholders, including investors and funders.
Maximize Financial Pivot-Power

Every social enterprise has experienced times when things didn’t go according to plan. While the enterprise had set out a strategy for scale, it found itself needing to make a pivot. Those who navigated these pivots most effectively were the ones with a funding mix that allowed for maximum ‘pivot-power’—often meaning flexible capital, diversified funding sources, and/or excellent funder relationships that allowed for key course corrections. Many pivots also resulted in the pursuit of new strategies that required different funding mixes, which meant letting some funders go and pulling in different ones to ensure alignment to the new strategy. While this is never an easy process, we saw many examples of organizations adopting transparent, data-driven approaches to bringing their funders along through their pivots.

In the above example, Root Capital had pivot-power. In addition to the loan capital it took on, it had also built a strong foundation of philanthropic funders who were in the funding mix because they could tolerate more risk and were deeply mission-aligned. As Root Capital pivoted, these funders were an important backbone. Root Capital continues to evolve its scaling strategy, focusing on scaling by building more value-chain partnerships in high-need areas in the agricultural sector, in addition to executing field building work. This evolution has required Root Capital to realign its funding mix, including losing some funders and growing the lower part of its capital waterfall through more subordinated debt and additional philanthropic capital. The process has helped “to deselect some one-issue voters” as founder Willy Foote puts it, but has also led to some funders doubling down on their commitment to Root Capital. Those who do remain are more mission-aligned.

These three mindsets—ensuring cash aligns with use, being cautious of mission and sustainability trade-offs, and maximizing pivot-power—are important ways that entrepreneurs can ready themselves for the inevitable roller coaster journey of financing their scaled impact. The rest of our paper details specific internal and external financing strategies—lessons and advice that entrepreneurs have shared with us. As you read them, we recommend that you do the following:

- Look for analogies for things you are exploring. What have other ventures tried that could be appropriate for you?
- Analyze your own strategic objectives and assumptions. Read a section with your team and work to understand how the issues are playing out within your own work. What are you doing to learn what’s working best?
- Consider the broader strategy (i.e., bringing in flexible capital) before jumping into specific tactics. You may find more than one way to achieve your goals.
- Remember that funders too have evolving mindsets and that there are few written rules of the road for what will be most effective. Be as clear and proactive as you can about what you are currently trying to achieve and have confidence that eventually you will find funders who align with your evolving objectives.
For many social entrepreneurs, external funding is fuel that can speed up or slow down their scaling journey. While for-profit entrepreneurs commonly depend on investment vehicles like debt and equity financing, the external sources of capital for nonprofits are increasingly diverse. Social enterprises can choose from a vast array of external financing options, including foundation grants, corporate and individual donations, government grants and contracts, results-based funding, loans, program-related investments, guarantees, recoverable grants, and donation and debt crowdfunding (see Appendix C for brief descriptions of 13 types of capital). The social enterprise’s charge is to determine which kinds of funding relationships can best create a recurring and predictable stream to scale the impact it seeks.

**STRATEGY ONE: Find flexible capital**

Experienced social entrepreneurs cite flexibility as the most important attribute of external financing, giving them the room to iterate their model and shift resources as they learn more about the nuances of the need they are addressing and as the ecosystem changes. “Flexible” capital is capital that can be repurposed as new needs arise, and can be completely flexible (e.g., a general support gift) or somewhat restricted (e.g., a grant that releases payments according to broad milestones but does not dictate how to reach those milestones). Flexible capital is in contrast to more highly restricted capital, which often comes with extensive requirements for reporting against an original budget, or grant reimbursements that are issued only as predefined expenses are made.

Social enterprises understand the rationale for why many funders must constrain their funding to agreed purposes and line items. At the same time, many enterprises spoke about trying to increase their unrestricted donations or grants as a hedge against inevitable setbacks or challenges, or against central administrative costs that can be hard to fund. While many grants are in fact restricted to specific programmatic uses, the entrepreneurs in our sample reported using a number of strategies to identify more flexible funding sources, provided narratives for different types of grants/donations, and made the case to potential funders for this type of flexibility.

**LESSON: Evaluate new sources of unrestricted funding as you scale**

**Water.org on unrestricted funding from corporates.** While many organizations rely on traditional sources of unrestricted capital, such as high net worth individuals, Water.org found great alignment with corporate partners. While its corporate foundation partners typically provide restricted grant funding, Water.org has received significant, unrestricted funding from corporate partners.

In addition to individual donors and corporate partners, other interviewees discussed sources of unrestricted capital ranging from low-interest loans (assuming a business model that can support regular loan payments), earned income, crowdfunding, competitions or awards, some accelerator programs, and more.

**LESSON: Carve out uses of cash that give you more flexibility**

**One Acre Fund on having an unrestricted funding “story” and balancing restricted and unrestricted capital.** One Acre Fund (1AF) has a funding mix of about 60% restricted and 40% unrestricted capital. In large part, this has to do with donor segments (e.g., 1AF seeks “big bets” from individuals, which typically come as unrestricted grants) and clear guidelines about saying no to funding (i.e., it does not take restricted funding for programs it would have to newly create). To support this approach, and in order to resonate with the intended donor, 1AF recommends crafting a clear vision and story of how unrestricted funding will be used. For example, many donors are interested
to scale what works, so 1AF makes a case for support to scale its core program (without making specific promises about particular geography). They also highlight core attributes of their core program – the SROI (social return on donor dollars, showing how far donor dollars can go), the program’s replicability and scalability, and most importantly – the program’s impact on farmers. 1AF’s mix of unrestricted and restricted funding allows it to support the more difficult components to fund, such as shared administrative services and broader field-building.

Water.org on R&D funding. Water.org previously created and ran a “New Ventures Fund” to support R&D around new innovations. This innovation focus is a core strength of Water.org about which it is able to tell a clear story, providing examples of innovations that have succeeded (including the pilot and launch of Water Equity). With this fund in place, donors that were not comfortable with completely unrestricted funding, or who wanted to use their philanthropy more as “risk capital” could allocate their dollars to the fund, understanding its intended purpose and history of success. Meanwhile, Water.org was able to attract more flexible funding that was not restricted to specific programmatic outputs and outcomes.

LESSON: Use business and/or venture plans to help you crowd in other funders

Water and Sanitation for the Urban Poor (WSUP) on unrestricted funding through a business plan. Neil Jeffery, current CEO of WSUP, credits WSUP’s four-year largely unrestricted grant from UK’s DFID with helping to support the entire business plan against which WSUP was operating—as opposed to just supporting a specific program activity or set of outcomes. The funding gave WSUP stability over a number of years, allowing it to test and adapt its intervention, and push resources into different areas as it needed to pivot to achieve its plans.

Living Goods on a Venture Capital approach to grant fundraising. Chuck Slaughter, founder of Living Goods, infused his deep commercial experience and approach to running a business into LG at its inception. He created a business plan and made a confident and compelling case to funders, which included his vision and plan, his team, and their track record. Importantly, he did not waiver on needing unrestricted funding to test and iterate his model to meet tangible milestones. Once he got a few funders to sign on to his plan, others joined. In the first few years, he raised several grants of $100,000-300,000, for which 90% of the money was unrestricted. This approach continues in 2018, as Living Goods maintains a significant portion of unrestricted funding.

FLEXIBLE CAPITAL: ADVICE FROM THE FIELD

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<td>• Sell funders on your vision and milestones rather than on your specific activities in order to give yourself the most room to develop and shift resources according to need.</td>
<td>• Through detailed cost accounting, tell a clear story with specific figures about what you need unrestricted money to do and why it is necessary.</td>
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<td>• Create a clear operating plan and treat your donors and investors as partners, informing them as you learn, so that you can build trust. The more trust, the more likely they will provide more and more flexible funding.</td>
<td>• Be crystal clear about the costs that will not decrease as you scale your model and thus will require ongoing unrestricted subsidy.</td>
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<td>• Look to build relationships with local, high-net-worth individuals and corporate donors to raise your unrestricted funding levels.</td>
<td>• Carve out an R&amp;D fund to encourage investment from donors interested in funding innovation but less willing to commit to more general flexible funding.</td>
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<td>• Seek out social entrepreneurship-focused foundations and accelerator programs, which aim to invest flexible capital.</td>
<td>• When working with corporates, find out what they care most about in terms of marketing, branding, or integration with their businesses. These factors may matter more than restrictions on the cash they provide.</td>
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<td>• If you have recurring revenues and can afford regular payments, consider low-interest loans as a strategy to garner capital with more flexible use restrictions.</td>
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Aiming to create funding relationships with a diverse group of funders has several advantages, and may be legally required for nonprofits in some countries. Diversifying sources reduces the risk of any one funder changing strategy and evens out cash flow. Diversifying by instrument can help blend different kinds of capital to achieve different strategic goals. However, diversification across different kinds of funders, interests, and goals can be costly to cultivate and manage. For example, government funding is usually reliable once in place, but can also come in irregular tranches and cause cash flow problems. New funders may ask the organization to add activities that are not within scope, or actively pursue interests not aligned with those of the organization. Looking for new, diversified funders is easier if you have new data or success stories to share and a story of momentum. Organizations with strong revenue models can also engage with impact investors to diversify their capital mix.

**LESSON:** **Diversify funding to smooth out cash flow**

**WSUP on the ups and downs of government aid grants.** WSUP started with a large unrestricted grant from DFID. While this was critical to its initial success, the distribution schedule was hard to manage—in Jeffery’s words, it was “lumpy,” leading WSUP to have periods where it would have to hold back on plans while the money ran low, and then ramp up quickly to spend the sums that came in. By 2014, DFID funding was 45% of WSUP’s budget, and it decided to diversify to smooth out its cash flow. WSUP pursued bilateral funders, including the US Agency for International Development (USAID) and the Australian Development Agency, as well as grants from large and medium-sized foundations, such as the Bill & Melinda Gates Foundation and Stone Family Foundation, and private companies such as The Coca Cola Company. In 2018, DFID funding—which had not decreased—was 31% of WSUP’s budget.

**LESSON:** **Understand funder motivations and avoid mission creep**

**Educate Girls (EG) on Corporate Social Responsibility (CSR) funding in India.** As of 2014, businesses in India with annual revenues of more than 10B rupees ($154M) must give away 2% of their net profit to charity. While this is a significant opportunity to diversify funders, EG reports that working with companies this way has been a mixed bag. It has a few strong CSR partnerships and some disastrous ones. For example, corporates often express interest in having EG expand to areas where these corporates have a presence, but where it doesn’t make strategic sense for EG to enter. EG has also faced circumstances where corporates want to incur favor with governments and request EG to provide new services outside its core program (such as low-cost toilets), requiring EG to actively manage relationships with governments as it declines such partnerships.

**LESSON:** **Leverage key moments to diversify, building on momentum**

**Living Goods on diversifying post-Randomized Control Trial (RCT).** Living Goods received very positive results from its first RCT in 2014, showing that its model reduced child mortality by more than 27% in communities in which it worked—at an annual cost of less than $2 per person. LG used those results to inform a new four-year scaling plan that included quadrupling growth. LG went back to its existing funders with its ambitious plan, and the majority of funders responded by doubling or tripling their funding. Based on those commitments, LG was able to interest new funders to fill out the remainder of its needs, ultimately engaging 15 core funders and a handful of small individual donors to support its scaling plan.

**LESSON:** **Use impact investing as a tool to engage new financial stakeholders**

Organizations wanting to diversify through impact investment capital have been experimenting in a multitude of structures. We include two examples here, showing a bit more detail on lessons in bringing investment capital into your nonprofit as a new source of external capital, and in spinning out a nonprofit subsidiary to raise debt funds.

**Root Capital on the challenges of blending colors of money inside an organization.** Root Capital founder Willy Foote realized early on that diversifying their capital base made sense because they had different and distinctive uses and business models within their organization. The loan portfolio could be financed with low-interest loans and the training and field building could be subsidized with grants. He and the team created a “layer cake” of different kinds of funding the organization could leverage for various purposes.
Years later, though, he says he “was guilty of not being crisp enough about the different expectations you have to set with the kaleidoscopic stakeholders you have to bring together.” He set expectations for the entire organization around reaching complete self-sufficiency as he experimented with growth on the investing side. Today, he says, “Even though we expect to fully repay all of our loans, we will never set expectations again that we will be fully break even at the organizational level. So, everyone understands now that we are all about impact and additionality.”

**Water.org on spinning out a nonprofit impact investment manager, WaterEquity, to meet market demand.**

A core part of Water.org’s model is to provide technical assistance, along with small grants, to microfinance institutions (MFIs) to reduce the cost and risk to those MFIs to launch and scale water and sanitation-related microloans. This model has been incredibly successful, but Water.org recognized that, with more affordable debt financing, the MFIs could further scale these portfolios to meet increasing demand. In addition, Water.org saw an opportunity to provide more affordable debt financing to enterprises across the water and sanitation supply chain serving the world’s poor. It piloted an $11 million fund, raising equity from accredited impact investors and providing debt financing to seven microfinance institutions. After the successful launch of this Fund, Water.org launched a separate organization, WaterEquity—the world’s first impact investment manager dedicated to investing in local, high-growth enterprises serving the water and sanitation needs of the poor with a focus on Asia, Africa, and Latin America.

Today, WaterEquity raises money from institutional and impact-first investors including forward-thinking corporations, foundations, financial institutions, entrepreneurs, and socially conscious individuals. Structurally, Water.org and WaterEquity—as two nonprofits—are legally independent, though they share a CEO and co-founders (Gary White and Matt Damon) and one board member. In its first year, WaterEquity’s inaugural $11 million Fund helped 225,000 people and is on-track to reach one million people over its seven-year life. As the Fund’s investments continue to perform, it has already returned capital to owners in 2017 with a higher-than-expected annual distribution payment of 3.6 percent.

In April 2017, WaterEquity went to market with a new, $50M Fund. Committed investors include the Overseas Private Investment Corporation, Bank of America, and the Conrad N. Hilton Foundation and Skoll Foundation. WaterEquity estimates the investments will impact the lives of 4.6 million people, generating a 3.5 percent financial return at a near zero philanthropic cost. Executive Vice President of Business Development and Investor Relations, Alix Lebec, anticipates that WaterEquity will reach $250M in assets under management by 2022, helping the organization break even. While the need for higher returns, enhanced liquidity, specific geographic restrictions, and fund size have prevented some investors from investing, WaterEquity sees tremendous potential for future funds.

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**FLEXIBLE CAPITAL: ADVICE FROM THE FIELD**

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<td>• Note that diverse sources can help you smooth out cash flow but can also create more relationships to manage, come with more restrictions, and require additional management and staff time to service a larger number of relationships.</td>
<td>• Build a story of momentum with your current funders to provide a signaling effect to help get new funders to commit.</td>
<td>• For most government funders, you need to provide higher evidence of impact, so plan for that as you diversify.</td>
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<td>• Pay close attention to political costs with your current stakeholders as you triangulate relationships with new entities.</td>
<td>• Ensure alignment between funder goals and your own; if your goals cannot be aligned, say no to the cash.</td>
<td>• Take the lead with funders; drive your own deal terms.</td>
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<td>• Avoid mission creep at the programmatic level as you diversify relationships.</td>
<td>• If you have both investors and donors, be crisp in communicating your goals to both and setting expectations with each. Be sure each understands what you are learning overall so that none is surprised by your strategic pivots.</td>
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<td>• Look for creative ways to engage with impact investors, and don't be afraid to invent new structures that work best for both of you.</td>
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Many organizations around the world are starting to experiment with results-based financing (RBF), where a payer (a foundation, international donor, or government) conditions its payment to a service provider (an NGO or private company) on desired outcomes. Results-based financing is often seen by ventures as a tool to unlock private and/or public capital and provide flexibility to achieve outcomes. These structures incentivize service providers to drive toward cost-effective impact and funders—including governments—to recognize the full costs of achieving targeted outcomes.

An RBF tool that is gaining popularity is Social Impact Bonds (SIBs, also known as Pay for Success contracts or Social Benefit Bonds). SIBs are unique in that they involve an investor who provides the capital up front with the promise of repayment with some level of financial return if outcomes are achieved.

The basic structure of a SIB is that an investor provides up-front financing to the service provider(s), often through an intermediary (1 and 2). The service provider uses this working capital to deliver its programs to populations in need with the flexibility to adapt and adjust as it drives towards specific outcomes (3). Once outcomes are achieved (4) and verified by a third-party evaluator (5), an outcome payer (often a government entity) pays the intermediary (6), who pays the private investor the principal plus an additional return on investment based on the level of outcomes achieved (7).

A Development Impact Bond (DIB) is a SIB that occurs in the typically riskier environments of low to middle income countries and has a broader range of possible outcome payers, including donors, foundations, multilaterals, bilaterals or intergovernmental financial institutions, nonprofits, corporations, or government.

As of early 2018, there were just over 100 contracted SIBs and DIBs, with only 6 DIBs located in low to middle income countries. Two of the organizations in our sample were ready to share lessons from their experience with RBF and DIBs to unlock new private sector capital. Living Goods had done some development work on a DIB and ended up with a pay for performance agreement, and Educate Girls had created one of the six DIBs in the world (in 2018) which is now in the implementation phase and set to conclude in June 2018. A third organization in our sample, mothers2mothers (m2m), had published information on two DIBs in later stage development in South Africa, but was not yet ready to share its perspective.

Despite the very small sample size, there are already important lessons from the enterprise perspective on the pros and cons of using results-based financing as a strategy for external financing.
Fuel Up: Bring in External Resources

LESSON: Clarify your overall purpose in pursuing Results-Based Financing (RBF)

Living Goods on why impact bonds can be too complicated as an initial engagement strategy for governments. According to Lisa McCandless, Chief Development Officer of Living Goods, “Since our goal [in exploring RBF] was to attract more sustainable funding—bilateral and multilateral funding and ultimately local government funding—into the community health space, we decided that above all the structure needed to be simple, and easily replicable." At this early stage, they decided to forgo an impact bond, and entered instead into a pay for performance contract with a philanthropic funder to pilot an RBF mechanism in Uganda, that the Ugandan government could eventually integrate into the public sector health system. The mechanism includes payment metrics that are aligned with government interest, and an independent evaluator to verify results, but does not depend on the involvement of outside investors to provide upfront funding in exchange for earning a return. When the mechanism is adopted by government after the pilot, LG might consider working with the Ugandan government to set up an impact bond to take their impact to scale.

Educate Girls (EG) on exploring a DIB to diversify revenue, and realizing it is also an opportunity to incentivize local service partners to focus on outcomes. The Educate Girls DIB aims to enroll out-of-school girls and improve both girls' and boys' literacy in English, Hindi, and math by funding Educate Girls' intervention in Bhilwara district of Rajasthan, India. It used the impact bond structure to unlock new funding streams but also to establish an “unprecedented razor-sharp focus on impact. The ultimate aim is for the DIB to serve as a proof-of-concept of the idea that introducing incentives, giving service providers discretion, and encouraging them to innovate (among other features) can drive greater impact, opening the door for a new development practice focused on results.”

LESSON: Align your role in the Social Impact Bond or Development Impact Bond with your purpose

Educate Girls on deciding to lead its own DIB as sole service provider. EG initially thought about RBF as part of a grant proposal, but the grant didn’t come through and EG was unable to engender much interest from others—until an executive at Warburg Pincus’s India division (WP) got excited by the RBF idea. He, along with WP, gave EG a grant to create an RBF model, which EG used to design and test an outcomes-focused pilot in one defined area of Rajasthan. EG saw faster change when it started focusing on outcomes instead of outputs, which it had been using to track performance for over a decade. It was the pilot’s results which prompted EG to lead the development of larger DIBs and start pitching to investors and donors in the UK and US. Soon EG met UBS Optimus Foundation (UBSOF), which became its investor, and found Instiglio, which helped it identify CIFF as the outcome payer. “We didn't really strategize for this. We came across it, pilot tested it, then, once we saw the potential, pursued it wholeheartedly,” said Maharshi Vaishnav, Global Development Director. The resulting structure was designed around their collective needs: EG is the sole service provider, CIFF is the outcome payer, UBS Optimus Foundation is the investor, and ID Insight and Instiglio are outcome evaluators and project managers/intermediaries. This DIB was the first in education in a developing market, and took over 3 years to close.

m2m on taking the role of an intermediary partner rather than a service provider. Social enterprise m2m took the role of an intermediary (as opposed to a service provider) in order to expand its reach and capacity in working with other service groups. According to the Brookings report, in this capacity m2m became qualified as the performance intermediary for the offer and set the terms for engagement with all of the other service providers. The m2m team and their partners also created a new legal entity—a nonprofit special purpose vehicle (SPV)—that would become a holding organization for both of the Western Cape bonds so that they could service future bonds with the same structure.

mothers2mothers (m2m) on exploring two DIBs to enable efficient government support of scalable interventions. According to a recent Brookings Institution report, two federal government departments in South Africa worked together with the University of Cape Town’s Bertha Centre to develop two simultaneous tenders for new DIBs in the Western Cape region—one focused on child development and another on child health. The proposed DIBs include social venture m2m as an intermediary. Both DIBs aim to identify and strengthen intervention models that can be further scaled. Stakeholders view the DIB as an opportunity to assess the true cost of achieving the intended outcomes and to more efficiently invest in these outcomes at scale.
**LESSON:** Recognize Results-Based Financing’s potential to significantly affect organizational culture and strategy.

**Educate Girls on how the DIB has changed its organization’s overall performance systems.** Prior to the DIB, EG was focused on activities and outputs: how many life skills sessions were held, how many girls were attending school, etc. Funders had required EG to report these metrics, and were satisfied as such. According to Vaishnav, “But now we’re outcomes-focused. Our two outcomes in the DIB contract are enrollment of girls and learning outcomes of children. There are activities that drive each outcome. This has also shortened our self-correction time. We used to gather 25 district-level indicators on mobile phones, and it took two to three months to clean and analyze the data. By the time the management decided on a red flag and course correction, it was taking six months. With the DIB, we’ve institutionalized online and offline performance management systems (PMS). Now, we can course correct in two months. This has changed the performance focus of our entire organization.”

**Educate Girls on how DIBs can unlock new pathways for scaled impact.** After two-thirds of the full DIB term had elapsed, results showed that the program had enrolled 87% of all out-of-school girls identified in year one and two, and had achieved 50% of the total target for learning progress. Based on this progress, UBSOF would have already recouped approximately 72% of the initial investment in year two. According to Maharshi Vaishnav, “Our current DIB is a proof of concept, but the sheer number of beneficiaries—15,000 kids—means it IS at scale. But we do intend to scale it further.” Based on the success of its DIB, EG engaged in advanced talks with a consortium of funders to lead a new multi-service provider outcome-based initiative to target learning outcomes for about 60,000 children—five times the scale of the current DIB. This was possible because of the performance management systems and increased capacity for stakeholder management EG built through the DIB.

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**RESULTS-BASED FINANCING - ADVICE FROM THE FIELD**

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<tr>
<td>• Do some hard introspection at the team level about why RBF is right for you. Don’t pursue it because it’s a fad. Do it only if you are genuinely convinced it’s strategic and aligned with your goals.</td>
<td>• Start with a grant-funded pilot so that you are in a better position to negotiate contracts around what it will take to deliver outcomes. Be proactive and accept only partners who are right for you, who align with your purpose, and with whom you can learn.</td>
<td>• For RBF offerings, look carefully at the funding envelope. Governments may underestimate the true cost of implementing service. For example, the cost models in government offerings rarely include full legal, administrative, and pre-launch costs. You should double or triple your estimates, and spend the time to fundraise around these items up front.</td>
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<td>• RBFs take more time and money than you will project. Be ready for that.</td>
<td>• Be wary of building a model based on secondary data, and, especially, on government data: ask how recent and how trustworthy it is (is it self-reported?), and how often it will be updated. Wherever possible, conduct a baseline or use a third party evaluator to conduct one.</td>
<td>• Look at everyone’s costs, not just your own. If the third-party evaluator is receiving more money than the service provider, the DIB arrangement may not be scalable.</td>
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<td>• Be very careful on pricing of outcomes delivery since you will be accountable to that price for the remainder of the contract. A strong experimental study can convince stakeholders of your efficacy and help you arrive at a more accurate price point; however, an RCT may be an unnecessarily high bar.</td>
<td>• Don’t assume that pro-bono legal help will suffice.</td>
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<td>• If you are taking the role of an implementing organization, you will likely have to expand your team to get this done. You’ll need to have the best impact assessment and analytics you can afford. And it can take years to find the right people with specialized skill sets.</td>
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Social enterprises can accelerate their scaling journeys beyond external financing by finding ways to build financial resources from their own internal operations or decision-making. This might mean reducing the need for funding by more efficiently harnessing inputs or leveraging outputs of their model. It could entail selling products and services to paying customers to produce earned rather than donated revenue. Or, it could involve leveraging a hybrid model—creating different legal entities within their organizations to engage different funding stakeholders in order to achieve income goals.

Entrepreneurs continually reduce ongoing costs in many ways, including making improvements to the model that decrease operating costs, leveraging opportunities for economies of scale, or increasing the efficiency of required inputs (e.g., materials, human resources, and other supply resources). Another option is to change the “build vs. buy” frame, making strategic decisions about which pieces of the solution the organization needs to operate directly (“build” internal to the organization’s operations) versus outsourcing to other organizations (“buy”). Buying could be in the form of having another organization (e.g., another social enterprise, a government partner, etc.) implement a piece of the model or better aligning with other organizations that can deliver complementary pieces of an overall value chain and hand-off to the primary organization, or vice versa.

**LESSON:** Seek opportunities for cost-efficiency

**One Acre Fund on piloting efficiencies and using technology for cost savings.** One Acre Fund (1AF) counts cost-efficiency as one of its “absolute priorities,” and a philosophy that is embedded throughout the organization. One concrete example is 1AF’s focus on testing and rolling out innovations to make its field program more efficient and scalable. 1AF has a rigorous multi-phased pilot process that moves from desk research to small scale pilot (100-200 farmers to test feasibility, impact, and cost) to scale up trial (1,000-3,000 farmers to further test adoptability) and, finally, to roll out to the core program. This process has led to many successful cost efficiency improvements, including a commonly leveraged cost efficiency driver: technology. Starting in Kenya in 2014, 1AF shifted from a traditional, cash-based repayment model to repayments processed through mobile money service M-Pesa. This shift has resulted in an 85% reduction in payment leakages and an 80% reduction in repayment collection costs for 1AF. It has also resulted in 46% savings in field officer time spent on collections—meaning time freed to work with additional farmers or deepen impact with existing ones.

Examples like 1AF, or like the cost efficiency decisions that an organization like Evidence Action made in East Africa, help to drive down costs and create a foundation that eventually could achieve economies of scale as it grows.

**LESSON:** Consider buying vs. building

**VisionSpring scaling through an implementation partner.** Rather than build its own costly salesforce in-house, VisionSpring recently celebrated selling its 1 millionth pair of low-cost eyeglasses through partner BRAC’s network of community health workers. In 2016 alone, BRAC’s community health workers conducted 1.2 million vision screenings and reached 61 of 64 districts in Bangladesh, while VisionSpring was able to focus on providing complementary services (supply chain and sourcing, product forecasting, marketing and demand generation, strategy, and a revolving facility). By pursuing a “buy” strategy, VisionSpring was able to keep implementation costs low and focus its revenue on more rapid scale of impact.
Put it in Gear: Use Internal Operational Levers

### REDUCING COSTS: ADVICE FROM THE FIELD

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<td>• Even small tweaks can add up to large savings over time, but the process of testing tweaks takes time and resources. Have systems in place to set criteria for what you test and at what level of effort.</td>
<td>• Always keep impact at the fore and ensure that your cost efficiencies do not have a reducing effect on quality.</td>
<td>• Create a performance-based culture and processes that incentivize cost efficiency (e.g., embed discussions within performance reviews, staff meetings, and post-action reviews of programs or events).</td>
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<td>• Map your ecosystem to identify other actors in your value chain whose work you might be able to leverage.</td>
<td>• Leverage technology, when appropriate, to drive cost efficiency.</td>
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<td>• Pay attention to the scaling limits of your value chain partners. Can they scale as fast as you can?</td>
<td>• Consider implementing through other partners, but be careful about program fidelity; if something needs to be implemented, can you document and train effectively to outsource or does it need to stay more firmly under your control?</td>
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### STRATEGY FIVE: Earn some of your income

Earning income can be a powerful tool to fuel the scaling journey. Money gained through earned income is unrestricted, not subject to changing priorities of funders, and can often help to drive quality by ensuring direct connection with customers and other stakeholders. It can also be empowering for customers to be actively engaged decision-makers in the process, rather than more passive aid recipients.

For these reasons—alongside the increasing competitiveness of philanthropic and government funding—earned income is an attractive option for social enterprises to pursue. However, while a powerful tool, it is not a panacea. Earned income strategies require significant time and resources to assess and implement. They require staff with specific skill sets, such as the ability to test product/market fit and pricing, conduct accurate financial projections, and simply determine which core assets—from content to goods and services to data—might be sellable while still aligned with mission objectives. There are great resources that include step by step frameworks for developing earned income strategies, so our focus here is on sharing the nuances our sample illuminated with respect to earned revenue to scale impact, such as:

- How can they temper earned income expectations driven by pressure from funders or by nonprofits’ “unwarranted optimism” that often exaggerates the potential financial returns?
- How are they grappling with “measuring what matters” including the trend of enterprises shifting from cost per unit or percentage of earned revenue to more custom value per dollar measures?
- What have they learned about how enterprises can resist the temptation to prioritize profitability over impact goals?
- What tools or structures can be used to make earned revenue more sustainable?

If I am an aid recipient, I have to take whatever is given to me. And I have to smile and accept that. But if I am someone that pays for services, I become a customer all of a sudden. And as the saying goes, I become the king. Actually, a revenue model charging people for what you do really dignifies them... and it really helps us listen to them and learn from them.

Andre Youn
One Acre Fund
B Lab on 100% financial sustainability goal. B Lab Co-Founder Bart Houlahan stated, “We started out with the ambition to be an organization that would sustain itself on revenues. Given our co-founders’ backgrounds as for-profit entrepreneurs, this was not that surprising. Our goal was 100%.” Over the course of its first 10 years, B Lab achieved 60% earned income from certification fees, subscription fees for B Lab’s data, and event and sponsorship revenue. However, B Lab has since changed its goal to 80%, recognizing that 100% would potentially preclude B Lab from being “market builders”—pushing into new areas where profitability may be unclear and where for-profit alternatives will not take the risk. The 80% goal allows for B Lab to prioritize this work which can lead to great impact but needs to be supported by philanthropic funds.

One Acre Fund on rethinking cost recovery targets. One Acre Fund (1AF) initially targeted 100% cost recovery in its core program, through which it provides a bundle of services to smallholder farmers, including financing to purchase necessary inputs. As of 2018, 1AF had successfully financed its core program with 75% earned income and 25% grants. Yet the organization has come to the realization that reaching a 100% target is infeasible (1AF notes that it may be possible in specific countries or regions, but not as a target for the entire core program) and articulated the following reasons why:

- **Target population**: Serving the ‘extreme poor’ is expensive and 1AF is also careful to avoid cost savings that would impact quality (e.g., increasing the number of farmers assigned to a field officer past a certain threshold could result in decreased impact).
- **Macro-environment**: Uncontrollable factors, such as the 2015 Burundian political crisis, a maize virus, or weather (e.g., drought in Kenya) can greatly impact costs but would not lead to 1AF abandoning its efforts there.
- **Replication**: 1AF states that replication “serves as a temporary headwind against efforts to reach full financial sustainability.” New locations (or new customers in existing ones) have higher start-up costs and newer clients take on smaller transaction sizes.
- **Variation**: Each country in which 1AF operates has a different environment and farmers facing different levels of need. In some countries, 100% sustainability of the core program might be feasible (e.g., Zambia, due to larger land sizes and therefore larger loans per farmer), but in others (e.g., Burundi and Rwanda, where farmers are poorer), a donor subsidy might always be required.

1AF still actively works to increase sustainability across its program but recognizes that different levels of sustainability may be feasible for different countries/markets.

**LESSON:** Be realistic about revenue goals

**LESSON:** Use a metric that measures value or impact per dollar spent

Several of our sample group are creating new metrics to guide their pursuit of financial sustainability balanced with impact:

- **One Acre Fund | Social Return on Investment (SROI)**
  - “Most importantly, we are clearer that financial sustainability should be a means to an end, not an end in and of itself.” SROI allows them to prioritize what are sometimes more costly programs but that provide greater impact, and allows for comparison to other organizations/programs.

- **VisionSpring | Philanthropic Investment per Pair (PIPP)**
  - VisionSpring President Ella Gudwin: “There is not a single, magic PIPP target. Taking a portfolio approach, we need to drive it down, but not necessarily to zero; if we were, we would do wholesale all day long. But we also want to undertake more resource-intensive initiatives, like school-based eye screenings for children, which drive PIPP up. By focusing on PIPP, we can make decisions that allow us to reach the most people with a sustainable level of donated revenue that we can raise year after year.”

### Metrics

**SROI ratio:**
- impact generated per farmer (incremental profit each farmer generates using the One Acre Fund model)
- net cost to serve that farmer (expense of serving farmer minus farmer repayments, i.e., donor subsidy)

**PIPP ratio:**
- total philanthropic investment required to cover the net deficit and working capital requirement
- the number of target customers acquiring corrective glasses.
Root Capital | Efficient Impact Frontier

- Using this graph, Root Capital can determine the level of return that it might expect for a given level of expected impact. This can be done at the individual loan level or at the aggregate to track progress and set goals for the portfolio as a whole. The efficient impact frontier is the line where Root Capital can have the most impact without losing money.
- This data-driven concept allows Root Capital to be ambitious in their goals around "additionality," so that they can help funders understand why they are funding BELOW the most efficient impact frontier, or as Foote stated, "deliberately using philanthropic capital to invest in areas where other market players cannot afford to invest."

**Efficient Impact Frontier ratio:**
plotting risk-adjusted expected return of individual loans on one axis
expected loan impact on the other axis

**LESSON:** Avoid mission creep as you seek sustained revenues

**VisionSpring on creeping up-market.** When VisionSpring attempted to scale its hub-and-spoke model, selling eyeglasses to base of the pyramid consumers in Central America, it ran into challenges. As VisionSpring drove towards increased financial sustainability through earned income strategies, it began to creep up-market toward consumers with a greater ability to pay. This diversion from mission led VisionSpring to shut down the program and clarify and refine its target customer definition, prioritizing first-time wearers (to align with the vision of awakening latent demand), and narrowing customer income level targets to aim for 80% who earn less than $4 per day.

**LESSON:** Explore ways to cross-subsidize within mission

**One Acre Fund on targeting Tier 3 customers to fund scale.** One Acre Fund has carefully segmented its target markets into three tiers: Tier 1 (ultra-poor markets—chronically hungry and unlikely to ever break-even), Tier 2 (extreme poor markets—chronically hungry and possible to come close to break-even), and Tier 3 (pre-commercial—still poor with issue of malnutrition and possible to break-even or operate with a profit). 1AF is thinking carefully about whether Tier 3 countries/areas could cross-subsidize Tier 1 and Tier 2 markets, and have begun experimenting in Zambia as a Tier 3 market. With a lower population density and larger plot size, 1AF has been able to offer Zambians the largest loans to-date ($300+ per hectare of land) which has made for a promising start towards profitability and cross-subsidy.

**EARNED INCOME: ADVICE FROM THE FIELD**

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<td>Evaluate and test before diving in to earned income: what are the risks, challenges, and market demand for the good or service you want to sell? What is realistic to expect in terms of returns?</td>
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<td>Make sure you are ready to pursue earned income—effective systems in place to track financials, staff skills and capacity to evaluate and implement business related endeavors, and staff and board risk appetite and clarity on mission objectives.</td>
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<td>Carefully and narrowly define your target customer. Ensure everyone selling in your organization can articulate the core customer's characteristics.</td>
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<td>Avoid mission creep by clearly understanding the drivers of impact in your model, measuring them routinely, and having go/no go checklists to hold your team accountable.</td>
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<td>Pilot test changes to your intervention to ensure that the increases in financial sustainability do not have unwanted consequences on impact.</td>
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<td>Find a metric that allows you to balance impact and effective use of funds and lets you compare across programs (your own programs to guide decision-making, as well as external programs to make the case to funders).</td>
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<td>Getting to economies of scale takes time and you must first invest in scaling.</td>
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<td>Consider different cross-subsidy models, e.g., differentiated pricing, and differentiated products.</td>
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<td>When cross-subsidizing, carefully balance your core customers against your up-market customers to ensure that you are staying on mission.</td>
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Social enterprises are increasingly exploring the strategy of creating hybrid forms to expand impact and income. Hybrid models bind nonprofit and for-profit entities together through governance and/or contract mechanisms—for example, a for-profit company that creates a nonprofit foundation, or a nonprofit that launches a for-profit to pursue a different type of revenue-generating activity. These models are often structured as parent-subsidiary relationships or as contract hybrids wherein contracts align their objectives on a long-term basis.

Regardless of the form, hybrid models can expand impact, increase access to different capital sources or customers, and provide important risk mitigation. Alongside those benefits, hybrid forms incur costs as they require additional overhead to manage two (or more) entities as well as additional legal complexity to ensure adherence to charitable restrictions—so that potentially conflicting transactions occur at arms-length.

**STRATEGY SIX: Leverage hybrid legal forms**

WSUP on launching a for-profit subsidiary. WSUP was focused on doing work in six core countries but it was seeing opportunities in different geographic regions, with different types of funders. Seeing an opportunity to extend its impact by bringing its expertise to more communities, as well as an opportunity to earn additional income, WSUP launched an internal team to provide consulting services. After 12 months, WSUP shifted from an internal team to launch a for-profit subsidiary—WSUP Advisory—that is 100% owned by the parent nonprofit. This for-profit structure allows WSUP to access different funders and revenue streams, mitigate risks, and attract talent that might not otherwise come to the nonprofit sector.

WSUP Advisory made a profit in 2017, and is on track to do so again in 2018. WSUP Advisory currently accounts for approximately 20% of WSUP’s revenue and targets a profit margin of 6-7%. However, regardless of the amount of profit that is cycled back to the parent organization, the leadership team sees this profit as an important source of unrestricted revenue that funds innovation and, more importantly, extends impact.

Yaver Abidi, Managing Director of WSUP Advisory, provided some additional context and caution: “WSUP Advisory is doing some amazing projects, building upon the expertise of WSUP. If it works, it’s not just about revenue and profit, it’s about finding another way to achieve impact. Approach it in that order if you can. It’s not a money-spinner. Don’t do it from desperation. WSUP approached this as if it didn’t just see dollar signs. People somehow think it’s easy to make a lot of money on the for-profit side, but it really isn’t. Don’t approach it as a gravy train, because you will certainly fail.” He went on to say that it was critical for WSUP Advisory to be launched out of WSUP, which was in good financial health, because it provided the stability and platform to grow. “Starting something like this,” he said, “will not save a struggling organization. Don’t strap an eagle to the back of a turkey in the hope that both will fly.”

**LESSON:** Leverage hybrid forms to increase income and extend impact
B Lab on creating a for-profit subsidiary to raise equity-like capital. In 2012, a financial institution was interested in providing a significant loan to B Lab, which earns about 60% of its operating costs through earned revenue. B Lab was excited about the potential capital for scaling, but was concerned about creating excessive leverage on its balance sheet. So instead of a loan, B Lab and the financial institution devised a novel hybrid legal structure, executed in 3 steps:

1) B Lab set up a new, fully owned for-profit subsidiary (“New LLC”), and transferred its intellectual property into that subsidiary;
2) B Lab created an operating agreement in which it licensed back from New LLC the intellectual property for a fee equal to a percentage of B Lab’s operating income, or a guaranteed minimum; and
3) B Lab sold 50% of the economic interest (where the only income stream is the operating income percentage fee) of New LLC to the financial institution, while still maintaining 100% operating control of New LLC.

For the financial institution, this agreement functions like an equity position in New LLC, providing it with rights to future cash flow indefinitely. For B Lab, the new hybrid structure avoided excessive leverage on its balance sheet, while reducing repayment risk by tying payments to fluctuating operating income. B Lab also has refusal rights for the financial institution’s sale of its interest with New LLC if B Lab deems there could be a negative impact on its reputation. According to B Lab co-founder Bart Houlahan, “At the end of the day, the financial institution receives about 10% of our operating income. If others are considering this structure, the key factors are separating the economic interest of the LLC from the operating control to avoid losing any rights to your intellectual property, and making sure the new LLC is in service of your non-profit mission.”

LESSON: Keep strategy and ownership aligned with mission

HYBRIDS: ADVICE FROM THE FIELD

Getting started...
- Consider a hybrid from a position of financial health, not desperation!
- Align purpose by starting with mission first, and seeing whether a hybrid form helps to expand your impact—not just your bottom-line.
- Make realistic assumptions (and test them) before launching a subsidiary. Will it ever be possible to cover all operating costs and generate a profit for the target audience that you seek to serve? How long will it take you to get to profitability and how much will you need to invest to get there?

Digging deeper...
- Ensure clarity of boundaries among the entities, clear governance and decision-making rights, and culture alignment.
- Nonprofits CAN access equity-like funding if they have valuable IP and a strong revenue stream and are willing to create a legal hybrid form.
- Be careful to consider and mitigate all the risks (legal, reputational, financial) of a hybrid structure.
- Make sure to protect your intellectual property and other assets, while maintaining control and alignment with mission.
What Strategies Do Experienced Social Entrepreneurs Use to Finance their Scaled Impact?

Too busy to read the full paper? Need a takeaway to summarize what you learned? Below is a synthesized version of our work which explores lessons in financing from a pool of 100+ social entrepreneurs recognized by global funders for their experience in scaling their impact. Click the links to access additional detail from the paper.

**EXTERNAL FUNDING STRATEGIES**  Bring in a mix of capital types and sources to fuel your scale of impact.

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<th>DIVERSIFY FUNDING TYPES AND SOURCES</th>
<th>LEVERAGE RESULTS-BASED FINANCING</th>
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<td>to give you room to test, iterate, and shift resources as needed</td>
<td>to reduce the risk of any one funder changing strategy, and to even out cash flow</td>
<td>to access new capital sources that provide flexibility to focus on outcomes</td>
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<th>STRATEGIES</th>
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<td>- Assum ing that funders of flexible capital require less rigor for reporting on progress.</td>
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<td>- Beyond foundation grants and HNW individuals, consider sources such as SE-focused accelerators, corporate foundations, low-interest loans, and crowdfunding.</td>
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<td>- Carve out uses of capital that give you more flexibility, such as core components of your model or an R&amp;D fund to help you continuously innovate.</td>
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<td>- Sell funders on your vision and business/venture plan rather than specific activities.</td>
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<td>- Build trust with your donors to help them provide more flexible funding over time.</td>
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<td>- Do great cost accounting to tell a clear story with specific figures about what you need unrestricted money to do.</td>
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<td>- Articulate the costs that will not decrease as you scale your model, and will thus require ongoing unrestricted subsidy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MISTAKES</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Not understanding the different motivations and communications preferences of investors and donors.</td>
</tr>
<tr>
<td>- Not leading your own deal terms. Do your homework and negotiate for what is aligned with your needs and goals.</td>
</tr>
<tr>
<td>- Under-planning for the significant time and effort required for set up, including legal and accounting.</td>
</tr>
<tr>
<td>- Underestimating costs to deliver on outcomes, and using inaccurate secondary data to set the baseline against which you will be judged.</td>
</tr>
<tr>
<td>- Draining internal resources to be able to effectively manage the contract.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>TIPS</th>
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</thead>
<tbody>
<tr>
<td>- Don't be afraid to say no—avoid funding that is misaligned with your goals or would result in mission creep.</td>
</tr>
<tr>
<td>- Align the complexity of your funding relationships with the operational capacity and sophistication of your enterprise.</td>
</tr>
<tr>
<td>- Understand the level of impact evidence that different funders will expect.</td>
</tr>
<tr>
<td>- Leverage key moments and build on momentum with current funders to provide a signaling effect prompting new funders to commit.</td>
</tr>
<tr>
<td>- Look for creative ways to engage with impact investors, and don't be afraid to invent new structures (such as spin-offs or hybrids) that work best for both of you.</td>
</tr>
<tr>
<td>- Pursue only if you are genuinely convinced that it is strategic and aligned with your future goals, as the cost to develop and execute can be quite high.</td>
</tr>
<tr>
<td>- Ensure you have a robust unit model and monitoring and evaluation systems to implement and manage against outcomes.</td>
</tr>
<tr>
<td>- Identify grant funding to support a pilot of the model, so you are better positioned to negotiate a future RBF contract.</td>
</tr>
<tr>
<td>- If pursuing a SIB/DIB, carefully select the role (service provider? intermediary?) that best aligns with your scaling goals.</td>
</tr>
<tr>
<td>- Look at everyone's costs, not just yours. If the third party evaluator is getting more money than the service provider, the DIB may not be scalable.</td>
</tr>
</tbody>
</table>
LEVERAGE RESOURCES WITHIN YOUR ORGANIZATION TO POWER YOUR SCALE OF IMPACT.

**INTERNAL/OPERATIONAL STRATEGIES**

- **REDUCE COSTS**
  - to create a more efficient model and decrease the need for external capital
  - **Page 14**

- **EARN SOME OF YOUR INCOME**
  - to provide a source of (unrestricted) funding for growth and/or sustainability
  - **Page 15**

- **LEVERAGE HYBRID LEGAL FORMS**
  - to expand impact, leverage new financial stakeholders, and mitigate risks
  - **Page 18**

**MISTAKES**

- Failing to adequately test the implications of cost-efficiencies on the full model.
- Underestimating the costs to pursue earned income, including staff skills and capacity, systems, time to test and iterate.
- Misaligning the earned income product/service with the venture’s mission and core assets.
- Prioritizing profitability over impact goals.
- Assuming that creating a hybrid will help save a struggling organization.
- Misalignment between teams, cultures, and systems working for separate but related entities.
- Underestimating the costs and complexities of hybrid forms—legal, financial, and reputational.
- Lead with mission—will a hybrid form help expand impact, not just the bottom-line?
- Ensure parent organization’s financial health is strong so that subsidiary has a platform from which to grow.
- Consider piloting the opportunity internally as a proof of concept.
- Ensure appropriate operational and governance systems are in place (or budgeted for) to support both/all entities.
- Clearly delineate roles between entities to decrease confusion amongst funders/investors and increase complementarity of the work.
- Maintain control of the assets that matter to your mission.

**TIPS**

- Create a performance-based culture and processes that incentivize cost-efficiency.
- Even small tweaks can add up to large savings over time, but be sure to have systems in place to set criteria and stages for what you test, and at what level of effort.
- Leverage technology, when appropriate, to drive cost-efficiency.
- Map your ecosystem to identify other actors in your value chain whose work you could leverage.
- Pay attention to the scaling limits of your value chain partners. Can they scale as fast as you can?
- Consider implementing through other partners, but be careful about program fidelity.
- Be realistic about revenue goals, and do not assume 100% sustainability is the best goal—especially given the cost to deliver impact to underserved populations.
- Use a metric that measures value per dollar spent to help stakeholders understand your value—especially if you anticipate always being reliant upon some amount of philanthropic capital.
- Beware of mission creep and the potential for profitability to negatively affect impact goals.
- Consider different cross-subsidy models (including differentiated pricing and products) but carefully balance your core customers with up-market customers to ensure you are staying true to mission.

“Starting a hybrid will not save a struggling organization. Don’t strap an eagle to the back of a turkey in the hope that both will fly.”

Yaver Abidi, Managing Director of WSUP Advisory, on scaling impact and growing earned income through a hybrid structure.
How Can Funders Support the Key Financing Strategies that Accelerate Impact?
Discussions with successful social enterprises from the Skoll Foundation, Innovation Investment Alliance, and USAID Development Innovation Venture portfolios have pointed to six key financing strategies they draw upon to accelerate their scale of impact. So, how can funders support social enterprises in using those strategies to achieve greater and more cost-effective impact? Here we provide insights gleaned from the social enterprises:

Provide Access to Flexible Funding
• **Fund organizational outcomes, not activities.** Organizations need room to pivot, adapt, and innovate around the ways in which they deliver impact in order to end up stronger with more robust strategies. Funders should shift away from project-based modes of financing—where activities are often prescribed and it is difficult for the enterprise to adjust course—to funding the enterprise’s vision, whole business plan, or a set of target outcomes. See WSUP and Living Goods examples (page 8).
• **Measure with milestones.** Measure organizations’ progress and results against a few key milestones as opposed to a more granular list of specific activities. See the Mulago Foundation’s suggestions on specific and quantitative milestones across the areas of delivery, organizational capacity, and impact.
• **Fund for multiple years.** Provide multi-year funding (with smooth outflows) where possible, to allow for long-term strategic planning and smoother expenditures. See WSUP example (page 8).
• **Fund pilots and testing at all stages.** Successful scaling organizations continue to pilot-test efficiencies and new ways of achieving impact, but require funding to do so. Encourage and support their testing and risk-taking. See One Acre Fund example (page 14).
• **Encourage and reward transparency.** Encourage learning and transparency through your own sharing of lessons learned and incentivizing ventures to reflect on failure and pivots. Build trust by providing timely help, feedback, and questions during non-crisis times. When a problem emerges, help your grantees/investees generate excellent solution options, which will help ensure that they can make the best decisions. See Root Capital example (pages 5-6).

Support Efforts to Diversify Funder Base
• **Make diversification possible.** Decrease the management burden attached to spending your capital, so that the venture maintains capacity to bring in (and manage) additional funders. Collaborate with other funders on diligence, negotiation of terms/outcomes, and reporting/measurement requirements where there is alignment.
• **Help amplify key moments.** Use key moments of success to act as an advocate and connector on behalf of the venture, to help them bring in new funders. See Living Goods example (page 9).
• **Be a signal to other funders.** Support the hand-off process if an organization is graduating from your type of funding. Help make connections and leverage your brand to act as a signal to other funders, even ones with very different capital. See Living Goods and WaterEquity examples (page 9-10).

It’s important to have flexibility to do things that funders typically won’t fund. Most funders want to know about direct number of beneficiaries. But if you change a system to benefit everyone, you can’t directly say it is x number of heads.

Yaver Abidi,
Managing Director,
WSUP Advisory
Participate in Results-Based Financing

- **Fund RBF design costs.** The design, administrative, contracting, convening, and legal costs of an RBF are often not fully accounted for in government tenders that are based on a dollar value per outcome. Provide grant funding to facilitate RBF planning and execution: this can include baseline studies, legal counsel, and new hiring costs for both service providers and intermediaries.

- **Support outcomes-focused pilots and upgrades to enterprise performance management systems.** Help ventures to understand if RBF is right for them and to put themselves in a strong position before entering an RBF contract by funding outcomes-focused pilots. Once the RBF is in place, help organizations upgrade their performance management systems to more efficiently and effectively troubleshoot and pivot as the RBF project progresses. See Educate Girls example (page 12).

- **Commit to learning together.** The field is still learning how to best design, structure, and implement RBF contracts. Before engaging, commit to learning with the other RBF stakeholders and to continuously adapting the process.

Support Efforts to Reduce Costs

- **Spend money to save money.** Support (financially and with other resources) processes to identify, test, and implement efficiencies. See One Acre Fund example (page 14).

- **Buying vs. building: encourage growth through partnerships.** Beyond capital, explore providing technical support and network connections to help enterprises build value-chain partnerships. Be patient, as partnerships often take significant time to develop. See VisionSpring example (page 14).

Support Efficient Impact Through Earned Revenue

- **100% self-sufficiency on earned income is often infeasible.** Recognize that full operational self-sustainability is not always the right target for ventures seeking to change systems. Encourage ventures to identify and define a metric for sustainability or value of impact per dollar that allows them to drive toward best value impact instead. Help enterprises understand the information you need to trust their metric. See VisionSpring, Root Capital, and One Acre Fund examples (page 16-17).

- **Be the insulation from earned revenue fluctuations.** Even ventures with strong earned income streams are likely to suffer shocks to this revenue given the inherently riskier and less predictable environments in which they work—particularly when they test new markets or approaches to achieve more efficient impact. Provide insulation for these fluctuations by providing patient, risk-tolerant capital and encouraging learning and innovation around the “shocks.” See One Acre Fund example (page 16).

Support Use of Hybrid Models

- **Support hybrid structuring processes.** Many organizations use hybrid forms to unlock new types of capital, but require additional resources for the accounting and legal advice necessary to do so. Funders can provide support for that behind-the-scenes process.

- **Bring different capital to the table.** As ventures adopt hybrid forms, there may be opportunities to fund their work with new types of capital. Know where the tools and resources you are able to provide fit in the capital stack and seek additionality—filling in the gaps where your offering adds value. Existing funders can either bring new capital themselves or act as a connector with other funders. See WSUP and B Lab examples (pages 18-19).
Scaling Pathways Financing for Scaled Impact Project Overview

**PROJECT**: The Scaling Pathways project brings together the Innovation Investment Alliance (IIA) (a funding and learning partnership between the Skoll Foundation and USAID’s Global Development Lab, with support from Mercy Corps) and the Center for the Advancement of Social Entrepreneurship (CASE) at Duke University to study organizations that are attempting to scale impact and draw out lessons that are applicable to the social enterprise community at large. In Phase 1 of Scaling Pathways, we shared high level lessons about scale in Pivoting to Impact and profiled the scaling journeys of three organizations—VisionSpring, Imazon, and Evidence Action—in in-depth Case Studies. In Phase 2, we are creating Theme Studies that distill advice from a variety of social enterprises related to the topics outlined above. Find the full series at [www.scalingpathways.com](http://www.scalingpathways.com).

**PROCESS**: The Scaling Pathways partners surveyed social enterprises from across the Innovation Investment Alliance, USAID’s Development Innovation Ventures (DIV), and the Skoll Foundation portfolios to understand the challenges that they face on the road to scale. From this initial set of 100+ leading social enterprises, we then conducted in-depth conversations with funders and reviewed literature and background materials to identify enterprises that we believed had interesting stories and lessons to share about each theme. We then conducted interviews, literature reviews (by theme and by organization), and conducted analyses for each of the enterprises identified. In Financing for Scaled Impact, we feature stories of leading social enterprises highlighting their lessons learned regarding financing their scaling journey.

As part of the interview process, we gathered insights from the following individuals whose organizations are highlighted throughout the paper, including: Bart Houlahan, Co-Founder, B Lab; Maharshi Vaishnav, Global Development Director, Educate Girls; Lisa McCandless, Chief Development Officer, Living Goods; Thea Aguiar, Manager, One Acre Fund US; Willy Foote, Founder and CEO, Root Capital; Mike McCreless, Senior Director of Strategy and Impact, Root Capital; Rich Thorsten, Director of International Programs, Water.org; Nicole Wickenhauser, Director of Strategic Alliances, Water.org; Jessica Bernard, Communications Manager, WaterEquity; Alix Lebec, Executive Vice President of Business Development and Investor Relations, WaterEquity; Neil Jeffery, CEO, WSUP (Water and Sanitation for the Urban Poor); Yaver Abidi, Managing Director, WSUP Advisory.
B Lab | bcorporation.net | B Lab supports a global network of people using business as a force for good. B Lab is the organization behind the global certified B Corp movement and they also promote mission alignment in businesses through innovative corporate forms and measuring what matters through the B Impact Assessment and B Analytics.

<table>
<thead>
<tr>
<th>Regions Served</th>
<th>Legal Structure</th>
<th>Impact area</th>
<th>2017 Revenue</th>
<th>Year Founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>Nonprofit with For Profit Subsidiary</td>
<td>Sustainable Markets, Responsible Supply Chains</td>
<td>$11.7M</td>
<td>2006</td>
</tr>
</tbody>
</table>

Educate Girls | educategirls.ngo | Educate Girls works to improve the rates of enrollment, attendance, and retention of girls in school and learning outcome achievement for children in the educational districts in India with the greatest gender disparity in enrollment rates. Their multi-pronged approach focuses both on addressing the societal norms that keep girls out of school at a community level and improving the infrastructure and quality of instruction for all students.

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<th>2017 Revenue</th>
<th>Year Founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Nonprofit</td>
<td>Women’s and Girls’ Education</td>
<td>$8.1M</td>
<td>2007</td>
</tr>
</tbody>
</table>

Living Goods | livinggoods.org | Living Goods saves and improves lives by working in partnership with local governments to transform community health. Facilitated by cutting-edge mobile technology, results-based performance management systems, and a cadre of motivated and supervised community health workers, Living Goods supports the delivery of cost-effective basic health care to the doorsteps of people in resource-constrained settings.

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<th>2017 Revenue</th>
<th>Year Founded</th>
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</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Nonprofit</td>
<td>Health, Livelihoods</td>
<td>$15.1M</td>
<td>2008</td>
</tr>
</tbody>
</table>

One Acre Fund | oneacrefund.org | One Acre Fund provides smallholder farmers in the most vulnerable regions a complete bundle of services focused on helping them increase their yields and farm profits, improve resilience, eliminate chronic hunger, and contribute to health. This bundle includes financing for the purchase of inputs required at the beginning of the season (e.g., seeds and fertilizer), delivery of farm inputs, training on modern agricultural techniques, and market facilitation.

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<th>2017 Revenue</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Nonprofit</td>
<td>Economic Opportunity, Agriculture, Financing</td>
<td>$134M</td>
<td>2006</td>
</tr>
</tbody>
</table>
**Root Capital | rootcapital.org** | Root Capital finances and supports small and growing agricultural businesses unreach by other lenders in poor, environmentally vulnerable regions, with the goal of growing rural prosperity. Using a mix of philanthropic and debt capital, Root Capital provides these businesses with loans and training and also engages in general market-strengthening and thought leadership work across the field.

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<tr>
<th>Regions Served</th>
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<th>Impact area</th>
<th>2017 Revenue</th>
<th>Year Founded</th>
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</table>

**Vision Spring | visionspring.org** | VisionSpring provides affordable, high quality eyeglasses to people living on less than $4 a day. They accomplish their work through a network of distributors and “micro-franchises,” also providing livelihoods for community-based entrepreneurs.

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<tr>
<th>Regions Served</th>
<th>Legal Structure</th>
<th>Impact area</th>
<th>2017 Revenue</th>
<th>Year Founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia, Africa, Latin America</td>
<td>Nonprofit</td>
<td>Health, Livelihoods</td>
<td>$6.4M</td>
<td>2001</td>
</tr>
</tbody>
</table>

**Water.org & Water Equity | water.org & waterequity.org** | Water.org develops demand-driven solutions to the global water crisis. They provide technical assistance and small grants to microfinance institutions (MFIs) to reduce cost and risk of those MFIs to launch and scale to water and sanitation loans for the poor. In 2016, WaterEquity spun-out of Water.org to serve as an impact investment fund manager investing in high-growth, socially-minded enterprises also serving the water and sanitation needs of the poor.

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<tr>
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<th>2017 Revenue</th>
<th>Year Founded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa, Asia, Latin America</td>
<td>Nonprofit with affiliated but separate Nonprofit</td>
<td>Water, Sanitation, Financial Services</td>
<td>$27.9M (Water.org)</td>
<td>1990 (Water.org) 2016 (WaterEquity)</td>
</tr>
</tbody>
</table>

**WSUP & WSUP Advisory | wsup.com** | WSUP tackles the challenge of urban water and sanitation in six core program countries by partnering with local WASH service providers to test new models to improve coverage in low-income urban communities and slums. WSUP has scaled the provision of technical advisory services outside its core six program countries through WSUP Advisory—a wholly-owned for-profit subsidiary of WSUP.

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<tr>
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<th>2017 Revenue</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Asia, Africa</td>
<td>Nonprofit with For-profit subsidiary</td>
<td>Water, Sanitation, Infrastructure</td>
<td>$17M</td>
<td>2005 (WSUP) 2015 (WSUP Advisory)</td>
</tr>
</tbody>
</table>
## APPENDIX C

Types of Capital Comparison Chart from CASE Smart Impact Capital

<table>
<thead>
<tr>
<th>TERM</th>
<th>Short description</th>
<th>Also known as...</th>
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<tbody>
<tr>
<td>Grant</td>
<td>Gift of cash that can come restricted (with milestones and deliverables) or unrestricted (general purpose charitable gift) that doesn’t need to be repaid</td>
<td>Donation; gift; subsidy; bequest; aid</td>
</tr>
<tr>
<td>Crowd-funding Donations</td>
<td>Raising contributions from a large number of people, usually through a platform</td>
<td>Alternative finance</td>
</tr>
<tr>
<td>Loan Guarantee</td>
<td>Third party capital to protect an investor in case their investment in you does not come back in full</td>
<td>Credit guarantee; loss layer; letter of credit</td>
</tr>
<tr>
<td>Recoverable Grant</td>
<td>High-risk loan that will either be paid back or written off by a certain date</td>
<td>Repayable grant; forgivable loan</td>
</tr>
<tr>
<td>PRI Debt</td>
<td>A charitable investment made by private foundations as a loan</td>
<td>Program-related investment</td>
</tr>
<tr>
<td>Variable Repayment Debt</td>
<td>A loan given with customized repayment terms that relate to the operations of the company</td>
<td>Revenue-based financing; demand dividend; quasi-equity; structured exit</td>
</tr>
<tr>
<td>Debt</td>
<td>A loan that must be repaid, usually with interest</td>
<td>Loan; lien; mortgage; equipment loan; underwriting</td>
</tr>
<tr>
<td>Crowd-funding Debt</td>
<td>Borrowing money from a large number of people, usually through a platform, to repay in cash or with goods/services provided later</td>
<td>Alternative finance; pre-sales; peer lending</td>
</tr>
<tr>
<td>Convertible Debt</td>
<td>Loan that can be (and is intended to be) turned into equity under certain conditions, usually when future investment rounds are raised</td>
<td>Quasi-equity; convertible note; convertible loan</td>
</tr>
<tr>
<td>PRI Equity</td>
<td>A charitable investment made by private foundations in exchange for shares of the company</td>
<td>Program-related investment</td>
</tr>
<tr>
<td>Equity</td>
<td>Capital invested in exchange for ownership shares of the company</td>
<td>Shares; securities; interests; stakes</td>
</tr>
<tr>
<td>Crowd-funding Equity/ DPO</td>
<td>Advertising an equity investment opportunity to a public group of investors</td>
<td>Alternative finance; direct public offering; do-it-yourself IPO</td>
</tr>
</tbody>
</table>

For more detail on types of capital available to social enterprises, plus additional training content on raising impact investment capital, please visit CASE Smart Impact Capital ([www.casesmartimpact.com](http://www.casesmartimpact.com)).
Throughout the Scaling Pathways series, we use the term “social enterprise” interchangeably with the terms “social venture” and “impact enterprise” to mean a nonprofit or for-profit organization that aims to achieve social and/or environmental impact. We use “social entrepreneurs” to indicate the leaders of these organizations.


Miller, “Hidden in Plain Sight.”


Unless otherwise noted, all quotations in this theme study are from interviews conducted by Cathy Clark, Kim Langsam, Ellen Martin, and Erin Worsham between January to March 2018.

For more information on the types of financing available to social enterprises, subscribe to CASE Smart Impact Capital, www.casesmartimpact.com. This online toolkit details pros and cons of 13 capital vehicles and includes searchable databases of sources for each.


Gustafsson-Wright et al. “Impact Bonds in Developing Countries.”


Mannion, “Will South Africa’s First Social Impact Bond get Over the Line?”

To learn more about cost diminution models for change, read: Martin and Osberg, Getting Beyond Better.
16. Evidence Action has a culture of continuous improvement and focus on cost savings. Some savings have been large, but more often cuts are small but add up to meaningful savings. To learn more, see Erin Worsham, Catherine Clark, and Robyn Fehrman, “Evidence Action: Dispensers for Safe Water,” *Innovation Investment Alliance and CASE at Duke, Scaling Pathways Series*, 2017: 22. [https://www.scalingpathways.com](https://www.scalingpathways.com).


25. For more information on Root Capital's Efficient Impact Frontier, see McCreless, “Toward the Efficient Impact Frontier.”

26. For a discussion and example of the time and resources it takes to achieve economies of scale, see page 27 of Worsham et al. “VisionSpring: Business Model: Iteration in Pursuit of Vision for All.”


The Innovation Investment Alliance (IIA):
The Innovation Investment Alliance (IIA) is a funding and learning partnership between the Skoll Foundation and USAID’s Global Development Lab, with support from Mercy Corps, that has invested nearly $50 million in eight proven, transformative social enterprises to scale their impact. The IIA aims to create systems-level change across sectors and geographies and draw out lessons on scaling that are applicable to the social enterprise community and inform the ongoing conversation on how to create sustainable impact at scale.

The IIA’s partners include:
- **The Skoll Foundation** drives large scale change by investing in, connecting, and celebrating social entrepreneurs and the innovators who help them solve the world’s most pressing problems. Skoll brings an expertise in identifying and cultivating social entrepreneurs. Learn more at www.skoll.org.
- **The U.S. Global Development Lab (The Lab)** serves as an innovation hub. It takes smart risks to test new ideas, and partners within USAID and across other actors to harness the power of innovative tools and approaches that accelerate development impact. The Lab brings together diverse partners to catalyze the next generation of breakthrough innovations to advance USAID’s mission to save lives, reduce poverty, strengthen democratic governance, and help people emerge from humanitarian crises and progress beyond assistance. Learn more at www.USAIN.gov/GlobalDevLab
- **Mercy Corps** empowers people to survive through crisis, build better lives and transform their communities for good. Mercy Corps brings its experience in developing field-based programming in over 40 countries and investing in disruptive start-ups to the selection, evaluation and management of organizations selected for funding. Learn more at www.mercycorps.org.

The Center for the Advancement of Social Entrepreneurship (CASE) at Duke University:
CASE is an award-winning research and education center based at Duke University’s Fuqua School of Business. Since 2002, CASE has prepared leaders and organizations with the business skills needed to achieve lasting social change. Through our research, teaching, and practitioner engagement, CASE is working toward the day when social entrepreneurs will have the skills, networks, and funding needed to scale their impact and solve the world’s most pressing social challenges. Learn more at www.caseatduke.org.