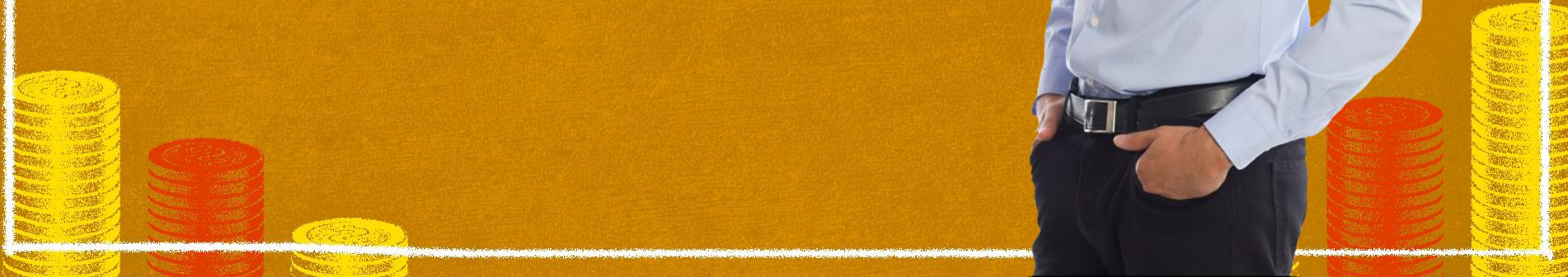


# Sources of funding for social enterprises



# 1. The sales of my SE last year...

- $<1\text{M}$
- $1\text{M to } <5\text{M}$
- $5\text{M to } <10\text{M}$
- $10\text{M to } <25\text{M}$
- $\geq 25\text{M}$

## 2. My SE has been in existence for...

- <1 year
- 1 to <3 years
- 3 to <5 years
- 5 to <10 years
- $\geq 10$  years

### **3. My SE has the following full time employees**

- 1 employee
- 2 to 3 employees
- 4 to 5 employees
- 5 to 10 employees
- >10 employees

## **4. My SE's funding requirement is...**

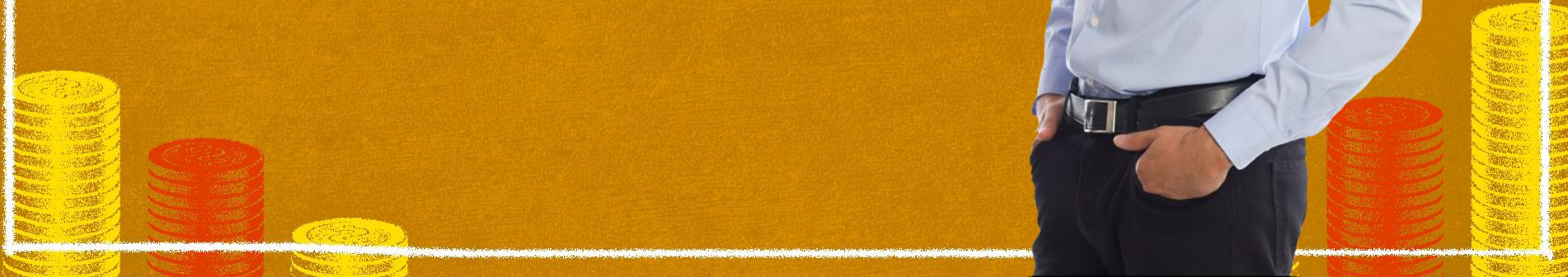
- <PhP1 million
- PhP1 to <PhP3 million
- PhP3 to <PhP5 million
- PhP5 to <PhP10 million
- $\geq$ PhP10 million

# 5. I hope to raise the funds through... (multiple answers)

- Own capital infusion
- Donation and grants
- Investment from family and friends
- Loans
- Outside investors



# Sources of funding for social enterprises



# Sources of funding for SEs

- Earned income
- Equity
- Donations and grants
- Liabilities





# Earned income

- Income from operations or sale of goods and services
- Retained earnings
- Current year earnings



# **SEDPI experience**

- Allot competitive salary for the social entrepreneur
- Dividend to investors that beat inflation and at par with market rates
- Plowback the rest of earnings for expansion and buffer



# Equity

- Corporation
  - Preferred stock
  - Common stock
- Cooperative
  - Share capital



# Possible sources of equity

- Contribution from stockholders
- Grants and donations
- Retained earnings
- Venture capitalists / Angel investors
- Fund raising proceeds





# Pros and Cons: Equity

## Pros

- Need not be paid back
- No guarantee or security needed
- Personal assets protected in case of bankruptcy

## Cons

- Give up share and profits to other investors
- Investors typically want to be involved in the business

# Best uses of equity

- For social enterprises that have good scale and income potential but who may lack the capital to develop these
  - e.g. Staff development – can't be financed through debt capital

# **Donations and grants**

- Gifts typically used for charitable purposes
- May come from friends, family, and wider network



# Donations and grants

- Typically issued by government departments and local authorities, charitable trusts and foundations, and philanthropists





# Grants

- Time limited
- Program specific
- Performance-based
- Report dependent



# Pros and Cons: Grants

## Pros

- No need to seek loans and pay it back
- Are most effective when used as interventions to a market-based solution

## Cons

- Short supply – competition for grant is fierce
- Time and money spent on grant proposal writing
- Unpredictable and no guarantee of future funding
- Too many reporting requirements

# Best uses of grants

- Support, participation and impact costs
- Infrastructure and development costs
- Specific projects
- Initial program development



# Debt/Loan

- A debt is an obligation (or loan) placed on a debtor (borrower) to repay a creditor (lender) for the capital asset borrowed from them.





# Debt/Loan

- An obligation placed on a debtor to repay a creditor for the capital asset borrowed.
- Expected repayment of this capital over a reasonable period of time.



# Debt/Loan

- Typically includes interest, a financial compensation in addition to the value of the loan
- Islamic finance
  - Interest-free – compounding is prohibited
  - Credit sale – “cost plus’ based on trade

# Secured loan

- Borrower pledges an asset as collateral (or security) against the value of the loan
- Examples: Real Estate Mortgage, Chattel Mortgage, Savings Deposit, Inventory

# Secured loan

- If the borrower fails to repay the loan (known as a default) the creditor takes possession of the asset and may sell it to recoup some or all of the value of the loan.



# Unsecured Loan

- Repayment of the debt is not tied to any form of collateral
- Usually provided with higher interest
- Based on cash flow, profitability, and credit history of borrower



# Possible sources of Credit

- Financial market
  - Term; Credit Line; Amortizing; Purchase Order Financing; Bridge Financing; Syndicated; Subordinated
- Capital market
  - Bonds
  - Securities



# Possible sources of Credit

- Supplier credit
- Credit card
- Advance payment or down payment from customers
- Informal: Family and friends





# Community Shared Agriculture

Builds relationship between the farmers and shareholders



12 weeks subscription of a basket of vegetables

Socially aware and health conscious consumers



Farmers produce fresh and organic vegetables  
Occasional newsletter and recipe booklet of fresh organic vegetables



# **Bridging the demand and supply gap**

Ensure that capital is structured appropriately in ways that are compatible with the SEs' purpose, viability, and sustainability



# Top 10 Sources of Funding for Startups

- Bootstrapping
- Friends and Family
- Small business grants
- Loans or lines of credit
- Incubators
- Angel investors
- Venture capital
- Bartering
- Form a partnership
- Commit to a major customer

# Other sources of capital

- Angel Investors
- Social Venture Capital / Impact Investors
- Venture Philanthropy Capital
- Crowd Funding
- Social banks
- Community banking
- Foundations and trusts
- Award organizations
- Government fund

# Pros and Cons: Loans

## Pros

- Creditors typically do not have involvement or stake in the SE
- Only responsibility is to keep up with repayments
- Proceeds can be used to buy business assets and profits are kept in the SE

## Cons

- Show capacity to pay
- Collaterals – business and personal assets as security
- Interest rate risk

# Best uses of loans

- Purchase of assets and equipment to develop the enterprise
- Use of short-term working capital to smoothen cash flow needs



# How financing strategy affects an SE's financial statements

Source	Assets	Liabilities	Equity	Expense	Revenue
Equity	↑		↑		
Grant	↑		↑		
Loan release	↑	↑			
Principal Payment	↓	↓			
Interest Payment	↓			↓	



# Keys to Attracting Financing

- Networking / Linkaging
- Mutual benefit / Contribute to institutional targets
- Offer counterparts / Emphasize own stake
- Avoid transactions; Establish partnerships
- Choose partners carefully; Think long term



# Resource Needs Assessment Matrix

Item	Purpose	When Needed	Possible Sources
1.			
2.			
3.			
4.			
5.			

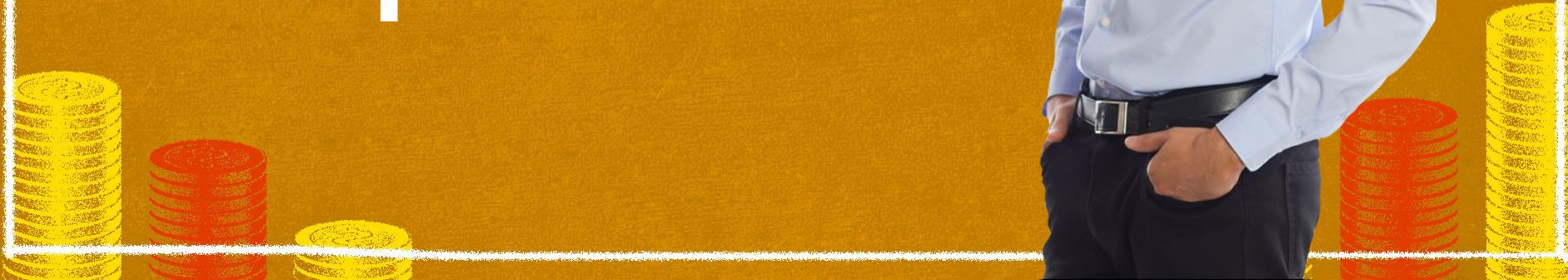
# Resource Mobilization Matrix

Item	Non-Financial	Financial Resource	
		Advantages	Disadvantages
1.			
2.			
3.			
4.			
5.			

**Ang pagyaman,  
napag-aaralan at  
napagtutulungan!**



# Appropriate financing strategies for different SE phases



# Financing SE needs

- Enterprise phases
- Capital needs of enterprises
- Resource needs assessment matrix



# Financing Needs for Different Phases





# Financing Needs for Different Phases



# Financing Needs for Different Phases



# Financing Needs for Different Phases



## Start Up Capital

- Small amounts of money to help move an idea into reality
- Very high risk and informal, with very low or no returns



# Financing Needs for Different Phases

## Start Up Capital

Start-up

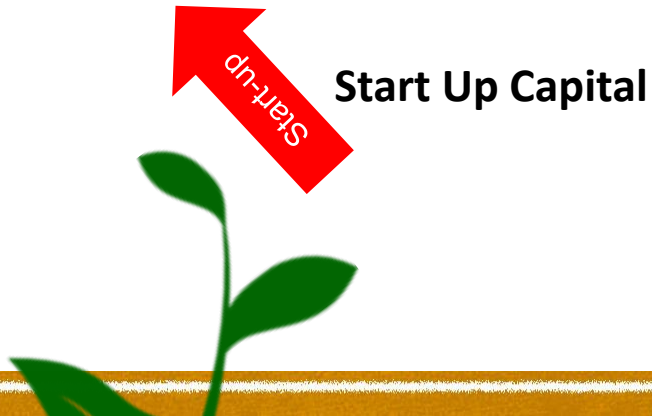
Often involves:

- Loans from family and friends
- Sweat equity and voluntary labor
- Input of personal finances and/or equipment and/or working for no wages or benefits
- Assistance from gov't or NGO programs

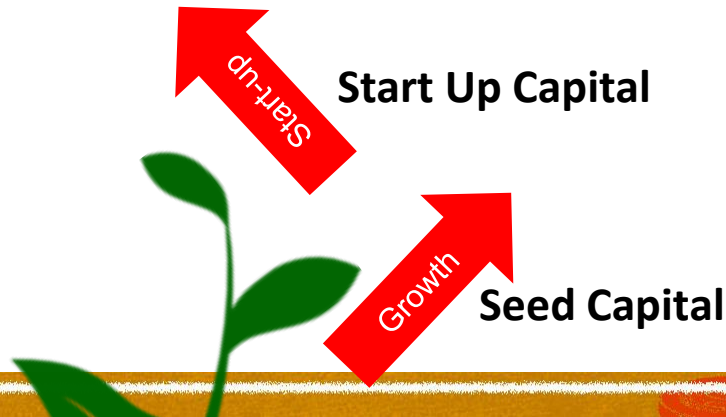
# Financing Needs for Different Phases



# Financing Needs for Different Phases



# Financing Needs for Different Phases





# Financing Needs for Different Phases



## Seed Capital

Once the initial idea has been developed into a functioning enterprise – need for capital infrastructure and equipment



# Financing Needs for Different Phases



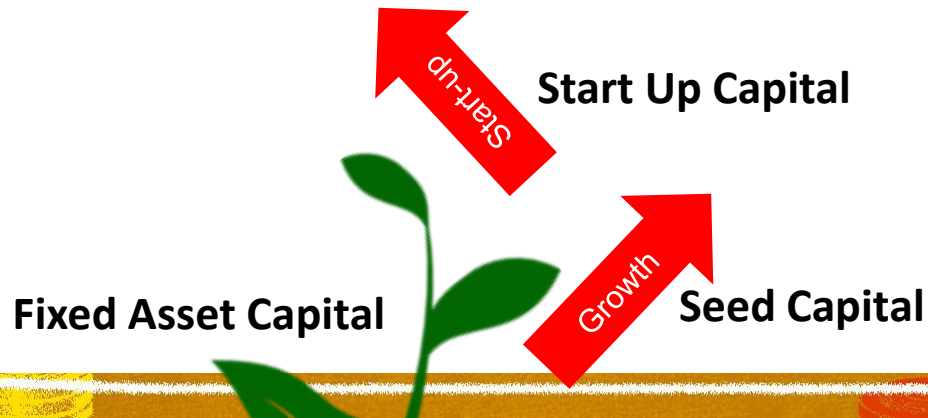
## Seed Capital

Received through:

- Grants
- No interest personal loans (from supporters, friends and family)
- Low interest long term loans from supporters, friends and family (patient capital)



# Financing Needs for Different Phases



# Financing Needs for Different Phases



## Fixed Asset Capital

Capital needed to purchase the necessary equipment and tools to undertake and develop the work of the enterprise



# Financing Needs for Different Phases

## Fixed Asset Capital

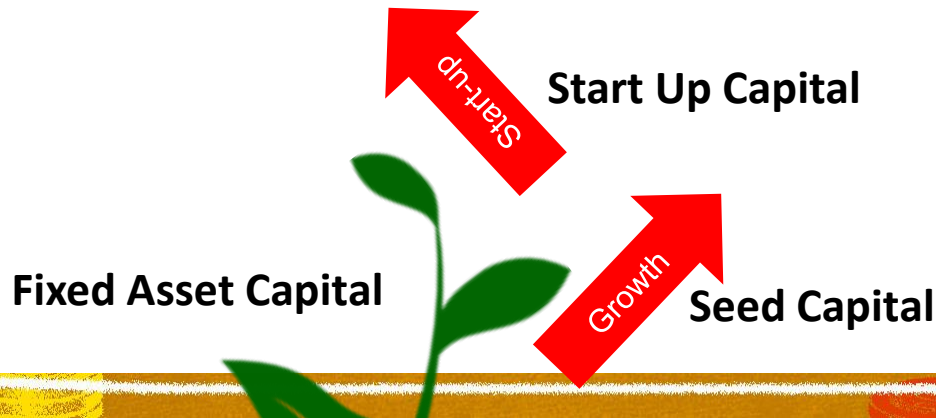


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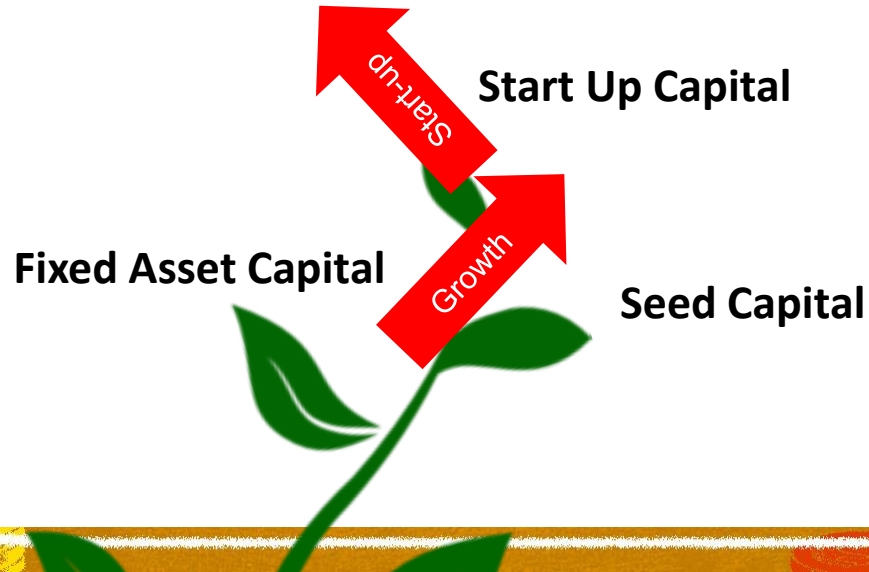
- Some form of debt financing from banks
- Some form of grant



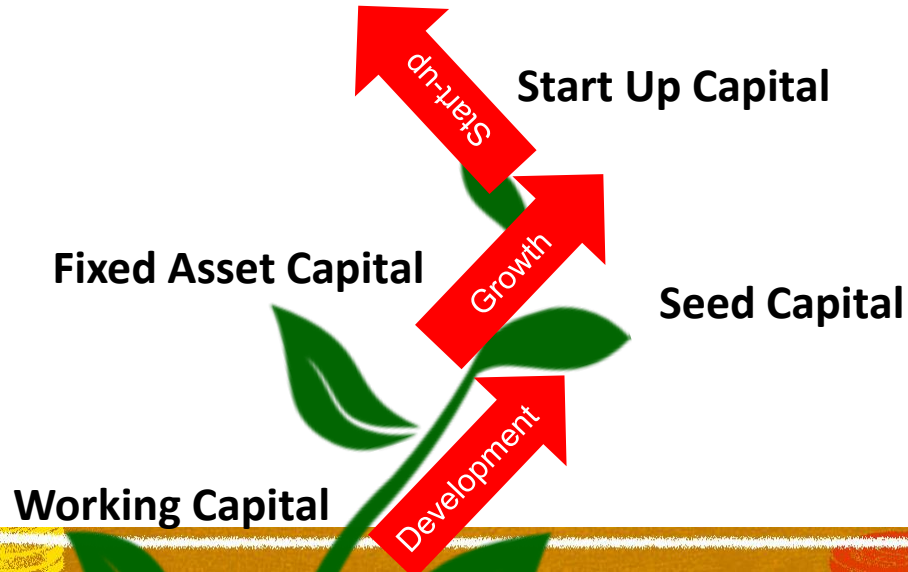
# Financing Needs for Different Phases



# Financing Needs for Different Phases

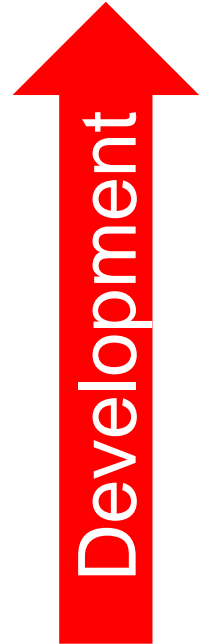


# Financing Needs for Different Phases





# Financing Needs for Different Phases

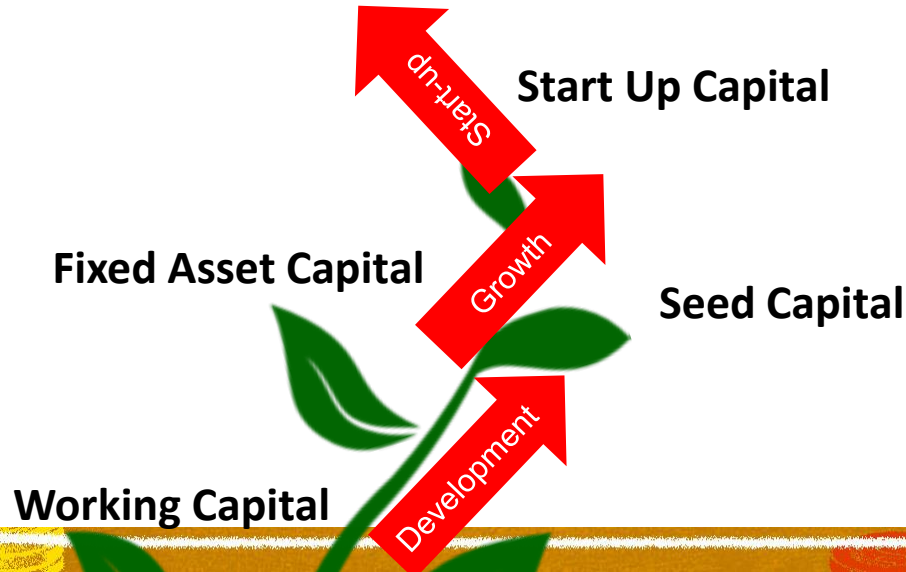


## Working Capital

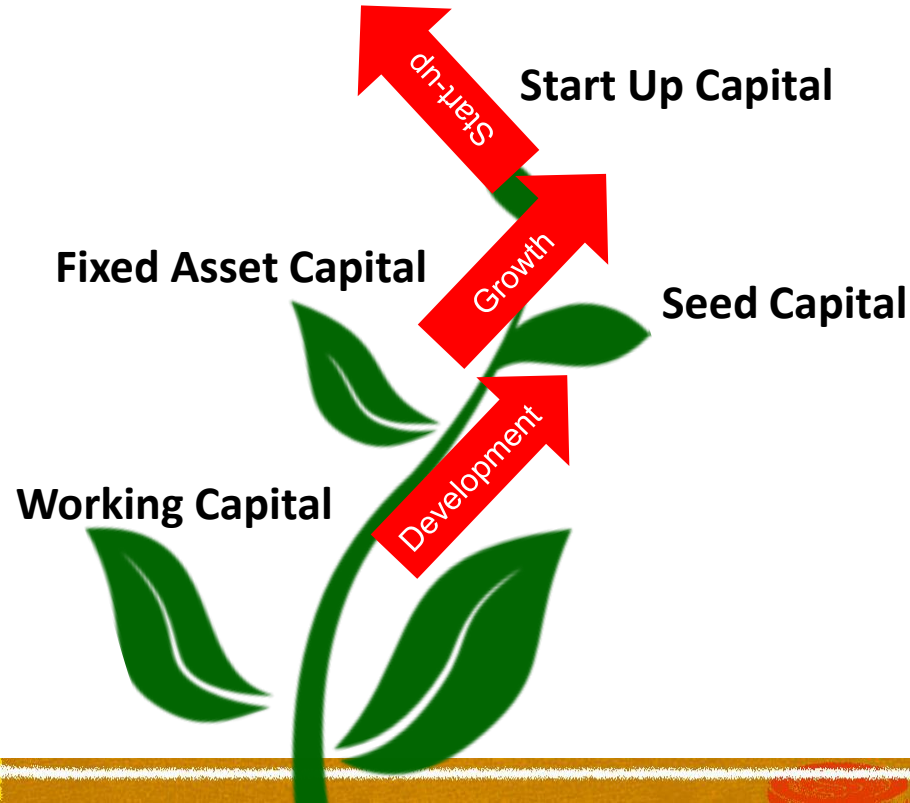
- Safety-net capital to assist with lumpy cash flows
- In the form of:
  - Overdrafts
  - Standby facilities or credit lines



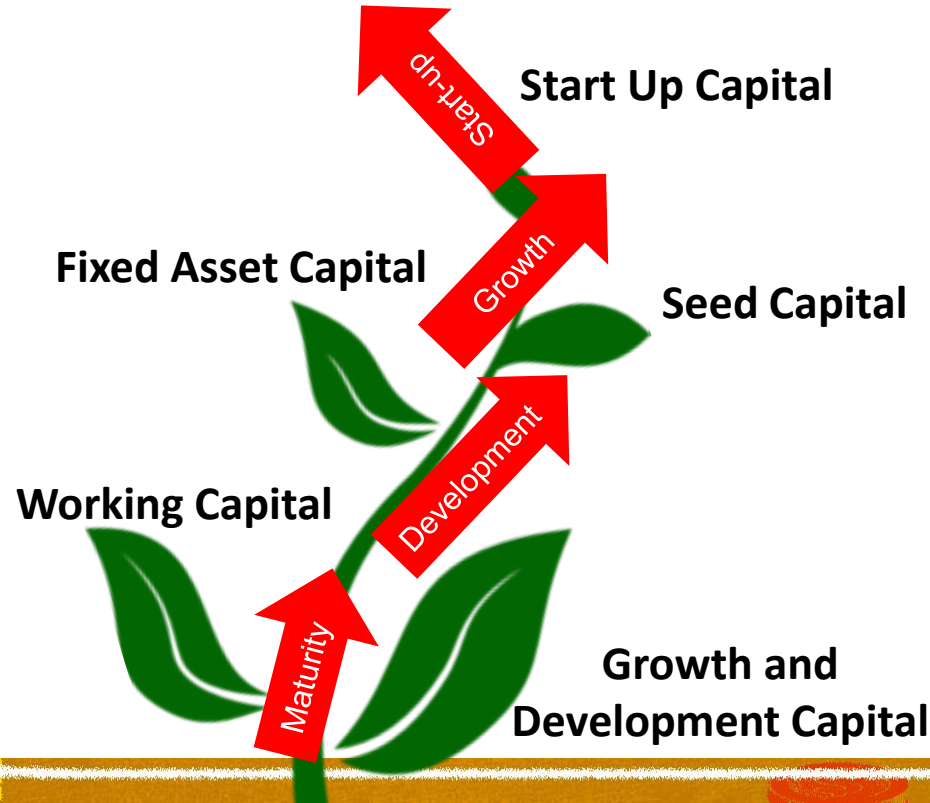
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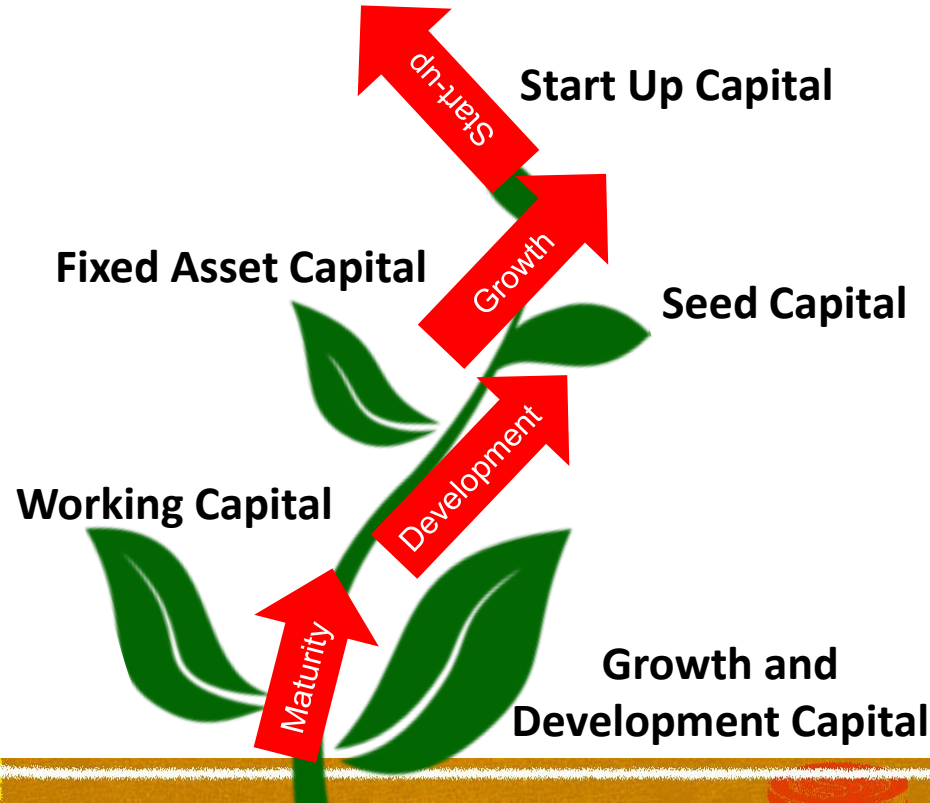
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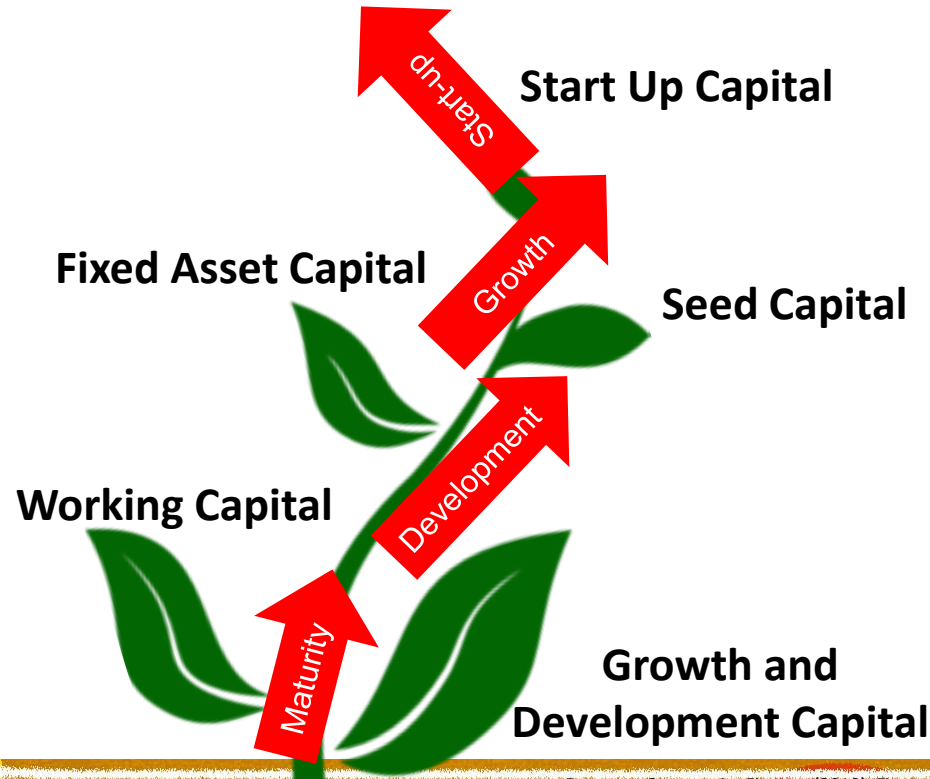
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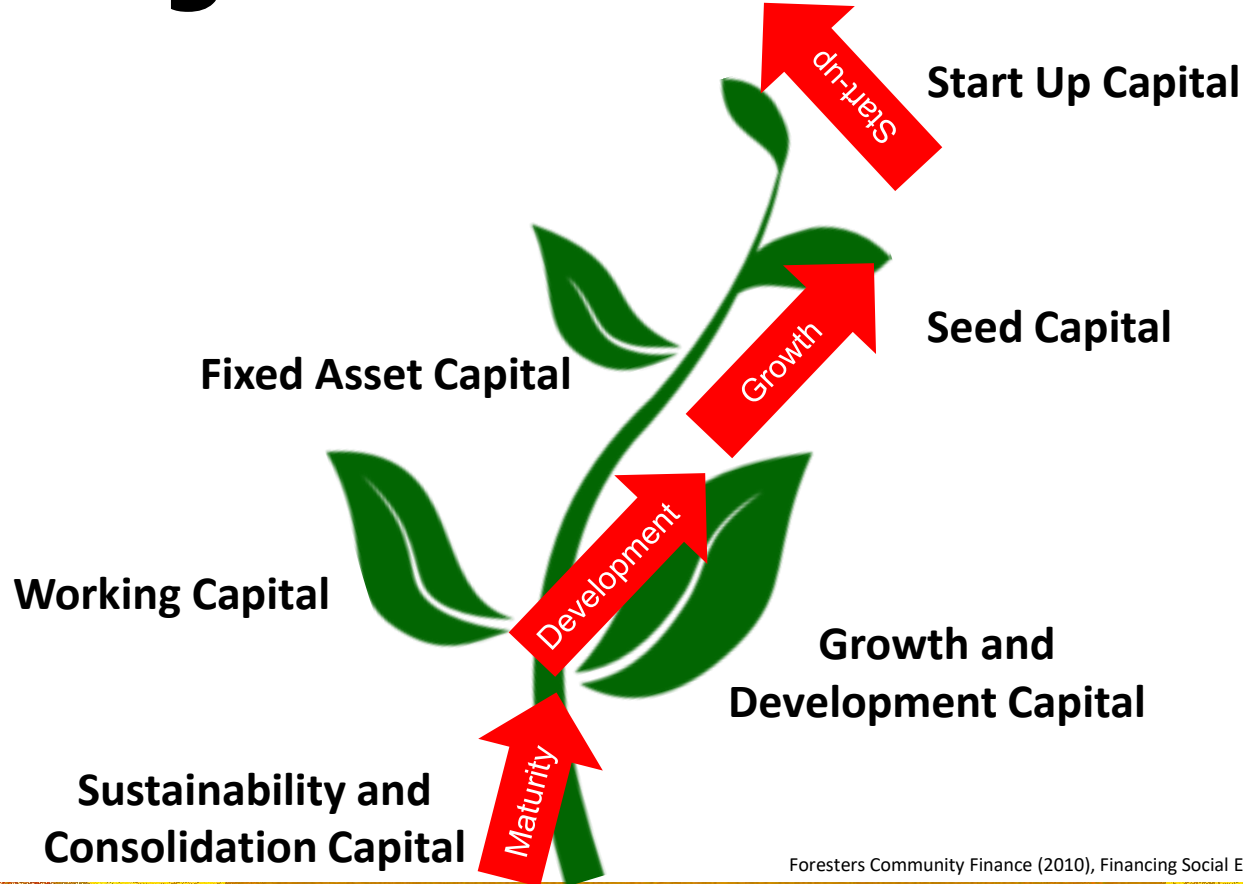
## Growth and Development Capital

- Particularly difficult period for SEs to finance
- Newer forms of enterprise finance may be most applicable
  - Equity from impact investors
  - Loans from commercial bank

# Financing Needs for Different Phases



# Financing Needs for Different Phases





# Financing Needs for Different Phases

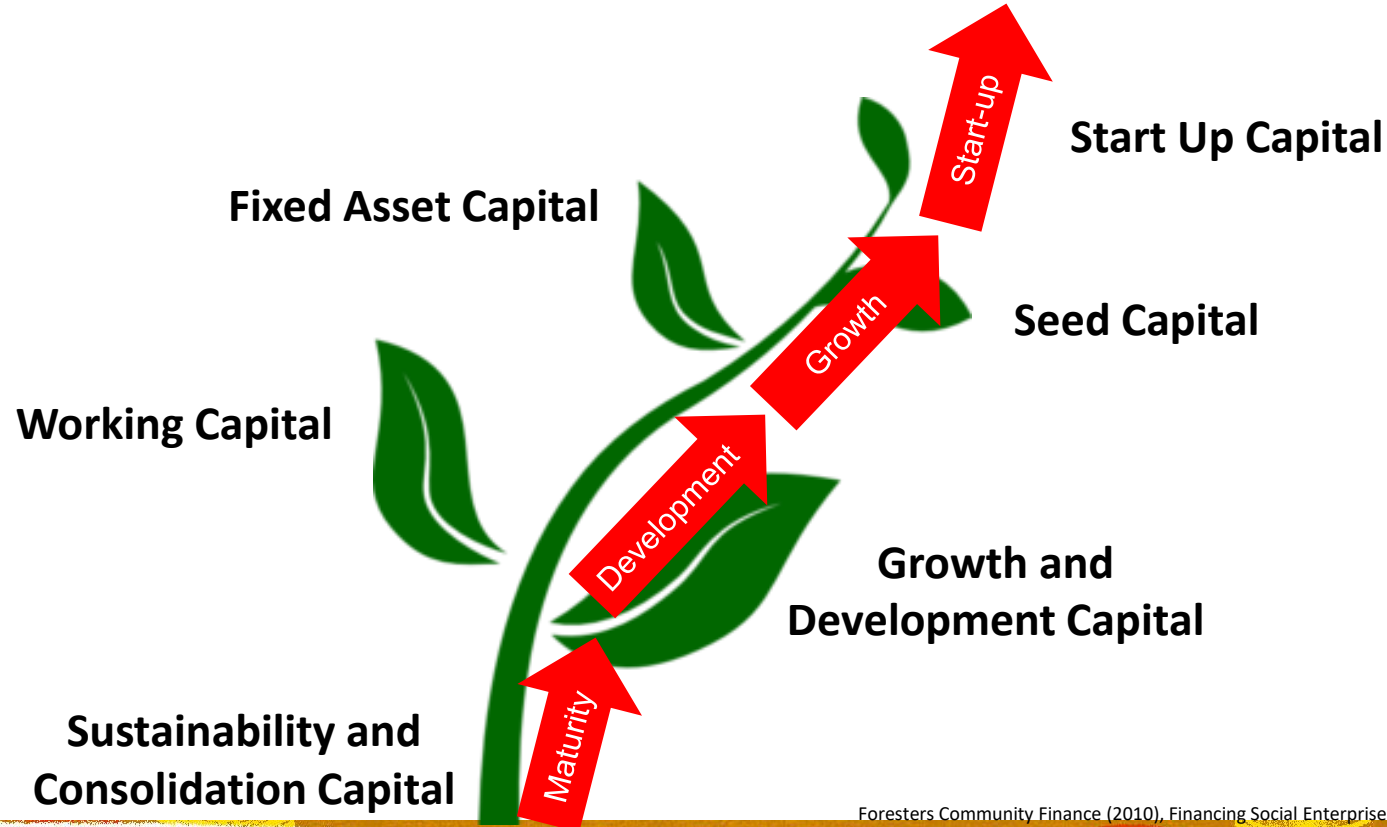
## Sustainability and Consolidation Capital



Maturity

- Capital for the long-term and asset development
- Examples:
  - Loans
  - Capital markets: Bonds, preferred shares
  - Joint ventures, mergers and acquisition

# Financing Needs for Different Phases



# **Bridging the demand and supply gap**

Ensure that capital is structured appropriately in ways that are compatible with the SEs' purpose, viability, and sustainability



# Resource Needs Assessment Matrix

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