Mapping the Money: 
An Analysis of the Capital Landscape for 
Early-Stage, For-Profit, Social Enterprises in 
the United States

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ABBREVIATIONS

The abbreviations that appear in this document are listed in alphabetical order below.

**ESFPSE**: Early-stage, for-profit, social enterprise

**GIIN**: Global Impact Investing Network

**JOBS Act**: Jumpstart Our Business Startups Act

**LCC**: Limited liability company

**L3C**: Low-profit limited liability company

**MRI**: Mission-related investment

**MVP**: Minimum viable product

**PBC**: Public benefit corporation

**PRI**: Program-related investment

**VC**: Venture capital
EXECUTIVE SUMMARY

Much ink has been spilled detailing the ascendancy of social entrepreneurship and the potential for companies to produce both social impact and financial returns. However, social enterprises’ ability to successfully solve public problems depends on their access to capital.

Recent studies reveal that early-stage, for-profit, social enterprises (ESFPSEs) in the U.S. struggle to receive funding in the seed and startup phases. To better understand ESFPSEs’ funding predicament, this Working Paper maps the social enterprise capital landscape and suggests ways to improve access to money for these enterprises in the U.S.

This Working Paper is split into six main parts. PART 1 introduces the research and sets out the three key questions: What does the capital landscape look like for ESFPSEs in the U.S.? What challenges do ESFPSEs face when accessing capital in the U.S.? What changes can be instituted to improve access to capital for ESFPSEs in the U.S.?

PART 2 provides an overview of the relevant literature in the social enterprise field, with a particular focus on the “pioneer gap”. PART 3 explains the specific methods used to map the capital landscape for ESFPSEs in the U.S.: an online survey of 60 ESFPSEs in the U.S.; personal interviews with 20 funders and experts of ESFPSEs in the U.S.; and analysis of investment and ESFPSE data from databases and reports.

Drawing on the survey data, PART 4 maps how and from where ESFPSE founders are capitalizing their businesses at the earliest stages. It reports that: the most popular legal structures were C corporations (48%); 75% of companies raised $500,000 or less; the most common source of external capital was family and friends (67%); the most common type of capital raised by companies was convertible notes (59%); the majority of companies approached between 11 and 50 funders during the capital raising process; for 81% of companies, less than half of the funders they approached responded positively to requests for capital; and the most common category of resources used by companies was personal and professional networks (80%).

PART 5 constitutes the second part of the findings. It provides a quantitative snapshot and qualitative analysis of the fundraising challenges faced by ESFPSEs under four headings: funders’ aversion to level of financial returns; funders’ aversion to companies in early stage development; heavy time investment and long due diligence periods; and lack of access to capital networks and deal information.
PART 6 constitutes the third and final part of the findings. Likewise, it provides analysis of the changes suggested by surveyed companies and interviewees to increase capital access. These changes are grouped into three themes: establishing intermediary organizations and platforms; introducing flexible financial instruments; and providing impact investing education and fundraising training.
A NOTE ABOUT THIS WORKING PAPER

This Working Paper was adapted from an original paper (dated March 29, 2016) submitted as a Policy Analysis Exercise (PAE)—the capstone project of the Master in Public Policy (MPP) curriculum at the Harvard Kennedy School of Government.

The PAE requires MPP students to undertake a research and consulting project for a client. The original project, which forms the basis of this Working Paper, was undertaken for Tumml—a San Francisco-based 501(c)3 accelerator and seed fund whose mission is to empower entrepreneurs to solve urban problems.¹ The original paper included an additional part (Part 7), containing recommendations for action on the part of Tumml. These recommendations were formulated in response to the survey and interview findings set out in Parts 4-6.

While this Working Paper does not include the original recommendations presented to Tumml, the research and findings set out in Parts 1-6 are relevant to entrepreneurs, funders, and policymakers within the broader social enterprise ecosystem.

1. INTRODUCTION

1.1 SOCIAL ENTERPRISES FACE FUNDING PROBLEMS

Over the past three decades, there has been a growing recognition of the potential for businesses to solve the world’s most intractable problems. In the U.S., we have witnessed the evolution of a new breed of company: the for-profit social enterprise. Popularized by business pioneers such as Ben Cohen and Jerry Greenfield of Ben & Jerry’s, Jessica Alba of The Honest Company, and Blake Mycoskie of Toms Shoes, social enterprises leverage the power of the marketplace to create social, economic, and environmental value.

In recent years we have seen a corresponding rise in the number of legal, financial, and institutional structures in the social enterprise ecosystem in the U.S. First, the introduction of the Public Benefit Corporation (PBC) as a new type of for-profit corporate entity has made splashes across the sector. Starting with Maryland in 2010, 31 U.S. states have passed legislation recognizing the PBC, enabling social enterprises to build “mission” into their legal DNA. Second, new financial instruments—such as Program-Related Investments (PRIs) and Mission-Related Investments (MRIs) used by foundations, and equity crowdfunding sanctioned by the Jumpstart Our Business Startups (JOBS) Act—have increased capital options available to for-profit social entrepreneurs. Third, the rapid expansion of incubators, accelerators, and other organizations focused on supporting early-stage social enterprises is a response to the growing needs of the sector.

Despite these developments, however, social enterprises struggle to access funding in the seed and startup phases. Early-stage, for-profit, social enterprises (ESFPSEs) in the U.S. face a unique conundrum—not only are they prohibited from accessing philanthropic funds earmarked for non-profit social enterprises, but they also encounter resistance from angel investors and venture capital (VC) firms who prefer more traditional enterprises. Impact investors and government funders, on the other hand, prefer tried-and-tested business models rather than riskier, early-stage social enterprises. This funding shortfall is a significant problem because, without seed
capital, many promising startup social enterprises cannot grow and scale into the successful, mission-driven businesses we all want to see in the world.\(^7\) This research aims to better understand this funding shortage by mapping the capital landscape for ESFPSEs and suggesting ways to improve capital access for these enterprises in the U.S.

### 1.2 **KEY RESEARCH QUESTIONS**

This research is driven by three key questions (“the three ‘C’s’”):

1. What does the capital landscape look like for ESFPSEs in the U.S.?
2. What challenges do ESFPSEs face when accessing capital in the U.S.?
3. What changes can be instituted to improve access to capital for ESFPSEs in the U.S.?

Ultimately, this paper builds on previous investigations into the early-stage social entrepreneurship ecosystem that cite lack of access to capital as a key challenge facing ESFPSEs.\(^8\)

### 1.3 **DEFINITION OF KEY TERMS**

This section defines the key terms and concepts in this paper.

#### 1.3.1 **EARLY-STAGE**

“Early-stage” refers to the startup or business model discovery phase of an enterprise. Early-stage enterprises are usually pre-revenue generating, though this is not a strict rule.\(^9\) Monitor-Deloitte and Acumen Fund identify four stages through which social

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\(^9\) Mark Hand, Venture Partner at UnLtd US, stated, “entrepreneurs often don’t agree with where we would say that they are in terms of stage and there’s often not a lot of linearity to it”. See Appendix 1.2 for the list of interviewees and interview details.
enterprises typically progress: blueprint, validation, preparation, and scale. “Early-stage” enterprises fall into the “blueprint” stage.

1.3.2 FOR-PROFIT

“For-profit” is a legal delineation. It refers to enterprises incorporated in the U.S. as C corporations, PBCs, S corporations, flexible purposes corporations, limited liability companies (LLCs), or low-profit limited liability companies (L3Cs).

1.3.3 SOCIAL ENTERPRISE

“Social enterprise” refers to businesses created with an explicit social, economic, or environmental mission. Social enterprise is also known as social business enterprise, social purpose enterprise, and social venture, mission-driven business, purpose-driven business, or world-positive business.

Social enterprises share an intention—usually from the moment of conception—to produce non-financial returns (“impact”) for other stakeholders in addition to making a profit for shareholders and owners. This intent to produce positive impact is realized in one of two main ways. The first is product impact—the impact of the goods or services produced by the enterprise (for example, providing clean water, financial services, or efficient energy). Here, the company’s social, economic, or environmental mission is baked into its actual product, such that “one additional unit sold means more impact and more revenue”. The second is operational impact—the impact of the enterprise’s management practices on its employees’ health and economic security, its effect on jobs or the well-being of the community in which it operates, or the environmental effects of its supply chain and operations.


11 James Joaquin, Co-founder at Obvious Ventures, provides an example of a company whose social and environmental mission is baked into its actual product: “Diamond Foundry, which are growing cultured diamonds in a laboratory. So that means that every diamond that we sell is a diamond not mined from the earth. Mining from the earth has all kinds of documented environmental impacts, so this just makes sense to us.” See Appendix 1.2 for the list of interviewees and interview details.

1.3.4 **Impact Investment**

“Impact investment”— according to the Global Impact Investing Network (GIIN)—refers to: 13

Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. They can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances.

Therefore, “impact investors” (or “impact-oriented investors”) are investors who are engaged in (or interested in engaging in) making impact investments.

1.3.5 **Funders**

“Funders” refers to the variety of providers of capital for social enterprise, ranging from angel investors to foundations. It is an umbrella term that includes both investors and donors.

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2. BACKGROUND

Part 2 consists of two main sections. The first section includes a review of the most relevant literature in the social enterprise financing space, with a particular focus on the social enterprise pioneer gap faced by ESFPSEs. The second section outlines the utility of this research to the broader field of social entrepreneurship.

2.1 SOCIAL ENTERPRISE PIONEER GAP

ESFPSEs face a “pioneer gap”—a financial burden shouldered by new enterprises that are pioneering new business models for social change.\(^\text{14}\) As ESFPSEs carry an inherently higher risk profile than later-stage investments, very few impact investors are interested in funding these young companies.\(^\text{15}\)

While the pioneer gap for ESFPSEs has received widespread attention mostly in the context of emerging markets,\(^\text{16}\) the evidence suggests that a gap also exists for ESFPSEs in the U.S. On Enable Impact—an online platform connecting social entrepreneurs and impact investors—the overwhelming majority (84%) of all self-identified, for-profit, social enterprises in the U.S. are “early-stage”, but only 8% of all self-identified impact funders in the U.S. are interested in ESFPSE.\(^\text{17}\) Similarly, according to JP Morgan and the GIIN’s Impact Investor Survey in 2015, impact investors allocated only 3% of their available capital to seed and early-stage ventures\(^\text{18}\) (see Figure 1).


\(^\text{17}\) For the original search criteria used and search results on Enable Impact, see Appendix 4.

The evolution of Acumen Fund’s deal profile is another case in point. As an impact-focused funder and then investor, Acumen Fund has gradually shifted its deal profile towards the later stage. Between 2001 and 2004, it made 64% of its capital deployment in the “blueprint” stage, compared with only 11% in 2009–2011. Ultimately, impact investors demonstrate a strong preference for investing in the later stage, “certainly after commercial viability [has] been established and preferably once market conditions [are] well prepared for sustainable scaling.” It is within this broader context that this research seeks to understand how and from where ESFPSEs in the U.S. are capitalizing their businesses, why they are experiencing challenges during the capital raising process, and what type of financing and support ESFPSEs need to fill the pioneer gap and progress to the next level.

### 2.2 Utility Of The Research

The central unit of analysis for this research is ESFPSEs operating in and across the U.S. By focusing on this unique “population”, this paper fills gaps in the research on social enterprise.

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2.2.1 U.S. Focus

To date, no studies have undertaken a comprehensive mapping of the capital landscape for ESFPSEs in the U.S. Existing survey data does not make any distinction between social enterprises operating in the U.S. and those operating abroad. Likewise, existing U.S. studies focus on the experiences of ESFPSEs within specific social enterprise accelerator or fellowship programs, such as Echoing Green.

2.2.2 Spotlight on For-Profits

Most of the research in the social enterprise field focuses on non-profit social enterprises. In comparison, there is relatively little coverage of for-profit social enterprises, given they constitute a “newer” phenomenon than their non-profit cousins. However, for-profit social enterprises are increasing in number and face unique funding challenges and needs. Therefore, there is opportunity to fill a gap in available information by zooming in on the capital-raising experiences of for-profits.

Given the focus of the research, the following types of enterprises fall outside its scope: social enterprises structured as 501(c)(3) non-profits; growth-stage, later-stage or mature social enterprises; traditional early-stage enterprises; and for-profit social enterprises operating outside the U.S.

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3. METHODOLOGY

3.1 OBJECTIVES AND RESEARCH DESIGN

This research has two primary research objectives. The first is to understand the types, sources, and amounts of capital flowing to ESFPSEs in the U.S. By understanding the capital landscape, it is possible to gauge the nature and reason for capital shortages. The second objective is to explore the fundraising challenges experienced by ESFPSEs and workshop potential solutions. Combinations of primary and secondary research methods were employed to collect quantitative and qualitative data in furtherance of these objectives.

Three specific methods were used to map, analyze, and suggest changes to the capital landscape for ESFPSEs in the U.S.:

1. Survey of ESFPSEs in the U.S.;
2. Interviews with funders of ESFPSEs in the U.S.; and
3. Analysis of investment data and ESFPSE data from online databases and reports.

3.2 SURVEY OF SOCIAL ENTERPRISES

Most of the data in this paper was derived from an online survey of 60 early-stage, for-profit, self-identified “social enterprises” in the U.S.\(^{25}\) Consistent with the random sampling method,\(^{26}\) three channels were used to collect survey responses: direct outreach, social media, and incubators and accelerators in the U.S. The sample size of 60 was equivalent to approximately 5% of the total population of ESFPSEs on Enable Impact,\(^{27}\) and approximately 2% of those listed on AngelList—an online angel investor and startup fundraising platform.\(^{28}\) Although the total number of ESFPSEs in the U.S. is unknown, Enable Impact and AngelList provide useful benchmark statistics. See Appendices 1.1.1 and 1.1.1 for a more comprehensive account of outreach channels and sample size.

The survey—which was distributed to entrepreneurs via a Google Form—consisted of 18 questions. The inclusion of 13 closed-ended and 5 open-ended questions allowed

\(^{25}\) All survey respondents self-identified as a “social enterprise”.


\(^{27}\) For the original search criteria used and search results on Enable Impact, see Appendix 4.

\(^{28}\) ESFPSEs on AngelList were defined as a “startup” or “early-stage” company operating within one of the following markets in the U.S.: “Ventures for Good, Social Entrepreneurship, Social Enterprise, Clean Technology, Education, Health Care, Social Innovation, Social Investing, Impact Investing, Collaborative Consumption.” For the original search criteria used and search results on AngelList, see Appendix 5.
for both quantitative and qualitative inputs relating to ESFPSEs’ capitalization strategies, fundraising challenges, and proposed reforms to the capital raising process. The questions also allowed for a level of granularity that existing social enterprise survey results did not provide.\(^\text{29}\) See Appendix 1.1.3 for the complete list of survey questions.

### 3.3 Interviews with Funders of Social Enterprise

Face-to-face and telephone interviews were conducted with 20 funders and social enterprise experts across the US—including representatives from impact investment funds, micro-VC funds, accelerators, and angel investors—to better understand investment decision-making criteria and processes, resistances to investing in ESFPSEs, and potential changes to improve access to capital. The interviews were explorative and semi-structured, allowing for qualitative insights into the experiences of funders and the various ESFPSEs they interact with. Where appropriate, interviewed funders are mentioned by name and organization. On some occasions, they are referred to and referenced in more general terms, to respect their confidentiality. See Appendix 1.2.1 for the full list of interviewees by name and organization, a list of interview questions, and methodological details.

### 3.4 Analysis of Data Sets from Public Sources

To complement the data collected from survey and interviews, publicly available data sets were analyzed from five main sources: listing platforms (quantitative data on funders and social enterprises); accelerators (quantitative survey data); impact investors and intermediary organizations (quantitative data on impact investments); organizations in the social enterprise and impact investing space (qualitative reports on funding); articles and blog posts by thought leaders in the field (quantitative and qualitative data).

See Appendix 1.3 for a more detailed breakdown of these five supplementary sources.

3.5 **DATA LIMITATIONS**

There are three limitations to the data that forms the basis of the findings in this paper.

First, the data provides insight into ESFPSEs currently in operation within the U.S. but does not delve into the experiences of *failed* social enterprises. Despite best endeavors to find and access founders of failed social enterprises, it quickly became evident that these entrepreneurs did not want to make themselves known. Likewise, it was almost impossible to access data on accelerators’ and investors’ failed portfolio companies, as funds tend to remove all traces of failed investments from their websites.

Second, it proved difficult to access confidential deal data from individual funders. As the next best option, aggregate data was used from sources such as JP Morgan and the GIIN’s 2015 Impact Investor Survey\(^30\). In addition, interviews with a range of investors allowed for supplementary qualitative insights.

Third, given that the purpose of the research is to understand the predicament of social enterprises and suggest improvements to their situation, the survey focused only on ESFPSEs in the U.S. The survey was explorative, not comparative, and thus no comparison group was used. Therefore, on its own, the survey results cannot be used to draw broader conclusions about the experience of ESFPSEs against other types of enterprises.

The results and findings of this research are set out in Parts 4-6.

4. CAPITAL LANDSCAPE MAP

Part 4 constitutes the first part of the findings. It sets out key quantitative findings from the survey of social enterprises. Survey data is used to map and analyze the social enterprise capital landscape in the U.S., in order to understand how and from where founders are capitalizing their businesses at the earliest stages.

4.1 SURVEYED COMPANIES’ BIOGRAPHICAL INFORMATION

60 early-stage, for-profit, social enterprises in the U.S. completed the survey. Of the total surveyed companies:

- 88% were founded within the past four years;
- Headquarters spanned twelve U.S. states and two countries (not including the U.S.). The top three locations for company headquarters (by U.S. state) were Massachusetts (40%), California (17%), and Illinois (10%);
- 92% employed 10 staff or less;
- 58% were first-time entrepreneurs and 35% had founded two to four companies;
- The vast majority (77%) of companies had participated in at least one incubator or accelerator program. This large group consisted of companies that had participated in more than one incubator or accelerator program (42%), and companies that had participated in just one incubator or accelerator program (35%).

This biographical information provides important context for the findings that follow. See Appendixes 2.1-2.5 for more details.

4.2 COMPANY LEGAL STRUCTURE

“What is the legal structure of your company?”

Company legal structure is important as it affects the ability of companies to access capital.

As shown in Figure 2, surveyed companies adopted a variety of legal structures, proving that “social enterprise” is not a legal delineation. The most popular legal structures were C corporations (48%) and limited liability companies (25%). 12% of surveyed companies were structured as public benefit corporations, a new legal denomination. Note that 501(c)(3) non-profits were not included in the survey.

31 Survey question 8. See Appendix 1.1.3.
There was a wide variation in the aggregate amount of external capital raised by surveyed companies.

As set out in Figure 3:

- 10% of companies raised no external capital. Companies in this category included both companies that had unsuccessfully attempted to raise capital as well as companies that had no plans to raise external capital at the time of the survey;
- 75% of companies raised $500,000 or less;
- 60% of companies raised $250,000 or less;
- Only 14% of companies raised more than $1 million.

These figures are corroborated by survey data from a 2015 survey of Echoing Green Fellowship semi-finalists and finalists, representing a self-selected, self-reporting group of 52 for-profit social entrepreneurs. Echoing Green’s survey—which provides more granular insights into the amount of funds received by early-stage, for-profit, social enterprises—indicated:

- The average amount of grant funding received was $77,987 and the median amount was $20,000;

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Survey question 9. See Appendix 1.1.3.
• The average investment raised was $81,101 and the median was $5,000; and
• A handful of organizations reported large raises, with $1.8 million being the most investment raised.\textsuperscript{33}

In comparison, the average seed fundraising round for traditional technology startups is somewhere between $1.6 million\textsuperscript{34} and $2 million.\textsuperscript{35} This average check size is much larger than the amounts of external capital raised by social enterprises (surveyed companies and Echoing Green Fellowship finalists and semi-finalists).

\begin{figure}
\centering
\includegraphics[width=\textwidth]{total_amount_external_capital_raised.png}
\caption{Total Amount of External Capital Raised by Surveyed Companies}
\end{figure}

4.4 SOURCES OF CAPITAL

4.4.1 MOST COMMON CAPITAL SOURCES

“What sources of funding have you received?”

Surveyed companies received capital from 175 different sources. As set out in Figure 14 these sources fell into 14 categories, ranging from family offices to business plan competitions.

The three most common sources of external capital were family and friends (67%), angel investors (52%), and incubators and accelerators (40%). Importantly, 68% of companies used founders’ personal savings to fund the company, and 3% of companies did not report any sources of capital as no funds had been raised at the time of the survey.

Similarly, Echoing Green’s 2015 survey, respondents reported more than 350 funding sources, with family, friends, and self-funding being the prominent categories. This diversity in funding sources is indicative of the lack of large institutional seed funders of for-profit social entrepreneurs.

4.4.2 VENTURE CAPITAL

Despite the ascent of early-stage VC in the U.S. in past decades, only 7% of companies received this source of capital. Therefore, “VC is not the ‘be-all and end-all’ model for impact investing.” Instead, VC financing is the exception, not the norm, among startups. This idea is supported by Guy Kawasaki’s facetious statement:

Someone once told me that the probability of an entrepreneur getting VC is the same as getting struck by lightning while standing at the bottom of a swimming pool on a sunny day. This may be too optimistic.

36 Survey question 10. See Appendix 1.1.3.
39 Lafarge, Alexandra. Director of Strategic Programs, Investors’ Circle. Date of interview: 01.21.2016.
Historically, only a tiny percentage (fewer than 1%) of U.S. companies have raised VC.\(^4\)

### 4.4.3 Private Equity

No companies received private equity. Given that private equity firms generally provide capital to more established, later-stage companies, this result was to be expected.

### 4.4.4 Impact Investors

Despite the hype surrounding impact investing, only 20% of companies received capital from impact investors. This statistic is substantiated by data from Echoing Green’s 2015 survey. Only 16% of Echoing Green survey respondents received funding from impact investors and 6% were unsuccessful in seeking funding from impact investors.\(^2\)

![Figure 4: Sources of External Capital Raised By Surveyed Companies](image-url)

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\(^3\) Given that companies could select more than one source of capital in the survey question, the percentage totals do not add to 100% (60 companies selected 194 sources of capital in total, therefore
4.5 TYPES OF CAPITAL

“What types of capital have you received?”

Surveyed companies relied on a variety of types of capital to fund their businesses at the earliest stages. As shown in Figure 5, the three most common types of capital raised by companies were convertible notes (59%), equity (43%), and grants/donations (39%).

As a type of capital received by early-stage enterprises, equity (43%) was almost three times more common than debt (16%). This finding is consistent with the results of the JP Morgan and the GIIN’s 2015 Impact Investor Survey, which found that private equity was used in a higher proportion by early-stage investors (60%) versus later-stage investors (32%). According to JP Morgan and GIIN, this result was not unanticipated, “given the need among early-stage companies for longer-term capital without short-term repayment commitments.”

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44 Survey question 11. See Appendix 1.1.3.
Figure 5: Types of Capital Raised By Surveyed Companies

### 4.6 CAPITAL RAISING SUCCESS RATES

#### 4.6.1 NUMBER OF FUNDERS APPROACHED PER COMPANY

“Approximately how many funders have you approached altogether?”

According to the survey findings, as set out in Figure 6:

- 38% of companies approached more than 25 funders during the capital raising process;
- The majority of companies (55%) approached between 11 and 50 funders during the capital raising process; and
- 7% of companies had not approached any funders at the time of the survey.

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56 companies completed this survey question (four companies left this question blank). Given that companies could select more than one type of capital in the survey question, the percentage totals do not add to 100% (56 companies selected 97 types of capital in total, therefore most companies selected more than one type of capital).

Survey question 12. See Appendix 1.1.3.
4.6.2 **PERCENTAGE OF APPROACHED FUNDERS RESPONDING POSITIVELY**

“Of all the funders you have approached, what percentage responded positively?”

As demonstrated by Figure 7, which sets out the survey results:

- 8% of companies were unsuccessful in raising capital from any of the funders they approached;
- 17% of companies received capital from 1–4% of the funders they approached;
- For the vast majority of companies (81%), less than half of the funders they approached responded positively to requests for capital;
- For 71% of companies, less than a quarter of funders they approached responded positively to requests for capital.

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49 Survey question 13. See Appendix 1.1.3.
4.7 **RESOURCES USED TO RAISE CAPITAL**

“What resources did you use to help you identify and connect with potential funders?”

Surveyed companies consulted and relied upon 159 different resources to assist with identifying and connecting with potential funders. As set out in Figure 8, these resources fell into 12 categories.

The three most common categories of resources used by companies were personal and professional networks (80%), incubator and accelerator networks (42%), and networking events and pitch and business plans competitions (38%). Less than 10% of companies used impact investing intermediaries and platforms such as GIIN and Enable Impact to identify potential funders. These survey results demonstrate a significant reliance on networks as part of the fundraising process. The old adage “It’s not what you know but who you know” resonates particularly well for startup entrepreneurs.

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50 Survey question 14. See Appendix 1.1.3.
51 Responses for this question were open-ended. Therefore, a wide range of responses was received. Responses were coded and categorized into 12 types of resources.
<table>
<thead>
<tr>
<th>12 Types of Resources Used By Companies to Identify and Connect with Potential Funders</th>
<th>Percentage of Total Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Personal and professional networks, including LinkedIn</td>
<td>80%</td>
</tr>
<tr>
<td>2. Incubator and accelerator networks</td>
<td>42%</td>
</tr>
<tr>
<td>3. Networking events and competitions</td>
<td>38%</td>
</tr>
<tr>
<td>4. Traditional investor databases, including AngelList, CrunchBase, FS6</td>
<td>36%</td>
</tr>
<tr>
<td>5. Other investors</td>
<td>16%</td>
</tr>
<tr>
<td>6. Universities, including alumni directories, professors and centers</td>
<td>16%</td>
</tr>
<tr>
<td>7. Online sources, including Google searches and blogs</td>
<td>16%</td>
</tr>
<tr>
<td>8. Other entrepreneurs</td>
<td>11%</td>
</tr>
<tr>
<td>9. Crowdfunding sites, including Kickstarter</td>
<td>11%</td>
</tr>
<tr>
<td>10. Impact investing intermediaries, including Enable Impact</td>
<td>9%</td>
</tr>
<tr>
<td>11. Professional service personnel, such as lawyers and bankers</td>
<td>5%</td>
</tr>
<tr>
<td>12. Governmental bodies</td>
<td>2%</td>
</tr>
</tbody>
</table>

Figure 8: 12 Types of Resources Used By Surveyed Companies to Connect with Funders (Ranked from Most Common to Least Common)\(^53\)

\(^{53}\) 55 companies completed this survey question (five companies left this question blank). Given that companies could indicate multiple resources used in this survey question, the percentage totals do not add to 100% (55 companies indicated 159 resources in total, therefore most companies indicated more than one resource).
5. CHALLENGES OF RAISING CAPITAL

Part 5 constitutes the second part of the findings. This part is divided into two main sections: The first section provides a quantitative snapshot of the fundraising challenges faced by social enterprises, representing the results of the survey. These challenges are grouped into four themes: funders’ aversion to level of financial returns; funders’ aversion to companies in early stage development; heavy time investment and long due diligence periods; and lack of access to capital networks and deal information. These themes form the sub-headings for the second section. The second section examines each of these thematic challenges and incorporates qualitative insights from the survey, personal interviews and public reports.

5.1 QUANTITATIVE FINDINGS

“What challenges have you faced with raising funds for your company?”

Surveyed companies faced 33 types of challenges during the fundraising process. The top 10 types of fundraising challenges are listed in Figure 9. The three most common challenges faced by companies raising capital were funders’ aversion to the fact that companies were early-stage (19%), the heavy time investment required by entrepreneurs (19%), and funders’ limited understanding of relevant industries (17%).

<table>
<thead>
<tr>
<th>Top 10 Types of Challenges Faced By Companies Raising Funds</th>
<th>Percentage of Total Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Funders’ aversion to early-stage companies</td>
<td>19%</td>
</tr>
<tr>
<td>2. Heavy time investment required by entrepreneurs to fundraise</td>
<td>19%</td>
</tr>
<tr>
<td>3. Funders’ limited understanding of relevant industries</td>
<td>17%</td>
</tr>
<tr>
<td>4. Funders’ aversion to impact-oriented startups and business models</td>
<td>15%</td>
</tr>
<tr>
<td>5. Difficulty identifying and finding appropriate funders</td>
<td>13%</td>
</tr>
<tr>
<td>6. Long due diligence periods and funders’ stall tactics</td>
<td>13%</td>
</tr>
<tr>
<td>7. Investors’ aversion to investing without evidence of strong traction</td>
<td>13%</td>
</tr>
<tr>
<td>8. Difficulty securing meetings with funders</td>
<td>9%</td>
</tr>
<tr>
<td>9. Lack of mission alignment between funders and entrepreneurs</td>
<td>9%</td>
</tr>
<tr>
<td>10. Investors’ aversion to investing without evidence of revenue</td>
<td>7%</td>
</tr>
</tbody>
</table>

Figure 9: Top 10 Types of Challenges Faced By Companies Raising Funds (Ranked from Most Common to Least Common)

54 Survey question 16. See Appendix 1.1.3.
55 Given that responses for this survey question were open-ended, a wide range of responses were received. Responses were coded and then categorized into 33 types of challenges. See Appendix 2.7 for the full list of types of challenges.
56 54 companies completed this survey question (six companies left this question blank). Given
The top 10 types of fundraising challenges fell into four broad themes, as detailed in Figure 10:

1. Funders’ aversion to level of financial returns (41%);  
2. Funders’ aversion to companies in early stage development (39%);  
3. Entrepreneurs’ heavy time investment and long due diligence periods (32%); and  
4. Entrepreneurs’ lack of access to capital networks and deal information (22%).

<table>
<thead>
<tr>
<th>Theme</th>
<th>Types of Challenges</th>
<th>Percentage of Total Companies</th>
</tr>
</thead>
</table>
| 1. Funders’ aversion to level of financial returns | • Funders’ limited understanding of relevant industries  
• Funders’ aversion to impact-oriented startups and business models  
• Lack of mission alignment between funders and entrepreneurs | 41% |
| 2. Funders’ aversion to companies in early stage development | • Funders’ aversion to early-stage companies  
• Investors’ aversion to investing without evidence of strong traction  
• Investors’ aversion to investing without evidence of revenue | 39% |
| 3. Entrepreneurs’ heavy time investment and long due diligence periods | • Heavy time investment required by entrepreneurs to fundraise  
• Long due diligence periods and funders’ stall tactics | 32% |
| 4. Entrepreneurs’ lack of access to capital networks and deal information | • Difficulty identifying and finding appropriate funders  
• Difficulty securing meetings with funders | 22% |

Figure 10: Types of Challenges Faced By Companies Raising Funds (By Theme; ranked from Most Common to Least Common)

companies could indicate multiple challenges in this survey question, the percentage totals do not add to 100% (54 companies indicated 113 challenges in total, therefore most companies indicated more than one challenge).
5.2 QUALITATIVE FINDINGS

The fundraising challenges faced by early-stage social enterprises—enumerated in the survey results, interviews and secondary sources—related to four main themes, which are analyzed below.

5.2.1 FUNDERS’ AVERSION TO LEVEL OF FINANCIAL RETURNS

The process of courting funders is challenging. Many of the difficulties experienced by ESFPSEs during the fundraising process are attributable to funders’ discomfort with companies’ projected financial returns. Reasons for resistance on the part of funders differs depending on the type of funder in question.

5.2.1.1 TOO LITTLE RETURNS

Most technology startups receive multiple rejections before successfully securing external seed capital. Social enterprises face an additional hurdle when pitching traditional VC firms and angel investors. These investors hold a common belief that social enterprise investments do not produce the “hockey stick returns” they are looking for.57

The traditional early-stage VC business model is high risk, high reward. VC funds are designed to invest in companies with potential scalability that is off the charts. General partners usually expect 90% of their portfolio companies to fail. In turn, there is an expectation that 10% of investments will hit the jackpot, producing 100x returns or more. The compensation structure of these funds—traditionally a 2% management fee and 20% carried interest—further incentivizes general partners to invest in opportunities conducive to exponential growth.58 Therefore, most ESFPSEs—which project market or less-than-market-rate returns (typically 1–4x returns)—have little prospects of receiving traditional early-stage VC.59

Similarly, most angel investors overlook companies created to solve social problems. This is reflected by the fact that, as of January 2016, only 5% of U.S. angels listed on AngelList expressed interest in mission-driven markets.60 The dominant thinking is

59 Colleen Poynton, Vice President at Core Innovation Capital, states that: “1–4x is not a sufficient return profile for traditional early-stage VC. However, for growth stage funds (Serious C to IPO) or private equity firms investing hundreds of millions of dollars in a single round, a 2–4x return may be totally acceptable.” See Appendix 1.2 for the list of interviewees and interview details.
60 AngelList allows investors to align themselves to specific “markets” that reflect their investment priorities. There are six related markets that focus on mission-driven startups: “ventures for good”,

24
that, “If you’re doing good in the world, you must be comprising my profits.”

Interviews with angel investor networks confirm that, if enterprises are providing an impact-oriented product or service, then “there is a question about whether this requires a requisite financial tradeoff, which deters many investors.”

Given investors’ hesitation towards mission-driven and impact-oriented investments, many companies purposely avoid using the “social enterprise” label when pitching for capital. This reality is captured in a comment made by Colleen Poynton, Vice President at Core Innovation Capital—a Los Angeles-based VC firm focused on financial technology:

A company catering to underserved consumers that emphasizes its strengths as a financial technology company, rather than emphasizes the mission that informs its product or strategy, is more likely to receive traditional VC funding.

Likewise, some impact investors admit to rejecting social enterprises’ requests for capital for similar reasons, claiming that they want to be “going after billion dollar problems instead.”

Ultimately, many investors wrongly consider there to be inherent tradeoffs between social and financial returns. However, not all investors share this view. For example, Obvious Ventures—a San Francisco-based VC firm focused on “world positive investing”—is determined to prove that VC funds can have great returns by investing in promising companies where every dollar of revenue has some social or environmental impact.

According to Obvious Ventures’ co-founder, James Joaquin, “If impact is already baked into the product or service, then [it] doesn’t have to have a separate measurement”.

However, Obvious Ventures’ approach is an exception to the rule. Generally speaking, investors’ financial interests are not aligned with the perceived performance of social enterprises. As one surveyed company put it, most investors “lack understanding, lack vision, and lack an interest in changing the world we live in.”

“impact investing”, “social enterprise”, “social entrepreneurship”, “social investing”, “social innovation”. See Appendix 5 for analysis of AngelList data.

63 Poynton, Colleen. Vice President, Core Innovation Capital. Date of interview: 01.20.2016.
64 Cochran, Lauren. Director of Private Investments, Blue Haven Initiative. Date of interview: 02.10.2016.
67 A company’s response to the survey question: “What challenges have you faced with raising funds for your company?”. See Appendix 1.1.3 for a full list of survey questions.
The results of a 2015 survey conducted among 19 entrepreneurs, investors, and policy makers at The Placemakers Summit in San Francisco supports this proposition. 68 95% of survey participants believed that social enterprises have more difficulty raising early-stage funding than their more traditional entrepreneurial peers. 69

5.2.1.2 Too High Returns

On the other side of the spectrum, many ESFPSEs with strong financial projections are dismissed as “too profitable” by impact investors and other funders. 70 In fact, multiple interviews revealed that some impact investors do not invest in ESFPSEs that can tap into mainstream VC firms.

Many foundations’ charters contain a blanket rule against providing capital to for-profit social enterprises. 71 In addition, the individuals responsible for managing the corpus of these foundations tend to be older and hold more traditional views about the functions of non-profit and for-profit entities. 72 This prejudice against for-profit models persists despite the creation of special financial vehicles—namely PRIs and MRIs—which authorize foundations to provide grants or equity investments to “commercial ventures for charitable purposes”. 73 However, because foundations can only directly invest in ESFPSEs qualified as PRIs, many foundations refrain from doing so due to the uncertainty of whether they would qualify as PRIs or an unwillingness to use resources to acquire a Private Letter Ruling from the IRS. In reality, foundations underutilize PRIs and MRIs due to fear and a lack of understanding of these vehicles. 74


69 See Appendix 3.


72 Laforge, Alexandra. Director of Strategic Programs, Investors’ Circle. Date of interview: 01.21.2016.


One of the interviewed investors refers to this tricky situation facing for-profit social enterprises as the “goldilocks phenomenon,” whereby social enterprises are accused of either making too much money or not enough money. This conundrum is perfectly summarized by one of the surveyed companies:

Investors say they are impact investors, but then decide the company is not profitable enough. Or alternatively, investors decide it’s too profitable, and for charitable things they would rather donate their money.

The result is that, when it comes to financial returns, ESFPSEs are stuck between a rock and a hard place.

5.2.2 Funders’ Aversion to Companies in Early Stage Development

ESFPSEs also experience fundraising difficulties by virtue of being “early-stage”. The evidence suggests a shortage of risk-adjusted capital for early-stage social ventures, especially as compared to other ventures in preliminary stages of development.

A double standard exists in early-stage social enterprises’ financing. Early-stage impact investors require more proof points from social enterprises than traditional early-stage investors require of other startups. Investor interviews showed that many early-stage impact investors only invest in ESFPSEs demonstrating market traction, a fully-fledged business model, and revenue. For example, according to Greg Bennett, Investment Analyst at VilCap Investments—a San Francisco-based venture capital firm affiliated with the DC-based Village Capital social enterprise accelerator—“Village Capital asks applicant companies to show meaningful customer validation.” For the vast majority of companies, this is best demonstrated through revenue: “we prefer for them to have sold one unit—even if it is to their mother.” However, Village Capital also acknowledges that in some sectors customer validation is shown through strategic partnerships, an active user base, purchase orders, and meaningful pilots.

Likewise, many surveyed companies struggled to find funders interested in early-


75 Cochran, Lauren. Director of Private Investments, Blue Haven Initiative. Date of interview: 02.10.2016.

76 A company’s response to survey question: “What are the main reasons why funders say no?” See Appendix 1.1.3 for a full list of survey questions.

77 Bennett, Greg. Investment Analyst, VilCap Investments (affiliated with Village Capital accelerator). Date of interview: 01.18.2016.
stage social enterprises. In the words of a Boston-based social enterprise founder, “Funders love to tell us that we are ‘promising, but too early’.”

Investors overlook the fact that it takes social enterprises significant amounts of money and time to reach the requisite proof points in order to receive investment dollars. As a result, social enterprises “have to figure out a way to get one million dollars in order to raise one million dollars.” This fundraising challenge is well-articulated by one of the surveyed companies:

There is not enough catalytic investment capital from investors that are willing to provide the first $1–5 million to prove the concept. The result is that we cannot get past the chicken and egg problem of how to create a large enough data set to prove our business really works.

A more critical, alternative view is that social enterprises should not seek external capital before achieving product-market fit. According to several interviewed investors, many social enterprises rely on their noble social or environmental mission to access capital. The false positive assumption is that, “if you have an idea and you put a framework around it, then all it is going to take is funding to get it to where it needs to go.”

Matthew Guidarelli, Assistant Director of Social and Cultural Entrepreneurship at Harvard Innovation Labs, cautions ESFPSEs against this dependency on “values over value”:

If your ‘mission-driven’ branding is your main value proposition, then you’re bound to fail. For example, if a restaurant pays their employees twice as much, recycles, has zero waste, serves food that is sourced locally, and has all these amazing things, but their food sucks, then I’m not going to go there, even if I love everything that they are doing.

Therefore, on one hand, some investors argue that there is an abundance of capital for early-stage social enterprises and a shortage of quality, investment-ready social enterprises. This sentiment is captured by one investor’s statement: “I think great social enterprises are getting seed money; the problem is that there are not enough good companies around nor enough investors large enough and with enough resources to support promising companies that might not yet be able to justify an

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78 A company’s response to the survey question: “What challenges have you faced with raising funds for your company?” See Appendix 1.1.3 for a full list of survey questions.
81 A company’s response to the survey question: “What challenges have you faced with raising funds for your company?” See Appendix 1.1.3 for a full list of survey questions.
investment." On the other hand, some investors and entrepreneurs argue that the majority of investment-ready, promising social enterprises are unable to access seed capital. “That deals are not ‘investment-ready’ is what investors say because most investors are generally lazy. They don’t have the time to help founders get ready; they are looking for fully-baked deals they can walk right into.”

Some investors take a middle-ground approach to the issue. Mark Hand, Venture Partner at UnLtd USA, for example, posits, “In a functioning ecosystem you’ll always have investors say, ‘I’m having to hunt for deals,’ and you’ll always have entrepreneurs say, ‘I’m having to hunt for capital,’ and that’s sort of a mark of good health.” Ultimately, there is ongoing disagreement about whether or not social enterprises are receiving adequate amounts of early-stage capital.

### 5.2.3 Entrepreneurs’ Heavy Time Investment and Long Due Diligence Periods

Demanding time commitments and long due diligence periods are another major paint point for social entrepreneurs raising capital. Fundraising is a resource intensive activity, which requires significant amounts of research, networking, pitch practice, and waiting for answers on the part of entrepreneurs. Most importantly, successful fundraising depends on the ability of social enterprises to build strong relationships with a variety of funders. Forging meaningful relationship and wide networks takes time and energy. Given this reality, fundraising requires patience, determination and grit.

In addition to rejecting 99% of entrepreneurs’ requests for capital, funders often take months to say “no”. To add insult to injury, many funders provide euphemisms for “no”, giving entrepreneurs the impression that there is still a chance, albeit miniscule, of successfully raising money from them. One of the surveyed companies expressed that, “funders don’t usually say no. Instead, they drag it out forever.” Many funders agree that the long fundraising timelines experienced by

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84 Cochran, Lauren. Director of Private Investments, Blue Haven Initiative. Date of interview: 02.10.2016.
85 Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
86 Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
87 A company’s response to the survey question: “What are the main reasons why funders say no?” See Appendix 1.1.3 for a full list of survey questions
89 http://www.instigatorblog.com/the-hardest-no-in-angel-investing/2013/10/02/
90 A company’s response to the survey question: “What are the main reasons why funders say no?” See Appendix 1.1.3 for a full list of survey questions
social enterprises are problematic. Greg Bennett, Investment Analyst at Village Capital, in particular, stated:\textsuperscript{91}

Impact investors take a very long time to get to an answer for these social entrepreneurs, to the point that it is, at best unhelpful and, at worst, borderline immoral. These entrepreneurs are working incredibly hard and sacrificing a lot, and to string them along for even six months with a maybe and then say ‘no’ is irresponsible on the part of investors.

Interviews with investors point to three main reasons for long due diligence periods. The first reason relates to pain aversion. Funders prefer to postpone letting down the hopes of social enterprises. As summarized by Nancy Reid, Seattle Director at Toniic, “investors see themselves as benevolent creatures in the ecosystem and don’t like to say ‘no’ and, unfortunately, as a result, they can inadvertently string along social entrepreneurs.”\textsuperscript{92} Second, many investors do not face the same time pressures as entrepreneurs and therefore have little incentive for speeding up due diligence. This is especially the case for the earliest stage investors in social enterprises—that is, “individual angel investors, many of whom are retired or investing as a hobby, and do not really feel the same urgency about getting the deal done as investors with a fiduciary responsibility.”\textsuperscript{93} Third, investors avoid giving conclusive responses in order to preserve their opportunities and options.

The combination of heavy time commitments and endless due diligence creates a negative experience for entrepreneurs. One of the surveyed companies painted a sobering picture of the fundraising process:\textsuperscript{94}

I wasted months in an incubator program in which not a single entrepreneur raised money. I had investors pledge money and then back out. On multiple occasions I applied to accelerator programs or angel groups, went through months of interviews for each, only to get rejected in the last round. This has been the most demoralizing experience of my life, and I wouldn’t wish it on my worst enemy.

A number of interviewed investors also took issue with incubators and accelerators on the basis that they require huge upfront time investments for very little reward. In addition to investing significant amounts of time, many social enterprises are required

\textsuperscript{91} Bennett, Greg. Investment Analyst, VilCap Investments (affiliated with Village Capital accelerator). Date of interview: 01.18.2016.
\textsuperscript{92} Reid, Nancy. Seattle Director, Toniic (formerly Lead, Seattle Impact Investing Group). Date of interview: 01.20.2016.
\textsuperscript{93} Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
\textsuperscript{94} A company’s response to the survey question: “What challenges have you faced with raising funds for your company?” See Appendix 1.1.3 for a full list of survey questions.
to pay for the opportunity to pitch to impact investor networks and angel groups. San Diego-based social enterprise founder expressed the irony of this situation: ⁹⁵

Some angel investors are neither ‘angels’ nor ‘investors’. Many angel groups require retainers or upfront payment of $4,500 or more just so we can pitch to them and complete the due diligence process.

Ultimately, some cash-strapped ESFPSEs are forced into uncomfortable situations requiring them to write checks in order to potentially receive a check many months later.

5.2.4 ENTREPRENEURS’ LACK OF ACCESS TO CAPITAL NETWORKS AND DEAL INFORMATION

ESFPSEs’ lack of access to capital networks and investment deal information makes for a challenging fundraising process. Many surveyed companies reported difficulties with identifying and finding appropriate funders. Set out below are the two main reasons why this is the case.

5.2.4.1 LITTLE NETWORK CONNECTIVITY

First and foremost, compared to the tightly networked world of tech startups and VC, the world of social enterprise and impact investing is very dispersed. “There is no ‘one inherent ecosystem’ for social enterprise.” ⁹⁶ This is partly because the social enterprise field is younger than the technology startup sector. In addition, social enterprise founders are not generally connected to wealth networks, including angel investors and family offices. ⁹⁷

However, the unfortunate reality is networks get deals done. For ESFPSEs, “identifying, connecting and establishing rapport with a mentor experienced in the start-up investment space can be the most powerful factor in the success of raising capital.” ⁹⁸ Therefore, it is not surprising that many social enterprise incubators and accelerator run workshops for ESFPSEs on how to build investor networks. Even when social enterprise founders successfully identify potential funders for their

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⁹⁵ A company’s response to the survey question: “What challenges have you faced with raising funds for your company?” See Appendix 1.1.3 for a full list of survey questions.
⁹⁸ A company’s response to the survey question: “What changes can be made to improve access to capital for your company and other early-stage, mission-driven ventures?” See Appendix 1.1.3 for a full list of survey questions.
businesses, many struggle to secure meetings with them. Nancy Reid, Seattle Director at Toniic, a global action community for impact investors, highlights this problem:\footnote{Reid, Nancy. Seattle Director, Toniic (formerly Lead, Seattle Impact Investing Group). Date of interview: 01.20.2016.}

It is preposterous that in this age of electronic connectivity, individual relationships and networking is still what gets deals done. Despite the work we do at Toniic and other organizations that identify hidden and vast pools of capital aligned towards mission-driven companies, connectivity is an ongoing issue.

5.2.4.2 **INSUFFICIENCY OF IMPACT-ORIENTED PLATFORMS**

Second, in the absence of personal networks, social enterprise founders resort to investor databases, alumni directories, and other online sources to connect to potential funders. However, traditional investor databases are less relevant to ESFPSEs because “a list of the most active impact investors is not something that is readily available by going onto CB Insights or CrunchBase or other software in the venture world.”\footnote{Oehm, David. Managing Partner, Enable Impact. Date of interview: 01.19. 2016.}

On the other hand, the few existing impact-focused directories such as Enable Impact and Impact Space are not comprehensive and are relatively new and unknown.\footnote{Many surveyed companies and interviewed investors cited the non-existence of impact-oriented intermediary organization, directory or platforms as a key challenge in the fundraising process.} For example, although Enable Impact provides a list of self-identified funders on its platform, being listed does not necessarily mean funders are active or have any investments. Instead, a listing merely indicates a willingness to identify as an “impact investor”. This lack of transparency around deals that have been finalized in the impact investing space is a source of frustration among many funders and social enterprises. The shortage of published deal data and the absence of online listing platforms for social enterprises means impact-oriented funders and social enterprises know very little about each other.

In reality, very few of the investors on Enable Impact have made actual investments in social enterprises in recent years, despite professing support for impact investing. To illustrate this point, IMNPACT Angels, Minnesota’s first impact angel investing network, is currently on hiatus. According to Brian Bell, former Network Coordinator at IMNPACT Angels, “It’s not exactly the success story people want to talk about, because we have only had one investment in the last two years.”\footnote{Bell, Brian. (Formerly) Network Coordinator, IMNPACT Angels (affiliated with Gopher Angels). Date of interview: 01.12.2016.} Additional
corroborating evidence comes from one of the surveyed companies, who highlighted this gap between intent and action:103

I go to pitch events and I’m told everyone there is an impact investor. There are 100 people sitting in the room. But only five are actually impact investors and 95 are there to learn about impact investing.

Given this lack of a go-to centralized resource to help identify sources of impact seed capital,104 the burden of investment education falls on resource-poor social enterprise founders. Ultimately, the fact that deal activity information is not made public to social enterprises delays their investor search process and fundraising journey. “As an entrepreneur, the best indicator of whether you’ll be able to build an effective relationship with an investor is to look at what an investors’ other investments looked like”.105 In the absence of such information, the path that a social entrepreneur has to take to find funding means a ton of research, a ton of meetings, and a ton of dead ends.106

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103 A company’s response to the survey question: “What challenges have you faced with raising funds for your company?” See Appendix 1.1.3 for a full list of survey questions.
105 Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
106 Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
6. CHANGES TO IMPROVE CAPITAL ACCESS

Part 6 constitutes the third part of the findings. This part is divided into two main sections: The first section sets out the survey’s quantitative findings and provides an overview of the changes suggested by companies to increase capital access. These changes are grouped into three themes: establishing intermediary organizations and platforms; introducing new and more flexible financial instruments; and providing impact investing education and fundraising training. These themes form the subheadings for the second section. The second section analyzes each of these thematic changes and incorporates qualitative insights from the survey, personal interviews and public reports.

6.1 QUANTITATIVE FINDINGS

“What changes can be made to improve access to capital for your company and other early-stage, mission-driven ventures?”

Companies suggested 24 main changes to improve the social enterprise capital landscape. While many companies couched their proposed reforms in general terms, others placed the burden of instituting changes on specific stakeholders, such as foundations, incubators and accelerators, or social enterprise founders.

The multitude of proposed changes were bucketed into three broad themes, as detailed in Figure 11:

- Establishing intermediary organizations and platforms to connect social enterprises and impact-oriented funders (38%);
- Introducing new and more flexible financial instruments for social enterprises (36%); and
- Providing impact investing education and fundraising training for social enterprises and funders (23%).

107 Survey question 17. See Appendix 1.1.3.
108 Given that responses for this survey question were open-ended, a wide range of responses were received. Responses were coded and then categorized into 24 types of changes. See Appendix 2.7 for a full list of types of changes.
<table>
<thead>
<tr>
<th>Theme</th>
<th>Examples of Specific Changes</th>
<th>Percentage of Total Companies</th>
</tr>
</thead>
</table>
| 1. Establishing Intermediaries and Platforms | • Create platforms to list, match and introduce funders and early-stage social enterprises  
• Set up more intermediary organizations to make introductions to impact investors | 38% |
| 2. Introducing New and More Flexible Financial Instruments | • Provide more convertible notes (for incubators and accelerators)  
• Allow more flexibility in how to use grants  
• Provide more non-dilutive grants for for-profit social enterprises (for foundations), such as recoverable grants  
• Introduce new financial instruments with “claw back provisions” for investors  
• Introduce tax concessions for early-stage impact investing  
• Lower barriers to government grants | 36% |
| 3. Providing Impact Investing Education and Fundraising Training | • Educate social enterprises about investors' needs, valuation process, and impact metrics  
• Educate funders, social enterprises and other stakeholders about impact investing  
• Train social enterprises on how to pitch to different types of funders and how to balance social and financial considerations  
• Educate investors on “catalytic capital”  
• Engage in policy advocacy on behalf of early-stage social enterprises | 23% |

Figure 11: Changes Proposed By Companies to Improve Capital Access (By Theme) (Ranked from Most Common to Least Common)\(^{109}\)

\(^{109}\) 45 companies completed this survey question (15 companies left this question blank). Given that companies could propose multiple changes in this survey question, the percentage totals do not necessarily add to 100% (45 companies suggested 64 changes in total, therefore approximately 20 companies suggested more than one change).
6.2 QUALITATIVE FINDINGS

Proposed changes to the social enterprise fundraising process and landscape—enumerated in the survey results, interviews and secondary sources—related to three main themes, which are examined below.

6.2.1 ESTABLISHING INTERMEDIARY ORGANIZATIONS AND PLATFORMS TO CONNECT SOCIAL ENTERPRISES AND IMPACT-ORIENTED FUNDERS

The most commonly proposed changes relate to establishing intermediary organizations and platforms to connect social enterprises and impact-oriented funders. In the words of Shannon Farley, Co-founder and Executive Director at Fast Forward, “We need our version of an Angel List. We need our version of an index fund. We need our version of all the things that support the ecosystem.” These solutions respond to the fundraising pressure points set out in subsections 5.2.3 and 5.2.4.

Currently, there are a few impact-oriented organizations—such as GIIN, Enable Impact and Impact Space—that serve as intermediaries and online platforms for stakeholders in the social enterprise space. Despite the existence of these organizations, surveyed companies and interviewed funders cited the need for more intermediary organizations (increase in the total number of organizations) and more active intermediary organizations (increase in the volume of activity of each organization) to build the social enterprise ecosystem. This is because the services and resources provided by current intermediaries are insufficient.

The first suggestion is that existing intermediary organizations should take a more active approach to facilitating introductions between early-stage social enterprises and impact-oriented funders. As part of this endeavor, intermediary organizations should seek to understand the interests and incentives of individual social enterprises and impact-oriented investors in order to broker meaningful connections between the two. The suggestion to provide social enterprises with earlier exposure to investors’ needs and interests is summarized in the following statement of one of the surveyed companies:

Investors should share what they are passionate about investing in and indicate particular ideas they would fund. Getting a match from the

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111 A company’s response to the survey question: “What changes can be made to improve access to capital for your company and other early-stage, mission-driven ventures?” See Appendix 1.1.3 for a full list of survey questions.
beginning before entrepreneurs do too much work limits the fundraising timeline and misalignment between investors and founders.

The second suggestion is that intermediaries should publish more detailed deal data through their online directories and listing sites. GIIN, for example, does not publish the deal-level data of its portfolio members.112 Likewise, Enable Impact provides scant information about impact deals. Therefore, the deal-level data published on impact platforms should be expanded to include: the number of actual deals done per investor, the number of investors in each deal, the average size of each investment, deal pricing and round size, the breakdown of industry and sector preferences by investor, and the breakdown of investors by types of capital provided.

As stated by one surveyed company, “As an entrepreneur, to be able to see who has funded what deals is really helpful in figuring out who you should be going after for funding.”113 The expected outcome of increased deal transparency is shortened cycles of fundraising for entrepreneurs and an awareness of who is actually doing deals in the social enterprise and impact investing space. Increasing the transparency of deal information also makes investors more accountable for their deals or inactivity. Information is the great equalizer.

Beyond transparency, impact-oriented online directories and listing sites also build community by promoting stronger connections and networks in the impact investing space. They serve as a “reach out platform” that facilitate three sets of interactions. First, these platforms enable social enterprises to identify and connect with one another to share information, insights and networks. For instance, they facilitate the exchange of success stories, which demonstrate the possibility for both social and financial returns. Currently, “successful exits are happening; sharing the stories is not happening.”114

Second, they allow social enterprises and impact-oriented funders to find each other. “Investors have a very specific focus, a very specific theory of change, a very specific orientation towards certain types of entrepreneurs.”115 Making this information available to ESFPSEs empowers them to link up with funders with aligned values, interests and incentive. For example, funders might invite ESFPSEs to contact them if

112 Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
113 A company’s response to the survey question: “What changes can be made to improve access to capital for your company and other early-stage, mission-driven ventures?” See Appendix 1.1.3 for a full list of survey questions.
114 Laforge, Alexandra. Director of Strategic Programs, Investors’ Circle. Date of interview: 01.21.2016.
they meet the characteristics of the type of companies they are interested in funding. This, in turn, strengthens their probabilities of fundraising success.

Third, platforms facilitate direct interaction between impact-oriented funders. Just as traditional funders leverage their strong, interconnected networks to arrange deals and syndicates and receive referrals, impact-oriented funders can rely on intermediary platforms to assist with fulfilling these functions. Enabling communication and connectivity between impact angel investors is especially important. Many high-net-worth individuals are willing to be angels of ESFPSEs, but their contact with institutional venture funds that can support a company as it scales, is sporadic.116 This is a problem because “impact angels don’t like to invest on their own.”117 Brian Bell confirms that, in the world of impact investing, group size matters:118

You need to have a certain amount of investors in the room in order to convert to a due diligence process and then to convert from a due diligence process to investment.

Ultimately, intermediary organizations should continue to build systems and digital deal platforms to alleviate the pain on both sides of the funding equation. Transparency increases access to information, networks and capital.

6.2.2 INTRODUCING NEW AND MORE FLEXIBLE FINANCIAL INSTRUMENTS FOR SOCIAL ENTERPRISES

The majority of surveyed companies and interviewed funders recommended introducing new, and more flexible, financial instruments to fund ESFPSEs. Expanding the range of financial instruments available to social enterprises results in a broadened pool of funders and a larger social enterprise ecosystem. While a long list of potential financial instruments was put forward by survey responses and interviews, only the four most commonly cited suggestions are analyzed below.

6.2.2.1 PROGRAM- AND MISSION-RELATED INVESTMENTS

The majority of interviewed funders stressed that foundations should be more actively using PRIs and MRIs to provide grants or equity investments to for-profit social enterprises. This is particularly the case for PRIs—a type of investment with a socially beneficial purpose that is consistent with and furthers a foundation’s mission.

116 Poynton, Colleen. Vice President, Core Innovation Capital. Date of interview: 01.20.2016.
117 Bell, Brian. (Formerly) Network Coordinator, IMNPACT Angels (affiliated with Gopher Angels). Date of interview: 01.12.2016.
118 Bell, Brian. (Formerly) Network Coordinator, IMNPACT Angels (affiliated with Gopher Angels). Date of interview: 01.12.2016.
PRIs can count toward federal regulations requiring foundations to pay out 5% of assets every year. ¹¹⁹

The first suggestion is to use PRIs and MRIs as instruments for making grants to ESFPSEs. As detailed in subsection 5.2.1.2, many foundations shy away from contributing capital to for-profit entities. However, grants represent the ultimate “risk capital” for ESFPSEs because they are not predicated on the likelihood of financial return and so can tolerate uncertainty around commercial viability.¹²⁰ The second suggestion is to encourage equity investments in ESFPSEs as financial vehicles for PRIs. Alexandra Laforge, Director of Strategic Programs at Investors’ Circle, asserts that there is “so much capital sitting in foundations that should be used for impact investing that is currently not.”¹²¹ Foundations should become more active impact investors, focusing on building sustainable social enterprises often overlooked by private investors who seek market-rate returns. Ultimately, granting seed capital to ESFPSEs responds to the challenge of the shortage of risk-adjusted and unrestricted capital for ESFPSEs, as documented in subsections 5.2.2 and 6.2.2.4.

6.2.2.2 Recoverable Grants

The impact investing market requires novel approaches to structuring investments that combine both social impact and financial return considerations to capitalize ESFPSEs.¹²² An oft-cited but novel solution is for funders to provide social enterprises with cash stipends in the form of recoverable grants. In comparison to other financial instruments, recoverable grants are easy to administer: social enterprises “agree to pay back the stipend if they become financially successful; if they don’t, they do not pay anything back.”¹²³ Another benefit is that they incentivize ESFPSEs to search for business models that generate large quantities of revenue—not just enough to repay the total amounts of grants but enough to provide ventures with additional working capital (and perhaps profit). As a leader in the social enterprise investing space, Echoing Green uses recoverable grants to “recycle” its funding from

¹²¹ Laforge, Alexandra. Director of Strategic Programs, Investors’ Circle. Date of interview: 01.21.2016.
financially successful organizations to fund future Echoing Green Fellows. The Harvard Innovation Labs is also moving in this direction. Other funders should follow suit.

6.2.2.3 GOVERNMENT GRANTS

A handful of surveyed companies and interviewed funders specifically recommended lowering the barriers to government grants for ESFPSEs. The fact that ESFPSEs in the U.S. have comparatively less access to government grant funding than those operating in the U.K., Canada and Australia strengthens this argument for reform. According to one of the surveyed companies, the rationale for making government grants more accessible to social enterprises is that “VCs don’t have the expertise to evaluate real solutions to complex problems. A lot of times real solutions seem too hard for VCs. But governments know what problems matter.” Another anticipated benefit of increasing access to government grants is that it creates opportunities for social enterprises to partner with governments in the future.

6.2.2.4 UNRESTRICTED GRANTS

To improve social enterprises’ access to capital, funders should replace restricted grants with the unrestricted variety. As set out in section 4.5 above, 39% of surveyed companies received seed capital in the form of grants. However, though grants are “free,” they are not without problems. Many grants are restrictive, requiring ESFPSEs to use funds for a particular purpose rather than to fund general operations. Some grants also impose reporting requirements that are out of the scope of ESFPSEs’ core business metrics. Removing these restrictions will improve social enterprises’ fundraising experience, enabling grantees to pivot, rapidly iterate, and more effectively innovate.

125 Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
126 A company’s response to the survey question: “What changes can be made to improve access to capital for your company and other early-stage, mission-driven ventures?” See Appendix 1.1.3 for a full list of survey questions.
6.2.3 PROVIDING IMPACT INVESTING EDUCATION AND FUNDRAISING TRAINING FOR SOCIAL ENTERPRISES AND FUNDERS

Impact investing education and fundraising training for ESFPSEs and funders features third on the list of reforms proposed by surveyed companies and interviewed funders.

6.2.3.1 IMPACT INVESTING EDUCATION

The data exposes that ESFPs lack adequate understanding of impact investing. The impact investing landscape is broad, confusing, and difficult to break into.128 The consequence is that “social entrepreneurs are not sure whom to approach, where to go for information, and what the value of an impact investor is versus a traditional investor.”129 This point is further supported by results from Echoing Green’s 2015 survey, which reveals that 17% of social enterprises did not know what impact investing meant for their venture.130

Social entrepreneurs require basic education relating to impact investing. ESFPSEs need to be assisted to map the impact investor landscape, develop better understandings of impact investors, and build familiarity with the criteria used by different impact investors to make investment decisions.131 Developing this knowledge is particularly important given that there is significant variation from one investor to the next depending on their “returns expectations, impact objectives, and investment thesis and approach.”132 For example, traditional angel investors and VC firms are best suited to companies whose impact is “baked into” the business model itself—which does not include companies whose impact is a one-for-one model, such as Warby Parker or Toms shoes.133 The better ESFPSEs understand the sources of capital available to them, the greater the likelihood that they can access them.

Additionally, many interviewed funders expressed the need for impact investors to make quicker decisions. Greg Bennett, Investment Analyst at Village Capital,, asserts,

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131 Bell, Brian. (Formerly) Network Coordinator, IMNPACT Angels (affiliated with Gopher Angels). Date of interview: 01.12.2016.
“investors must be taught how to “get to ‘no’ faster. ‘No’ is the second best answer for an entrepreneur. ‘Maybe’ is the worst answer.”134

6.2.3.2 Fundraising Training

The overwhelming majority of interviewed funders highlighted ESFPSEs’ need for training on how to articulate their value proposition and tailor their message to different funders.

Despite the existence of countless incubator and accelerators aimed at preparing early-stage entrepreneurs for fundraising, many social enterprise founders lack the requisite communication skills and financial acumen to pitch their businesses. “Social entrepreneurs are a different kind of animal than serial traditional tech entrepreneurs.”135 Therefore, they require education and training programs tailored to their specific needs. Consistent feedback from funders—especially VC firms and angel investors—is that ESFPSEs are not prepared.136 Most are not equipped to balance both the social and the financial components of their business model in pitch presentations. According Mark Hand, Venture Partner at UnLtd USA:137

There is an extent to which social enterprise founders, especially those with a non-profit background, are particularly good at telling a story about the need they’re trying to solve. And are less practiced in pitching themselves as ‘I’m a rocket ship which is about to take off and you should be on board’.

Thus, ESFPSEs need further direction on how to develop their fundraising pitch, including whether—and how—to talk about both mission and profit. This will assist ESFPSEs to overcome the “crisis of identity” caused by their dual focus on financial and social returns.138 Given the problems elucidated in subsections 5.2.1 and 5.2.2, ESFPSEs should be prepared to respond to potential criticisms, such as those directed to their “high” or “low” level of financial returns or the fact that they are very “early-stage.”

In addition, social enterprises should be taught how to tailor their pitches for different investors. For example, traditional tech angels base their decisions on a number of

134 Bennett, Greg. Investment Analyst, VilCap Investments (affiliated with Village Capital accelerator). Date of interview: 01.18.2016.
136 Many surveyed companies indicated this as specific feedback for the survey question: “What are the main reasons why funders say no?” See Appendix 1.1.3 for a full list of survey questions.
137 Hand, Mark. Venture Partner, UnLtd USA. Date of interview: 02.11.2016.
factors, including team, traction, and growth potential. This presents an opportunity for ESFPSEs to showcase all of those factors, along with a core mission that animates the work of the team and unifies their vision toward growth.139

Social enterprises should also be aware of the consequence of different labels. Some investors shy away from the label “social enterprise” or “impact”. Illustrating this point, Brian Bell, (Formerly) Network Coordinator at IMNPACT Angels, states:140

In the case that an entrepreneur is seeking funding from a group of defined impact angel investors, those investors are looking for companies that identify as impact or social businesses and would likely not see it as a problem. Meanwhile, companies that identify as social businesses or impact investing opportunities may not be taken as seriously by traditional angel investors.

Therefore, both traditional and impact-oriented incubator and accelerator programs should deliver workshops focused on skilling up social entrepreneurs in the areas listed above. Orienting traditional investors to the purpose of impact investing is also important to break down these barriers. Some traditional angel investors will prefer to stay away while others will recognize the opportunity to find like-minded investors and entrepreneurs.

All in all, these various changes—suggested by both interviewed investors and surveyed companies—would significantly improve the funding landscape for ESFPSEs, enabling them to grow and scale into successful, mission-driven businesses that can change the world.

140 Bell, Brian. (Formerly) Network Coordinator, IMNPACT Angels (affiliated with Gopher Angels). Date of interview: 01.12.2016.
APPENDICES

1. METHODOLOGY

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1.1.1 Outreach
1.1.2 Sample Size
1.1.3 Survey Questions

1.2 Interviews with Funders of Social Enterprise
1.2.1 List of Interviewees
1.2.2 Methodological Details

1.3 Analysis of Data Sets From Public Sources

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2.2 Company Headquarters
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4. DATA FROM SEARCHES ON ENABLE IMPACT

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4.2 Social Enterprises

5. DATA FROM SEARCHES ON ANGELLIST

5.1 Funders
5.2 Social Enterprises
1. METHODOLOGY

1.1 SURVEY OF SOCIAL ENTERPRISES

1.1.1 OUTREACH

Consistent with the random sampling method, three channels were used to collect survey responses:

1. Direct outreach: Contacting 200+ ESFPSEs listed on Enable Impact.
2. Social media: Posting the survey across all relevant social media platforms and distributed it throughout my networks in the social enterprise space.
3. Incubators and accelerators: Collaborating with representatives at UnLtd USA, MassChallenge, Fledge, Village Capital, Impact Engine and the Harvard Innovation Labs, who sent the survey to their respective portfolio companies and broader networks. These incubators and accelerators across the U.S. served as intermediaries in the outreach process.

1.1.2 SAMPLE SIZE

The sample size of 60 was equivalent to approximately 5% of the total ESFPSEs on Enable Impact, and approximately 2% of those listed on AngelList. Although the total number of ESFPSEs in the US is unknown, Enable Impact and AngelList provide useful benchmark statistic. The Enable Impact platforms lists 1103 early-stage, for-profit, social enterprises in the U.S. AngelList, on the other hand, lists 3396 ESFPSEs in the U.S. This discrepancy can be attributed to the fact that Enable Impact is a comparatively younger and less known platform than AngelList.

1.1.3 SURVEY QUESTIONS

Google Survey: Entrepreneurship and Capital Access
http://goo.gl/forms/y7qgGIZER8

141 I contacted incubators and accelerators with whom I had a pre-existing relationship. The others I selected based on their inclusion in UBI Global and Cisco’s 2015 survey of top social incubators in the US.
142 Defined as a company within one of the following four stages as defined by Enable Impact: “1) Problem Identification, 2) Idea, 3) Prototype/Pilot, 4) Early Customer, Revenue”. For the exact search criteria used to search for companies, see Appendix 4.
143 For the data set originating from the search on Enable Impact, see Appendix 4.
144 Defined as a “startup” or “early-stage” company operating within one of the following markets in the U.S.: “Ventures for Good, Social Entrepreneurship, Social Enterprise, Clean Technology, Education, Health Care, Social Innovation, Social Investing, Impact Investing, Collaborative Consumption.” For the exact search criteria used to search for companies, see Appendix 5.
1. What is your company name?

2. What year was your company founded?

3. Where is your company headquartered?

4. Have you participated in any incubator or accelerator programs? If so, which ones?

5. If you participated in an incubator or accelerator program, did you receive any funding from them? If so, what type of funding and how much? For example: Tumml - 25K in seed funding in exchange for 5% equity

6. How many companies have you (co-)founded?
   • This is my first company
   • 2-4
   • 5-9
   • 10+

7. How many staff does your company currently employ?
   • 1
   • 2-5
   • 6-10
   • 11-50
   • 51-200
   • More than 200

8. What is the legal structure of your company?
   • Not yet incorporated
   • No longer in existence
   • Sole proprietorship
   • General proprietorship
   • C Corp
   • S Corp
   • LLC
   • LLLC
   • Public Benefit Corporation
   • B Corp certified
   • Limited partnership
   • 501(c)(3)
9. How much external funding have you raised so far? (USD)
   • None / No plans to fundraise
   • Less than or equal to 5K
   • Less than or equal to 50K
   • Less than or equal to 250K
   • Less than or equal to 500K
   • Less than or equal to 1M
   • Less than or equal to 2M
   • Less than or equal to 10M
   • More than 10M

10. What sources of funding have you received? Please check all applicable boxes.
   • No funds raised
   • Personal savings
   • Family / friends
   • Family offices
   • Impact investors
   • Foundations
   • Incubators / accelerators
   • Traditional investment funds
   • Angel investors
   • Venture capital
   • Venture philanthropy
   • Private equity
   • Crowdfunding
   • Government
   • Business plan competitions
   • Other:

11. What types of capital have you received?
   • Equity
   • Convertible notes
   • Debt
   • Revenue share / quasi equity
   • Grants / donations
   • Other:
12. Approximately how many funders have you approached altogether?
   - None
   - 1-5
   - 6-10
   - 11-25
   - 26-50
   - 51-100
   - 101-200
   - More than 200

13. Of all the funders you have approached, what percentage have responded positively? In other words, what percentage of approached funders gave you money?

14. What resources did you use to help you identify and connect with potential funders? Please list any resources you used.

15. What are the main reasons why funders say no? In other words, what feedback have you received from funders who refused to give money?

16. What challenges have you faced with raising funds for your company? Please list any barriers you have come across / associated with raising money.

17. What changes can be made to improve access to capital for your company and other early-stage, mission-driven ventures? Consider new financial instruments, legislative instruments, education, advocacy, communication, and training etc.

18. Any other comments?
1.2 Interviews with Funders of Social Enterprise

1.2.1 List of Interviewees

The following is a list of the 20 interviews conducted (alphabetical; by surname). Five of the 20 interviewees chose not to be listed by name. Their details are listed at the end.

Bass, Rachel
Associate, Research, Global Impact Investing Network (GIIN)
Nonprofit dedicated to increasing effectiveness of impact investing (NY, New York)
Date of interview: 01.22.2016

Bell, Brian
(Formerly) Network Coordinator, IMNPACT Angels (affiliated with Gopher Angels)
Minnesota's first impact angel investing network (Minneapolis, MN)
Date of interview: 01.12.2016

Bennett, Greg
Investment Analyst, VilCap Investments (affiliated with Village Capital accelerator)
Venture capital firm focused on social enterprises (San Francisco, CA)
Date of interview: 01.18.2016

Cochran, Lauren
Director of Private Investments, Blue Haven Initiative
Family office investment firm (Cambridge, MA)
Date of interview: 02.10.2016

Farley, Shannon
Co-founder and Executive Director, Fast Forward
Accelerator for technology nonprofits (San Francisco, CA)
Date of interview: 01.22.2016

Ferguson, Tom
Vice President, Programming, Imagine H20
Water innovation accelerator (San Francisco, CA)
Date of interview: 02.25.2016

Guidarelli, Matthew
Assistant Director of Social and Cultural Entrepreneurship, Harvard Innovation Labs
Accelerator dedicated to increasing innovation across Harvard (Cambridge, MA)
Date of interview: 02.26.2016
Hand, Mark  
Venture Partner, UnLtd USA  
Accelerator dedicated to social entrepreneurs in Austin (Austin, TX)  
Date of interview: 02.11.2016

Jackson, Mike  
Partner, The Westly Group  
Venture capital firm focused on clean energy investments (Menlo Park, CA)  
Date of interview: 01.19.2016

Joaquin, James  
Co-founder, Obvious Ventures  
Venture capital firm focused on “world positive investing” (San Francisco, CA)  
Date of interview: 01.19.2016

Laforge, Alexandra  
Director of Strategic Programs, Investors’ Circle  
Largest early-stage impact investing network (San Francisco, CA)  
Date of interview: 01.21.2016

Nasiri, Shanna  
Executive Director, Nasiri Foundation  
Family foundation supporting innovation in philanthropy (San Francisco, CA)  
Date of interview: 01.19.2016

Oehm, David  
Managing Partner, Enable Impact  
Online platform connecting social entrepreneurs and impact investors (Los Angeles, CA)  
Date of interview: 01.19.2016

Poynton, Colleen  
Vice President, Core Innovation Capital  
Venture capital firm focused on financial technology (Los Angeles, CA)  
Date of interview: 01.20.2016

Reid, Nancy  
Seattle Director, Toniic (formerly Lead, Seattle Impact Investing Group)  
Nonprofit serving as global network and community for impact investors (San Francisco, CA)  
Date of interview: 01.20.2016
Anonymous Interviewee 1
Director, social investment fund focused on developing markets (London, UK)
Date of interview: 02.25.2016

Anonymous Interviewee 2
Manager, health-focused social enterprise operating in the U.S. (Boston, MA)
Date of interview: 10.20.2015

Anonymous Interviewee 3
Principal, independent consultancy for social impact (San Francisco, CA)
Date of interview: 02.09.2016

Anonymous Interviewee 4
Partner, social investment fund (Boston, MA)
Date of interview: 02.09.2016

Anonymous Interviewee 5
Manager, Pay for Success projects across the U.S. (Boston, MA)
Date of interview: 10.13.2016

1.2.2 Methodological Details

The interviews were explorative and semi-structured.

Interviewing funders served two purposes. First, it allowed for qualitative insights into the experiences of entrepreneurs they are working with. Second, it facilitated understanding about the experiences of interviewees in their capacity as funders.

The interview method was also used to collect quantitative data on each category of funder. Specifically, the following data:

- The amount and percentage of total capital flowing to ESFPSEs;
- The types of capital deployed (grant funding / investment); and
- Characteristics of ESFPSEs receiving capital e.g. preference for certain industry verticals etc.

1.2.3 Interview Questions

A semi-structured interview technique was used to interview funders. Interview questions related to a number of topics, including:
• Organization or fund and role of the interviewee within that organization;
• Organization’s track record of investing in social enterprises;
• Amount of capital invested to date;
• Types of capital invested;
• Types of social enterprises invested in;
• Criteria for accepting/rejecting social enterprise capital requests;
• Challenges faced by social enterprises raising capital;
• Recommendations to improve the system of accessing capital and investing in social enterprises.

1.3 ANALYSIS OF DATA SETS FROM PUBLIC SOURCES

To complement the data collected from survey and interviews, publicly available data sets were analyzed from five main sources:

1. Online quantitative data on funders and social enterprises from listing platforms and searchable databases such as AngelList\(^ {145}\) and Enable Impact\(^ {146}\);
2. Published quantitative survey data from funders and accelerators such as Echoing Green’s survey of Fellowship semi-finalists and finalists, representing a self-selected, self-reporting group of 52 for-profit social entrepreneurs;\(^ {147}\)
3. Published quantitative survey data on impact investments and funders such as GIIN and JP Morgan’s 2015 Impact Investment Survey\(^ {148}\) and the [Impact Survey];\(^ {149}\) and
4. Published qualitative reports on social enterprise funding and the experience of impact investors from organizations such as the Monitor Group and the Acumen Fund;\(^ {150}\)
5. Other secondary sources including data related to startups, non-profits, foundations, VC, technology investments, and similar fields.

2. FINDINGS OF SURVEY OF SOCIAL ENTERPRISES

Survey responses are represented in descending order, with the most common responses represented at the top of the table of results for each question (unless otherwise stated).

2.1. YEAR OF COMPANY FOUNDING

What year was your company founded?

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2%</td>
</tr>
<tr>
<td>2006</td>
<td>2%</td>
</tr>
<tr>
<td>2007</td>
<td>2%</td>
</tr>
<tr>
<td>2008</td>
<td>0%</td>
</tr>
<tr>
<td>2009</td>
<td>2%</td>
</tr>
<tr>
<td>2010</td>
<td>2%</td>
</tr>
<tr>
<td>2011</td>
<td>3%</td>
</tr>
<tr>
<td>2012</td>
<td>17%</td>
</tr>
<tr>
<td>2013</td>
<td>13%</td>
</tr>
<tr>
<td>2014</td>
<td>32%</td>
</tr>
<tr>
<td>2015</td>
<td>27%</td>
</tr>
<tr>
<td>2016</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

2.2. COMPANY HEADQUARTERS

Where is your company headquartered?

<table>
<thead>
<tr>
<th>Headquarters</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massachusetts</td>
<td>40%</td>
</tr>
<tr>
<td>California</td>
<td>17%</td>
</tr>
<tr>
<td>Illinois</td>
<td>10%</td>
</tr>
<tr>
<td>Georgia</td>
<td>5%</td>
</tr>
<tr>
<td>Texas</td>
<td>5%</td>
</tr>
<tr>
<td>Location</td>
<td>Percentage</td>
</tr>
<tr>
<td>---------------</td>
<td>------------</td>
</tr>
<tr>
<td>Abroad</td>
<td>5%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>3%</td>
</tr>
<tr>
<td>DC</td>
<td>3%</td>
</tr>
<tr>
<td>Maryland</td>
<td>3%</td>
</tr>
<tr>
<td>New York</td>
<td>3%</td>
</tr>
<tr>
<td>Delaware</td>
<td>2%</td>
</tr>
<tr>
<td>Michigan</td>
<td>2%</td>
</tr>
<tr>
<td>Colorado</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

2.3. **INCUBATOR PARTICIPATION**

Have you participated in any incubator or accelerator programs? If so, which ones?

<table>
<thead>
<tr>
<th>Incubator/Accelerator Participation</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>77%</td>
</tr>
<tr>
<td>1 program only</td>
<td>35%</td>
</tr>
<tr>
<td>More than 1 program</td>
<td>42%</td>
</tr>
<tr>
<td>No</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

2.4. **NUMBER OF COMPANIES FOUNDED**

How many companies have you (co-)founded?

<table>
<thead>
<tr>
<th>Number of Companies Started</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>This is my first company</td>
<td>58%</td>
</tr>
<tr>
<td>2-4</td>
<td>35%</td>
</tr>
<tr>
<td>5-9</td>
<td>3%</td>
</tr>
<tr>
<td>10+</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

2.5. **NUMBER OF STAFF EMPLOYED**
How many staff does your company currently employ?

<table>
<thead>
<tr>
<th>Number of Employed Staff</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-5</td>
<td>58%</td>
</tr>
<tr>
<td>1</td>
<td>22%</td>
</tr>
<tr>
<td>6-10</td>
<td>12%</td>
</tr>
<tr>
<td>11-50</td>
<td>7%</td>
</tr>
<tr>
<td>51+: 1</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

2.6. **CHALLENGES OF RAISING CAPITAL**

What challenges have you faced with raising funds for your company?

<table>
<thead>
<tr>
<th>33 Types of Challenges Faced By Companies Raising Funds (in order of appearance in surveys)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Difficulty locating appropriate funders</td>
</tr>
<tr>
<td>2. Investor bias against female-led companies</td>
</tr>
<tr>
<td>3. Investors ganging up</td>
</tr>
<tr>
<td>4. Playing the networking game</td>
</tr>
<tr>
<td>5. Investors limited understanding of the industry</td>
</tr>
<tr>
<td>6. Long due diligence cycle</td>
</tr>
<tr>
<td>7. Investor bias against political startups</td>
</tr>
<tr>
<td>8. Investor aversion to unfamiliar business models</td>
</tr>
<tr>
<td>9. Regulatory delays</td>
</tr>
<tr>
<td>10. Investor aversion to lack of revenue</td>
</tr>
<tr>
<td>11. Lack of technical team</td>
</tr>
<tr>
<td>12. Investor aversion to lack of traction</td>
</tr>
<tr>
<td>13. Investors lack of vision</td>
</tr>
<tr>
<td>14. Difficulty securing meetings</td>
</tr>
<tr>
<td>15. Requiring entrepreneurs to pay fees to pitch</td>
</tr>
<tr>
<td>16. Investors with conflicts of interest</td>
</tr>
<tr>
<td>17. Investor bias against young entrepreneurs</td>
</tr>
<tr>
<td>18. Investor aversion to impact startups</td>
</tr>
<tr>
<td>19. Lack of networks</td>
</tr>
<tr>
<td>20. Lack of knowledge of investors</td>
</tr>
<tr>
<td>21. Investor aversion to small markets</td>
</tr>
<tr>
<td>22. Difficulty locating appropriate impact investors</td>
</tr>
</tbody>
</table>
23. Confusion around meaning of impact investing
24. Time intensive
25. Chicken and the egg problem
26. Lack of capital for early stage
27. Investor bias against impact and toward financial returns
28. Investor bias against PBC
29. Foundation bias against for-profit companies
30. Proving scale
31. Investor bias against faith-based startups
32. Investors demanding too much equity
33. Uncertain exit strategies and timelines

2.7. **CHANGES TO IMPROVE CAPITAL ACCESS**

What changes can be made to improve access to capital for your company and other early-stage, mission-driven ventures?

<table>
<thead>
<tr>
<th>24 Types of Changes Suggested by Companies to Improve Capital Access (in order of appearance in surveys)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. More instruments for early-stage social enterprises</td>
</tr>
<tr>
<td>2. Lower barriers to government grants and loans</td>
</tr>
<tr>
<td>3. Replace business plans with pitch decks and interviews</td>
</tr>
<tr>
<td>4. More impact VCs and funds (and impact LPs)</td>
</tr>
<tr>
<td>5. Clearinghouse for communication of ideas and advocacy</td>
</tr>
<tr>
<td>6. More opportunities to meet directly with impact investors</td>
</tr>
<tr>
<td>7. More non-dilutive grants for for-profit social enterprises (especially from foundations who usually only provide these to non-profit social enterprises)</td>
</tr>
<tr>
<td>8. Tax concessions for early-stage impact investing</td>
</tr>
<tr>
<td>9. More traditional VCs investing in social enterprises</td>
</tr>
<tr>
<td>10. More platforms to match investors with early-stage social enterprises</td>
</tr>
<tr>
<td>11. More education on definition of impact investing and its implications</td>
</tr>
<tr>
<td>12. More education for social enterprises to understand investors' needs</td>
</tr>
<tr>
<td>13. More networks of impact investors</td>
</tr>
<tr>
<td>14. More education for investors on the importance of catalytic capital</td>
</tr>
<tr>
<td>15. More intermediary organizations to facilitate introductions between investors and early-stage social enterprises</td>
</tr>
<tr>
<td>16. More education and training for social enterprises on how to pitch (balancing social and financial)</td>
</tr>
<tr>
<td>17. Earlier exposure to investors' needs and interests to ensure greater alignment</td>
</tr>
<tr>
<td>18. More mentorship for early-stage social enterprises (fundraising)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>19.</td>
</tr>
<tr>
<td>20.</td>
</tr>
<tr>
<td>21.</td>
</tr>
<tr>
<td>22.</td>
</tr>
<tr>
<td>23.</td>
</tr>
<tr>
<td>24.</td>
</tr>
</tbody>
</table>
3. FINDINGS OF PLACEMAKERS SUMMIT SURVEY

This data was gathered from a survey conducted among 19 entrepreneurs, investors, and policy makers, at The Placemakers: A Conversation about the Entrepreneurs Shaping our Cities, a one-day summit hosted by Tumml in San Francisco in November, 2015.\(^{151}\)

*In 10 years, do you think we will still have a separate class of impact investors?*

<table>
<thead>
<tr>
<th>#</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>10</td>
</tr>
<tr>
<td>NO</td>
<td>9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19</td>
</tr>
</tbody>
</table>

*Do mission-driven startups have more difficulty raising early-stage funding than their more "traditional" entrepreneurial peers?*

<table>
<thead>
<tr>
<th>#</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>18</td>
</tr>
<tr>
<td>NO</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19</td>
</tr>
</tbody>
</table>

*Do venture capital firms that target world-positive or mission-driven startups have a robust pipeline of companies for potential investment?*

<table>
<thead>
<tr>
<th>#</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
<td>9</td>
</tr>
<tr>
<td>NO</td>
<td>10</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19</td>
</tr>
</tbody>
</table>

4. DATA FROM SEARCHES ON ENABLE IMPACT

4.1. FUNDERS

Data set: List of self-identified funders listed on the Enable Impact platform. Does not necessarily mean funders are active or have made investments.

Search criteria (search conducted 29-Dec-15)

Search for: Funders
Location of ventures funded: US, Canada
Sector: All
Capital Type: All
Type of Funder Organization: All
Type of Entity Funded: For Profit, Hybrid
Stage of Venture Funded: 1) Problem Identification, 2) Idea, 3) Prototype/Pilot, 4) Early Customer Traction, Revenue

Matches 46
Total Matches if All for Stages of Venture Funded 194
Total Matches if All for Type of Entity Funded 49
Total Matches if All for Type of Entity and All for Stages of Venture Funded 590
Total Matches if only first 3 Stage of Venture Funded 14
Matches as % of All Funders in US Funding All Entity Types at All Stages of Venture 8%

See full list of matches in Appendix.

Breakdown of Type of Funder Organization

<table>
<thead>
<tr>
<th>Type of Funder Organization</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Fund</td>
<td>11</td>
</tr>
<tr>
<td>Foundation</td>
<td>7</td>
</tr>
<tr>
<td>Accelerator</td>
<td>6</td>
</tr>
<tr>
<td>Angel</td>
<td>5</td>
</tr>
<tr>
<td>VC</td>
<td>5</td>
</tr>
<tr>
<td>Group</td>
<td>4</td>
</tr>
<tr>
<td>Family office</td>
<td>3</td>
</tr>
<tr>
<td>Venture philanthropist</td>
<td>3</td>
</tr>
<tr>
<td>International Development Agency</td>
<td>2</td>
</tr>
<tr>
<td>PE</td>
<td>2</td>
</tr>
<tr>
<td>Biz Plan Comp</td>
<td>1</td>
</tr>
<tr>
<td>Platform</td>
<td>1</td>
</tr>
</tbody>
</table>
4.2. SOCIAL ENTERPRISES

Data set: List of self-identified social enterprises listed on the Enable Impact platform.
Seeking funding.

Search criteria (search conducted 29-Dec-15)

Search for: Ventures
Location where venture operates US, Canada
Sector: All
Capital Type: All
Type of Entity Funded: For Profit, Hybrid
Stage of Venture Funded: 1) Problem Identification, 2) Idea, 3) Prototype/Pilot, 4) Early Customer Traction, Revenue

Search results
Matches 1103
Currently seeking funding 149
Total Matches if All for Stages of Venture 1261
Total Matches if All for Type of Entity Funded 1163
Total Matches if All for Type of Entity and All for Stages of Venture Funded 1308
Total Matches if only first 3 Stage of Venture Funded 971
Matches as a % of All Funders in US, Canada investing in All Entity Types at All Stages of Venture 84%
5. DATA FROM SEARCHES ON ANGELLIST

5.1. FUNDERS

Data set: List of self-identified funders listed on the AngelList platform. Does not necessarily mean funders are active or have made investments. Self-identify in the markets specified.

Search criteria
Search for:
Roles: Angels
Location: US
Ventures for Good; Impact Investing; Social Enterprise;
Social Entrepreneurship, Social Investing; Social Innovation
Market: Innovation

Search results

Matches
Including additional Markets: Health Care; Education; Clean Technology;
Collaborative Consumption
Total Matches for US Angels interested in All Markets
Total Matches for All Angels interested in Ventures for Good; Impact Investing;
Social Enterprise; Social Entrepreneurship, Social Investing; Social Innovation
Total Matches for All Angels interested in Ventures for Good; Impact Investing;
Social Enterprise; Social Entrepreneurship, Social Investing; Social Innovation;
Health Care; Education; Clean Technology; Collaborative Consumption
Total Matches for All Angels interested in All Markets
Matches as a % of US Angels investing in All Markets
Matches as a % of All Angels interested in Ventures for Good; Impact Investing;
Social Enterprise; Social Entrepreneurship, Social Investing; Social Innovation
Matches as a % of All Angels investing in All Markets

5.2. SOCIAL ENTERPRISES

Companies in US
91889

Search criteria
Search for:
Type: Startup; Early Stage; Mobile App; Internet
Location: US
Market: Ventures for Good; Impact Investing; Social Enterprise; Social Entrepreneurship, Social Investing; Social Innovation
Stage: Seed

Search results
Matches: 16
Including additional Markets: Health Care; Education; Clean Technology; Collaborative Consumption: 253

Search criteria
Search for:
Type: Startup; Early Stage; Mobile App; Internet
Location: US
Ventures for Good; Impact Investing; Social Enterprise; Social Entrepreneurship, Social Investing; Social Innovation
Stage: All

Search results
Matches: 280
Including additional Markets: Health Care; Education; Clean Technology; Collaborative Consumption: 3396

Search criteria
Search for:
Type: Startup; Early Stage; Mobile App; Internet
Location: All
Ventures for Good; Impact Investing; Social Enterprise; Social Entrepreneurship, Social Investing; Social Innovation
Stage: All

Search results
Matches: 402
Including additional Markets: Health Care; Education; Clean Technology; Collaborative Consumption: 5502
<table>
<thead>
<tr>
<th>Description</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Matches for Startup; Early Stage; Mobile App; Internet in All Markets</td>
<td>35371</td>
</tr>
<tr>
<td>at All Stages in All Locations</td>
<td></td>
</tr>
<tr>
<td>Total Matches for Startup; Early Stage; Mobile App; Internet in All Markets</td>
<td>18860</td>
</tr>
<tr>
<td>at All Stages in US</td>
<td></td>
</tr>
<tr>
<td>Total Matches for Startup; Early Stage; Mobile App; Internet in All Markets</td>
<td>1407</td>
</tr>
<tr>
<td>at Seed Stage in US</td>
<td></td>
</tr>
<tr>
<td>Total Matches for Startup; Early Stage; Mobile App; Internet in All Markets</td>
<td>2436</td>
</tr>
<tr>
<td>at Seed Stage in All Locations</td>
<td></td>
</tr>
</tbody>
</table>
BIBLIOGRAPHY

ARTICLES


Ghanimeh, Genny. *Social Entrepreneurs Don’t Have it Easy Reading Capital.* 

Hernandez, Christian. *Getting to Yes and Why VCs Default to No 99% of the time.* 


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**BOOKS**


**EVENTS**


**LEGISLATION**


**PODCASTS**


**REPORTS**


WEBPAGES


