

## *Echoing Green: Recoverable Grants FAQ*

*These FAQs do not constitute legal advice. As with all financial matters, please consult your own legal, accounting, and tax professionals for individualized advice.*

### *What is Echoing Green's philosophy around funding social entrepreneurs starting for-profit companies?*

Echoing Green has always sought applications for our Fellowship program by innovative organizations creating high-impact social change, regardless of their organization's legal structure. In 2006, only 15 percent of our Fellowship applicants applied with a for-profit business model. Last year, they composed half of all of our applications.

As one of the few seed funders of social entrepreneurs, we know how important it is to invest in the individual leader and not just the business model at an early stage. We like to say that we bet on the jockey instead of the horse. Young leaders who are launching brand new, innovative ideas to change the world need time and "runway" to be able to truly measure and report on their impact and financial returns. Next-generation ideas take not only time, but also perseverance. We have evaluated tens of thousands of "jockeys" of social enterprise since 1987, and while the enterprises they lead comprise a wide array of sector and geographic areas, their leadership profiles look remarkably similar.

As the social entrepreneurship field has evolved to include those using for-profit business models to effect positive change, so must investments powering these businesses. What we are hearing from Fellows seeking and receiving investment, and what we see in our Fellowship application data, are gaps in funding. To really prove the impact investing market's sustainability, investors should not wait for evidence of market rate returns in later stage companies, but need to start betting on these young jockeys and provide early investment to unleash tomorrow's impact and financial success stories.

### *What is a recoverable grant?*

A "recoverable grant" is not a legally defined term, so individual grant makers and social investors may define recoverable grants differently. Recoverable grants are different from a charitable grant in that grantors hope to get their money back to recycle the capital into future social impact projects. Recoverable grants are different from loans in that they are forgivable. Grantors may consider forgiving repayment under extraordinary circumstances, and in Echoing Green's case, are not repayable unless the recipient company is financially successful. At their core, recoverable grants keep social mission and impact of the recipient central.

### *Why did Echoing Green start providing recoverable grants?*

Echoing Green created recoverable grants from a desire to recycle funding from financially successful for-profit organizations to fund future Echoing Green Fellows.

Echoing Green's recoverable grants are designed specifically for seed stage investment, where entrepreneurs need risk tolerant and inexpensive capital. Our objective is to recycle our investment capital from successful for-profit companies back into the Echoing Green Fellowship model and support the future generations of social entrepreneurs.

The Fellowship grant stipends awarded to for-profit companies are structured as “recoverable grants,” meaning that Fellows agree to pay back their grant stipend if their organization becomes financially successful. Recoverable grants also apply to any non-governmental organization that transitions to a for-profit company; or any non-governmental organization that creates a for-profit company working toward the same mission as its funded organization during the course of the eighteen month Fellowship.

The recoverable grant has:

- Minimal transaction cost. Making social investments more economically feasible at transaction time is a critical step in increasing capital flow into the sector.
- Zero downside protection. We recognize the crucial and continued importance that ‘cheap’ capital plays for emerging social entrepreneurs, and Echoing Green’s desire is to enable entrepreneurs to invest capital in whichever way they wish to create growth without needing to assess payback risks in the event things do not work out.
- Blended social and financial return. Implemented as a core element of our Fellowship program, the recoverable grant enables our entrepreneur Fellows to continue their focus on making big social change.

*When did Echoing Green start providing recoverable grants?*

2011.

*What are the terms of Echoing Green’s recoverable grant?*

The recoverable grant will trigger payback of the Fellowship grant stipend if the company achieves either USD 2 million in revenue during a fiscal year with net profit greater than USD 0, or is valued at greater than USD 5 million.

*Do Fellows have to inform Echoing Green if they know that their company will be triggering repayment?*

Yes. They must contact [investments@echoinggreen.org](mailto:investments@echoinggreen.org).

*Are Fellows obligated to tell their follow-on investors that their company has a recoverable grant, and that the company will owe repayment to Echoing Green under the terms outlined in the contract?*

Yes (as they would with any other contractual company obligations).