Echoing Green: Recoverable Grants FAQ

May 2016

What’s Echoing Green’s philosophy around funding social entrepreneurs starting for-profit companies?
Echoing Green has always sought applications for our Fellowship program by leaders of 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. Ten years later, 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 perseverance. We’ve 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’re 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 shouldn’t 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 grantmakers and impact investors may define recoverable grants differently. At their core, recoverable grants keep social mission and impact of the recipient central. Recoverable grants are different than a charitable grant in that grantors hope to get their money back to recycle the capital into future social impact projects. Our recoverable grants are different from loans in that they are not repayable unless certain capital raising or financial targets are met within ten years.

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 cash stipends awarded to for-profit companies are structured as “recoverable grants,” meaning that the Fellow’s for-profit company agrees to pay back the stipend plus interest if it meets specified capital raising or financial targets. Recoverable grants also apply to any not-for-profit organization that transitions to a for-profit company; or any not-for-profit organization that creates a for-profit company working toward the same mission as its funded organization during the course of the two year 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 don’t 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 cash stipend if the company achieves either USD 2 million in revenue during a fiscal year with positive net income, or is valued at greater than USD 5 million. A recoverable grant does not include any voting rights or control rights in the company.

**How are recoverable grants disbursed?**
Recoverable grant disbursements are made in quarterly installments over the two year fellowship period.

**What is the recoverable grant term?**
The recoverable grant repayment applies during the two year fellowship and eight years after Fellows sign their contracts. That is, as of when a Fellow signs the Fellowship contract, should their for-profit company hit the recoverable grant repayment triggers within 10 years then the for-profit company must pay Echoing Green back.

If the for-profit company does not hit one of the triggers within 10 years, the for-profit company does not need to pay the stipend back to Echoing Green.