Understanding Funding Options Beyond the Bank

Funding can be a confusing maze for a new small business owner. The Initiative for a Competitive Inner City, ICIC, helps break down financing options that go beyond bank lending. This guide provides you with need-to-know facts around alternative financing vehicles available to small businesses.

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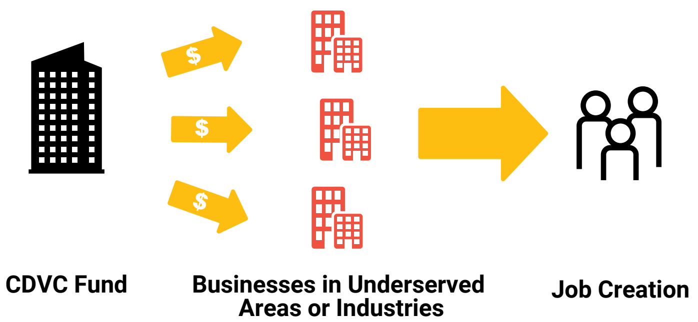
Community Development Venture Capital (CDVC)

CDVC funding might be a good option if:

- You have a business with expectations for high growth
- Your business will create significant numbers of high-quality, entry-level jobs
- Your business is in an industry not served by traditional venture capitalists or is located in an underserved community
- You are looking for an experienced advisor and partner to help you manage and grow your business
- You are seeking debt or equity capital



Key Facts:

- CDVC financing is provided by mission-driven venture capital funds. CDVC funders seek market returns as well as the creation of quality jobs for low-income people and communities
- CDVC financing is generally equity, meaning the fund takes a percentage of ownership in the business, although it can also take the form of convertible debt
- Average CDVC investments vary based on the investment profiles of individual funds but range from several hundred thousand to a few million dollars per business
- Many CDVC funds are associated with nonprofit intermediary organizations (usually a community development organization)
- CDVC investments are often made to companies in health care, cleantech, manufacturing, education services and business services
- CDVCs often target businesses in low-and moderate-income areas

Pros:

- Provides flexible capital that allows businesses to grow
- Provides financing for businesses in geographies not traditionally served by VCs
- Provides access to experienced advisors, networks and other resources from the CDVC fund. Nonprofit partners of the CDVC fund can connect entrepreneurs with additional education and workforce development services

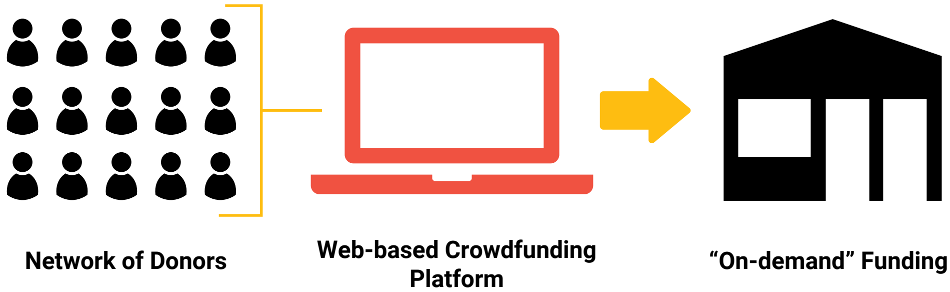
Cons:

- Available to a small group of businesses that have expectations for high growth
- The market for CDVC investment is still relatively small. As of 2014, there were only 74 funds in the U.S. investing $2.3 billion
- It may be difficult to identify a CDVC fund in your market interested in investing in your business
- With CDVC equity, you must be willing to give up partial ownership of your business

Crowdfunding

Crowdfunding might be a good option if:

- Your business is a start-up, or you are looking for funding for a specific new product or service
- You need a one-time infusion of capital but don't want any partners or cannot get a loan from a bank
- You have a "compelling" story to tell (compelling stories "win" more funders)
- You want to test demand for a new product or service but want to manage your risk



Key Facts:

- Most crowdfunding in the U.S. is rewards-based: offering some type of product or service in exchange for funding
- Equity-based crowdfunding, which offers an ownership share in return for funding, is less common and only became legal in 2016
- Utilizes a web-based platform
- Popular crowdfunding platforms include: Kickstarter, Indiegogo, GoFundMe, FundRazr and Fundable
- Popular with "creative" businesses (e.g., design, film, food, technology) that sell directly to consumers
- Total funding is often minimal. Successfully funded projects on some platforms raise less than $10,000

Pros:

- Entrepreneurs retain full ownership
- Low cost and low barriers to access
- Low risk and highly flexible capital
- "On-demand" funding for growth without leveraging company

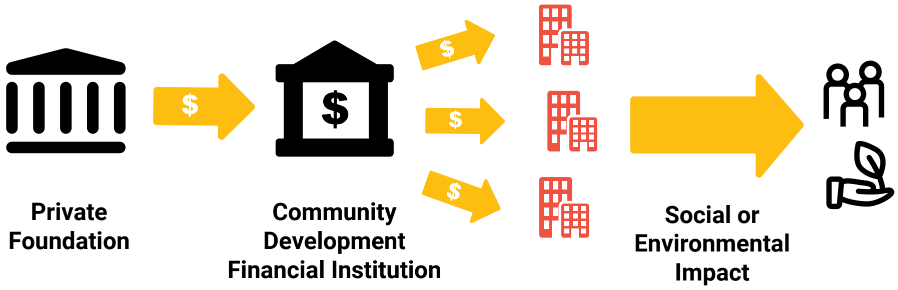
Cons:

- Crowdfunding may be "all-or-nothing" (must reach 100% of goal to receive funds)
- Relatively small funding amounts
- No access to management and advisory services
- Requires tapping into a strong personal network
- Doesn't work well for complex businesses, products or services

Program-Related Investments (PRI)

PRI funding might be a good option if:

- Your business has measurable social or environmental impact (e.g., advances scientific discovery, promotes environmental conservation or creates jobs in disadvantaged communities)
- You live in a region with a strong private foundation interested in investing in businesses that create social or environmental impact
- You are looking for a loan, line of credit, cash deposit, credit enhancement or equity investment



Key Facts:

- Most often foundations make PRIs through nonprofit intermediaries (e.g., Community Development Financial Institutions) rather than directly to small businesses
- PRIs are increasing because of growing interest among foundations and philanthropists
- PRI is an IRS term referring to investments made by private foundations to nonprofit or for-profit organizations to generate social or environmental impact
- May take the form of a loan (most common), line of credit, cash deposit, credit enhancements or equity investment
- The average PRI investment made in 2010 was over $1.5M, and 76% of PRI investments made in 2000–2010 were under $1M. Dollar values of PRIs steadily increased over that period
- There are no regulated limits on the size of PRIs. They can be used for first, second and third rounds of equity funding
- PRIs are most often made to increase job creation and expand educational opportunities, family services and housing

Pros:

- Provides financing for social impact enterprises that may be difficult to find elsewhere
- May provide lower-cost capital because foundations are interested in impact as well as financial returns
- Foundations are focused on the social impact of the enterprise, rather than driving a particular financial outcome

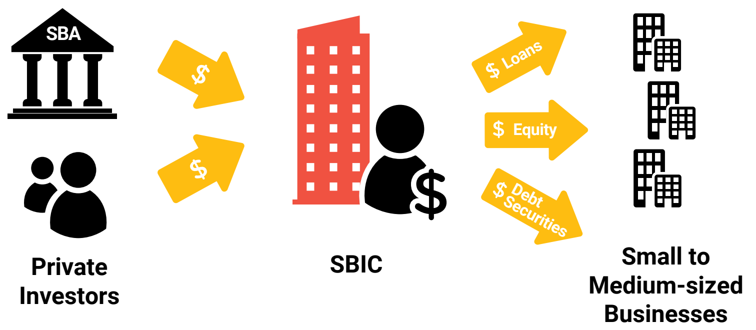
Cons:

- Market for PRI investment is still relatively small (as of 2013, less than 1% of foundations deployed PRIs)
- May be difficult to identify a nonprofit intermediary in your market interested in investing in your business
- Foundations will likely not provide technical and management advisory services to the same degree as traditional private equity or VC firms
- May be a lengthy, cumbersome capital decision-making process, especially for foundations new to PRIs

Small Business Investment Company (SBIC)

SBIC funding might be a good option if:

- You have a small to medium-sized business with less than $19.5M in tangible net worth and an average net income of less than $6.5M for the last two years (or a business otherwise deemed small by its industry)
- But, your business is already large enough to absorb a significant infusion of capital
- You are in an “SBIC” approved industry (farmland, real estate and financing businesses do not qualify for SBIC funding)
- You have a mature business and strong cash flows with expectations for high growth



Key Facts:

- SBICs are privately managed, for-profit investment funds providing capital in the form of loans, equity and/or debt securities
- The Small Business Administration (SBA) licenses, regulates and monitors SBICs
- SBA generally provides up to $2 of SBA-guaranteed loans for every $1 of private capital
- Every SBIC has its own investment profile that may be tailored to a specific industry, business maturity level or geography
- The average financing size is over $5M per business
- SBIC portfolio companies generate an average annual revenue of over $34M
- For most deals, SBICs reach out to portfolio companies from their existing network. A qualified introduction to an SBIC by a business or industry professional is recommended

Pros:

- Access to professional management and advisory services
- Different types of capital are available through SBICs, including loans, equity and debt securities
- As a part of the licensing process with SBA, SBICs are thoroughly screened and vetted as investors with a qualifying investment track record

Cons:

- SBICs are highly specialized and it may be difficult to find one in your market interested in investing in your business
- May be more difficult to access SBIC funding if you are not already part of an investment fund’s network
- There are 129 SBICs that are thought to be actively investing
- Businesses need to be capable of meeting the high returns expected of SBIC investors

This infographic was developed by ICIC and not by the U.S. Small Business Administration (SBA)