COMMUNITY WEALTH VANGUARD

Community Wealth Ventures, Inc.

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A NEW KIND OF GRANT

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Introducing the Sustainable Enhancement Grant: A New Funding Tool for Building Organizations

While no person can own a nonprofit, many nonprofits nevertheless have a desperate need for the type of equity-like investment that business owners generally provide their companies. Today even very talented nonprofit teams are often unable to raise the equity-like nest egg of general operating funds they need before they can bring their visions to life. Instead, they become caught up in a never-ending cycle of fundraising, with each grant restricted to a different slice of the effort, each requiring a separate reporting scheme, and, often, each tugging the organization toward a different strategic direction. As one frustrated executive director put it, “I started with a clear strategy, but the chronic need to raise funds turned us into a permanent chameleon machine!”

Funders are frustrated too. Many confide that they don't write large checks because they wish to avoid creating dependency relationships. Others have lamented how difficult it is to join forces with other funders, even when a grantee’s strategic plan clearly calls for more money than one philanthropic budget can afford to provide.

Introducing the SEGUE

To remedy these problems, the Nonprofit Finance Fund in 2006 invented the Sustainable Enhancement Grant (SEGUE for short). The SEGUE uses a new accounting treatment that distinguishes money to build a nonprofit organization rather than money to fund a program. The SEGUE provides the structure and technical assistance to support nonprofit organizations in raising this type of investment.

In many ways, SEGUEs resemble the multimillion dollar campaigns that pay for permanent things like buildings and endowments. In this case the “permanent thing” is a nonprofit organization that continues to provide vital services long after SEGUE funds have been exhausted.

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How the SEGUE Works
When employing the SEGUE approach, a nonprofit uses a capital campaign format to engage a syndicate of investors. The syndicate then funds the execution of a strategic plan. A single shared reporting regimen communicates results to the investors, and, perhaps more important, a clear metric tracks the organization's progress toward sustainability.

Unlike for-profit equity, however, the money raised is purely philanthropic and never "comes back" to investors – 100 percent of returns on investment are social.

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The SEGUE in Action: Year Up
Year Up, a Boston-based nonprofit group founded by Gerald Chertavian, recently underwent a successful SEGUE campaign. Year Up delivers spectacular work-force development results – an 87 percent success rate at landing $15/hour average wage jobs that stick– to a population of young people who are very much at risk of unemployment. Year Up's team has a clear vision for both how the program can be replicated in at least seven cities and how, once it is scaled, the Year Up enterprise can be sustained by a business model that combines corporate fee-for-service revenues with reliable grass-roots philanthropic support from each city.

Before its programmatic and financial vision can be fully realized, though, Year Up needs to burn through a large amount of growth capital. For the first few years each city's program is up and running, it won't generate enough money to fully pay for day-to-day operations. And until all seven of those programs are functioning up to capacity, the organization won't be able to keep going without other funding. All told, it will consume $20 million of equity-like growth capital before Year Up will be able to sustain itself.

The Nonprofit Finance Fund helped Chertavian and his team design a SEGUE campaign that raised $20 million of equity-like funds over a nine-month period. Now, freed from fundraising burdens, they can focus on achieving Year Up's mission.

The SEGUE Process
The Nonprofit Finance Fund's typical SEGUE engagement entails seven phases, which are lead by NFF staff:

Phase 1: Reviewing and refining the economic model WHO
Phase Phase 2: Determining a capitalization plan
Phase 3: Facilitating due diligence on long-term business model and expansion economics
Phase 4: Assisting in drafting the SEGUE prospectus and presentation materials

Phase 5: Implementing the SEGUE accounting treatment
Phase 6: Determining detailed SEGUE investor terms
Phase 7: Developing the ongoing reporting package

Good Candidates for SEGUE
The SEGUE is designed to serve those mature and "later-stage" nonprofits that seek to continue significant organizational growth. Good SEGUE candidates have:

- Strong track records of execution
- Fully formed management teams
- Stable finances
- Well-documented strategic plans
- Clear pictures of a sustainable business model
- Active and engaged boards of directors
- Cultures of performance measurement
- A need for at least $5 million in growth capital
- The potential for tremendous impact

One of the nation's leading community development financial institutions (CDFIs), the Nonprofit Finance Fund supports " nonprofits, strengthens their financial health, and improves their capacity to serve their communities. While the Nonprofit Finance Fund does not fund the SEGUE projects it supports, nor does it conduct the projects' fundraising campaigns, it does help to equip and coach nonprofit management teams for success in their own capital campaign efforts.

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