



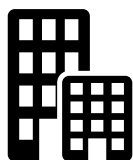
ICIC

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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Table of Contents



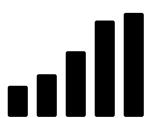
Page 2: Community Development Venture Capital (CDVC)

There are currently more than 70 CDVC funds in the United States. Numerous investors supply capital to these funds; the funds, in turn, seek to provide their capital to businesses in underinvested communities, like some inner cities or rural communities. The funds generally maintain partial ownership of the businesses that receive their capital. The goal of these funds is to generate financial reward for investors while creating jobs, wealth and opportunities for growth in underserved communities.



Page 3: Crowdfunding

The method of funding a project or start-up by raising small amounts of money from many people.



Page 4: Program-Related Investments (PRIs)

There are thousands of grant-making foundations in the United States; a small portion of them provide PRIs (less than 1% as of 2013), but the numbers are growing. These PRIs provide capital in the form of a loan (most common), line of credit, cash deposit, credit enhancements or equity investment. PRIs are most often made to increase job creation and expand educational opportunities, family services and housing. The recipients of these PRIs may benefit by receiving funding at a lower rate than they might find elsewhere.



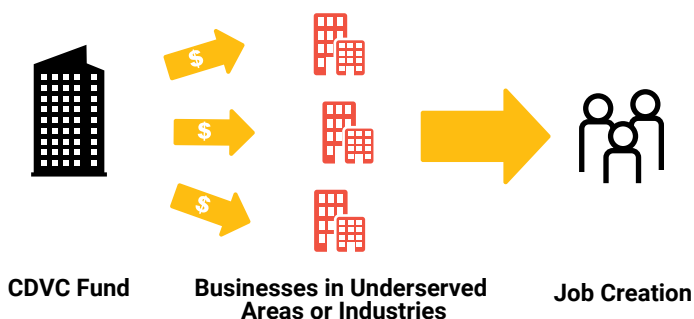
Page 5: Small Business Investment Company (SBIC)

Congress created the SBIC program in 1958 to aid America's small businesses in finding sources of capital investment. SBICs are private lending companies that are licensed and regulated by the U.S. Small Business Administration (SBA). These companies provide capital in the form of loans, equity and/or debt security to higher-risk small businesses. In addition to providing funding to support business growth and hiring, they offer management expertise to companies.

Community Development Venture Capital (CDVC)

CDVC funding might be a good option if:

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



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

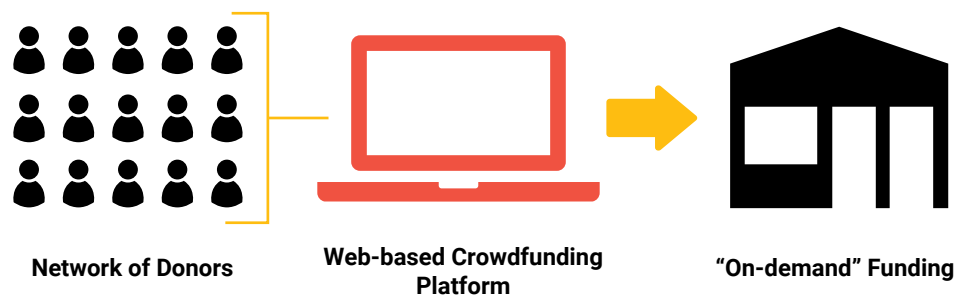
Cons:

- 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)