WHAT IS A RECOVERABLE GRANT?

A grant that offers donors the potential to recover the granted capital and potentially a small return if the recipient meets a predetermined ‘success scenario.’

The conditions for the success scenario are typically established in a document signed between the donor and the nonprofit before the grant is made. If the nonprofit satisfies the success scenario through its activities related to the grant, the donor is repaid according to the best efforts of the grant recipient. The repayment must be made to an eligible charitable organization (e.g., a foundation or DAF sponsor) and not directly to an individual.

HOW IS A RECOVERABLE GRANT DIFFERENT FROM AN INVESTMENT?

Recoverable grants are a type of charitable giving and are not securities. As such, recoverable grants are high impact because they advance charitable purposes and when successful capital can pursue additional charitable purposes. While this typically means recoverable grants must be made to 501(c)3 entities, some exceptions are possible where charitable intent is well documented.

Unlike lending, in which an investor has recourse if a borrower defaults on a loan, the donor has limited recourse if a recipient is unable to repay the recoverable grant but did use the funds for the documented charitable purpose.

HOW ARE RECOVERABLE GRANTS USED?

Recoverable grants can play a uniquely catalytic role. For example, they may provide funding that allows a nonprofit to experiment and develop programs beyond their core competencies without the risk of impairing their existing programs. At the same time, recoverable grants allow donors to take a financial risk in pursuit of impact that, if it pays off, can return some or all the grant dollars for future charitable use.

Many donors use recoverable grants alongside traditional grants to strategically expand the impact of their philanthropy. By incorporating recoverable grants, donors can support the charitable causes they care about while recovering and reusing capital when supporting revenue generating programs or expansion efforts, allowing for greater impact.
RECOVERABLE GRANTS CAN SERVE AS CATALYTIC CAPITAL WHEN USED TO:

**Bridge funding gaps** that occur during the lag in timing between when government sources, pledges, or foundation funders commit grant dollars to a nonprofit and when the nonprofit receives the capital. Recoverable grants provide immediate funding so the nonprofit can quickly and effectively address the needs of its community and then gets repaid once the nonprofit receives the committed capital.

**Scale a program quickly** to help nonprofits deliver critical revenue-generating services in response to new and rising needs, such as the demand for healthcare that has skyrocketed as part of the Covid-19 crisis. Recoverable grants supply the up-front capital necessary to grow programs and are repaid from revenue over time.

**Make big bets** that may entail high-risk, but also carry the potential to positively and significantly transform societies and environments. Recoverable grants fill gaps that traditional grants and venture funding do not address, including research and development, pre-seed, and seed financing for promising technologies that are too high-risk for traditional investors. The recoverable grant is paid back if these efforts ultimately scales and achieves success from an impact and financial lens.

WHAT ARE SOME EXAMPLES OF RECOVERABLE GRANTS?

**COVID-19 BRIDGE FUND**
A recoverable grant enables this nonprofit fund to provide short-term bridge loans for social enterprises and nonprofits experiencing unexpected roadblocks due to Covid-19. If the borrower can recover and continue operations, the fund will repay the grantor upon receiving the borrower’s loan repayments.

**WATER QUALITY FUND**
A recoverable grant helps this nonprofit fund lend to microfinance institutions that fund water and sanitation projects in low-income communities, helping reduce the future spread of disease. The grantor recovers principal and potentially a return to the extent that the water and sanitation projects repay the microfinance institutions which in turn repay the fund.

HOW CAN I LEARN MORE ABOUT RECOVERABLE GRANTS?

To explore recoverable grants more and understand whether they’re a fit for you and your clients, we welcome you to reach out to Scott Nance, Vice President of Business Development, at snance@capshift.com.

*Recoverable grants are not securities. The above has been produced by CapShift for informational purposes only regarding charitable giving opportunities and do not constitute or represent an offer or solicitation to invest in securities.*