

# RECOVERABLE GRANTS FREQUENTLY ASKED QUESTIONS

## WHAT IS A RECOVERABLE GRANT?

Recoverable grants provide risk tolerant grant capital to nonprofits looking to bring critical goods and services to people and communities in need. This type of catalytic grant capital gives the nonprofit the flexibility of grant capital, while preserving the opportunity for your philanthropic dollars to be recovered if a program accomplishes its financial and impact objectives.

Donors can use recoverable grants to provide support to a nonprofit to fund specific revenue-generating programs and initiatives — and if the nonprofit achieves its goals, the organization then returns the money to the donor advised fund or foundation to be used again for additional grantmaking. This type of patient capital is critical to helping nonprofits scale their impact, allowing them to take risks to bring new solutions to entrenched problems.

## HOW ARE RECOVERABLE GRANTS USED?

Recoverable grants are a unique form of risk tolerant capital donors can use in pursuit of driving impact. This philanthropic tool can help nonprofits bridge a funding gap, scale revenue generating programs more quickly, or support trailblazing and high-impact solutions in order to advance innovative solutions to some of our most pressing social or environmental challenges. Many donors use recoverable grants alongside traditional grants to expand the impact of their philanthropy.

There are three specific funding scenarios that are well aligned for recoverable grants.

### **RECOVERABLE GRANTS CAN HELP A NONPROFIT BRIDGE A FUNDING GAP**



The best example of this is when a nonprofit is called upon to respond quickly to events like a natural disaster, humanitarian crisis, or war. The organization needs to provide on the ground support and services when the event happens - they can't wait for larger forms of institutional philanthropy or government support to flow in. Recoverable grants are an efficient way to help an organization bridge this type of funding gap. A donor can recommend a recoverable grant to a nonprofit, the nonprofit will use that money to respond quickly when crises occur and may return those dollars to the donor advised fund once other forms of funding flow in.

### **RECOVERABLE GRANTS CAN HELP NONPROFITS SCALE A REVENUE GENERATING PROGRAM QUICKLY**



Let's say a nonprofit has built an affordable housing complex with co-located social services in one city and is looking to scale that model to other cities in need of a similar program. Recoverable grants are one way donors can support this expansion. The recoverable grant capital can be used to purchase a building, build out the necessary infrastructure of services, and staff the complex. Once the project is up and running and the nonprofit is collecting revenue - the organization may use that revenue to return the funds for re-granting.

### **RECOVERABLE GRANTS HELP NONPROFITS INNOVATE AND TAKE BOLD RISKS**



Most people are familiar with the need for early-stage companies to secure highly risk-tolerant seed or angel funding to build and test innovative solutions. Recoverable grant capital can serve the same purpose for a nonprofit organization. For example – if a nonprofit is working to test a new, unproven solution to address climate change, they need access to patient risk capital to help them innovate and try new ways to address the problem. If the organization fails, then the recoverable grant money reverts to a grant that furthered the nonprofit's innovation. If they succeed – they have not only created an innovative solution to a problem, but also the potential for some or all of the funds to be returned for future grantmaking.



## HOW IS A RECOVERABLE GRANT DIFFERENT FROM AN INVESTMENT?

Recoverable grants are a type of charitable gift, a form of giving that puts impact as the primary objective with the option for the funds to be recovered if a program accomplishes its objectives. An entity entering into a recoverable grant does so with no profit motive or expectation of interest or any other financial return. If the nonprofit receiving the recoverable grant is successful in meeting their goals, the donation may be returned to be used for additional grantmaking. However, if the nonprofit's program doesn't succeed, or the timeline for the project takes longer than expected – the nonprofit isn't required to return the capital and the funding is converted to a traditional grant. Anyone considering a recoverable grant should understand this risk; the grant money may never be returned and the non-profit may never meet its goals. While this typically means recoverable grants must be made to 501(c)3 entities, some exceptions are possible where charitable intent is well documented.

## WHO MIGHT RECOVERABLE GRANTS MAKE SENSE FOR?

Recoverable grants may be the right tool to expand both the impact and sustainability of your philanthropy, deepening how far your dollars can go with nonprofits you wish to support. If you have considered exploring topics such as catalytic capital, program related investments, charitable investments, or venture philanthropy, recoverable grants may be a fit for your philanthropic goals.

## HOW DO I LEARN MORE ABOUT RECOVERABLE GRANTS?

To learn more about how to incorporate recoverable grants into your philanthropic strategy, access them through your donor advised fund, or provide them to your clients - reach – out to us at [hello@capshift.com](mailto:hello@capshift.com).

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