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Prepare for Funding: The 4 Ps

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June 2023

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1. Purpose
Why do you exist?

Let's talk about your intentions

Funding has always been competitive in the impact sector. So how do you set yourself up to impress potential investors or lenders? This four-part series will show you.

Securing funding is a critical challenge for many social and environmental impact organisations. But it's something many aren't proactive about – leaving organisations scrambling at the eleventh hour or missing out on the opportunity altogether.

If you're looking for financing, it pays to be prepared. When you understand your organisation's purpose, operations, finances, and risks, you can have informed conversations with funders and more easily find a long-term partner that really 'gets' you – and create long-term growth and lasting social and environmental change. ose-driven organisation now – or considering it for the future.

This four-part article series will take you through the different elements you need to consider if you're looking for finance for your purpose-driven organisation now – or considering it for the future.

WHAT TO THINK ABOUT FIRST

There are multiple funding avenues available, and not all of them are going to be right for your organisation.

The main options include:

- Grants from government and philanthropic organisations
- Debt in the form of loans
- Equity
- Crowdfunding – which can be for grants, debt or equity

The first step is to learn about these options and understand who is providing the different types of funding. Attend a pitch night, read up on grant eligibility criteria and talk to other organisations inside and outside of your sector. Speak to organisations of a similar size or maturity to yours and find out as much as you can about their fundraising experience. This will help you narrow down your options so you're not spending time on solutions that won't be a good fit.

Remember – a funder isn't just a one-time transaction, it's a long-term commitment. That's why it's important to consider the long-term implications of whoever you're working with. At Sefa we think of it as a partnership – we're here to help you develop to your full potential and fulfil your purpose - whether that's helping people or the planet. And you're welcome to talk to our clients to understand their experience of being a borrower with us.

TELL US ABOUT YOUR PURPOSE

Funding conversations can be scary, but knowing what investors are looking for can help you feel more confident.

There are a couple of things we want to know first when we're talking to potential borrowers:

1. **Why your organisation exists and what you're trying to achieve.** It doesn't matter if you've been around for a month or a decade – you should have clarity on your organisation's purpose and the problems it solves. To be successful, you need to show a clearly defined intention and a specific environmental issue or group of people you're focused on. If you're not sure how to explain this, try defining the problems first, then outline your solution.

2. **How your activities will lead to your desired outcomes and impact.** Once we understand what you're trying to achieve, the next thing we look at is how you are going to get there. And how the activities you need funding for directly relate to your intention. If you're in a popular space, explain how you're different from everyone else. A theory of change can be helpful, but if you don't have this, don't worry – we just want to hear the thinking behind it. (You can find an example of a theory of change from our work with First Steps Count)

It's about stepping back and looking at the bigger picture. A clear intention and aligned activities give us the information we need to identify the best funding options for your organisation.

Tender Funerals is one example of a client we worked with who was very deliberate in their intention to fill a gap in the market. By offering affordable, personalised and culturally appropriate funeral services in a community-based setting, Tender Funerals had a clear intention to provide an alternative to commercial funeral providers.

At Sefa, our solutions are tailored – because every organisation is different and has different financial needs. If a loan is appropriate for you, we help you figure out how much you can afford to borrow, and how you can make repayments without either jeopardising your financial integrity or putting yourself under a lot of financial stress.

If you'd like to find out more about how we can help you strengthen your organisation, get in touch today.

Now it's time to delve deeper into your organisation's operations and what makes you different – we'll cover this in part two.

2. Plan
How do you achieve your objectives?

Explain why you're great

Now that you've defined your purpose and intentions, it's time to dive deep into how you'll get there.

Lasting social and environmental change often starts with the right funding. When you're prepared, you can increase your chances of having productive conversations with potential funders – and find a long-term partner that really 'gets' you.

In the first article of our four-part series, we looked at defining your intention and purpose , or why your organisation exists. Now it's time to delve into the how – by examining your operations and capacity to execute. If you can walk a funder through the specifics of how you do what you do, you're building trust by showing you can deliver the outcomes they want to fund.

It's common for organisations to focus on what they want to achieve, but often they forget to spell out how they plan to get there, how long it will take, and how much it will cost – and why. For example, hiring additional staff is an expense that's often glossed over in financial calculations, but the success of your organisation depends on having competent people reliably doing their job. Be clear on why those staff are necessary, for how long, and what they ought to be paid.

START WITH YOUR PEOPLE

Any funder will want to know you have a qualified, well-equipped team behind you.

Make sure you showcase the expertise of all your people, from your management and board to your on-the-ground staff members. You might have some experts and specialists you tap for advice occasionally – mention them too.

A potential funder will be looking for certain characteristics in your people:

- Are they capable of doing their roles well?
- Do they have relevant skills and experience?
- Are they qualified?
- How do their past achievements help them in their current role?

As well as sector-specific skills, it's worth considering the background and types of personalities in your organisation. Skills like resilience, problem solving, and creative thinking, together with a mix of personal perspectives, are just as important in social enterprises as technical qualifications and professional experience. Often, it's that diverse toolkit that will allow an organisation to bounce back after a setback or overcome challenges.

While current expertise of your staff is important, it's equally important to show where you're committed to training and helping your people improve their skills – this will increase your capacity for growth.

Differentiate yourself

When funders are evaluating your organisation, they will look at other similar organisations to understand what's already out there. You can make their job easier by clearly explaining how you're different from your competitors – and what makes you special. If you're not sure what makes you different, consider:

- Your purpose. Is there a specific segment of people or a particular environmental issue you're focused on that other organisations aren't?
- How your services are delivered. Is there a specific way you help that's unique to you?
- Your expertise. Are your team especially well qualified or do they have skills your competitors don't?
- Your story. Do you have a particularly compelling story behind your organisation that makes it stand out?
- Your partnerships and collaborations. Do you have the support of established partners or a network that other organisations don't?
- Your appeal. What makes your organisation attractive to both staff and the public, or people you support?

42 Adelaide, a KIK initiative dedicated to solving youth unemployment, knows their peer-to-peer learning program, where students work on real projects, sets them apart. For students it's not just about learning how to code. 42 Adelaide believes soft skills are just as important and supports students to develop their ability to problem solve, think critically, learn self-discipline, and build resilience.

It might sound like a lot of work upfront, but if you can clearly articulate your points of difference, it's easier to determine which funding option will be best for you. And if you need help with any of this, we're here. We work with impact organisations like yours to help them strengthen their organisation and secure the right funding. Get in touch today.

Now it's time to look at your organisation from a financial perspective and crunch a few numbers – we'll cover this in part three.

3. Profit
How financially sustainable are you?

Let's talk numbers

We've covered your why and how, and now we're going to look at how much – so you can better understand your organisation from a financial perspective.

Everything your organisation does has a financial element attached. But when you're deep in the day-to-day it can be hard to step back and see that clearly, let alone explain it to a potential funder or investor.

Many purpose-driven organisations outsource their accounts and tax obligations to an external bookkeeper or accountant. An outside person might have excellent financial skills and expertise when it comes to balancing the books and looking after your tax. But they may not have the in-depth knowledge of your strategic objectives and industry to create accurate financial forecasts or set budgets.

When funders assess potential recipients or investees, they will want to know where your organisation has come from, where it's at now and how the future looks – all through a financial lens. You don't need to be an accountant or financial wizard to explain all this – but you do need to understand what funders are looking for.

There are two main things you'll need to get a handle on before you speak to a potential funder – your day-to-day cash flow and your future revenue and budget.

GET A HANDLE ON YOUR CASH FLOW

Whatever your sector and the size of your organisation, there is money flowing in and out. Funders will ask about your cash flow as it gives them an indication of the financial health of your organisation. This is especially true of investors who are looking to see what level of return to expect.

At a minimum you will need to have a clear idea of your income and expenses and categorise them accordingly. And consider how large those categories are in relation to one another.

Be prepared for the following questions:

- What were the overall financial results of your previous years of operation?
- Can you explain your cashflow trends over time, or any sudden changes from year to year?
- How will your categories and their relative size change as your organisation moves towards the future? Will you have new categories of income or expenses to consider?

With preparation, you can answer questions with confidence and give potential investors or funders the information they need to determine if they're a good fit for you.

Make a budget

Many funding organisations will take it as a warning sign if you don't have at least 12 months' of budget. While no one expects it to be an ironclad guarantee, you should make an informed estimate and show how you worked it out. And if you have a three- or five-year strategic plan, now is the time to think about how that will look from a financial perspective. Translate those ideas into numbers.

Potential funders will want to know:

- Where does the bulk of your revenue come from?
- What factors would potentially increase your revenue?
- What factors could potentially make your revenue fall?
- Which costs are fixed, and which are variable?

A SUCCESS STORY OF SUSTAINABLE RETURNS

For-profit training business **MiHaven** is a great example of a social impact organisation that shows strong financial returns. Whenever they consider a sales opportunity, they make sure they include a margin in their pricing and reinvest the surplus. They're also able to clearly tie in their support goals – to help every one of their participants secure long-term employment – with their financial returns.

When they came to Sefa requesting funding for a loan to buy land for development, their strategic approach to their finances meant we were able to assist quickly. Since then, we've helped them with a number of loans. And as their organisation grows, so do the opportunities they offer to an increasing number of apprentices and trainees.

If, like MiHaven, you can see and describe your organisation through a financial lens, you can improve your chances of successfully getting funding. And if you're struggling to do this, Sefa can help. If you'd like to find out more about what we do and how we can help your organisation, get in touch with us today.

Even if your organisation isn't currently producing a financial surplus, funders want you to demonstrate that you're making progres towards that goal. The surplus represents resilience – the ability to weather significant unexpected expenses or revenue downturns, or re-invest in the organisation so it's better prepared for the future.

Next, we'll take a look at risks – and why it's so important to identify and manage themain risks facing your organisation.

4. Prudence
How do you manage your risks?

It's time to identify and manage your risks

In the last of our four-part series to prepare you for funding, we're looking at risk. How do you identify and manage your risks in a way that reassures lenders and funders their investment is safe?

Lenders and investors are always very concerned about risk – and it's easy to see why. They want to know they're committing their money to an organisation that will use it responsibly and for the most impact. And it's not just about the money – your approach to risk creates a perception about how responsible you are, and therefore how well your organisation is managed.

This doesn't mean you have to avoid all risks if you want to be successful in getting funding. Risks are an inevitable part of life, and it's impossible to safeguard against everything. But if you show you understand and manage your risks as much as possible, potential funders and investors will take you more seriously. It will also help you safeguard your organisation in the long-term and likely get better outcomes.

What are your biggest risks?

Many funding organisations will take it as a warning sign if you don't have at least 12 months' of budget. While no one expects it to be an ironclad guarantee, you should make an informed estimate and show how you worked it out. And if you have a three- or five-year strategic plan, now is the time to think about how that will look from a financial perspective. Translate those ideas into numbers.

RISKS COULD INCLUDE

- **Uncertainty-based risks** such as key person or succession issues – what if the skilled people in your organisation leave – who will replace them?
- **Opportunity-based risks** such as rapid growth – what happens if your organisation needs to increase capacity quickly. Will your systems and processes cope?
- **Hazard-based risks** such as potential liability – what if someone was injured or otherwise negatively impacted by your organisation?

Once you have identified the potential risks, look at what you have done – or could do – to mitigate them as much as you can. Make sure these are clearly expressed so anyone evaluating your organisation can see that you're aware of the potential risks and are taking the necessary steps to reduce or at least manage them.

Proactive risk management

One organisation that does risk management well is environmental social enterprise **Wildlife Wonders** – an ecotourism organisation that invests its operating surplus into conservation. Their ethos is 'do it slowly but properly.'

When they approached us, we were impressed by their transparency when it came to risks. Their management were aware of some subject matters they weren't familiar with and were keen to bring advisors and supporters on board to help fill their knowledge gaps. They were also comprehensive in planning, conducting sensitivity analysis, formulating backup plans, and building contingencies into all their budgets.

By getting a handle on your purpose, operational capabilities, finances and risks you can position your organisation better to appeal to potential funders and investors. And with flexible, tailored solutions, Sefa can help you every step of the way as you prepare for funding, build your capacity and increase impact in the communities you help.

Are you ready to get started? Get in touch with us today.

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