Accelerators Approaches to Funding Startups + Sustainability

Research Findings

XL Lab

June 2021

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JPMorgan Chase & Co. Cross-Learning Lab

CATALYST FUND

Launch: 2016

Markets: Kenya, Nigeria, South Africa, India, Mexico

Stage: Pre-seed

Size: $23M

Funders: JPMC, UKaid, BMGF

BHARAT INCLUSION INITIATIVE BY CIIE.CO

Launch: 2018

Market: India

Stage: Pre-Series A

Size: $25M

Funders: JPMC, Dell Foundation, BMGF, MetLife Foundation, Omidyar Network

Financial Solutions Lab

Launch: 2014

Market: U.S.

Stage: Seed to Series A

Size: $60M

Funders: JPMC, Prudential Financial

Fintech Cadence

Launch: 2018

Markets: Canada

Stage: Pre-seed

Size: $2M

Funders: JPMC, Quebec Government, City of Montreal, Desjardins

DISCLAIMER

JPMorgan Chase & Co. supports the XL Lab. This deck is an outcome of research and consultation efforts but does not represent the views of JPMorgan Chase

Contents

01 Research and sample

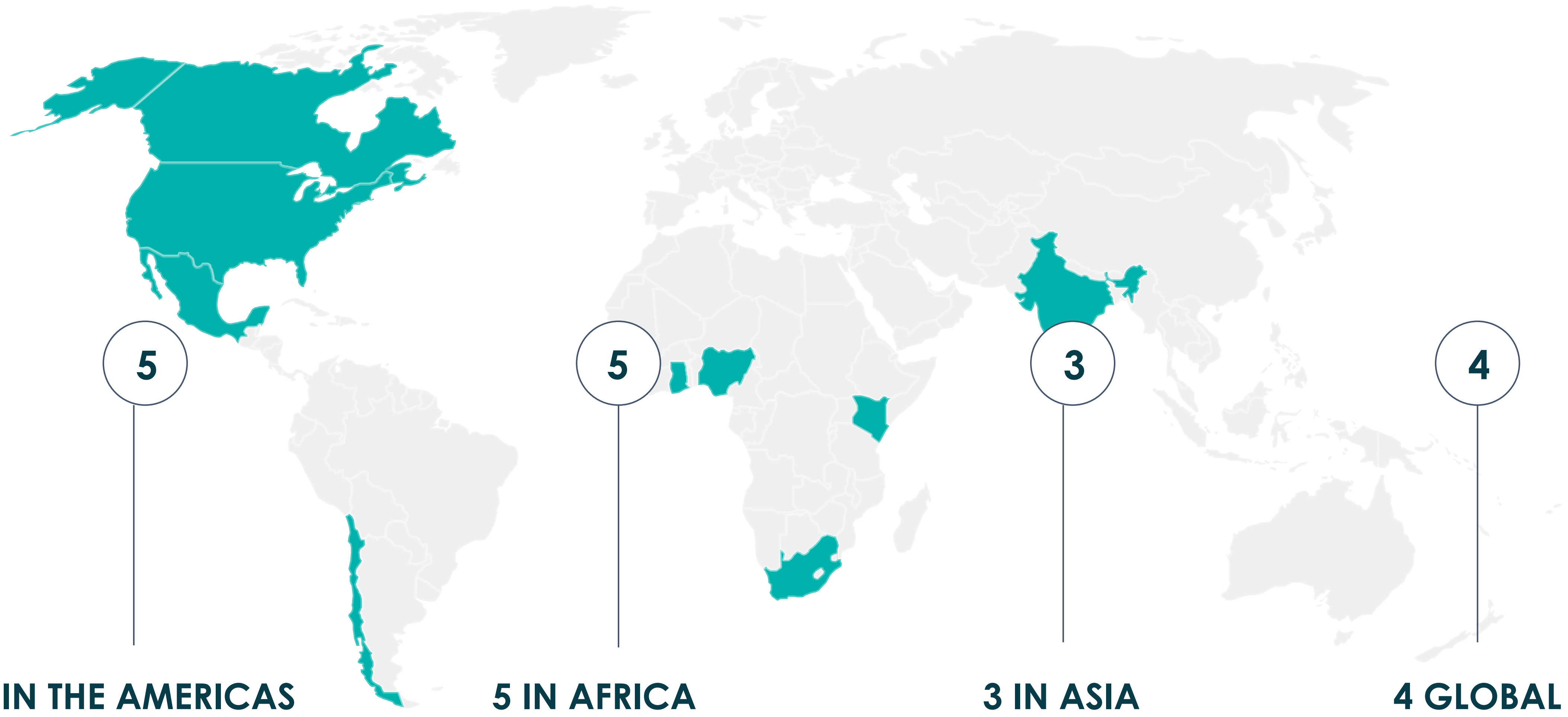
Research questions

XL Lab is a collaborative effort between four global tech accelerator programs globally. XL Lab set out to ask:

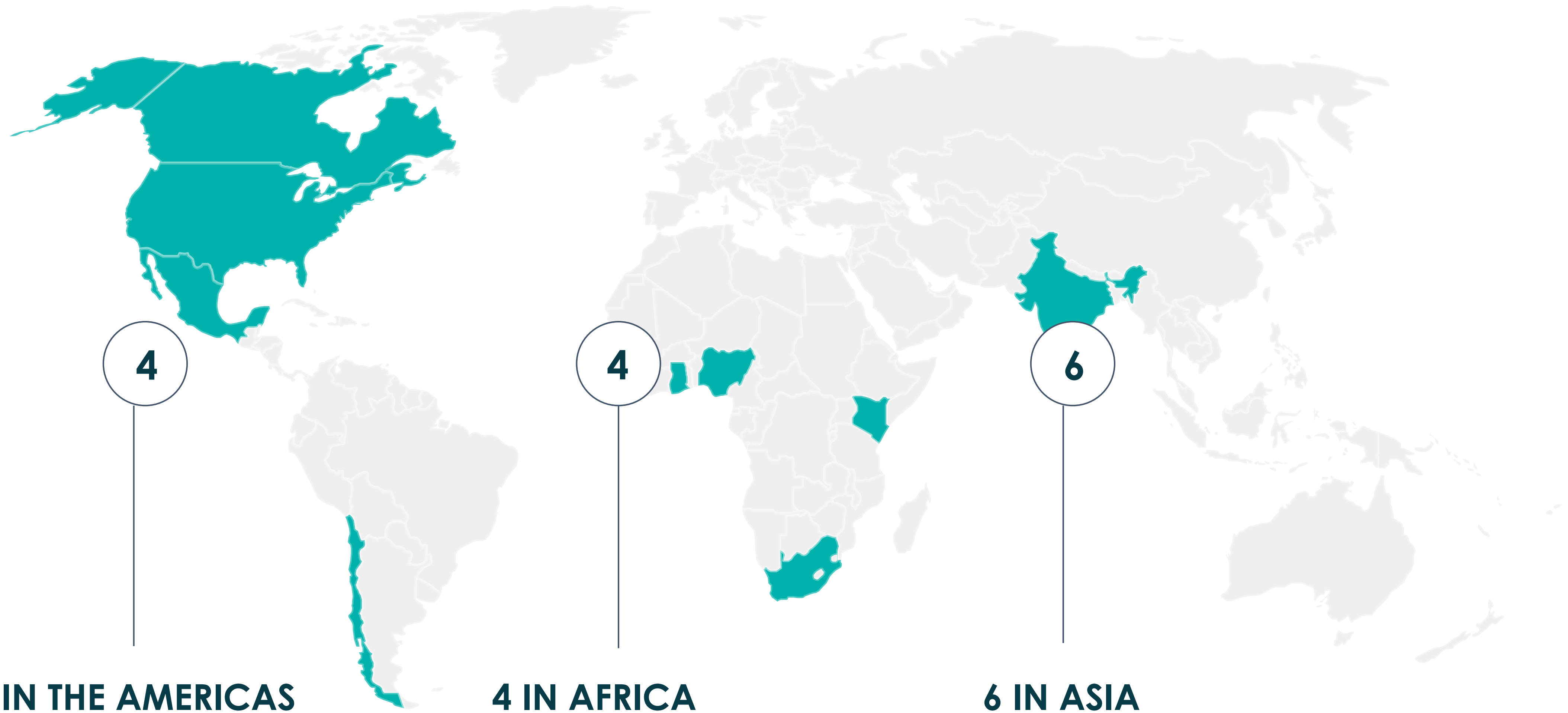
- How can innovation labs/accelerators approach financial sustainability in the long-term?
- What are effective models to move towards or achieve sustainability for innovation labs/accelerators ?
- What are the funding gaps faced by inclusive fintech startups? How well do the various models meet startup needs?
- Under which conditions do startups give equity or take on debt to participate in an accelerator/innovation lab?
- What are the advantages and disadvantages of the existing models?

This deck synthesizes the responses received from accelerator, incubator, lab managers as well as startup founders, with the intention to provide an objective view of the trade-offs and nuances of assessing funding models available to startups and implications from an accelerator's program perspective.

We interviewed 17 accelerator programs...



...and 14 startups who participate in acceleration programs

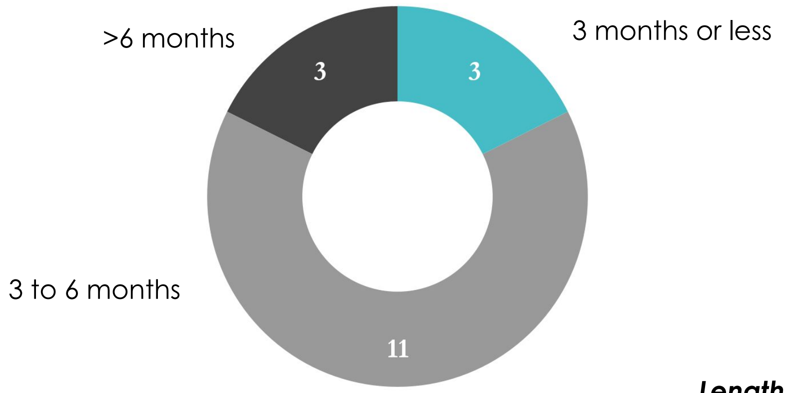


4 IN THE AMERICAS

4 IN AFRICA

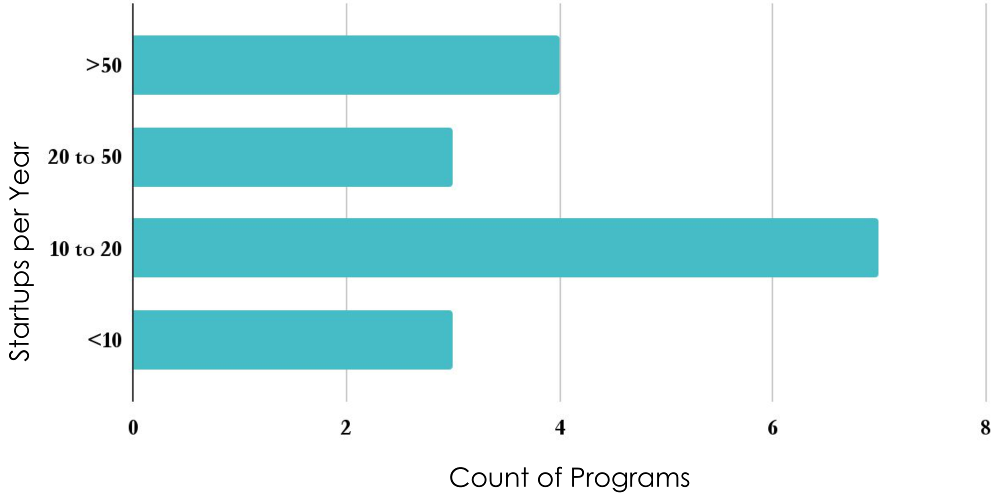
6 IN ASIA

Accelerator programs vary dramatically in size and approach



Length of Support

Program Size



8.8
Average

34
Longest

Years of Operation

Sector Focus

8 of 17 accelerators surveyed have an **"impact" mandate**

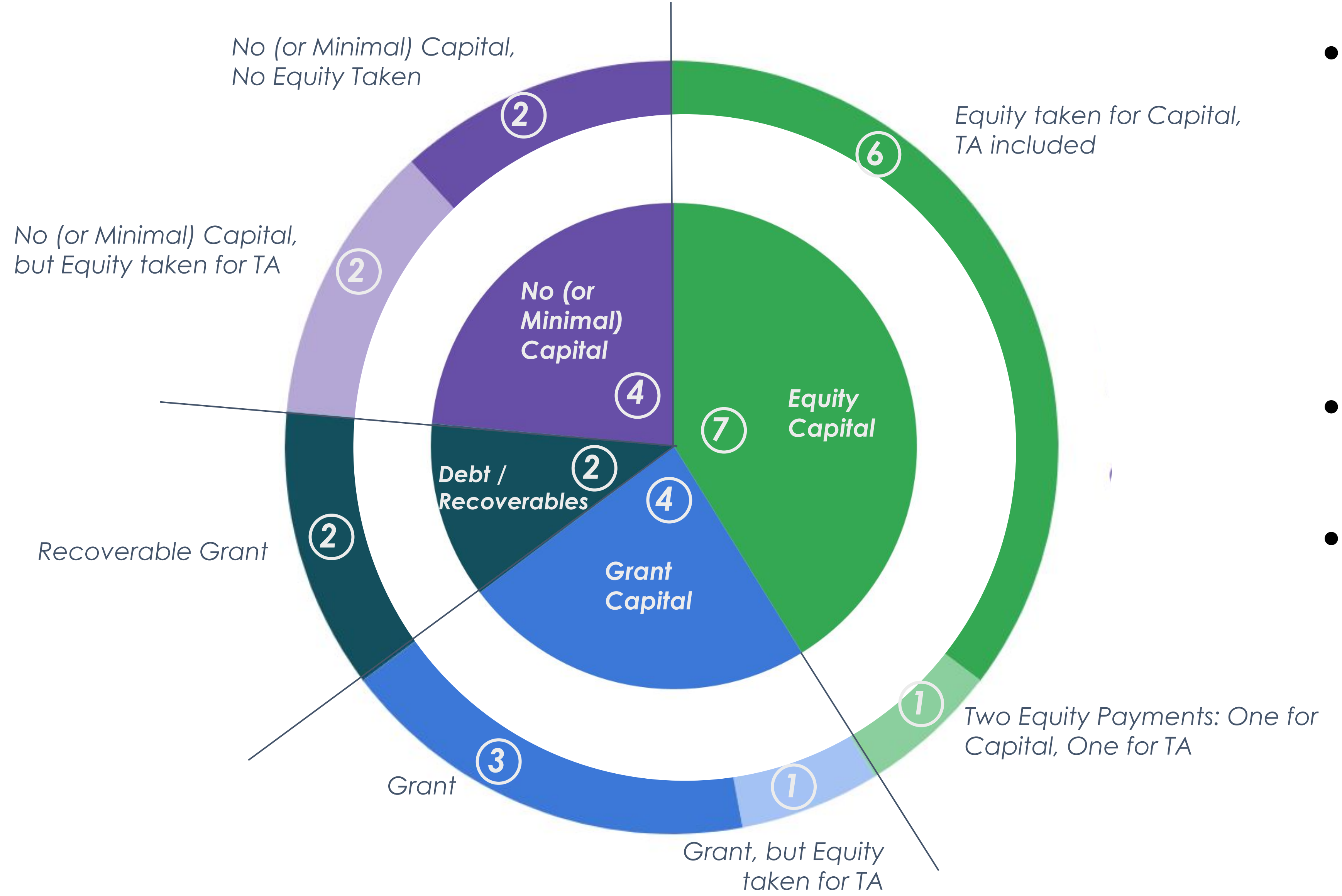
Funding support to startups fall into 4 categories, and terms vary within each

	Equity	Grants	Debt	No capital provided
Typical structure of Instrument	• Typically between $10k to $100k in exchange for 5-10% ownership at next fundraise or at trigger date • High risk of loss - typically 1 in 10 ventures exit at >5-10x • Highest return potential of all instruments • Long payback period on returns (6-8 years)	• Non-repayable funds, no upside or financial returns to program • No downside risk for entrepreneurs	• Cash with a fixed-term repayment schedule with interest • Can include or exclude collateral requirement • Interest rates typically 10-20% • Repayment after 2-6 years	• Accelerator programs that provide only technical assistance and mentoring, but no cash
Variations	• SAFE • Revenue/profit sharing • Convertible note (upgrades to equity with certain triggers) • No cash, only take equity in exchange for TA	• Grant with a fee (usually 5-7% of fundraise amount) at next fundraise • Convertible grant (converts to debt or equity if triggers met)	• Forgivable debt • Quasi-equity (repayment linked to growth) • Recoverable debt (return without interest)	• Take equity in exchange for technical assistance

Different types of startup support (e.g. technical assistance) are aligned with different funding mechanisms

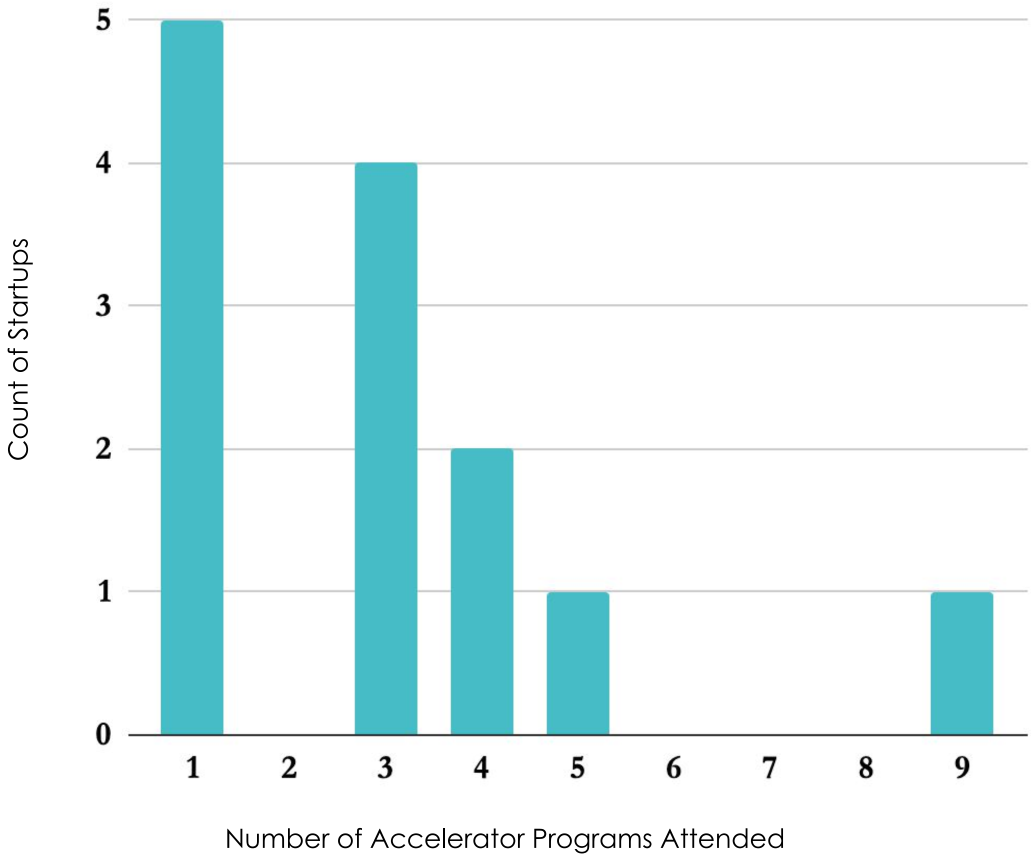
	Support in finding product / market fit	**Infrastructure and hardware provision**	**Support for founders -- coaching, networking**	**Support in networking, fundraising, connections to corporates**
Typically includes	• Usually includes user research funding or support • Usually includes more bespoke support, including initial "discovery phase"	Physical location, equipment, and network to support ideation and growth	Focus is more on the founder and less on the business idea	• Strategic / business support provided via outsourced network of experts and mentors • Usually these programs have a strong brand and large network of investors to support a fundraise • Sometimes are corporate-sponsored programs providing startups with access to their customer base
Financial arrangement	• Half take equity (1-2%) • Half give TA for free • Sometimes funded as part of investment - although less common because of high cost of bespoke support • Payment for services: 3 programs accept direct (cash) payments for early-stage incubation or bootcamp services	• For ideation stage, in some cases ask for cash payment, later stages ask for equity • Often gov't funded	Often included with other types of TA or as part of an investment	Often included with other types of TA or as part of an investment

Equity is the most common form of funding, and TA is offered alongside all forms of capital



- Among the programs we spoke to, **equity was the most popular** way to provide funding to startups -- 7 of 17 programs take equity in exchange for capital, and 10 programs in total took equity from startups
- This mirrors GALI results that **43% of accelerators take equity.**
- GALI found that average returns (net flow of funds) for programs that guarantee some form of funding is considerably higher than those without funding: +$48,490 compared to -$12,674

Startups face a market of accelerator programs and look for access to fast “smart capital”



- Accelerators have become part of the startup journey; all startups had explored multiple programs, and the majority attended more than one.
- Startups face a “market” of accelerator programs and capital offers that they choose from based on the optimal combination of capital and TA.
  - If programs offer grants (“free money”), and little cost (i.e., no physically moving the team), startups often join the program without question.
  - If programs ask for payment (equity), they consider value for money more carefully. Startups look specifically at the niche value prop of the program and evaluate if it’s something they need and how badly they need it. Startups were generally were willing to pay if the need was great enough

❗ Disclaimer: survivor bias in our startup sample

- We only spoke to startups recommended by other accelerator programs.
- We only spoke to those that had bridged the valley of death and are still in operation today.
- We intentionally sought out women and underrepresented founders.
- 85% depended on personal savings or family & friends in the early stages of starting their company.
  - Those without access to capital in their community may be less likely to succeed. Catalyst Fund research with Briter Bridges found that nearly all startups that had F&F rounds went on to raise further rounds, while only half of those without F&F rounds did so.

23%
Female Founders

8%
BIPOC Founders

54%
Founders from Emerging Markets

02 How do accelerator programs decide what type of funding to offer?

Accelerator programs balance 6 different priorities in choosing a funding approach

Program goals:

1. Fundraising and financial sustainability
2. Costs: manage administrative cost and effort
3. Selection: sourcing the best startups

Support for startup:

4. Scale: Accelerate growth of startups
5. Impact: Prove viability of innovative models

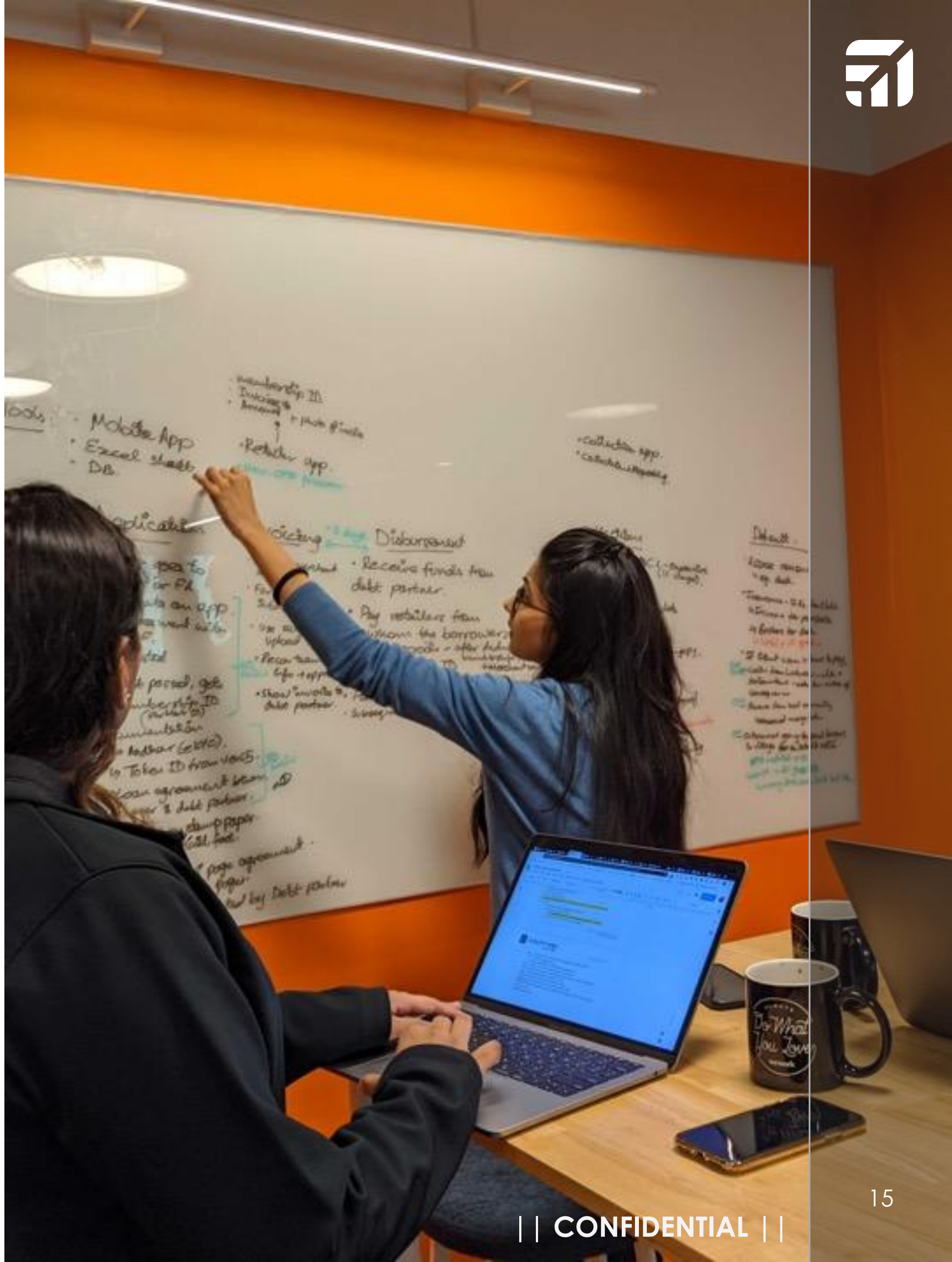
Ecosystem development:

6. Ecosystem: Grow the inclusive tech community

1. Fundraising and financial sustainability

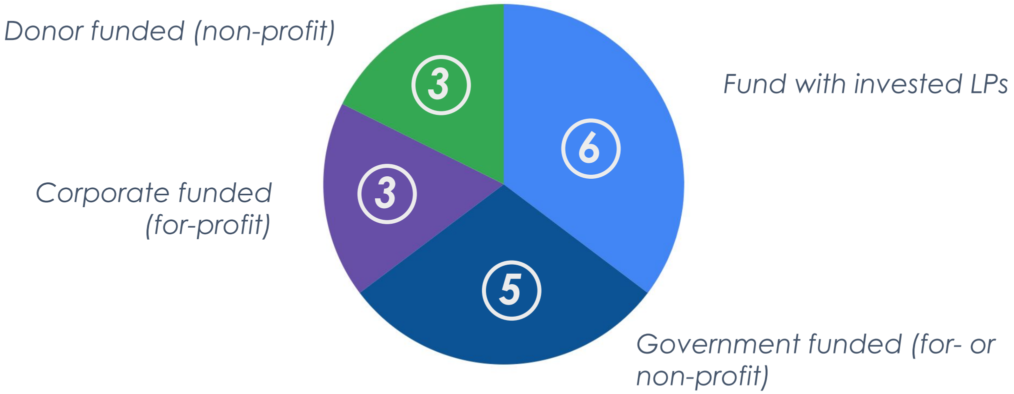
Programs often consider their own fundraising challenges and opportunities when making decisions about what type of funding to provide to startups.

- Amount provided varies dramatically -- some programs offer no cash, while others offer up to $125,000. Of the 52 programs in a GALI sample, roughly 70% provide funding (equity investments, loans, or grants).
- There is no relationship between the amount of funding provided and the type of model used. Those without a cash component in their offering are as likely to take equity as those with a large cash component.
- The type of funding provided is often guided by program's own source of funding, which can include government, aid agencies, foundations, corporate philanthropies, and others, and ease of fundraising to sustain operations.



2. Costs: administration cost and effort

The legal structure of accelerator programs can determine what type of funding they can provide, as can the abilities and size of the accelerator team:



- Equity stakes can be complicated legally, especially when ownership spans multiple countries.
- Some countries have complex regulatory processes pertaining to foreign ownership of financial service providers.
- Foundations/philanthropic funders cannot easily take ownership stakes in for-profit companies.

3. Sourcing: select the best startups

Even as most programs have more applicants than spots, the number of acceleration and mentorship programs are multiplying. As such, acceleration programs are "competing" with each other, as well as early-stage impact investors and other support programs, to recruit the best startups to their programs.

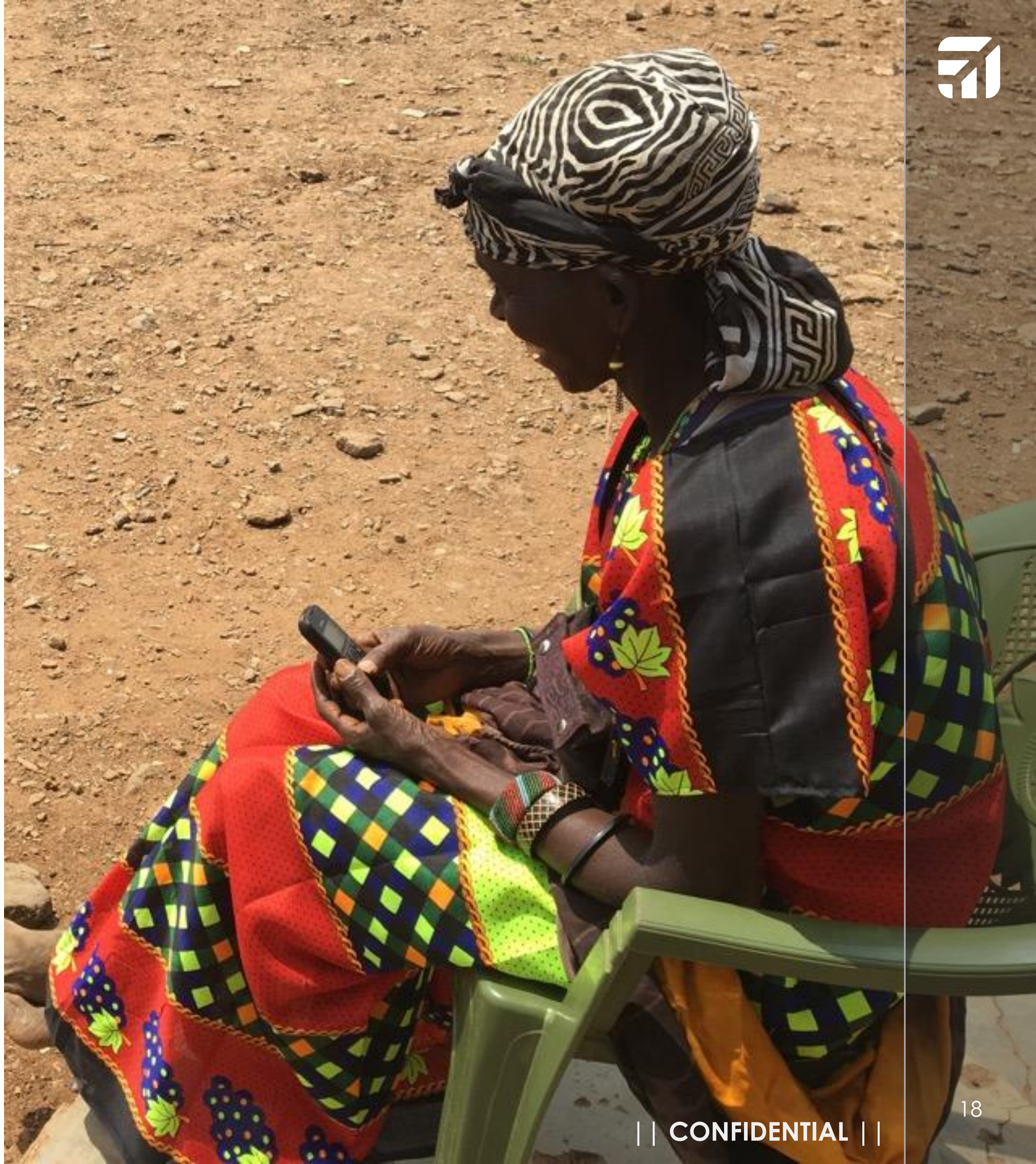
This consideration may be especially important in guiding funding decisions for younger programs that are still building their brand and reputation.

> *"As a relatively unknown program in the ecosystem at the time, it would have been a lot more difficult justifying taking equity and would have also significantly restricted the stage/type of company we could select."*

4. Scale: Accelerate growth of startups

Programs have different opinions about what type of funding best helps startups scale, but we agree that funding can contribute to scale in one of many ways:

- Filling funding gaps between angel and series A rounds, particularly in less-mature funding markets
- Supporting non-traditional founders and those without access to family & friends rounds
- Attracting additional founders and talent to the space
- Hiring key talent, iterating value proposition, and building partnerships to reach PMF more quickly
- De-risking future investment so that mainstream investors can gain confidence



5. Impact: Prove inclusive business models

In our sample, most accelerators seek to reach underserved users, either via solutions specifically for low-income or excluded communities (8 of 17) and/or via a focus on emerging markets (13 of 17).

Underserved users are considered more risky to serve, so additional capital is often needed to de-risk innovative businesses that develop solutions for this segment. Moreover, such users tend to be less "known" so more data, research, and insights be may needed to develop models that can reach them. The challenge accelerators address by providing funding for inclusive models include:

- Cost to develop business models are not yet established, which often need to be extremely contextual and designed around the needs of the users.
- It might be more expensive to develop products for populations with less data, lower price points, and in areas where infrastructure is less developed; hence returns on investment are lower or might take longer.
- Commercial investors may be less familiar with emerging market contexts or products for low-income consumers, so may need to see greater traction and other proof-points before completing deals.

6. Programs often also seek to accelerate innovation ecosystems

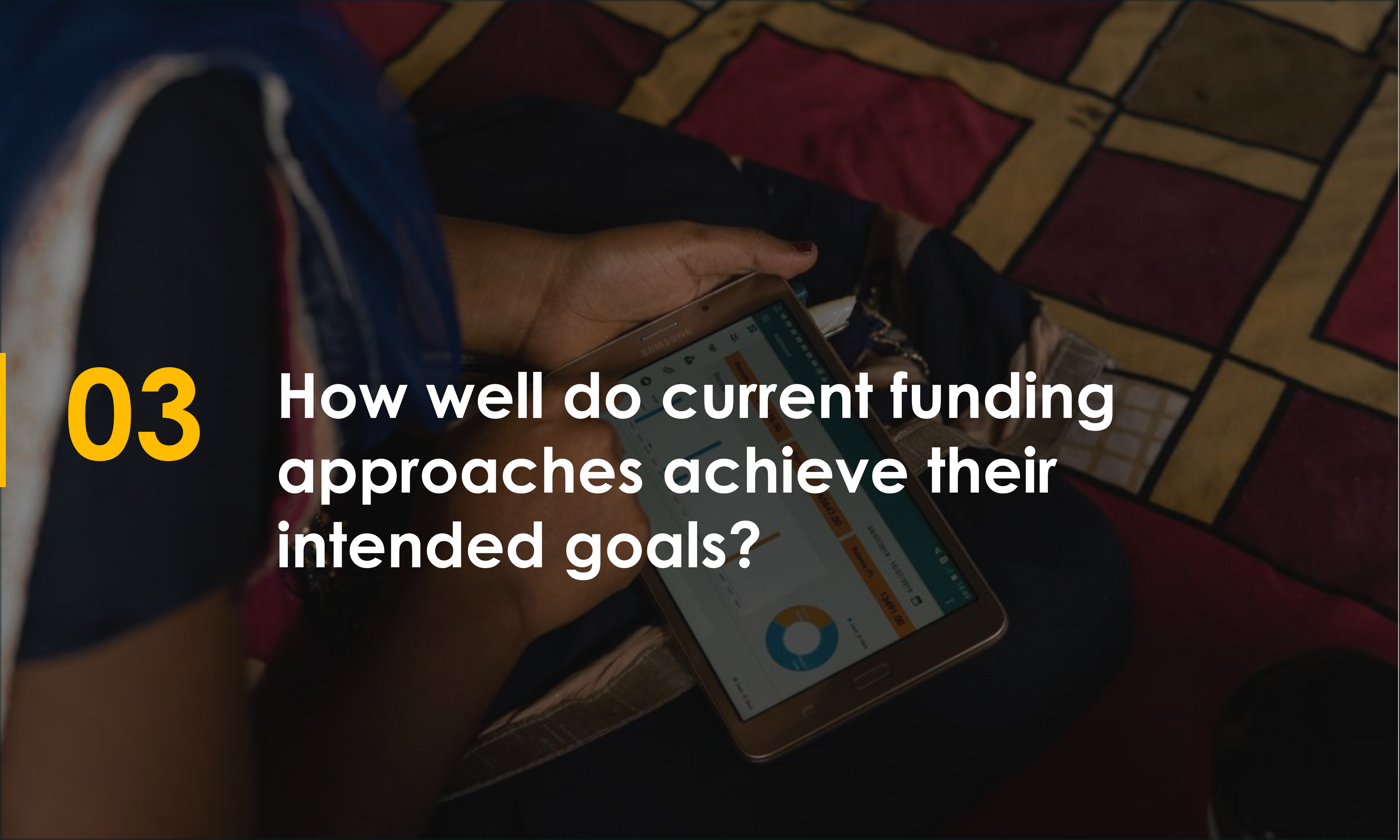
Some accelerator programs have an explicit mandate to create thriving innovation ecosystems in a particular country or region or sector.

These program hypothesize that attracting private capital into a new sector or an under-developed sector, and connecting the essential stakeholders in that sector, is critical to enabling further innovation and spurring startup growth.

These programs also have learning and insights mandates: they aim to gather lessons on business models, product innovation, barriers to scale and more, and share them with ecosystem stakeholders. This active flow of information, ideas and best practices enables more innovators and entrepreneurs to develop and launch solutions to solve real-world problems, faster.

Balancing these 6 priorities leads to 5 Accelerator "Archetypes"

		The "Global Networkers"	The "Smart Capital" Investor	The "CoFounder"	The "Ecosystem Builder"	The "Impact First"
Theory of Change / Driving Priority		Big, global programs whose primary value-add is fundraising support, a "stamp of approval" for startups, and links to corporates. Attempt to link supply and demand side of innovation to boost exits, likely corporate backed programs.	Think of themselves as an investor / fund, but know that startups at the earliest stages need additional support to succeed, use TA to increase chances of success. Likely to have a follow-on fund and looking for exits.	Think of themselves as a co-founder, likely to have a series of programs (incubator, then accelerator, and a follow-on fund) and take early stakes in to the company since they are "building alongside the founders".	Likely funded by governments to create an innovation ecosystem, likely support company at several growth stages, from idea through scale.	Likely work with both for-profits, non-profits, and hybrids, focus on startups with a social mission and potential for scaled impact, believe patient capital is a better source of funding for impact startups compared to VC at the early stage.
Offer to Startups	$	Equity				Grant No Capital
Financial Structure		Corporate-Backed Programs, usually with Investment Vehicle with LPs	Investment Vehicle with LPs	Investment Vehicle with LPs	Gov't or Philanthropically Funded	Likely Philanthropically or Donor Funded, Likely Work with Both For-Profit and Not-for-Profit Entities



03 How well do current funding approaches achieve their intended goals?

Programs weigh these 6 priorities to choose 1 of 3 funding models:

Equity

Equity investors invest capital into a company in exchange for a share of ownership in the company.

Grants

Grant makers provide free cash to companies, usually for a particular purpose and linked to specific outcomes and KPIs that grantees have to meet.

Debt/ Recoverables

Debt financiers provide funds under certain conditions, to be repaid or returned based on a set of agreed-upon triggers (e.g. revenue or fundraising milestones) or terms (e.g. interest).

Programs weigh these 6 priorities when choosing their funding models

	Program Goals			Startup Support		Ecosystem Development
	Financial Upside	**Cost & Complexity**	**Selection**	**Scale**	**Impact**	
Equity	High upside potential. Need long time horizons, limited TA, and reserve funds for follow-on investments.	Can be costly and burdensome to maintain oversight as portfolio grows.	Some founders may not appreciate giving up equity, unless they immediately recognize the value of the program.	Incentive alignment with program leadership helps drive scale and crowd-in more investors. However, later-stage investors may dislike large early-stage positions and crowded cap-tables.	Long-term engagement with founders can prevent mission drift.	May crowd-in more later stage investments via junior equity positions, and signal that companies are on a good path early on.
Grant	Constant effort to fundraise, however grant funding may be easier to raise for new programs.	Easy to administer, but difficult to monitor in the long term as donors have more rigorous impact measurement.	"No brainer" for any startup. May open the door for non-traditional founders and those without F&F access.	Patient, unrestricted capital supports scale and de-risks companies for future investments, yet may delay a commercial approach to scaling.	Enables reach into underserved populations that may be less profitable initially.	Necessary tool for early stage and often includes a public learning goal.
Debt / Recoverable	Minimal upside but capital re-flows into program, some variations allow conversion into equity for greater upside.	Can be complex to structure & monitor overtime and riskier.	Many founders may not understand these models and have some hesitation over ability to repay.	Critical to diversity capital structure and enable scale for certain types of businesses.	Favorable terms can power startups' models for longer.	Can provide valuable ecosystem benefits like first loss debt and credit ratings.

Equity

Equity is the most common instrument but terms and set-up vary

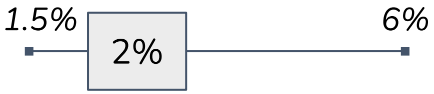
Equity is taken in exchange for capital or for TA

Amount of funding provided varies

Amount of equity taken also varies

For Capital

For TA (when separate)



Many programs take preferred equity, some specifically take common stock.

> *"Taking common stock better aligns our interests with the founder. We sit shoulder to shoulder with founders, we only get an exit when the founder gets an exit"*

Among 10 that take equity, half think SAFEs are more founder-friendly while others say the same about convertibles.

> *"SAFEs offer more 'fair' terms for founders, you have to be careful with convertibles that founders aren't stacking too many that mature at the same time"*

> *"SAFE notes are not as friendly as convertible notes.. convertibles have more wiggle room and are less demanding, they aren't taking as much out of the company as they grow"*

Some programs have valuation caps on their terms, while others feel strongly against valuation caps.

> *"The valuation caps sometimes scare companies away, and it's a complaint by our sourcing team that they can't bring in good companies at a higher valuation."*

The “equity cost” of acceleration varies between programs

The “cost of capital” offered to startups via accelerator programs varies dramatically

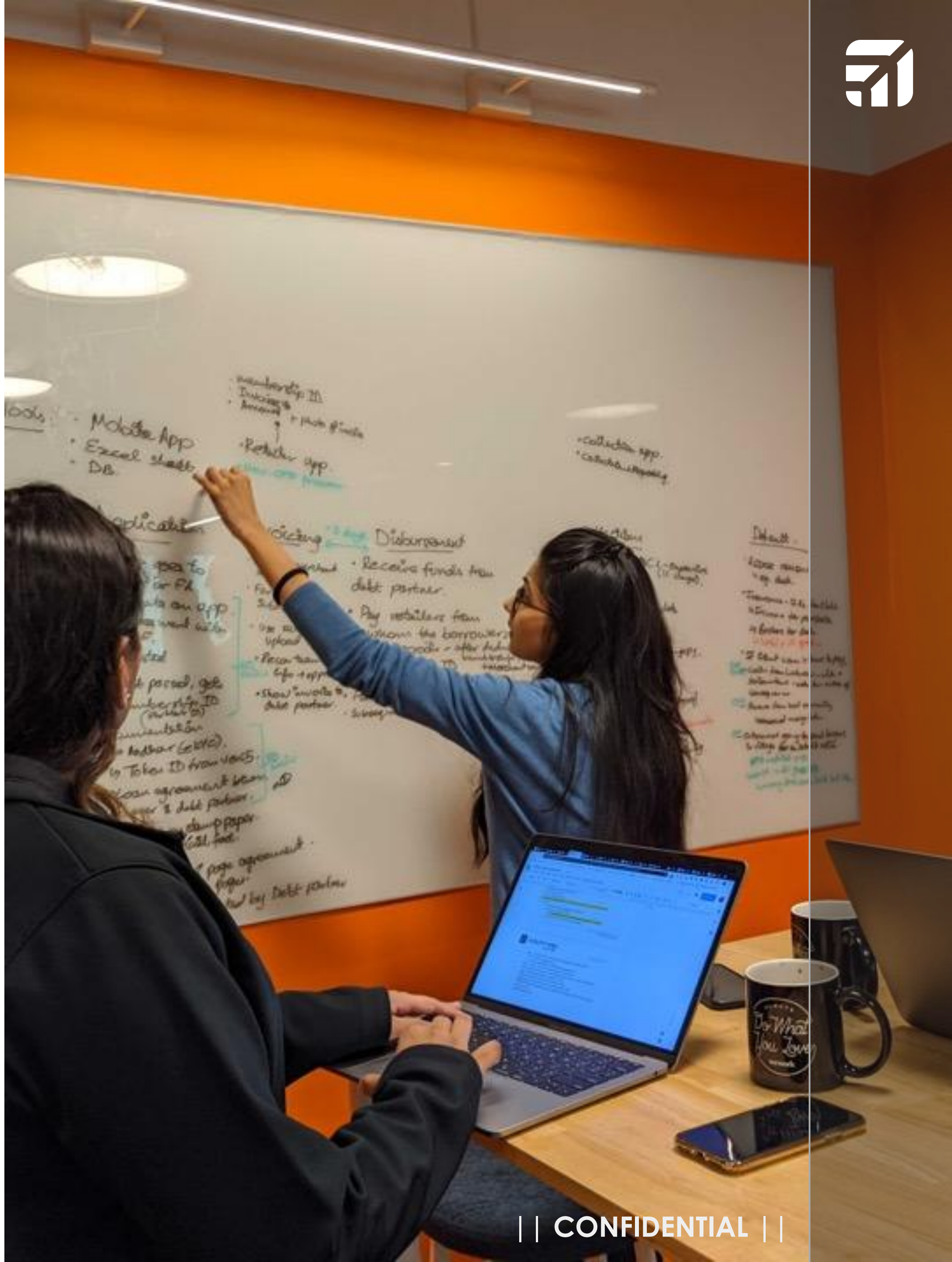
In the same market (Kenya), we found a variety of offers:

- 7% for $15k
- 8% for $20k
- 6% for $40k
- 20% for $100k

Other sources have found that cost varies but there is a consistent range among the most famous programs:

- YC: $125k for 7% equity
- Angelpad: $120,000 for 7% equity
- 500 Startups: $150K for 6% equity
- Techstars: $100,000 for 6% equity

> *“Seed stage **accelerators are expensive** for what they offer - if you can avoid it you should get capital elsewhere.”*



Fundraising: Upside from equity can be accrued only when accelerators take a specific form

> *"We started as investors, but realized companies need support to bridge the gap to series A so we started an accelerator for our investments.* ***We're an investor that runs an accelerator".***

> *"Equity is an* ***instrument for upside, not for financial sustainability*** *of a program"*

Equity was often mentioned as a strategy for long-term financial viability, but only a few programs that take equity have been able to collect returns. This only happens when programs are structured in one of two ways:

1. An investment fund, with a sidecar TA facility to offer strategic, operational or technical support, that typically:
   a. Is structured first and foremost as a fund, invests in a large number of companies, takes a significant amount of equity, and needs to look for exit opportunities (or structure them from the get-go)
   b. Includes light-touch TA which tends to focus on fundraising to give programs a higher chance of an eventual exit
   c. Has a follow-on fund to avoid dilution in subsequent rounds
   d. Could be agnostic between cashing out "early" at Series A or B, or staying in until an exit, however all have long time horizons
2. "Co-founder" fund and non-financial support that:
   a. Is structured as a series of programs from ideation to acceleration to growth stages, where equity can be taken at each stage to avoid dilution and offered alongside deeper operational, strategic or technical support.

Costs: Equity can be expensive and burdensome to manage for accelerator teams

When taking equity, programs often maintain a board seat on each startup accelerated. This is a significant effort, and the legal complexities multiply as the companies grow, take on more investors on their cap tables and Boards expand. Programs specifically mentioned:

- Time and energy required to participate in board meetings in a way that benefits startups
- Significant overhead and legal costs to own pieces of all these companies - legal, compliance, and governance complications especially if any are direct competition
- Limits the stage of startups that can be accepted, excludes those with higher valuations

> *"We still get pressure from our board to take equity -- **but we think we would actually lose money if we took equity**, because of the internal resourcing requirements to manage it"*

> *"You need to keep providing value after the program ends, you're a collaborator… a shareholder.. **It's a lot more responsibility to be a shareholder**, how do we envision our support as a shareholder -- what do we offer to startups in this role?"*

Selection: Founders have mixed feelings about giving equity to accelerators

If the services provided by the accelerator are valuable, then some founders believe giving equity is perfectly reasonable, but:

- It is difficult for startups to understand the value of the startup support / TA before it's experienced
- Many programs use alumni startups to help incoming founders understand theor offering, and "sell" incoming founders on the idea of giving equity in exhchange for a their support services.

Some programs feel that equity can attract higher-quality founders because programs take a "co-founder" approach (i.e., "we're here for you throughout your whole journey") and founders are more "bought in" to the program because incentives are aligned.

Other programs believe equity may be more important for underrepresented founders who may need long-term support raising subsequent rounds, and for models where taking a long view is necessary.

*"We agreed from early on that we would never give equity stake to an accelerator program - **we are the ones running the company** and putting everything on the line to make it succeed."*

*"I'm a second time founder and my co-founder has an MBA from an American business school. We feel we have the knowledge, experience, and networks to succeed without paying for accelerator programs, **it might be valuable for first-time founders."***

*"There are a lot of institutions that take advantage of founders who don't know what they are doing - take 20-30% equity - **founders lose motivation** because someone else owns so much of it."*

Scale: Equity maintains focus on growth

Equity and participating in governance is considered a way to stay engaged and continue contributing to startups to help them scale in the long-run.

Equity was also mentioned as a tool for ensuring:

- **Founder commitment:** To make sure founders are committed / engaged during the acceleration program
- **Proof of value:** To prove accelerator services are valuable and "worth" the equity value.
- **Accountability:** To align interest between founders and programs as well as incentives for exchange of value; creating commitment and accountability on both sides
    - Grants may provide perverse incentives.
- **Program credibility:** To be better able to advise startups on the challenges of being a for-profit company, since programs face these challenges first-hand.

"We take common stock (rather than preferred).. so ***we only get an exit if founders get an exit."***

"How can you as a program give advice and assistance to commercial businesses, ***if you yourself aren't a commercial business yourself?"***

Impact: Equity can help prevent mission drift

Having a long-term stake and a seat in the startups' Boards can help keep their focus on underserved users and prevent mission drift.

*"Equity stake is built around progressing the community of startups, and **long term vision for each individual startup, not a short-term offer** of program support."*

Ecosystem: Equity may attract more investment

Equity investments can attract further follow-on capital to the startup ecosystem by bridging angel to commercial rounds and giving future investors greater confidence in the companies.

*"There is more investment capital available than startups need - **problem is actually how to bridge** that, how to ensure they survive through valley of death... most capital is available at Series A. We take on the risk at this early stage, and take equity in return for taking that risk."*

*"Clearly we need more capital at the early stage... DFIs can't go early, many investors are being pushed later, and angel investing doesn't really pay back -- and **we should take equity so don't disrupt market dynamics**"*

Grants

Grants: A well-known approach that gives programs flexibility

- **Grant amounts from programs we interviewed range from $25,000 to $100,000.**
- According to GALI, 28% of accelerator programs worldwide provide grants.
- Grant disbursement timing and tranches vary:
    - Some grants are linked to milestones or impact metrics
    - Other grants are given in pre-dertermined tranches to minimize risks for the program
- **Grants offer programs flexibility**, especially when operating at the very early stage, since they can be offered to both non-profit and for-profit organizations, and can be disbursed even when a startup is not yet a legal entity.

*"Only 75% of organizations that enter our program are actually registered as legal entities when they start, some are only an idea, so **we wouldn't be able to take equity**."*

*"As we were conceptualizing and launching our program, we realized **it was easier to convince sponsors to give grants rather than raise a fund to take equity...** we may consider taking equity in the future."*

Fundraising: constant effort to raise funding

Grant-making accelerators all mentioned the difficulty of fundraising, and a desire for some longer term predictability.

- Funds are usually dependent on philanthropic providers, which have their own priorities, and legal and policy complexities.
    - Government aid agencies may have policy-driven priorities that change with administrations
- Programs must adapt their objectives to match donor preferences by sector or geography.
- Grants may be subject to greater variability in donor and philanthropic priorities and changing budgets over time.
- Many programs share donors so startup accelerators may be over exposed to a few organizations.

*"**Everyone is trying to figure out how to become sustainable**... many of the programs I talk to require cross-subsidy with other services like consulting in order to stay afloat."*

*"I feel that we are always hustling for money..,**we have to fit certain narratives so that we fit within available grant funding opportunities**. The management, recording, auditing required can be very strenuous for our donors even once you get the funding."*

Costs: easy to administer in the short run, but more difficult to monitor in the long run

*"If funders allow it, **grants can be disbursed quickly** and are an effective way to provide fast working capital to startups to test and iterate their products in market, get to product-market fit and then reach commercial funding."*

- **In the short run, grants are easier to deploy, largely because they are better known and channels are already established**
- When multiple donors are at play, then reporting and monitoring processes often become more complex and burdensome.
- Philanthropic providers often have more evolved reporting standards and KPIs, especially at the end-user impact level, which is harder to measure and to requires a lot of data requests for startups.
- It may be more difficult to monitor impact/growth after startups graduate from a given program since there is no formal relationship/accountability with the program.
- There are some benchmarks for how much it costs to administer grant programs, but it is hard to know what is a fair assessment:
  - "Charity Navigator: We believe that those spending less than a third of their budget on program expenses are simply not living up to their missions. Grantmaking organizations must spend 85% of their budget on programs expenses to receive a perfect score."

Selection: Founders like grants, which may be especially important for non-traditional profiles

Founders are able to use grants as a substitute for angel and friends & family rounds.

- This may be especially important in markets where such mechanisms are undeveloped and among founders without access to robust investor networks or early angels.

*"If we had to give equity it would have made me think a bit more about whether or not to join... **right now the grant makes it a no-brainer**. I might have considered giving up equity but only because we really need help on our B2B sales model."*

***"For people without access to angels and friends & family, grants can be a game changer**. Lack of access to wealthy friends and family ultimately means lots of under-represented founders can't start companies."*

*"Started exploring local accelerators at the beginning but **they were too expensive."***

*"We never did a friends and family round -- were **able to skip straight to a Seed Round** because of grants from various accelerator programs and competitions."*

Scale: Grants support can de-risk future rounds without muddying cap tables

- Grants are attractive for future investors as they help **de-risking startups,** ensuring that companies have early capital to reach product-market fit.
- Grants may be better for attracting later stage investors because there are **no concerns about the accelerator's position in the company**
- While grants can be catalytic, they can also paint startups with a "non-profit" brush and make it harder for them to raise commercial capital after

"Later-stage investors don't want their investment to pay off early-stage investors."

***"Clearly companies need access to unrestricted capital at the early stage - as long as they have access, it doesn't have to be a grant**. Just having access to something pre-seed is what's important. Equity with fair and flexible terms can be the same as a grant -- so why not get some upside for it?"*

*"We want to find a way to financially recognize the value we add for startups and the ecosystem, but it's so hard at the early stage… for seed stage you could invest in a ton of companies and it could pay back, but **at the early stage it's almost impossible."***

Impact: Grants help prove viability of models for underserved users

- **Grants give startups flexibility to spend capital** on their most pressing needs but also on higher-risk experiments that may be necessary for reaching underserved consumers.
- "**Unrestricted and non-dilutive capital**" allows startups to focus on the most underserved users and test innovative products.
- **Grant capital is "patient"**, it does not push startups to grow faster than reasonable, or to raise money quickly, which can often contribute to mission drift or to expanding the business too quickly.

> ***"Every for-profit social incubator has folded due to multiplicative risk** -- balancing social impact and profitability, plus working with early stage businesses. Social impact has moved later stage because they want lower risk, and for us to succeed at the early stages we can't be for-profit programs."*

> *"The venture-backed model does not make sense for all startups - it **forces them to pivot away** from supporting low income populations."*

Ecosystem: Grants may always be needed for early-stage or risky ecosystems

- **Grants may always be important for cutting-edge innovation, risky sectors, or immature markets**
- In markets where angel networks are weak or absent, grants can be an important substitute, especially for local founders who may lack international networks to tap for fundraising.
- Grants can rationalize a learning/sharing approach that can progress the entire sector.
- When is the right time for an innovation ecosystem to switch from being grant capital dependent, to capital market dependent, if ever?

> *"Grant design is not just about investment but about **creating public goods and sharing insights** with the ecosystem. Taking equity may cause startups to move to higher income populations to get profitable more quickly to raise more money."*

> *"Startups in the impact space need additional support to make their models work. The TA is important, but so is the capital - **they need patient capital that is willing to wait while they convert their ideas into a working model."***

Debt

Debt is the rarest form of capital among startup capital offers

Only one program we interviewed mentioned venture debt as an opportunity in early-stage investing.

- Some startup models are capital intensive or need working capital to on-lend, so may be served well by debt structures.
    - Some founders we interviewed - particularly those with credit or lending-based business models - mentioned debt as a key funding gap in their journey
- Debt could subsidize program costs, contributing to program sustainability, if capital is returned frequently.
    - Debt is likely to be recuperated faster than equity, and provides a natural "recycling" mechanism so programs can re-invest the capital in more companies.
    - While programs can recycle funds, debt structures do not provide financial upside if a startup is successful
- Debt offers a variety of levers to incentivize repayment that can be adjusted to program goals, such as interest rates, repayment triggers (recurring revenue, fundraising milestone, valuation etc.)

*"**If I had my way, we would do pure grants**, but the IRS doesn't allow a non-profit entity to give grants to a for-profit entity."*

*"We didn't have trouble raising equity, but **we're a lending business so need debt**... we had a hard time finding venture debt to support us in the early phases."*

Debt offers interesting design variations: Recoverable Grants

Two of the programs interviewed offered recoverable grants -- neither chose this structure to support the financial sustainability or to capture any upsides. Instead, they cited a number of other reasons:

- **Legal flexibility**: Both organizations are structured as non-profits, so are legally not able to take equity or generate revenue. They provide grants to the non-profits and recoverables to the for-profits.
- **Fundraising pressure:** Both mentioned difficulty in fundraising and financial sustainability of their programs, and mentioned pressure from their boards to take equity to participate in upside of successful ventures.
    - One program has largely structured the recoverables to "act" as grants.
- **Program values:** Debt is a way for founders to "pay it forward" especially if a program's core value is community building.
- **Advantages to startups**
    - Fundraising**:** One program hypothesized that positive repayment behavior could help a startup's credit rating but a partnership with Moody's to understand this better had too small a sample to conclude.
    - Repayment flexibility: Founders that don't like having debt / a liability on their books can repay the debt early.

Two example instruments:

Grant Amount	Trigger	Repayment Terms	Interest	Markets of Operation	# Deployed, # Triggered
$60k	$4m valuation OR $2m recurring revenue	1 year repayment	No	US	~30 deployed, first team to trigger this year
$80k	$5m valuation OR $2m recurring revenue within 5 years	1 year repayment	Yes	Global	~100 deployed in 10 years; 9 repaid in full; 9 in process of repayment; 5 will trigger within the next year

Cost: Debt design can be complicated

- **Triggers and repayment terms can be hard to define for early stage businesses:**
    - It is hard to define the most appropriate time to take money out of a growing business.
    - The type of startup, sector, geography, and founder preferences may all play a role in determining repayment terms.
- **Triggers need to be carefully designed to not create perverse incentives** for startups (i.e., would startups raise a slightly smaller amount in order to not trigger their debt repayment over a fixed period of time?)
- **Monitoring of triggers can be costly for programs** and startups alike, if using validated, objective metrics. The alternative, using self-reported measures, may be unreliable.
- **Only some legal structures and environments can facilitate repayments**, so programs need to think carefully about their set-up.

Selection: Founders do not seem deterred by debt

With so few debt programs in our sample, it is hard to know the effect a debt offering might have on recruitment. However, responses from founders suggest it is not a deterrent.

*"Recoverable grant or convertible debt instruments are great - **especially when the triggers are aligned to the goals of the business**. SAFEs and convertible notes work well for this reason - if the accelerator does a good job, the next round should be good and both the founders and programs win."*

*"**Accelerator programs should ask for their capital to be repaid in some form** -- it makes sense if you give funding support to take a stake or ask for the grant to be repaid."*

Scale & Impact: Variations on debt structures can reward impact/scale

- There is a clear need for some forms of debt in the startup ecosystem, in particular for lending-based and other working capital intensive business models.
- Debt triggers can be designed to reward greater impact, but it may never feel like the right time to withdraw money froms growing business.

Variations on debt structures could be designed to suit the growth needs of startups and could add greater impact milestones:

Debt structure or term	Variation to support scale and impact
Interest Rate	Minimal interest rate or zero interest
Repayment schedule or triggers	Repayment based on triggers where repayment likely to have minimal impact on growth (i.e. after a fundraise? revenue targets?) Allow for flexibility to renegotiate triggers, or pause repayment (i.e. if revenue falls back below trigger)
Payment amount	Payment amount and number of payments based on revenue to minimize impact on startup operations Allow for renegotiation
Ability to convert	Allow for conversion to grant in the event companies are unable to repay

*"**Some founders might not be happy about paying back the capital on the next round** - if you just raised, which takes a lot of time and effort, then already have to spend a portion of that might money right away. I would rather you just being along on the journey (by taking equity) rather than eating into growth money."*

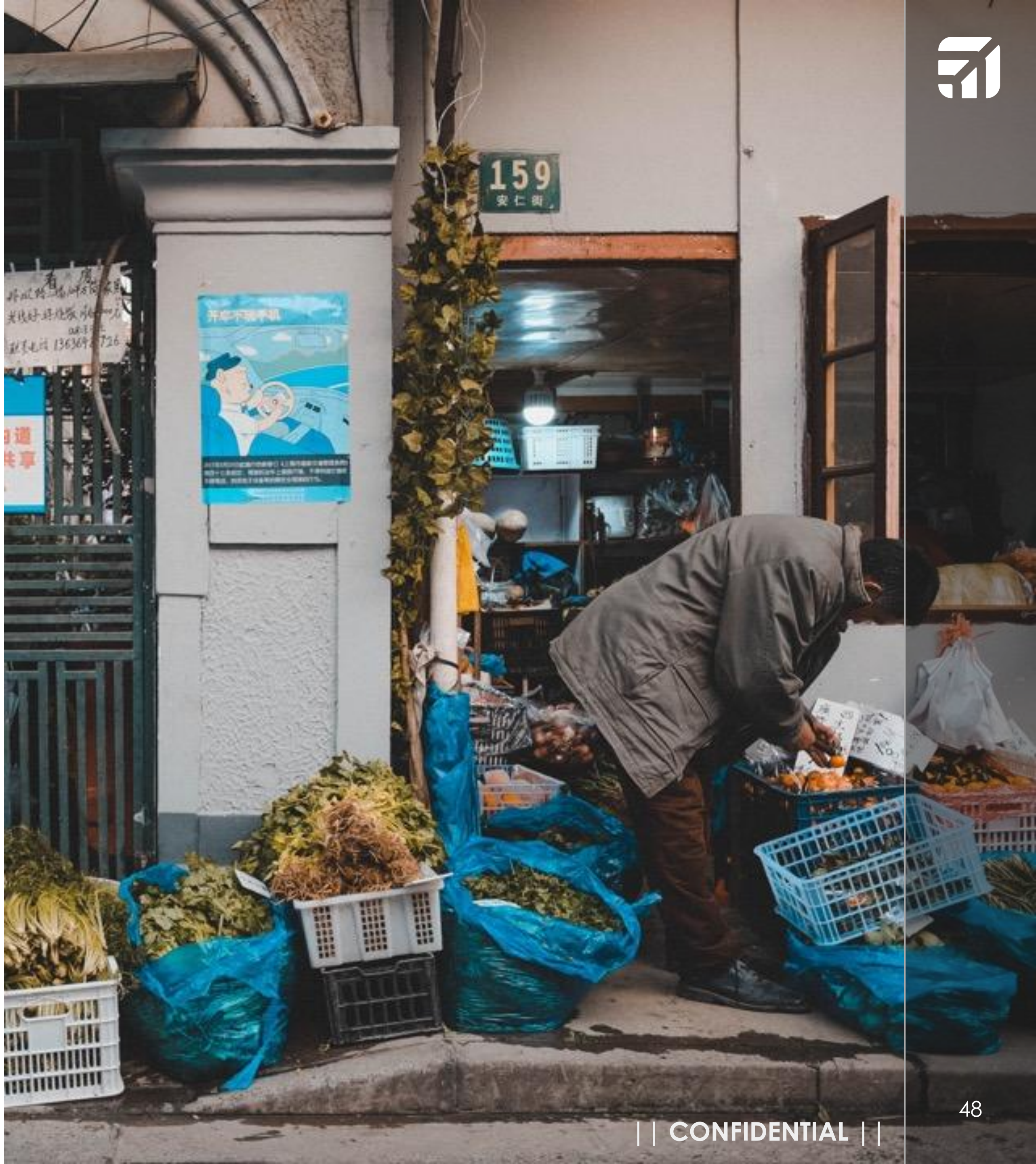
*"Our goal is to maximize impact - and **money in the bank account of our companies has higher impact than money in our bank account** (in the event companies trigger repayment)."*

Ecosystem: Debt is an important, but underdeveloped, part of the funding continuum

Although debt offers by accelerators are rare, there are two potential ways debt offerings could support the inclusive tech ecosystem:

- Lending startups will eventually need debt to finance their balance sheet. This debt is likely to come from banks with an extremely low risk tolerance and therefore high cost of capital. Subordinate debt from accelerators could reduce the risk for banks -- potentially making it easier and cheaper for startups to raise debt.

- Accelerators that offer debt can provide startups with their first opportunity to build their credit history - if they repay the debt on-time to the accelerator, this could prove creditworthiness to banks in the future.



04 What opportunities are emerging for accelerator programs?

Startups often struggle to choose the investors that would be the right fit for them

- In developed ecosystems and products, it was "easy to get in the door" with investors; very few entrepreneurs said it was difficult to get a first meeting with an investor.
- However, they mentioned difficulty in actually convincing investors that they are the company that is going to win, at least at the earlier stages in absence of clear metrics.
- Founders also mentioned **difficulty in understanding which investors to seriously consider**. Fundraising can take up a lot of founders' time, sifting through lots of investors and understanding who would be a good partner is fundamental for the process to be most efficient.

How might accelerator programs better prepare founders to fundraise and choose ideal investor-partners?

*"The ecosystem is mature enough that people will speak to you, it's not hard to get that first meeting with investors, but **finding product market fit with the investor and selling the vision is the hardest part.**"*

*"You don't know how to fundraise, no one teaches you how to fundraise... **you eventually learn what works and what doesn't work**, and you start understanding what types of investors want to invest. You start to learn what story you need to tell to look "VC-fundable", a "good business" is different than a VC funded business."*

In emerging markets, founders dedicate significant effort to “educating” investors

In less developed ecosystems and products, entrepreneurs mentioned investing significant time and effort “educating” of investors on the value chains, segment, and market they work in.

*“**We spent a lot of time helping investors understand how the ag value chain works**, as its very complex -- many liked our impact story but didn’t understand the revenue model.”*

How might accelerator programs support investors in getting to know markets and sectors to alleviate the burden on founders?

*“In those days, in our markets, no one was aware of convertible notes. We thought they were a great instrument because we could raise and leave the valuation out of the conversation, so **we had to teach investors how they worked**. We literally went to investor meetings with a spreadsheet to show investors how they work. It added a ton of time to the process and was really frustrating. People are used to getting a certain % for a certain amount of money. Now, convertible notes are really common so this has gotten a lot easier.”*

Founders struggle to compare and sequence accelerator programs

- Programs have different priorities so it's important to **map the startup support ecosystem** and not be duplicative with other programs. Programs should model a funding continuum much like venture capital.
  - Entrepreneur support programs can come together as industry associations to better coordinate with each other.
- **Linking or connecting programs more intentionally** might help provide clarity to founders.
  - A grant accelerator combined with a seed fund might be a good way to tackle the issues across the funding continuum and create feedback loops.
  - Some accelerators could sit inside others i.e., one can focus on the earlier stage and another on the growth stage of the path to scale).

How might we ensure that all capital instruments are deployed in conjunction to ensure startups can scale and deliver impact on their customers?

How might we support founders to better understand the various funding models? Many of these models could work for founders, as long as they know what they are signing up for.

Programs struggle to recruit women, local, and other underrepresented founders

- Open calls for applications may be deterring underrepresented founders
  - Need dedicated team with outreach goals
  - Embed programs in communities where you want to recruit
  - Use language that is clearly understood by founders
- Requiring founders' presence on-site may also be barrier, as well as English-language requirements
- Having a diverse program team can help attract diverse founding teams
- Need to "sell up" to donors and LPs about the benefits of diverse founder cohorts
- Case studies that showcase diverse founders can be a compelling recruitment tool
- Naming and reserving programs for certain founder groups can encourage participation

How might accelerator programs better support underrepresented founders?

"I always expected there to be a bias, but there have been instances of outright sexism... like being asked if I am going to have children by investors, asking how I got the CEO job instead of her male co-founder and who is the "alpha" in that relationship. ***I have to be 10x better than male founders, and 100x better as a minority founder in order to raise money."***

*"**Proximate leaders face really strong barrier to capital,** so we didn't feel like it aligned with our mission to take a piece of their company"*

Thank **you!**

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