

Next: A Nonprofit IPO?

Inspired by Wall Street bankers, social entrepreneurs tap into a new source of funding.

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When former Goldman Sachs banker Chuck Harris stepped in temporarily two years ago as director of development for College Summit, he became the rare nonprofit executive to commute to work by private jet. But he also brought insights gleaned from a career raising capital for businesses. As College Summit, a 13-year-old organization that helps low-income students get into universities, contemplated an expansion plan, Harris asked, Why don't we structure this deal like a for-profit investment?

The resulting "private placement," completed in November 2005, netted College Summit \$15 million total from 10 investors to fund a four-year growth plan. While the deal offered no equity or monetary return, it appealed to donors interested in helping a proven idea grow: They get to be the nonprofit equivalent of venture funders who made the right bet on the Palm Pilot. Says George Overholser, a former venture capitalist who is now an executive at NFF Capital Partners, an investment bank for nonprofits: "The opportunity here is helping build an organization that accomplishes an amazing amount of good in the world into a household name brand."

The private-placement concept is a breakthrough in funding nonprofit growth. For one thing, unlike most grants and donations, the money isn't tied to particular programs or special requests. It's to be used to develop capacity for growth. That growth is reported to investors quarterly, using an accounting system that Overholser created.

The placements are exponentially larger than is typical in the nonprofit world, in which a foundation grant averages \$40,000. More important, this growth funding allows nonprofits the comfort of cash reserves to cover unexpected bumps along the road. That's why Teach for America, the AmeriCorps program that puts college grads in rural and inner city classrooms as teachers (like College Summit, it's a winner of the [2006 Fast Company/Monitor Group Social Capitalist Award](#)), is in the midst of its own private placement to raise \$25 million toward a \$60 million growth fund.

It could be the start of a nonprofit capital market that scales up ideas designed to produce social good as effectively as the systems that fuel companies like Apple, Google, and Dell. Says Kevin Huffman, a TFA senior vice president: "We need to build a world where the most effective nonprofits have similar access to the capital they need."