NEXTCYCLE WASHINGTON

Circular Funding Resource Guide

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Introduction: The Role of Catalytic Capital in Advancing the Circular Economy

NextCycle Washington is designed to support the growth of for-profit and non-profit mission-driven businesses and programs that will expand or strengthen Washington's **circular economy**. This includes activities related to waste prevention, reuse, repair, recycling, and/or organics management. By nurturing these projects, the program helps support a more circular economy by reducing waste generation, keeping materials in use longer, and regenerating natural systems. These projects also support a just transition by prioritizing and investing in communities that have historically experienced disproportionate burdens or are underserved.

An important aspect of the NextCycle Washington program is connecting participants to the catalytic capital that can propel them to the next stage of their growth. This guide is intended to help entrepreneurs and organizational leaders understand the spectrum of funding opportunities available, choose an approach that is suited to their mission, stage of development, and product, service, or program, and prepare successful funding pitches and applications. The guide includes basic descriptions of common funding types, some tips for success, and a set of funder profiles. The guide highlights engaged funders who have prioritized organizations or programs that are closely aligned with the goals and principles of NextCycle and its participants.

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NEXTCYCLE GUIDING PRINCIPLES:

1. **Circularity and Waste Diversion** – divert material from landfill or incineration while capturing value in a circular economy.
2. **Decarbonization** – reduce lifecycle greenhouse gas emissions associated with materials and products by keeping materials and products in use longer and reducing impacts related to resource extraction and production.
3. **Just transition** – share power to provide equitable economic opportunities and access to services while avoiding environmental risks in overburdened and underserved communities.

CATALYTIC CAPITAL
is "patient, risk-tolerant, concessionary, and is flexible in ways that differ from conventional investments" and "is an essential tool to bridge capital gaps and achieve breadth and depth of impact, while complementing conventional investing."

(Adapted from the Ellen MacArthur Foundation, ellenmacarthurfoundation.org 6.29/23)

CIRCULAR ECONOMY
is an economic system that is designed to benefit business, society, and the environment. It is regenerative by design, and aims to decouple growth from the consumption of finite resources.

(Adapted from the Ellen MacArthur Foundation, ellenmacarthurfoundation.org 6.29/23)

JUST TRANSITION
is a process for changing toward a more sustainable and healthy economy that does not cost workers or community residents their health, environment, jobs, or economic assets.

Adapted from the Just Transition Alliance, jtalliance.org 6/29/23)

How to Use This Guide

The guide is split into two main sections, an overview of the funding landscape and a collection of funder profiles. Additional resources are included in the appendices.

FUNDING LANDSCAPE

This section provides a starting point for developing clarity and understanding of the basic concepts and language associated with investments in both for-profit and non-profit ventures. This includes the following five attributes that define a funder's approach:

1. Funding instrument – the tools used by funders including grants, loans, or equity investments (see definition below).
2. Funding stage – the level of maturity of a business or organization and associated funding opportunities.
3. Impact Spectrum - the range of expected "returns" for a funder, from purely financial to purely social or environmental and everywhere in between.
4. Mission focus – the specific impact area that a funder is seeking to support, such as climate, social equity, waste reduction, or reducing the impact of a specific material, like plastic.
5. Organizational focus – the type of entity targeted by a funder.

FUNDER PROFILES

The second section of this guide profiles 21 funders [*final count pending a few final responses*] whose funding goals align with one or more of NextCycle Washington's core principles. These funders have a track record of supporting the types of businesses and projects that come through the program. Each profile uses the five attributes listed above for easy reference based on the characteristics of a given venture. The profile includes a description of the funding organization and funding approach, a list of the most common funding instruments, examples of circular enterprises within their portfolios, how to start engaging with them, and additional support that they may provide.

Funding Landscape

This section offers a "funding 101" guide for readers to develop a basic understanding of some of the core principles and terms used in the community of funders.

Funding Instruments

Businesses and non-profits often need a source of funding that can help them reach a point where they have stable source of income. For businesses, this income is usually from the sales of products and services. Non-profits may supplement earned income from programs and services with a stable base of donations and grants. This guide will focus on the three most common types of funding available to businesses and non-profits which may not yet have much, or any, revenue:

1. Grants – no expectation of financial return, in some cases an in-kind match may be required.
2. Loans – an expectation of repayment, typically with interest.
3. Equity – funds provided in exchange for a percentage of ownership.

Businesses and non-profits may also look for financial support through individual donors, sponsorships, and crowdfunding. These funding sources are not included in this guide but may be covered in future reports.

GRANTS OR PHILANTHROPIC GIFTS

Grants can be provided by government agencies, philanthropic organizations (or individuals), and private sector entities. Grants are most commonly available for non-profit organizations, however, there are some grant programs available to for-profit businesses, particularly related to economic development in an emerging industry or in circumstances requiring economic stimulus. There are several grant programs available in Washington related to circular economy, climate action, and community development activities.

Grants are typically used to support activities that would not be sustained through market forces alone. The expected return on the investment is exclusively impact related. There is a level of administration and reporting of non-financial outcomes that are not typical for loans and equity investment.

The majority of Philanthropic grants through foundations are only available to federally recognized non-profit charitable organizations due to tax regulations. Some public sector grants are available to non-profits or for-profit enterprises, including the NextCycle Renew Seed Grant Program, the King County Re+ Circular Economy Grant program and the WA Department of Commerce Industrial Symbiosis Grant Program.

NON-PROFIT/CHARITABLE ORGANIZATION

There are several types of non-profit organizations. This report uses "nonprofit" to refer to federally recognized "501(c)3" charitable organizations, state registered nonprofits, and community-based organizations operating under fiscal sponsorship of a federally recognized non-profit. . Non-profit organizations do no pay income tax because they provide other social and community benefits as the core purpose of the organization.

LOANS

Loans are typically provided by financial institutions such as a bank, credit unions, or Community Development Financial Institutions (CDFI). Traditional loans require proof of revenue streams over at least two years and some type of collateral. This generally makes it difficult for startup businesses and non-profits to qualify.

EQUITY

In simple terms, an equity investment is the purchase of a stake in a company. Equity investments are often relied on by startup businesses that do not have existing revenue streams or sufficient collateral to qualify for loans. These are "riskier" investments and equity investors are typically looking for big returns, generally realized through an "exit" or sale of the company. They are typically interested in businesses that have strong intellectual property (IP), large growth potential, and a well-respected and experienced team. Equity investments are often made by:

Angel Investors—

High-net-worth individuals that invest alone or collectively with a group of angels. They typically use a convertible note, which is like a loan but can be converted to a percentage of the business once it has gone through a valuation process.

Venture Capital (VC)—

Managed fund invested based on a "funding thesis", which predefines the type of venture they are seeking to invest in. VC funds typically target a specific niche or industry. VC may use a convertible note or a direct ownership percentage in the company. They typically hold less than 50 percent of a company's shares.

Private Equity—

Managed funds with capital from high-net-worth individuals, firms, or large institutions such as pension funds. Private equity typically acquires majority to 100 percent ownership of mature companies to streamline operations and increase revenue. This investor would be interesting to firms nearing an "exit" (see Exit Stage, below).

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Organizations that provide financial services in low-income communities and to people who lack access to financing.

CDFIfund.gov 6/29/23

VALUATION

The process of determining the worth of an asset or a company. Valuation is important because it provides prospective buyers with an idea of how much they should pay... and prospective sellers how much they should sell for.

Investopedia.com 6/29/23

ANGEL INVESTORS

are individuals who are looking to put their own money into good ideas at their earliest stages of becoming a successful business.

Investopedia.com 6/26/23

VENTURE CAPITAL

is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-terms growth potential.

Investopedia.com 6/26/23

Organizational Growth and Funding Stage

Funding options can be significantly different, depending on the type of organization, its long-term vision, and its stage of growth or level of maturity. More specifically, funders structure their funding offerings to meet common needs that businesses and non-profits face as they move from an idea to a mature operation. Funders often target specific stages as a part of their strategy and mission. Matching the stage of a business or non-profit with the funders' targeted stage is an important step to identifying the appropriate funding pathway. For-profit and non-profit organizations tend to progress through different stages of growth and maturity over time.

FOR PROFIT STARTUP

Any new business might consider itself a “startup”. However, in the realm of small business finance, the “startup” term is often used to describe businesses created with a vision for rapid expansion to reach a significant scale of impact. These startups follow a general trajectory by moving through common stages of growth. Each stage requires an infusion of capital. Other small businesses are addressed below.

INITIAL PUBLIC OFFERING (IPO)
refers to the process of offering shares of a private corporation to the public... for the first time. An IPO allows a company to raise equity capital from public investors.
(Investopedia.com 6/29/23)

MEZZANINE FINANCING
is a hybrid of debt and equity financing that gives the lender the right to convert the debt to an equity investment in the company in case of a default.
Investopedia.com 6/26/23

Validation stage (Pre-Seed)

- The focus is on proof of concept with funding amounts ranging from \$10k-\$300k to support validation of the idea.
- This is often self-funded or funded through friends and family or grants.

Seed Funding (Startup)

- The focus is bringing a product to market with funding amounts of up to \$3 million to establish operations and support first sales into a core market.
- This stage is often funded by grants, venture capital, angel investors, crowdfunding, and/or non-traditional loans.

Early Stage and Series A Funding

- The focus is on significant revenue growth with funding amounts in the \$2 million - \$15 million range to support expanded operations, significant hiring, branding, and marketing.

- This stage can be funded by angel investors, venture capital and/or bank loans, private equity, or in some rare cases an initial public offering (IPO).
- The focus is on selling equity in the company and is often the point when founders, venture capital, and angel investors experience a return on their investments.

Growth Stage and Series B Funding

- The focus is large-scale expansion to new markets. Funding amounts from $15 million -$30 million to support significant hiring, expanded operations, and large capital projects such as building new facilities.
- This stage is often funded by later-stage **venture capital**, bank loans, or **mezzanine funding** which is a type of loan that can convert to equity in case of a default.

Mature Stage, Exit Stage, and Conventional Funding

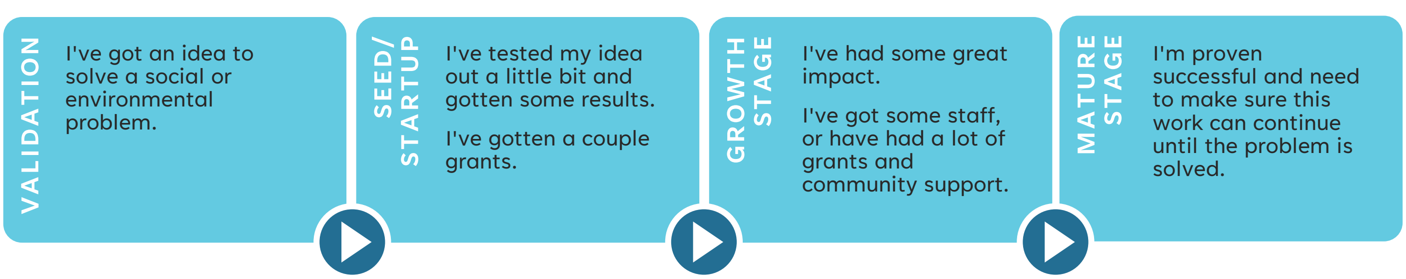
- Companies that are mature and growing organically likely will rely on earned revenue and/or conventional loans.
- Closing, selling, merging or otherwise exiting or closing a business can require funding. For some startups, this is the ultimate goal.
- Mature and exit stage funding are not the focus of this guide.

FOR-PROFIT SMALL BUSINESS

Not all businesses follow these funding stages. Many small businesses, including many operating in the circular economy, are geared towards a "lifestyle" model. These businesses intend to reach a level of maturity that provides a desired standard of living for the owner and employees while pursuing a personal passion, a driving mission, or employing a personal skill set. Such businesses are typically started through self-funding (savings or credit cards), contributions by family and friends, or, in some cases, grants. These businesses typically become financially stable through earned revenue and grow organically. Debt may be used to manage cash flow and finance equipment and/or construction. Venture capital organizations are not likely to fund this kind of business, but many of the grant and loan opportunities in this guide could be of value to a small business.

NON-PROFIT STAGES

Non-profit organizations follow an entirely different path of organizational development and growth. They are most frequently started by an individual or small group with an interest in solving a problem and are more motivated by delivering community benefits than by earning profit. Non-profits are typically started with self-funding or in-kind efforts from the founders and their immediate communities of family and friends. From there they move on to grant funding, and in more mature stages, may create permanent **endowments** or develop membership communities that make recurring contributions.



Validation/Idea Stage

- Focus on proof of concept.
- Often self-funded or funded through family and friends, crowdsourced, or gifts.

Startup Stage

- Programs or services have shown value/impact/results.
- Regular staff employed.
- Sufficient outcomes and track record to apply for grants.
- Often supported by a small number of funders with strong knowledge of the organization and trust in leadership.

Growth Stage:

- Strong results and outcomes with a growing impact.
- Begin establishing organizational structure and governance.
- Experienced staff with specialized skills.
- Often funded by multiple grants supporting specific projects or outcomes. May also begin to have revenue streams, membership programs, significant donor support, or investments in endowments for future stability.

Mature

- Consistent and robust results.
- Highly skilled staff and accomplished leadership.
- Well-defined organizational structure, culture, and operations.
- Often funded by a large diverse set of grants, philanthropy, and donors. Revenue streams, membership programs, and endowment programs are robust and consistent, if applicable.

ENDOWMENTS
are investible assets, like money or property, owned by a non-profit. The grows or income from the endowment can be used to help fund non-profit operations.

Impact Spectrum

Every investor has a funding strategy, sometimes referred to as a funding thesis, which defines their priorities and guides decisions about how they invest or make loans or grants. Their strategy defines the "return" that these funders hope to receive from their investments.

Conventional investment focuses solely on financial returns. This focus can help to hone a very sharp business strategy. However, such a narrow focus on profit often masks or ignores any associated social or environmental costs of operating a business and contributes to the concentration of both wealth and power.

More recently, in response to a growing chorus of institutional, shareholder, and consumer demands for the consideration of social and/or environmental outcomes, many funders now target a range of financial and impact-related returns. Many funders today, and some of those highlighted in this guide, offer a more balanced approach, that considers financial performance as well as other outcomes.

The following graphic presents a spectrum of returns and categorizes investors' funding strategies based on the extent to which they prioritize financial returns relative to other types of impact. Nearly every funder in this guide is seeking some form of impact other than, or in addition to, financial returns, and each one is categorized as offering either conventional, impact, or regenerative financing.

CONVENTIONAL FINANCING	IMPACT FINANCING	REGENERATIVE FINANCING
Prioritizes financial returns for the investor	Balances financial returns and environmental and/or social impacts	Uses financial investments to solve systemic problems and regenerate communities and natural environments

Organizational Focus

The funders presented in this guide share common areas of impact that align with the values represented by the NextCycle Washington program and, in turn, the program's businesses and organization partners. These relevant impact areas include:

- Circular Economy – explicitly targeting businesses and projects related to the circular economy.
- Community Development – focus on community development in general, which can include community-based projects related to the circular economy.
- Racial Equity and Social Justice – emphasis on providing support to historically marginalized groups.
- Climate and Clean Tech – solutions that have a positive impact on greenhouse gas reduction or more generally, the environment. Most circular efforts fit within this category.
- Food and Agriculture – this sector is the most significant source of waste on a tonnage basis. Circular efforts focused on food rescue or food waste recovery often fit into this category.

There are funders that focus on many other areas that could be of interest to NextCycle Washington teams, such as materials engineering, litter, or air or water quality. Given the broad range of work that can potentially be included in the transition toward a more circular economy, it was necessary to narrow the field to those funders with missions that are most closely aligned with the work of NextCycle Washington.

Racial Equity and Social Justice	Circular Economy	Food and Agriculture	Climate and Clean Tech	Community Development
Emphasis on providing support to historically marginalized groups.	Explicitly targeting businesses and projects related to the circular economy.	This sector is the most significant source of waste on a tonnage basis. Circular efforts focused on food rescue or food waste recovery often fit into this category.	Solutions that have a positive impact on greenhouse gas reduction or more generally, the environment. Most circular efforts fit within this category.	Focus on community development in general, which can include community-based projects related to the circular economy.

Preparing for Funding: The Pitch

Some funding, for businesses and non-profits, comes through networking and begins through informal channels rather than through any kind of application process. This is particularly the case with angel investors, venture capital, and large donors. Making the right connection can yield big donations or open doors to angel investment. When you're looking for funding, have your pitch ready. You likely won't walk away with funding after an initial pitch. The goal is to provide enough information to build excitement and lead to future meetings where more details can be discussed.

PITCHING POTENTIAL INVESTORS OR PHILANTHROPISTS

- Know your audience as well as possible. What are their interests and motivations, what have they supported in the past that has gone well (or not).
- Create a concise, compelling elevator pitch (30 seconds) that intrigues your audience and briefly tells your story.
- Be ready to describe how yours is the best solution to a problem. Know the market/context and understand the potential scalability of your business or solution.
- Be ready to discuss your model, including revenue streams, costs, pricing, and the path to profitability, success, or financial stability.
- Know your competition and its strengths and weaknesses.
- Know your team and be ready to describe why they are positioned to succeed.
- Practice, practice, practice!

Preparing for Funding: The Application

Once an organization has identified the funding instruments and funding sources that are a good fit, it's time to start thinking about how to successfully engage that funder. Depending on the funder, this could be a very informal process of networking or a very formalized application process. This section provides some tips for success when applying for grants or loans. Most grants and loans are made through formal application and approval processes. The following tips can help even the most experienced grant writer.

GRANT WRITING TIPS

- Read any guiding documentation or requirements closely. In some cases, an applicant can be eliminated for failing to complete a simple step in the process.
- Be thorough and respond to all requirements of the application. Pay attention to eligibility requirements, including organization type and geographic location. You don't want to waste time applying for something you are not eligible for.
- Be realistic about your budget and consider drafting a budget or any other financial information before completing other steps of the application process.
- Be familiar with the evaluation criteria and make sure that your responses address expectations.
- Be clear and concise about your uses of funding and intended outcomes and align them closely with the purpose and the mission of the funder or funding source. If this is too hard, this grant might not be a good fit.
- Have a friend or colleague proofread your application. Is your project described in terms that reflect the goals of the grant? Is it easy to understand? Is it impactful? Read it again from the perspective of the funder.
- Focus on the solutions. A funder who is making money available for your project already knows a lot about the problem you are trying to solve. What they are interested in is how your solution is going to work. This is especially important for grant applications.
- Demonstrate that you have the organizational capacity to deliver the project on time and within budget. If the grant is for organizational development, be clear about how the grant will be used, and that you are ready for growth. Refer to past experiences to predict future success.
- Show partnership and community engagement, especially where there might be a shared connection to the funder or the funders' interest area. Give them evidence that you have community validation.

Preparing for Funding: Loan Screening

Those seeking loans should be prepared to answer the following questions. The extent to which they can frame their business or project in a light that meets what a lender is looking for will improve the likeliness of getting a loan approved. This list is adapted from profiled lender Craft3's loan readiness toolkit

EXAMPLE SCREENING FOR LOAN APPLICANTS

Question:	What a lender is looking for:
What is your business / Organization?	• Strong idea with potential customers. • How long has it been in existence? • Description of ownership structure.
How does it make money?	• Describe what is sold (good or service). • What is needed for revenue to exceed costs?
What kind of experience do you have?	• Relevant experience. • Past accomplishments.
What do you need a loan for?	• How the money will be spent. • How will it improve your business/org.
How much are you putting into the business, program, or project?	• Commitment and confidence in business. • Ability to weather unexpected challenges.
How will you repay the loan?	• Clear path to success. • Historical / projected profits. • Available collateral.
Supporting documents	• 2-year personal and business tax returns. • 2-year financial statements (balance sheet/profit loss) – or 24-month projection (for a new entity). • Business plan.

Preparing for Funding: Equity Screening

Those seeking investment venture capital funds from angel investors can prepare by reviewing the example screening approach. This is adapted from the screening approach used by profiled funder E8 Angels. In addition to some of the basic questions that you would need to answer for a loan, you should be prepared to pitch your business based on the following questions.

EXAMPLE SCREENING FOR EQUITY INVESTMENT

Question:	What an investor is looking for:
What traction have you gained to date?	• Evidence that your idea is gaining attention or building a market. Evidence could include revenue, users/downloads, or contracts or letters of intent.
Is your plan to eventually sell the business?	• Define how and when your investors will see returns, and how those returns compare to similar industry startups.
How scalable is your business model?	• Indications that your business model will maintain or increase profitability as it grows.
What is the success record of the team?	• A team that has proven success with startups and/or a record of excellence in desired knowledge and skill areas.
What is your competitive advantage?	• Distinguishing factors that make your product, service, or model more attractive to customers or an ability to deliver them more cost effectively.
What is your go-to-market strategy?	• A detailed plan for introducing your product or service to the market. It should show how you will reach customers, deliver your product or service, and mitigate potential risks.
What are the risks associated with your business model?	• A clear-eyed assessment of the real risks and the steps you can take to address them.

View the full article here.

Profiles

The following pages offer profiles, or a “Rolodex”, of funders with missions that are closely aligned with the NextCycle Washington principles.

METHODOLOGY:

NextCycle Washington began compiling a list from its extended network of organizations and institutions working in the circular economy in Washington, as well as in other states with NextCycle programs (Michigan and Colorado). We further added to this list through desktop research and informal conversations with some of our closest partners who have extensive knowledge of the funding landscape. The initial list was narrowed to approximately 35 funders who:

- Appeared on initial review to have close alignment with NextCycle Washington principles.
- Fund organizations based in Washington.
- Were available for interviews or who had sufficient information available online to complete a robust profile.

After further research, several organizations were eliminated for either lack of information or alignment, and several others, such as federal agencies offering Small Business Innovation Research (SBIR) funding were combined (see the SBIR profile). The result is 21 complete profiles. The guide includes an appendix of funders that, though not a perfect fit for this guide, may be of interest to some readers of this guide.