



Capital Types for Employment Social Enterprises (ESEs)

Access to the right kind of capital is essential for ESEs to sustain and grow both their business and social impact. This guide introduces the most relevant types of capital available to ESEs and helps you assess which ones align with your organization’s stage, needs, and goals. This guide will help you to:

- Understand the most common types of capital used by ESEs and what they’re best suited for
- Determine how to evaluate capital options based on your ESE’s financial maturity, readiness, and strategic goals
- Identify key tradeoffs and considerations to make smart, mission-aligned capital decisions

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Introduction

For ESEs, traditional funding alone often isn't enough to advance their social mission and support business growth. ESEs instead often have to consider a broad range of capital types that can help them build, grow, and sustain impact. However, not every type of capital is appropriate for any given ESE. There are important considerations to keep in mind if your ESE is accessing funding. This guide introduces five of the most relevant types of capital for ESEs and for each, you'll get a snapshot of:

- What it is
- What it's best used for
- Typical capital range
- Common sources
- Tradeoffs and key considerations

This guide will help you to better understand your options, and to take the next step toward the right capital strategy for your ESE.

Choosing the Right Capital for Your ESE

Finding and securing the right capital for your ESE depends first on evaluating your ESE's maturity stage and for what purpose your ESE needs capital. These two factors are good indicators for your what capital your ESE can reasonably attract, acquire, and manage (to include repaying as needed), ensuring that the capital can effectively support the ESE in its goals while minimizing risks.

As your ESE grows, the types of capital available to (and appropriate for) your organization will evolve. Earlier stage ESEs may depend more heavily on philanthropic or flexible funds to test and refine their model, while more mature ESEs can layer in debt or equity-like instruments to scale operations.

Where is Your ESE on the Maturity Path?

Understanding where your Employment Social Enterprise (ESE) falls on the maturity path is the first step in determining what types of capital are both attainable and appropriate for your organization.¹ This assessment helps clarify not only what your enterprise can attract from funders and investors, but also what it can realistically manage and repay based on its financial infrastructure, revenue predictability, and operational systems. Matching capital to readiness keeps both mission and financial performance on solid footing. The below provides a brief summary of what kinds of capital to consider depending on your ESE's maturity.

- **Fundamentals Stage:** It may be best to focus on grants, in-kind support, or owner's equity to build basic infrastructure. Capital that does not require repayment or complex reporting is ideal.
- **Early Stage:** You may want to consider recoverable grants or small loans to support pilot programs, key hires, or initial equipment needs. Lines of credit are also feasible.
- **Foundational Stage:** At this stage you may be ready for larger loans, credit lines, or revenue-based financing, especially if you're stabilizing operations and preparing for growth.
- **Growth Stage:** Look toward flexible capital instruments (e.g., patient debt or working capital lines) that support scaling while protecting mission.
- **Mature Stage:** At this stage you can explore hybrid instruments, equity-like capital, and strategic investments that support expansion, innovation, or replication.

¹ You can reference the "Introduction to the Financial Health Toolkit" guide to identify your ESE's approximate maturity level.



What Do You Need the Capital For?

Once you've assessed your ESE's maturity level and identified what kinds of capital you can attract and manage, the next step is clarifying what you need the capital for. This second consideration can help you to further refine which financial instruments are best suited to your ESE's goals.

When weighing options, consider both lenses together: your ESE's maturity (what you can likely attract and handle) and your capital purpose (what your ESE needs it for). Evaluating opportunities through both perspectives will help your ESE target capital that supports impact, maintains financial health, and strengthens the enterprise over time.

The below table will help you to determine what capital types may be the best fit for your ESE's needs or goals.

Category of Need / Purpose	Description of Purpose	Some Types of Capital that Fit This Purpose*
Operations	Capital needed to sustain daily enterprise functions, manage cash flow timing, and ensure stability of core operations. Used for payroll, vendor payments, inventory, or bridging timing gaps between revenue and expenses.	• Unrestricted Grants • Working Capital Loans / Lines of Credit • Bridge Loans • Recoverable Grants
Mission	Capital needed to fund the social impact components of the ESE model such as workforce supports, training, case management, and other mission-driven activities that are not fully funded through earned income.	• Restricted or Unrestricted Grants • Program-Related Investments (PRIs)
Growth & Innovation	Capital needed to fuel expansion, invest in new equipment or systems, enter new markets, or pilot innovative business or program models that drive long-term sustainability.	• Revenue-based Financing • Low-interest or Flexible-term Loans • Lease Financing • Recoverable Grants

*These are not comprehensive or prescriptive, but rather guidance as you evaluate the right capital fit for your ESE's needs

In practice, ESEs may combine capital across these categories — for instance, using a working capital loan (Operations) alongside a grant for workforce supports (Mission), or layering a recoverable grant with a flexible loan to expand into a new market (Growth & Innovation).

The following table provides a broader overview of common capital types, how they function, and when they're most appropriate.



Summary of Some Capital Types Relevant to ESEs

The following table provides a broader overview of common capital types, what they are typically best used for, and some tradeoffs to consider.

Capital Type	Description	Best For...	Typical Amount	Sources	Tradeoffs / Considerations
Grants	Non-repayable funds provided to support programs, infrastructure, or innovation. May be restricted or unrestricted, and often require detailed reporting.	Piloting new services, wraparound supports, capacity building, or offsetting operating deficits.	\$5K–\$500K+	Foundations, government, individuals, philanthropic intermediaries	Highly competitive; often restricted; renewal is not guaranteed. Strong fit for mission-aligned needs but rarely supports core business growth.
Recoverable Grants	A hybrid between a grant and a loan. Funds must be repaid only if certain success criteria are met, offering a flexible form of low-risk capital.	Testing revenue-generating ideas, early-stage growth, or proving a new model.	\$25K–\$250K	Philanthropic orgs, mission investors	Easier to access than loans, but still requires a repayment plan. Not always widely available. Good bridge toward more formal capital.
Lines of Credit	A flexible financing arrangement that allows an ESE to borrow funds up to a pre-approved limit, repay, and borrow again as needed. Interest is paid only on the funds actually drawn.	Managing short-term cash flow gaps, smoothing timing between expenses and incoming revenue or grants, covering payroll or urgent working capital needs.	\$25K–\$500K+	Community development financial institutions (CDFIs), mission-aligned banks, or local credit unions.	Provides flexibility but requires discipline in use and repayment. May require collateral or personal guarantees. Interest costs can add up if used for ongoing, rather than temporary, needs.
Loans (Debt)	Borrowed funds with a fixed repayment schedule and interest. Can be used for working capital, equipment, or other business investments.	Cash flow smoothing, purchasing assets, hiring, or expanding business operations.	\$50K–\$1M+	CDFIs (e.g., RIIF), banks, credit unions	Requires repayment regardless of performance. May need collateral or credit history. Builds credibility and discipline, but adds risk.
Revenue-Based Financing	Capital repaid as a fixed percentage of revenue over time, rather than in fixed installments. Payment scales with business performance.	Scalable earned revenue growth, launching or expanding a product or service.	\$100K–\$1M	Impact investors, specialized lenders	More flexible than traditional debt, but can become expensive over time. Not common in nonprofit settings; best suited for for-profit or hybrid ESEs.
Equity / Equity-Like Capital	Investment in exchange for ownership (or future revenue/exit rights). Very rare for nonprofits, but may apply to for-profit or hybrid models.	High-growth ventures, tech-enabled platforms, or replication models.	\$100K–\$2M+	Impact VCs, angel investors, program-related investments (PRIs)	Dilution of control, governance changes, and pressure for growth. Generally not a fit for nonprofit ESEs but viable for hybrids.



Appendix: Quick Reference – Mapping Capital Types to Maturity Stage and Category of Need

The following table provides a quick reference for the capital types discussed in this guide. This assists in reviewing – at a glance – which capital type(s) might be worth considering for your ESE's stage of maturity and need.

Key	
X	Very good fit for this maturity level or need
O	Potential fit for this maturity level or need
<Blank>	May not be a good fit for this maturity level or need

Capital Type	ESE Maturity Stage					Reason or Need for Capital		
	Fundamentals	Early	Foundational	Growth	Mature	Operations	Mission	Growth & Innovation
Grants	X	X	X	X	X	X	X	O
Recoverable Grants	O	X	X	X	X	X	X	X
Lines of Credit	O	X	X	X	X	X		
Loans (Debt)	O	O	X	X	X	X		O
Revenue-Based Financing			O	X	X			X
Equity / Equity-Like Capital				O	X		O	X