



# Catalyzing Change: Alternatives to Traditional Grantmaking

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**VENABLE** LLP

# ***Agenda***

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Introducing Cambiar Education

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Identifying the Issue: Limitations in Traditional Grantmaking

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Defining Terms: Recoverable Grants, Convertible Loans, and PRIs

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Strategic Deployment: Which Tools to Use and When

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Legal Analysis: PRIs, MRIs, Private Benefit, Fiduciary Duties

# HQIM Accelerator Fund

*Changing the Education  
Marketplace*

Venable - November 20, 2025



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WHAT IF? WHY NOT? FOR ALL.

## About Cambiar

**OUR VISION:** We are **changing the marketplace for education innovation** to prove undeniably that every student can thrive.

**OUR MISSION:** To spark **positive change by scaling bold ideas** that massively accelerate student success for ALL.

**OUR IMPACT:** We will drive life-changing impacts for over **1 million youth** by 2030 (with 30 million students engaged and 10 million positively impacted).

## The nonprofit developer current paradox: Impact vs. Capital

**THE CHALLENGE:** High-quality **nonprofit curriculum developers** with great potential for **positive, significant impact on student outcomes** consistently **struggle to innovate and scale**. Unlike for-profits, they have fewer financial vehicles they can use to successfully navigate market shifts, tech disruptions, and funding downturns.

# What if...

- ✓ We removed barriers for nonprofits, so that they can innovate and scale their high-impact solutions?
- ✓ We equipped nonprofits with the financial options and expertise refined in the for-profit sector to level the playing field and scale impact?

***We changed the education marketplace so that the most effective and groundbreaking solutions reached the most students?***

We will...

- ✓ Provide patient, long-term growth capital that nonprofits don't typically have access to, making competing at scale possible.
- ✓ Be a committed partner dedicated to the sustainability, scale, and impact of our investments through capacity building and R&E investments and advising.

***Enable at least 20 million students to experience high-quality instructional materials, leading to increased positive student outcomes, particularly for those at the margins.***

# Beyond Grants: HQIM Accelerator Fund's market breakthrough

1	<b>GROWTH CAPITAL</b>	<b>Current State:</b> No access to growth capital or equity-like investments to support scaling.	<b>Solution:</b> Provide long-term patient capital to fund the investments needed to successfully scale.
2	<b>ACCESS TO DEBT</b>	<b>Current State:</b> Standard debt instruments (beyond working capital lines) are not optimal.	<b>Solution:</b> Create new debt options that provide longer payback periods and under-market interest rates.
3	<b>ABILITY TO INNOVATE</b>	<b>Current State:</b> Lack of flexible capital prevents innovation and limits market competitiveness.	<b>Solution:</b> Fuel innovation through patient investment model, enabling nonprofits to compete with for-profits.
4	<b>HOLISTIC INVESTMENT</b>	<b>Current State:</b> Philanthropy has historically funded projects versus holistic business plans.	<b>Solution:</b> Fund and support business plans to expand impact, build organizational capacity, and advance research.



# Accelerating Impact: HQIM Fund Overview

Launched	2024
Current Size	~\$27.5 million in direct investments, with goal to raise at \$20 million+ in additional funds near term
Type of Investments	Below-Market Term Loans, Recoverable Loans, Convertible Grants, Operating Grants
Target # of Investments	6+, with goal to deploy to at least 7-10 as part of additional raises
2024-25 Focus	<ul style="list-style-type: none"><li>• Nonprofits only (initially)</li><li>• HQIM-focused - Core or in support of core curriculum</li><li>• Research-based with a path to (or secured) EdReports green</li><li>• Organizations on a path to sustainability minimizing reliance on philanthropy</li></ul>
Additional Supports	<ul style="list-style-type: none"><li>• <i>Technical Assistance and Capacity Building</i></li><li>• <i>Efficacy and Impact Studies</i></li></ul>

**We are reimagining nonprofit financing to  
accelerate student impact.**

# Reimagining Nonprofit Financing

*Sustainability and scalability in the HQIM industry require patient, long-term growth capital that nonprofits don't typically have access to, making competing at scale challenging. The HQIM Accelerator Fund is moving beyond the status quo. We're deploying a new hybrid model that includes both recoverable capital and traditional philanthropy.*

# Our Financial North Star: Sustainable Reinvestment

## Capital Recirculation, Not Extraction

Our **goal is to recover 100% of invested capital (excluding grants) within 8 years**. Every incremental dollar is immediately redeployed to fuel technical assistance, creating a perpetual fund for ecosystem growth.

## Beyond Projects: Investing in Long- Term Vision

We are not funding temporary projects; we are investing in organizational sustainability and the **long-term vision of our partners**. Like an equity investor, **we share the risk and the reward**: if our partners exceed expectations, so does the Fund.

# The Hybrid Advantage: Customized Layered Funding

Investment Options			
Traditional Grants	Recoverable Grants	Debt	Success-Based
<p>General Operating or Restricted Grants with no expectation of financial return.</p> <p>Typically, impact only.</p>	<p>Expectation for return of face value of grant at some point in the future.</p> <p>Typically, no recourse in the event of inability to pay.</p>	<p>Term-based debt with agreed-upon interest rate and repayment schedule.</p> <p>Draw-down facility (revolver).</p> <p>Unsecured or secured loans.</p>	<p>Arrangements that allow for sharing of revenue / income in order to effectuate repayment of investment up to an agreed-upon cap (could include a return on investment).</p>
Less common vehicles for HQIM nonprofits			

## OUR APPROACH

### Layered / Hybrid

Leveraging and layering of multiple investment elements tailored to needs:

- Convertible grants
- Debt with success-based repayment schedules
- Recoverable loans
- Investments that include grants, debt, and success

# Stackable, Flexible, and Patient Investment Vehicles

*Investment vehicle options being utilized include the following:*

1 OPERATING GRANTS	2 CONVERTIBLE GRANTS	3 RECOVERABLE LOANS	4 TERM LOANS
<b><i>Traditional Grants</i></b>	<b><i>Convertible to Grant or Revenue Share</i></b>	<b><i>With Recourse and Revenue Share</i></b>	<b><i>Long-term; Low Int. + Revenue Share</i></b>
Grants will still be given without expectation of return, based upon impact potential and alignment with Cambiar's objectives	0% interest loans; convertible to operating grants if metrics achieved  Partially recoupable after 5 years if metrics not achieved via revenue-sharing agreement	<u>Metrics Achieved:</u> 0% interest with Principal repayment years 5-8  <u>Metrics Not Achieved</u> Principal repayment restructured to higher revenue share years 5 -10	5-Year Interest Only (3%) Principal Repayment Years 6-8 Revenue-Sharing Years 6-10
Target non-revenue-generating initiatives that drive meaningful impact	Target organizations with developing earned revenue base (forgiveness if key shorter-term milestones are achieved)	Target organizations with developing earned revenue base (forgiveness if plan is missed)	Target organizations with debt capacity and existing earned revenue models

# Mapping Investments to Mission and Maturity

	Organization Stage	Investment Purpose	Return Profile	Investment Options
1	<b>Start Up</b> <i>Early Pre-revenue</i>	Product Build Market Test	High Risk	Operating Grant
2	<b>Start Up - Phase 2</b> <i>Early Traction and Earned Revenue</i>	Product Enhancement Initial Infrastructure Build	High Risk ( <i>&lt;start up</i> )	Operating Grant, Convertible Grant, Recoverable Loan, +Success Based
3	<b>Growth</b> <i>Growing Traction &amp; Earned Revenue</i>	Product Enhancement Infrastructure Scale Competition	Medium Risk	Term Loan, Convertible Grant, Recoverable Loan, +Success Based
4	<b>Mature / Renewal</b> <i>Track Record, Revenue Base, Facing Market Headwinds, Earned Revenue</i>	Product Enhancement Infrastructure Scale Competition	Medium Risk	Term Loan, Recoverable Loan, Operating Grant, +Success Based

**We provide more than capital. We are committed partners dedicated to the sustainability, scale, and impact of our investments.**



# The Strategic Edge: Capital + Expertise

We are a **strategic accelerator**. Leveraging **unparalleled sector knowledge and portfolio insights**, we deliver tailored technical assistance and connect leaders with a **network of experts**. We also pool resources to fund **critical, high-value research and evaluation** that elevates the entire ecosystem and accelerates organization impact.

# The Path to Impact-First, Capital Recirculation

1

**CAPACITY BUILDING:** Our Cambiar HQIM Diagnostic Tool pinpoints the highest-leverage capacity gaps that unlock efficiency and impact. We use the resulting data to immediately activate Technical Assistance funding and expert coaching.

2

## DEAL SOURCING & SCREENING

- Sourcing and vetting potential target investments
- Initial impact and alignment screening
- Continuous ecosystem engagement

3

## DILIGENCE

- Conducting detailed financial diligence
- Calculating repayment capacity
- Determining suitable investment options
- Conducting legal, tech, and operational due diligence

4

## NEGOTIATION & EXECUTION

- Drafting the term sheet
- Negotiating investment terms and covenants
- Finalizing investment agreements

5

## PORTFOLIO MEASUREMENT & OPTIMIZATION

- Monthly coaching calls
- Quarterly performance monitoring
- Annual financial review and risk assessment
- Proactive remediation planning

6

## RESEARCH

- Oversee rigorous, efficacy and impact studies (in partnership with Mathematica)
- Generate cross-org insights via a common research template with shared questions

# Pinpointing Capacity Gaps for Maximum Impact

Nonprofits often fund the wrong problem. **Our Cambiar Capacity Diagnostic Tool pinpoints the highest-leverage capacity gaps that unlock efficiency and impact.** We use the resulting data to immediately activate Technical Assistance funding and expert coaching, ensuring resources are never wasted.

# Unlocking Impact: Our Capacity Diagnostic Tool Categories

## **Governance & Leadership**

How aligned, engaged, and experienced is the board and leadership?

## **Strategy**

How well articulated is the mission, vision, and go-to-market approach?

## **Measurement, Learning, & Evaluation**

Is there a research strategy that will demonstrate Tier 2+ levels of evidence?

## **Financial Sustainability**

1. *Financial Management*: Is there appropriate financial oversight?
2. *Scaling/Diversification*: Is there a diverse revenue stream? Is the organization overly reliant on one funder/revenue stream? Does scaling strategy increase revenue and decrease costs over time? What is partnership / distribution strategy?

## **Branding, Marketing, Sales, & Strategic Comms**

Are you optimizing your organization's branding, messaging, product marketing, and channels accordingly?

## **Rapid Learning Cycles & Change Management**

How quickly does the organization learn and iterate to optimize impact, product-market fit, go-to-market strategy, etc?

## **Human-Centered Design**

Is the product/service (co-)designed for those who have not been well served historically?

## **Human Resources**

Is staffing optimized to meet current and future organizational needs?

## **IT and Technology**

Do you have the appropriate tools, systems, and security in place that allow you to reach your scale, sustainability, and impact goals?

## **Emerging Capacities and AI**

How prepared is your organization to develop new capacities to adapt to changing market dynamics (i.e., AI derivatives)?

## **Legal**

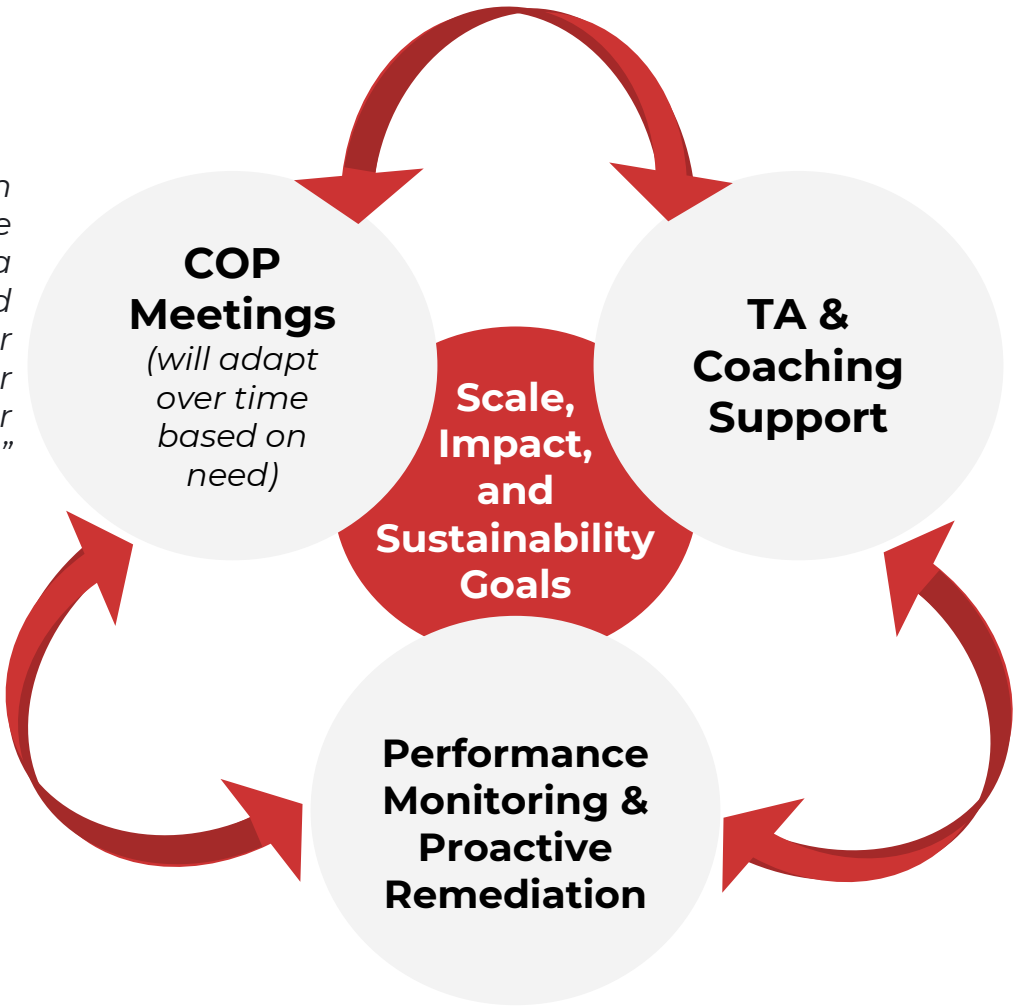
Do you have the right IP and legal protections, given the current environment?

# Diligence Funnel: Exploratory to Confirmatory

HQIM Accelerator Fund Due Diligence				
Deal Team Direct Focus (Exploratory)		Confirmatory Due Diligence		
Commercial & Mission Alignment	Management	Financial	Legal	Tech / Product
<ul style="list-style-type: none"> <li>• Market position and growth objectives</li> <li>• Quality and mission</li> <li>• Earned revenue base and potential for growth</li> <li>• Use of funds</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership team evaluation</li> <li>• Experience mix across leadership (past experience in similar roles)</li> <li>• Background checks (as appropriate)</li> </ul>	<ul style="list-style-type: none"> <li>• Business model review with identified risks and opportunities</li> <li>• Review of historical financials (cust. conc., ARR, run-rate expenditures, on- and off-balance sheet obligations, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Key contracts</li> <li>• Litigation</li> <li>• Corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>• Tech stack</li> <li>• Roadmap</li> <li>• Engineering team (experience)</li> <li>• Vendor concentration</li> <li>• Information security</li> </ul>

# Integrated Success: Measurement, Coaching, & Collaboration

*"This community of practice has been very impactful for our organization. The number one reason is that we've built a strong foundation of trust and shared opportunity with the other organizations. It has also validated our goals and strategies, giving us greater confidence in the decisions we make."*



*"The combination of the COP and the investment we are closing on is very substantial in its impact."*

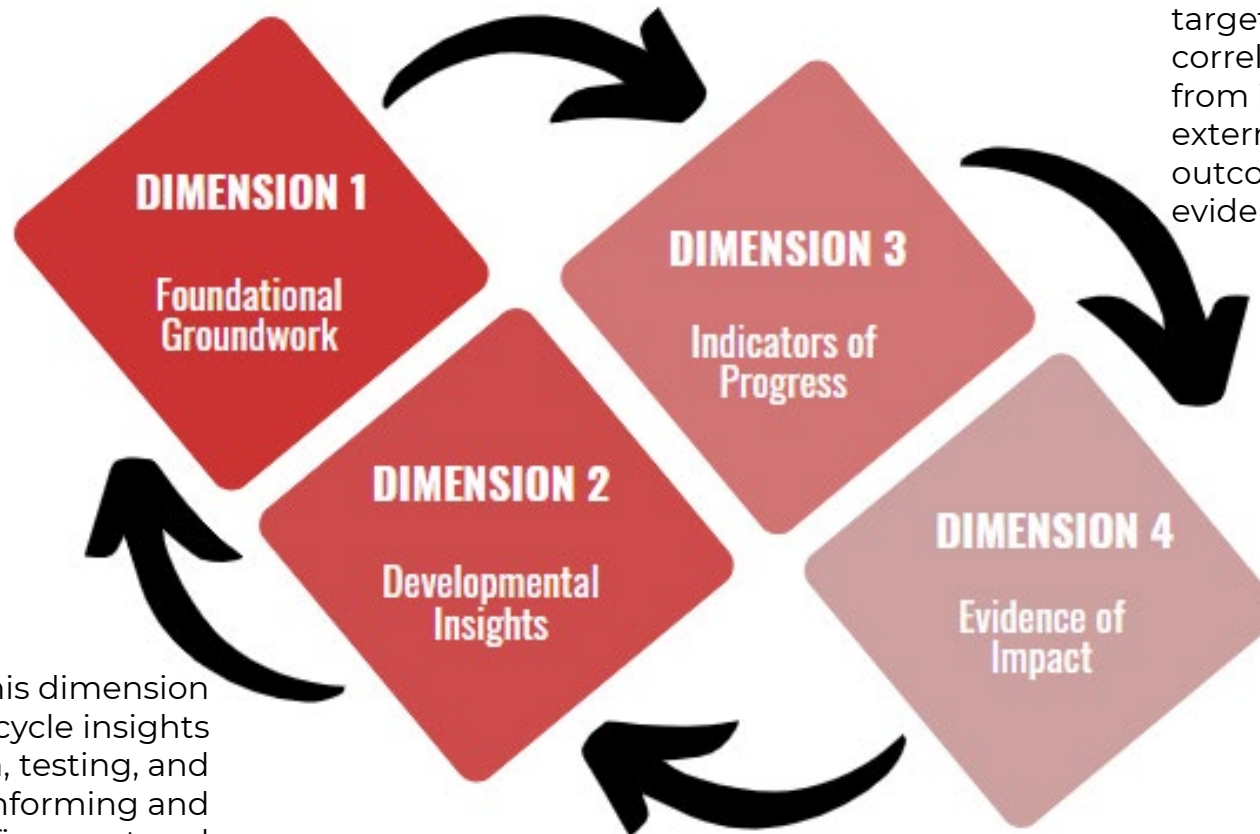
# The R&E Imperative: Our Path to Validated Impact

## DIMENSIONS OF R&E MATURITY

### Foundational Groundwork:

Ensure organizations are fully prepared for R&E by establishing the underlying research base, clarifying the Theory of Change/Logic Model, defining metrics, and building essential data infrastructure and staff capacity.

**Developmental Insights:** This dimension generates internal, rapid-cycle insights through user research, testing, and surveys, specifically informing and accelerating product refinement and continuous service improvement.



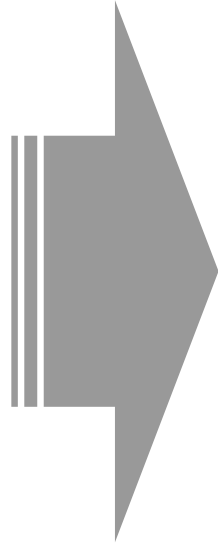
**Indicators of Progress:** Conduct targeted, often smaller-scale, correlational research studies—ranging from internal analysis to supported external designs—to validate initial outcomes and provide early, essential evidence of impact.

**Evidence of Impact:** The goal of this final dimension is to generate independent, causal evidence of impact through a study designed with the rigor (meeting WWC Standards) required for public availability and peer-reviewed publication, validating outcomes and demonstrating measurable effectiveness.

# Evidence of Impact: Partnering for Tier II Evidence

## CHALLENGE

Despite being consistently named as a priority for purchasers, third-party evaluations that demonstrate ESSA Tier II evidence status have been outside the reach of curriculum providers due to the complexity, cost, and duration of quality research.



## SOLUTION

Cambiar will spearhead research and evaluation of key investments to help nonprofit HQIM providers to understand their impact, distinguish themselves in a crowded marketplace, and identify areas for future investment.

- Fund and oversee the contracting and coordination with a common research partner to lead rigorous impact and efficacy studies of 6-8 product investments.
- Ensure a common template with clear research questions across studies.
- Build a system for making comparisons between evaluations.



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# Legal Analysis

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# ***Legal Issues***

When utilizing alternative grantmaking techniques with other charities, the primary legal considerations will be “deal terms.”

From one 501(c)(3) organization to another, no material concerns regarding charitability, private benefit, etc.

More significant issues arise once the recipient is either (i) a for-profit entity or (ii) a non-charitable entity.

# ***Program-Related Investments (PRIs)***

Fundamentally a private foundation concept – exception to excise tax on jeopardy investments.

In practice, similar framework used by public charities as well.

Key elements:

- Primary purpose is to accomplish one or more charitable outcomes.
- No significant purpose of income production or asset appreciation.
- No use to influence legislation or intervene in political election.

## ***PRIs (cont.)***

### **Primary Purpose Test:**

- The programmatic benefit of the investment must significantly advance one or more exempt purposes or activities of the charity providing the investment.
  - Think about how to measure impact.
- “But for” test – the investment would not have been made but for the relationship between the investment and the organization’s charitable goals.
  - Economics take a “back seat” to mission.

## ***PRIs (cont.)***

### **No Significant Purpose Test:**

- Key question: Would purely profit-motivated investors be likely to make this investment on the same terms?
  - If yes, not a PRI.
- Look at various terms – expected return, risk profile, repayment schedule.
- This concept dovetails with the first test – it highlights the primarily charitable nature of the transaction.

# ***Mission-Related Investments (MRIs)***

Impact investments with economic terms that do not align with PRI tests – acknowledge a significant purpose of income production.

IRS Notice 2015-62 – foundation can take both mission-related factors and economic factors into consideration when making investments.

- Not a breach of fiduciary duty to exchange some amount of financial return for mission impact.
- “Ordinary care and business prudence” is not a purely financial concept.
- Can consider relationship between a particular investment and the organization’s charitable purposes.

# ***Private Benefit Considerations***

Inherent to Section 501(c)(3) status – no impermissible private benefit.

“Operational” test – cannot benefit private interests “more than incidentally.”

Two-part test: Look at both qualitative and quantitative factors.

## Private Benefit (cont.)



### **Qualitative analysis:**

Is the private benefit a necessary concomitant of achieving a charitable purpose?

Private benefit is incidental to the dominant charitable purpose and an unavoidable by-product/consequence of carrying out the charitable activity.

Unavoidable result rather than a direct aim or substantial purpose.



### **Quantitative analysis:**

Measure the amount of private benefit relative to the public benefit.

Private benefit should be insubstantial relative to the public benefit.



# ***Fiduciary Duty***

A charity's board, and its staff, must make decisions and undertake activities in furtherance of the best interests of the organization.

Charter; IRS application for tax-exempt status

Accountability to funders – especially restricted gifts and grants

Oversight by regulatory bodies – IRS, state attorney general

# ***Deal Terms***

Some key deal terms to consider:

- Loans – Market rate of interest, below-market, or interest-free?
- Loans – Flexible repayment schedule?
- Intellectual property – Usage rights for grantor?
- Targets – Carrot or stick?
- Branding and recognition rights
- Tax – Any UBIT considerations?
- Ongoing engagement – Board representation, advisory council, reporting

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# Questions?

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