

Novel Approach Helps Foundations Make Crowdfunding Loans To Creative Economy Businesses

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Though not an artist herself, Kristina Hale had a long-time fascination with the arts. She also was an inveterate puzzler. But about eight years ago, she got to thinking about what she saw as a lack of Black representation in the puzzle industry. Then she came across work by a painter that she thought would make a great puzzle.



Kristina Hale
Adode Media

With that, she came up with an idea: puzzles that featured work by artists of color. Six years ago, she started making small batches of puzzles. Then, in 2018, she formed Dope Pieces Puzzle Company, an Atlanta-business, to sell her products. Orders really took off after interest in Black-owned businesses rose following the murder of George Floyd.

But keeping up with demand and expanding to more locations was still tough. Then, Hale learned about Honeycomb Credit, a loan crowdfunding platform, which had a new initiative that linked foundation investment to campaigns. She ended up raising around \$30,000 from

44 investors, including \$10,000 from Souls Grown Deep Foundation and Community Partnership. “I’ve been able to buy puzzles, bring on another staff person and rebrand,” says Hale. “It’s been a very significant investment.”

Loan Participation Fund

Hale is one of the first entrepreneurs to benefit from a new initiative called the Loan Participation Fund. Launched by Upstart Co-Lab, an impact investing nonprofit focused on the creative economy, and Honeycomb, it provides a way for institutional investors to participate in crowdfunding campaigns. “When companies raise their minimum goal, that unlocks \$10,000 from a participating foundation,” says Laura Callanan, founding partner of Upstart.

Three foundations, all part of Upstart’s impact investor community, have committed to invest \$600,000. Souls Grown Deep and the A.L. Mailman Family Foundation will invest in Black-owned businesses in nine southern states. The Jessie Ball duPont Fund will focus on entrepreneurs in seven Northeast Florida counties, with an emphasis on low-income communities, women or people of color.

Most of the businesses that have raised capital through the Honeycomb platform since 2018 are creative economy businesses such as cafés, breweries and fashion brands that also play important roles in local economies. Plus, 46% have been in low-to-moderate income communities, 49% were woman-owned and 24% were BIPOC-owned.

Nonprofit FJC is providing operational support for the foundations and is acting as a fund intermediary.

A Loan Crowdfunding Platform

George Cook, CEO and co-founder of Honeycomb, whose family has run a small community bank in rural Appalachia for 130 years, worked for many years as a consultant to financial services companies. During that time, he watched as big banks gobbled up more and more little guys and he worried that was limiting the amount of capital available for loans to small businesses.

Then, in 2017, he and juice shop small business owner Ken Martin discussed ways to bring more community-focused capital back into the equation for independently owned small businesses. Eventually, they hit on an idea: build a crowdfunding platform for loans allowing participants to invest in community ventures. “As the business grows and pays back the loan, investors know their money is going to work in their own community,” says Cook. “And as businesses flourish in their own community, investors can benefit from that.”

They issued their first loan in 2018. To date, they've worked with over 200 businesses. By tapping not only Honeycomb's analytic capability, but also Cook's deep understanding of small business risk, the platform is able to raise money for companies unable to get loans from banks. Half of the businesses on Honeycomb were turned down for an SBA loan or by a CDFI.

Leveling the Playing Field

Callanan got together with Cook in 2020, when she learned that 80% of businesses on Honeycomb's platform were creative economy ventures. Cook, as it happened, had already been exploring ways to encourage institutional investors, especially place-based foundations, to help provide loans to businesses on the platform, especially those in underserved communities having trouble meeting their stretch goals on the platform. "We were looking for a way to level the play field," he says.

For her part, Callanan understood that, while many foundations understand the impact small businesses can have on communities, they face a great many logistical challenges vetting those companies and managing the relationships. Putting their heads together, Callanan and Cook came up with a plan. Each foundation would write one check, put it into an account and specify the types of businesses they wanted to target. Then Honeycomb, which would receive a closing fee of 6% to 8% on each loan, would find and vet those ventures and help get their communities involved.

Each participating foundation starts with a commitment of at least \$250,000, making \$10,000 loans to up to 25 companies. To get that money, each campaign has to reach a minimum target. That's done through the usual crowdfunding strategy, by reaching out to customers and others in their community, but with help and guidance from Honeycomb. "The foundation's money doesn't actually go to work in the company until the crowd gives it their thumbs up," says Callanan. The first investment, from Souls Grown Deep, happened early this year. Five businesses in total have received investments.

Net of administrative fees, foundations are likely to get returns of 8% to 9%, according to Callanan. "We believe in the impact of companies getting access to capital, but foundations want to know they're making a good investment at the same time," she says.