FOUNDING TO GIVE

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Summary

We believe that starting a for-profit company can be one of the most impactful career paths a person can pursue, through generating significant philanthropic donations and possibly through creating positive flow-through effects of the business founded. Our current model puts the expected value of pursuing this career path in terms of donations to effective charities per year (for people who are a great fit for it) at 1M USD, putting it in the ballpark of the highest-impact careers.

This program has been designed to take away some of the key early barriers to pursuing an entrepreneurial career, such as lack of co-founders, lack of ideas, or lack of (structured) time to develop a business idea to the point it becomes investable. This report details our thinking on how to make an impact by founding a business and how our program will work. We believe this program can provide momentum for talented entrepreneurs in our community to start businesses that can have a large positive impact on the world, specifically via donations of personal earnings. We also hope it can provide learnings and inspiration to others who might follow in their footsteps in search of the most impactful for-profit models.
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Background to this research

AIM’s mission is to create an ecosystem of people, funding, and projects aimed at tackling the world’s biggest problems. So far, AIM has done this through its classic Charity Entrepreneurship Incubation Program, the Grantmaking- and Research Training Program training, as well as its Effective Giving Incubation program. This report explores whether and in what way it might be impactful for AIM to support people considering having a positive impact via founding for-profit companies.

The resulting for-profit program is a pilot and is a bit more speculative in its theory of change than our other programs. We hope that through this program, we can create a more solid foundation of data that can help us further develop our thinking on assessing the impact of launching for-profits. We’re hoping that, for now, this document can serve as a summary to help prospective founders and other participants of the for-profit program understand why we think this is an impactful opportunity. It also serves the purpose of public accountability by explicitly stating the theory of change we envision for this program.

Acknowledgments

We are grateful to all the experts who so kindly gave their time and thoughts in interviews and surveys.
1. **Why do we think it might be impactful to start for-profits?**

Broadly speaking, there are two plausible ways in which we think a for-profit entrepreneurship career path can achieve impact.

1. As a “**Founding to Give**” career path, meaning simply that one can start a company, earn money, and give part of the profits to charity. Nonprofits generate the impact, but the funding is raised through a for-profit. An example of a community of entrepreneurs who make an impact this way is **Founders Pledge**. When entrepreneurs take a Founders pledge, they promise to donate a percentage of the money they earn through selling their shares. Collectively, the members of Founders Pledged have pledged 10B USD, of which 1B has already been donated. Many members of the **Giving Pledge** gained their wealth via founding for-profit. Examples include

   a. **Dustin Moskovitz** (co-founder of Facebook and Asana), who founded the Open Philanthropy project in collaboration with GiveWell and pledged his entire wealth of 11B USD - 3B USD of which has already been donated.
   b. **Sara Blakely**, founder of Spanx, has pledged 50% of her wealth and has supported women empowerment projects across a range of areas.
   c. **Melanie Perkins** founded Canva with the explicit intention to build wealth and then do good with that wealth to solve some of the world's biggest problems.
   d. **Bill Gates** founded the Bill and Melinda Gates Foundation, one of the largest philanthropic actors in the world.
   e. **Warren Buffett** aims to donate 99% of his wealth to philanthropy, including via the Bill & Melinda Gates Foundation.

2. By creating “**positive flow-through effects**,” meaning that part of the impact is generated by the company itself, through the business it does. We will address this in more detail below, but we think a broad range of companies could fall under this category, including some that do not outwardly take an impact angle. Examples might include
a. Companies that reduce costs for basic goods of living in Low- and Middle-Income countries, such as Wasoko
b. Companies that facilitate international remittances, such as Sendwave
c. Companies that provide access to financial services through mobile money, such as MPesa
d. Companies that provide inventory management solutions, for example to hospitals and pharmacies like mPharma, thereby preventing stockouts of life-saving medicines
e. Companies that improve health care services, such as Ping An Good Doctor

The “Founding to Give” route has a solid theory of change and strong evidence to support it, albeit still being an entrepreneurial endeavor and thus hits-based. The “Positive flow-through Effect” approach has been researched less and thus is a bit more speculative, but we still believe it could be a promising avenue for impact. The list of Top YC Companies, for instance, shows examples of companies that are both profitable/scalable and have plausible positive flowthrough effects, showing that the two paths are not mutually exclusive. In a sense, this represents the best of both worlds - companies that generate substantial impact both through their activities as well as donations. In both cases, we believe that scalability and profitability are key ingredients for success because without scale, both donation potential and positive flowthrough effects remain small. A common failure mode for traditional social enterprises is to pick impactful but not scalable ideas, which is something this program will try to avoid.

**Narrative examples**

Ben West is a software developer who was previously donating part of his income to charity. He was inspired by an 80,000 hours article about tech entrepreneurship to pursue entrepreneurship as a path to impact. He estimated that founding a start-up would multiply his expected income by approximately a factor of 20. He started a company that provided cloud-based solutions to healthcare providers, Health eFilings, was successfully acquired. You can read more about his experiences and learnings in this AMA or here.
The Case for “Founding to Give”

We define “Founding to Give” as starting a company with the express purpose of the founder(s) donating money to effective nonprofits. As indicated above, nonprofits generate the positive impact, but the money is raised through a for-profit. In this sense, it is similar to other “Earning to Give” strategies.

Possible Donation Mechanisms

We considered several possible donation mechanisms and pledges

A. Donating a % of the company revenue or profits, for example, donating 10% of the revenue of any item you sell, or donating 50% of the profits made at the end of the year.

B. Donating a % of the founder shares exit value, whereby the founder donates a certain % of the money they earn when they sell their company shares, for example, when the company is sold or goes public. It’s important to note that this would only be the founder’s personal share exit value and thus is only a portion of the total valuation of a company.

C. Donating a % of your salary, such as the Giving What We Can 10% Pledge or the Life You Can Save Pledge.

Ultimately, we determined that option B of donating a % of founder exit value felt most promising for long-term impact. This is the same strategy that Founders Pledge focuses on. In short we are most excited about this option because:

- We currently believe that the value of founder shares can scale more easily than the personal salary of a founder. Particularly in the early years of a company, company valuations can grow rapidly even when there are limited direct profits or the founder’s salary is low. We also feel in case of high exit values, a higher % can be donated (which is where much of the expected impact comes from).

- Pledging a % of your own exit money as a founder is a personal decision on your own finances, and, unlike donating part of the revenue or profits of a company, does not affect the overall competitiveness of a company and is not subject to pressures from shareholders. An exit pledge seems considerably less likely to affect the ability of the company to compete in a market, raise overall investment, and grow. It does not reduce the returns investors would expect.
From the VC investors we have spoken to, we feel this sort of pledge would not negatively affect the companies’ competitiveness.

- This type of pledge is a good fit for very early-stage organizations and does not require a specific idea or monetization plan to be applicable. Given that we plan for AIMs focus on being on the earliest possible stage (pre-incubation), as what we are best at is matching co-founders, training pitching, and other skills that come in very early. A pledge that is cross-applicable to a wide range of founders at the very early stage is particularly important.

The Resulting Exit Donation Pledge

We are asking all program participants to pledge a part of the money they earn when selling their founder shares (Founder Exit Value), for example when they go public or sell their company. This money is pledged to be donated to effective charities of the founders’ choice.

We have currently set as a minimum pledge %

- 0% of the first 1 million USD of Founder Exit Value
- 50% of any Founder Exit Value above 1 million USD

This percentage was based on user interviews and is in line with the Giving Pledge. We will ask participants to commit to this pledge before entering the program.

Participants are free to set the numbers higher if they wish or introduce additional ‘tiers’ (e.g. “90% of any Founder Exit Value above 10 million USD”). We expect many founders will also take the 10% GWWC pledge (that applies to all earnings, including exit values).

Estimating Impact through Exit Donation Pledges

This section will provide a quantitative exploration of the expected impact-adjusted value of donations that one can generate through pledging exit value. Our current estimates align with other past estimates, resulting in an expected effective donation amount of about 1.1M USD per year per cofounder.

The expected value of an Exit Donation Pledge depends on several key variables:
● The expected chance of a CE-supported cofounder getting into YC
● The expected chance of actually exiting the company
● The expected valuation of the company at the moment of (founder) exit
● The expected % of shares the founder team still holds at this time
● The % of exit money that is pledged for donation
● The effectiveness of these donations
● The number of years it takes to exit
● The number of founders per company

Multiplied by each other, these provide the **expected, effectiveness-adjusted Exit Donation Pledge** per founder.

A more sophisticated model, in theory, could also take into account

- Cofounder counterfactual/opportunity cost
- Time discounting of donations made
- Impact of companies that get into other incubators outside of YC.
- Impact of smaller exit values (right now, only the largest are used in the model).

In this report, we have tried to estimate this number based on data from Y Combinator, one of the most successful startup accelerators and likely the ideal next step for the participants of this program. We believe that Y Combinator companies have historically performed substantially better than their counterparts from other startup accelerator programs and that the Y Combinator accelerator program probably represents the best option for an impact-oriented startup founder looking to grow their company. Additionally, prior work investigating the success and growth of Y Combinator companies (see [blog posts from Jared Heyman](https://www.ycombinator.com/post/2022/01)) and the potential of the Y Combinator accelerator program for impact-oriented entrepreneurs (see [West 2022](https://www.ycombinator.com/post/2022/01)) provides a solid evidence base from which to conduct this analysis. However, we do not believe that the Y Combinator program is the only option for individuals considering this career. In the future, we may expand this analysis to evaluate data from other incubators.

We focused our analysis on Y Combinator’s “Top Companies”, valued at over $150M, because data is more available for these highly successful companies and because we expect these hits to carry most of the expected value of this path. However, there is
also likely significant value created by earnings and donations from smaller exits. We included a more detailed version of the analysis, including step by step estimation, in the appendix.

- The expected chance of a CE-supported cofounder getting into YC - which we estimated as 40% on average
- The expected chance of exiting the company, which we estimated at 14%
- The expected valuation of the company at the moment of (founder) exit, which was based on a distribution of YCombinator Top Valued Companies averaging 2.2B with a median of 375M million USD.
- The expected % of shares the founder team still holds, which averaged at 22%
- The % of exit money that is pledged for donation, which we assumed at 50% of every exit above 1 million
- The effectiveness of these donations, which we estimated at 80%
- The number of years it takes to exit, which averaged at 6.8 years
- The number of founders per company - put at 2.25 founders

The resulting distribution below shows the expected value of effective donations per entrepreneur going through the program.

The distribution is fairly heavy-tailed as one might expect for a hits-based approach like entrepreneurship (note the logarithmic scale). The numbers are still quite promising in expectations, with an average of 1.1M USD in GiveWell equivalent donations per founder per year. The median is 130k USD per year and the 5th to 95th percentile range is 3k to 3.7M USD per year.
Creating positive flow-through effects

On top of the impact generated by donations, we tentatively believe that companies can generate substantial positive flow-through effects - if they are able to scale. A clear example of this could be Beyond Meat, a for-profit company. It creates flow-through benefits by reducing the number of animals farmed for human consumption. Other more subtle examples could include Wave, which facilitates access to financial services in emerging markets.

Projects in this group can compete from a for-profit perspective (i.e. be able to get into incubators like Y Combinator) and, if they succeed in scaling up, will create significant benefits outside of the donations generated. We believe it's plausible that very high company valuations can be combined with generating these flow-through effects.

For instance, a quick look at the list of top 100 highest valued Y Combinator companies reveals several that we can see as having possible positive flow through effects, e.g.

- **Modern Health**: a mental health benefits platform
- **Solugen**: a company that decarbonizes the chemical industry
- **Billion-to-One**: a company that provides cheap genetic testing for disease
- **Wave**: a company that builds affordable financial infrastructure for Africa

There are also some broad categories we feel are likely to generate ideas with positive flow throughs like this such as:

- Health Tech interventions (as an additional bonus of this area companies in this industry also seem to have a much shorter average time to exit)
- HR tech, and specifically technological solutions that aim at increasing the flow of people and money between countries (see also our report on platforms facilitating Labor Migration, which was written for our nonprofit program but might also provide some inspiration for a scalable for-profit business)
- Fintech and supply chain tech in LMIC countries that could, over time, reduce costs and improve the market efficiency, see also Wave Founder Ben Kuhns suggestions here.
Food tech and biotech, both areas with historically high average valuations and that seem unusually likely to have oversized positive flowthrough effects.

We’d also recommend taking a look at the list of companies that YC requests, some of which we believe could have large positive flow-through effects.

The case for this is more challenging to build than that of the donations generated because we currently lack rigorous data on these flow-through effects and their counterfactuals. Even though some impact-oriented enterprises have flourished and do regularly report on their impact, theories of change are typically longer or harder to measure, metrics are hard to compare across companies, measurement of impact is not always rigorous or independent, and often does not take into account crucial considerations such as counterfactuals or discounting adverse effects. For many companies we can see they likely do some good, but it is not evident what (kind of) companies could do the most good.

Jonathan Harris from the Total Portfolio Project has done some interesting work on finding the optimum between the impact of donations and generating flow-through effects by building models that can integrate financial returns and impact returns in single metrics. Though this work was done to aid the decisions of an investor looking to do impact investing, we believe similar models could be crafted for founders looking to compare a variety of options. However, particularly for businesses that have no track record yet, the impact estimates should be considered highly speculative.

Why we’re not focusing on social entrepreneurship (in a traditional sense)

As set out above, this program focuses on creating scalable companies, as we believe both donations as well as positive flow-through effects, require scale to achieve impact. In this program, we are not looking to found what we have previously referred to as ‘Double bottom line’ social enterprises, where companies have to make significant trade-offs between their impact and their scale or profitability, or cannot succeed without donations or grants, as we have seen many projects in this space struggle to gain traction and achieve impact. We are only excited about companies that can compete on standard capital markets with positive flow-through effects being an extra bonus instead of the key path to impact.
2. Why do we think AIM should launch Founding to Give?

Why we think for-profit entrepreneurship is a promising path

a) We believe this career path can raise a particularly high amount of donations

As set out in the chapters above, we believe this career path has the potential to raise a particularly high amount of donations. Our calculations also match those done by others in the same area. Exit values of companies are highly power lawed, which means that entrepreneurship is a somewhat “hits-based” strategy, but a median exit is still sizable, and the upward potential is very large. 1M USD in donations to effective charities per year makes this career path extremely competitive with even other very high-impact options.

b) Effective charities still have significant funding gaps

Over the last couple of years, many new highly impactful charities have gotten started to solve the world’s most pressing problems. However, as we have previously written about, there are still significant gaps in funding for these charities, which pose a significant risk to their survival and impact over the long term. Even many established highly impactful charities (in particular global health charities) have significant room to absorb more funding effectively (see AMF room for more funding as an example). We believe money raised through this program could be hugely impactful.

c) Diversifying funding sources increases the long-term robustness of effective charities

More than simply increasing the total amount of funding available, we believe that through programs like these, we can help diversify the funding sources for highly
effective charities. At the moment, funding for effectiveness-minded charities is concentrated in the hands of a few large donors. However, diversified donor bases are good for the health of individual organizations, to avoid being overly dependent on any one donor. Effective projects can still be missed by effectiveness-focused funders. This leaves room for other donors to fill in the funding gap. We hope that this program, alongside some of our other programs (such as Effective Giving Incubation) and other actors such as Founders Pledge, can contribute to this funder diversity.

e) We believe that this career path has a much higher (potential) absorbency than founding a charity

Related to the above - because of limitations in philanthropic funding in certain cause areas, only so many effective charities can be started per year in this space. In for-profit routes, however, lack of funding is much less of a constraint. We're hoping that if we can build our knowledge base on impactful entrepreneurship, we can create paths to impact for many more people.

f) We believe it’s valuable to create rigorous learnings around positive flow-through effects

We have very little available rigorous quantitative assessment of the positive flow-through effects of for-profit companies. AIM takes rigorous evaluation of impact seriously and is looking to work with field-leading experts in the field of M&E to build better measurements for nonprofit impacts. We feel this process and data could also be cross-applied to understand for-profit as a vehicle for impact. We’re hoping that the companies that are founded through this program will serve as case studies that we can assess going forward.

Why we think AIM is well-positioned to do it

a) We think AIM’s skillset might translate to for-profit entrepreneurship

AIM has a strong track record of launching highly impactful organizations and has industry-leading expertise in incubating and training charity founders. AIM also has a
solid network and pipeline of excellent applicants who we believe are a great fit for this career path.

User interviews suggested that the most important barrier to a for-profit career was finding suitable co-founders and being matched with them. We think it's plausible that our skills in selecting and matching co-founders will translate to this environment as well.

b) We believe we already attract people who are a good fit for this career path

AIM already receives many applications from people who have a highly entrepreneurial mindset and are very impact-oriented. We believe many of the applicants would make an excellent fit for the founder profile described in section 4. Starting this program means that we would be able to help more people start an impactful career, but also for a wider set of applicant profiles. For example, we believe this program might be a very good fit for people with specific domain expertise in fields such as biotechnology, technical skillsets in areas such as programming or machine learning, or expertise in growing and scaling organizations at a larger level.
Through several user interviews with founders and VCs, we’ve tried to identify the most pressing barriers that might be keeping promising applicants from pursuing this career path. We’ve designed the program to remove these key barriers:

Barrier #1: Finding a co-founder

- It can be very challenging to find a co-founder matching your ambition and your values. We’re looking to compose a cohort of exceptional impact-driven founders with a good balance of technical skill sets, entrepreneurial experience and moral ambition (see also our section “Founder Profiles”). For example, It would not be easier for most founders to meet 10+ other founders interested in a similarly ambitious 50% donation pledge.
- Through CE’s Incubation Program, we have experience matching people to talented and complementary co-founders. Our experience is that this co-founder pairing process is crucial to the organization’s launch and growth. Better people, better matched tend to lead to better outcomes.
- Throughout the program, participants will co-work in various pairings on various parts of their business plan, testing their fit with various partners. As the program progresses, they will narrow in on their best pairing and present a proposal for funding as a duo.

Barrier #2: Finding an idea

- Many people we believe to be great fits for this career path were excited about founding but did not have a clear idea of what to found. Others had been toying around with several ideas for a while but were unsure which would be most viable or impactful.
- We’re hoping this program will provide:
  - Inspiration for possible business ideas
  - Guided ideation to generate more options based on tried and tested methods from existing programs
Structured business development to transform the ideas into viable business models
- Models that can help weigh your options off in terms of feasibility, personal fit, and impact

- Although we will give some ideas and options these will not be as deeply researched or as strongly suggested as in our nonprofit program. We expect for-profits, on average, to pivot far more often and place a bit less emphasis on the idea over the co-founder fit compared to NGOs.

Barrier #3: Finding the time to work on your business

- Even with a possible co-founder or idea in mind, it can be challenging to work on a product while full-time employed.
- **AIM is willing to provide a stipend to work on a business plan that is investible** for 3 months, or until the time teams gather their first seed investment, whichever comes first.
- We think providing this support can help de-risk the career path and give people the opportunity to give it a real shot regardless of prior financial situation.

Barrier #4 Getting investment to launch

- Our quantitative modeling shows that on the long-run, companies that have gone through reputable accelerators (such as Y Combinator) are more likely to achieve high valuations and exits. We therefore have designed the program to increase the chances of being accepted at an accelerator. These often supply seed funding. Additionally, if there are convincing reasons not to apply to an accelerator, AIM has a small network of seed investors we can refer you to.
- To increase the chances of getting further investment, the program will provide access to a range of experts & mentors that can help you:
  - Getting your customer development and proposition very sharp
  - Working out your strategy and business model
  - Building a solid financial plan
  - Practice your pitch on investors
  - Turn this into a compelling slide deck
  - Provide support post-program
4. Founder personal fit

We believe many traits of a successful for-profit entrepreneur overlap with the traits of a successful nonprofit entrepreneur. Rather than looking for a specific age, experience, or formal credentials, we'd be looking for:

- **A deep dedication to doing as much good as possible.** We are first and foremost looking for people who would see this career step as a way to improve the world for humans and animals. We’re looking for founders who are intrinsically motivated to altruistic pursuits.

- **Evidence of an entrepreneurial attitude:** We’d be excited about candidates who have ample evidence of self-starting projects and a bias to action - people who might have started companies or nonprofits before, people who have spent their evenings working on building a product, or people who in other ways can illustrate that they’re excited to work on new things.

- **Ambition to make rapid progress and achieve results:** As an entrepreneur, you need to aim exceptionally high and be flexible enough to adapt if a strategy is not working. We’re looking for highly results-driven people.

- We’d be particularly excited about candidates who recognize themselves as **1 of these 3 founder types:**
  - **Technical specialists & Product Builders:** candidates with technical backgrounds, be it in physics, medicine, software development, machine learning, or any similar type. Many highly valued start-ups have founding teams that are technically skilled enough to build an (MVP) product.
  - **Domain experts:** candidates with 5+ years of experience in a particular industry who know what problems there are in the industry.
  - **Catalysts/Business & Operators:** candidates who know how to take a business from an idea to a product: for example, candidates who have founded companies or NGOs before, have experience in product or people management, or have very strong communication skills.

- **Candidates with a somewhat higher risk appetite.** Both nonprofit and for-profit entrepreneurship require a somewhat higher risk appetite. This career
path has a considerable potential upside, but there is a significant chance of failure. It’s important to note that most companies that do fail, fail in the first 6 months (3 of which AIM is covering the costs of). This program can help increase the chance of success. However, in the case you do fail, you may have lost 6 months but gained highly relevant experience. Most successful entrepreneurs have started companies that failed (and wear this as a badge of honor).

- **Candidates with logistical flexibility.** Not all, but many of the accelerators candidates might wish to apply to after this program require several weeks or months of in-person attendance. For example, if you get accepted into Y-Combinator, this will require you to attend in-person training for 3 months in San Francisco. Suppose you decide to pursue a for-profit idea with a customer segment outside of your current location, for instance, a mobile-money app in Kenya. In that case, spending some time in the target market is often recommended. Our program also includes 2 weeks in person in London, as this significantly improves cofounder matching.
5. Theory of Change

**Inputs**
- Recruitment team: Outreach to encourage talented individuals to apply to the program, rigorous vetting to identify the most promising applicants.
- Programs team: Improve & facilitate training program for ideation & business development.

**Outputs**
- Cohorts of talented participants who are a good fit for entrepreneurship.
- Incumbetees form strong co-founder teams & start a business.
- Incumbetees are able to distill feasible business ideas & write high quality plan for it.
- Founders pledge a part of their exit money.
- The business grows, forming a multiplier on investmeent.

**Outcomes**
- The proceeds are given to highly effective charity.
- The business has positive flow-through effects.
- Improved wellbeing for humans and animals.

**Assumptions and evidence**

1. **Assumptions:**
   - Our existing network will provide enough highly talented individuals who would be a good fit for entrepreneurship.
   - Evidence: We've identified the first handfuls of exceptional fits from our pools, amongst which several have founded before and some have already gone through incubators such as YCombinator.

2. **Assumptions:**
   - Our vetting process accurately identifies the most suitable applicants for for-profit entrepreneurship.
   - Selected co-founders wouldn't have had a greater impact otherwise.
   - Evidence: Our scores of applicants during the vetting process are 0.7 correlated with internal estimates of charity impact. It is unclear whether this translates to for-profit entrepreneurship.

3. **Assumptions:**
   - We can generate a training program that helps craft an initial business plan that can raise funds.
   - Evidence: We have been able to design a program for non-profit entrepreneurship.

4. **Assumptions:**
   - Facilitation leads to strong combinations of co-founders & ideas.
   - Teaching equips participants with the knowledge & support they need to make smart business plans & acquire seed funding.
   - Evidence: 62% of participants of our non-profit program founded after the last 3 programs. Unclear to what extent this applies to for profit.
   - We have no data available on fundraising ability after the program.

5. **Assumptions:**
   - Founders are willing to pledge a part of their exit money.
   - Evidence: User interviews indicated high willingness to pledge; it is possible to select for this willingness.

6. **Assumptions:**
   - Businesses founded through are program are successful.
   - The company actually makes an exit.
   - Founders actually take the founders pledge.
   - Evidence: Average success rates of.

7. **Assumptions:**
   - When an exit is made, the proceeds are given to highly effective charities.
   - Evidence: "FP evidence on effectiveness". However, we feel it is possible that if founders are selected for their impact-orientedness, this % might be higher.
### 6. Risk analysis

<table>
<thead>
<tr>
<th>Risk</th>
<th>Explanation</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The companies fail</td>
<td>If the companies started do not make an exit, or make an exit at a very low valuation, no funds are donated.</td>
<td>To a certain extent, this cannot be prevented. The impact assessment assumes that some companies will inevitably fail and the founders will not make an exit, as seen in the section on 'success rates'. Nonetheless, the expected value of this career path remains relatively high. However, to give all startups the best possible chance, we're leveraging existing incubators with an excellent track record of helping companies succeed, paying particular attention to those with a good track record of achieving a high number of exits relative to the number of companies that enter their incubators (high &quot;exit rate&quot;)</td>
</tr>
<tr>
<td>The companies might have a negative effect on the world</td>
<td>If the founders in our program start a company that ends up having a large negative direct effect, we've made the world worse, e.g. a tobacco company.</td>
<td>We filter our applicants strongly for good morals, and we do not support the founding of any business idea that is harmful or could easily be harmful. We therefore take a conservative approach to founding e.g. Biotechnology companies that in the wrong hands might be dangerous, and do not support or recommend founding companies with products that are harmful to your health, e.g. tobacco companies. We try to focus on industries we think have more positive flow-through effects, such as the ones mentioned above.</td>
</tr>
<tr>
<td>The founders might drift away from</td>
<td>Founders might start a company with a specific theory of</td>
<td>We filter our applicants strongly for good morals and give them the tools to better weigh off the impact they can have</td>
</tr>
<tr>
<td>their initial mission</td>
<td>change in mind, but over time, due to financial pressures or pressures from shareholders, might have to pivot to a more directly profitable business model.</td>
<td>through staying close to their original mission and the impact they can have through pivoting. For example, if a company originally focusing on LMICs finds pivoting to Western markets increases the valuation of their company by 50 million and makes it much more likely that they can sell their company, pursuing this path and donating their exit money proceeds to a very effective charity that battles poverty could still be the right path.</td>
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</tr>
<tr>
<td>The founders might not in the end donate their money to effective charities</td>
<td>Founders might start a company, succeed, but in the end decide not to donate their money.</td>
<td>Many founders in our application pool are considering equally or more self-sacrificing careers (e.g. founding a charity) and we filter our applicants strongly for a history of impact-oriented behavior. Even with this, we also ask founders to sign a legally binding commitment to donate to effective charities. We work hard to embed the founders in our AIM community as well as other charitable communities for the longer term.</td>
</tr>
<tr>
<td>AIM has limited for-profit entrepreneurs</td>
<td>AIM might not succeed in providing a structured process for ideation and validation.</td>
<td>There is much more content available overall with for-profit incubation than for charity incubation. There are a number of books, resources and programs that can teach useful skills. We have utilized these as well as co-designing our program with field experts and cross-applying applicable parts from our other programs.</td>
</tr>
</tbody>
</table>

Our biggest risk out of these is that the valuations are much lower than predicted or the follow-through rates in donations are much lower than expected. We plan on tracking both of these metrics carefully and determining the program's success based on these outcomes or aspects we feel strongly proxy these outcomes (e.g. a founder donating 10% consistently + getting a high valuation after graduating YC).
Appendix: Expected Donations Analysis

In this analysis, we only considered the expected value arising from the scenarios where founders launch a startup that goes on to be among Y Combinator’s (YC) “Top Companies” valued at over $150M. We chose this approach because data is more available for these highly successful companies and because we expect these hits to carry the majority of the expected value of this path. However, this modeling approach can necessarily only approximate a lower bound on the expected impact, as it excludes the expected donations from founders who launch startups valued at less than $150 million. The analysis is based on the work done by Ben West (2022), as shown in this post.

The variables we will be estimating in this analysis are:

- The expected chance of a CE-supported cofounder getting into YC
- The expected chance of actually exiting the company
- The expected valuation of the company at the moment of (founder) exit
- The expected % of shares the founder team still holds at this time
- The % of exit money that is pledged for donation
- The effectiveness of these donations
- The number of years it takes to exit
- The number of founders per company

Multiplied together, this yields the **expected value of effective donations for an entrepreneur going through this program.**

Chances of getting into YC

Base acceptance rate for Y Combinator is 1-2% of all applications. Base acceptance rate of the regular Charity Entrepreneurship Incubation Program is also about 1-2%. Both processes are looking for talented and entrepreneurial types, so we can assume that there is a correlation between the two, although it is also safe to assume that there are some differences. For the sake of this model, we are assuming an average chance of a graduate of the Founding to Give program getting into YC of 40% (see the distribution below).
The expected chance of achieving ‘Top Company Status’

At the time of writing, Y Combinator has funded 4,503 startups. Among these, 341 companies are listed among their top companies, suggesting a naive ‘Top Company rate’ of 7.6%. However, this includes companies recently incubated by Y Combinator and we expect that many newer companies may simply not have ‘had time’ to achieve top company status. This is supported by the below figure, which shows that the proportion of Y Combinator batches appearing in the “Top Company” list tapers off after the 2019 batches. We can note that this number is different than the ‘success rate’ of Y Combinator companies as a whole, which is estimated at approximately 50% – for example, data showed that 12 years after a cohort launched, 37.7% had gone public, 13.3% was active, and 50% had closed down.
Excluding the recent batches (before 2020) and a specialized education technology batch (IK12), there are 288 Top Companies over 2041 started in that period, which leads to a Top Company rate of about 14%. This accords closely with a similar analysis in a blogpost by Heyman (2022), which estimates that about 10% Y Combinator batches from 2011–2014 and 14% of batches from 2015–2018 became Y Combinator Top Companies. To model this we used a beta distribution with these averages above, introducing some spread to account for uncertainty.

The Expected Valuation of Top Companies at the moment of exit

To determine the expected valuation of a startup that achieves Y Combinator Top Company status, we modeled the current distribution of valuations of Y Combinator Top Companies. Most of the valuation data for private companies in this analysis was derived from Ben West (2022), with public company data obtained via Google Sheet's GOOGLEFINANCE function.

The valuation of those top companies can be seen in the chart below, in which the actual data was plotted alongside a theoretical log-normal distribution. As we can see, the distribution is heavy-tailed (note the logarithmic scale) with a mean of $2.22B, a
median of $375M and a 5th to 95th percentile range of $156M to $8.77B.

The expected % of shares the founder still holds at this time

The next item to estimate is the number of shares the founders still have at exit. This depends on many factors, such as the number of investment rounds before exit, how much money is raised, under what conditions, etc.

This article analyzed founder ownership at IPO for different top SaaS companies. The cumulative density function of the combined founder ownership is depicted in the graph below, together with the distribution we used to model it. The data showed an average of 22%, a median of 19% and a 5th to 95th percentile range of 6% to 53%.
The % of exit money that has been pledged

We are currently modeling a pledge of 50% of exit profit above $1 million or more, as this was set as a minimum value for those joining the program. The amount is similar to what the Giving Pledge signatories are committing to (above 50% of their wealth) and was tested with prospect participants in user interviews. In our model, we are using the distribution below, which begins and peaks at 50% and decays gradually to 0%.
The effectiveness of these donations

The ‘effectiveness of donations’ input to our model is designed to adjust founder donations for their cost-effectiveness. In this analysis, founder donations to charities as cost-effective as GiveWell top charities (or similar gold standards in other cause areas) are considered to have 100% effectiveness. By this metric, Founders Pledge has an average of 25% effectiveness of their total donations. However, as people going through our program have the specific goal of supporting the world's most effective charities, our model assumes a higher donation effectiveness. We are assuming an average of 80% effectiveness and a 5th to 95th percentile range of 65% to 95%.

![Histogram of years until exit](image)

Years Until Exit

This article analyzes the time a company takes to exit, either through an IPO or acquisition. The resulting distribution is shown below. In this dataset, the overall average is 6.8 years, the median 7 years and the 5th to 95th percentile range of 2.2 to 11 years. The article also points out that the time to exit has decreased over time and that it might be closer to 5 years now. We therefore believe this estimation is conservative.
Number of Founders

Y Combinator has historically had a preference for 2 co-founders, this analysis shows that the average for the in 2022 / 2023 was about 2.25 co-founders per startup. Here is a breakdown of the S23 batch taken from the same article.
Bringing it all together

All the factors described above were put together into a Squiggle model that can be found here. The distribution below shows the expected value of effective donations per entrepreneur going through the program.

The distribution is fairly heavy-tailed as one might expect for a hits-based approach like entrepreneurship (note the logarithmic scale). The numbers are still quite promising in expectations, with an average of 1.1M USD in GiveWell equivalent donations per founder per year. The median is 130k USD and the 5th to 95th percentile range is 3k to 3.7M USD per year. The expected number could still be increased by pledging a higher % of the exit value to donation as well as being thoughtful about donating to very effective charities, for example assuming 100% pledged to 100% effective charities, the expected value would be 2.1M USD per year (median 280k USD per year). Given that the number is reduced for the chances of getting into an incubator, the expected value upon getting accepted to YCombinator increases to 2.6M USD per year (median 350K USD per year). This puts it into a competitive ballpark with other top career options.

Limitations

This analysis has a number of limitations, which will impact the reliability of the model results and its utility for an individual user. Some of these limitations relate to the structure of the model, while other limitations relate to uncertainty surrounding the specific inputs chosen for the model.

One limitation of our model is that it only considers the expected value of donations generated by founders whose companies go on to achieve Top Company status. Because Y Combinator startup valuation is primarily driven by its Top Companies (it
has previously been estimated that around 100 companies represent approximately 95% of Y Combinator’s startups’ value), we do not expect this decision to substantially shift the expected value of our result distribution. However, this decision results in our model understating the likelihood of individual founders achieving impressive results at the lower end of the distribution. For example, this blogpost suggests that Y Combinator companies have a ~40% chance of a successful exit.

An additional potential limitation of our model is that it assumes independence of all input variables. This is despite the fact that we would expect some degree of inverse correlation between the percentage of shares cofounders hold in a company and the size of the company at exit, as larger companies will generally have been through more investment rounds which could result in more dilution of founder shares. However, we do not expect this to have a dramatic effect on the output of our model, as a preliminary analysis investigating the valuation of top SaaS companies at IPO by founder ownership percentage at IPO suggested that it was not uncommon for large software companies to have significant founder ownership at exit.

Another notable limitation is that the data we used is not fully up to date, as the database we chiefly relied on (Ben West (2022)) was compiled a few years ago. We performed a spot check and as we can see below, some companies have a substantially higher valuation now. This would likely underestimate the typical
valuation of Y Combinator Top Companies, which would make the numbers above conservative. We plan to update the dataset in the future.

<table>
<thead>
<tr>
<th>Company</th>
<th>West (2022) Valuation (used in analysis)</th>
<th>Current valuation</th>
<th>Source</th>
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