

# San Francisco Entrepreneurs of Color Fund

Creating a Continuum of Capital and Consulting | Evaluation Report

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# San Francisco Entrepreneurs of Color Fund: Creating a Continuum of Capital and Consulting – Evaluation Report

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## About the San Francisco Entrepreneurs of Color Fund

The Entrepreneurs of Color Fund in San Francisco is a collaboration between three nonprofit community development financial institutions (CDFIs) – Working Solutions CDFI, ICA, and Pacific Community Ventures – in partnership with JPMorgan Chase & Co. Launched in 2017, the initiative provides entrepreneurs of color with loans and investments along a continuum of capital from start-up to scale-up as well as a suite of technical assistance services designed to address needs at each stage of business development. Goals of the collaborative include assisting small businesses to obtain capital, increase revenues, create jobs, improve job quality and to leverage the development impact of Chase Center and associated local economic growth for the benefit of locally owned, people of color-owned small businesses.

## About this Report

The project period for the San Francisco Entrepreneurs of Color Fund ran from October 2017 through September 2020. The bulk of the research for this report was published in a midpoint report that reflected on the collaborative's experiences and work prior to March 2020, and therefore reflected the experiences of collaborative members and entrepreneurs of color before the COVID-19 pandemic. Because each of the collaborative members launched significant new initiatives and efforts to support business owners across the Bay Area as they were affected by the pandemic, and as their programs and practices have continued to evolve to respond to the changing needs of small firms as the pandemic has continued, the midpoint report has been updated to include final quantitative outcomes for the collaborative without further evaluation research through September 2020.

## About the Business Ownership Initiative (BOI) at the Aspen Institute

BOI is an initiative of the Aspen Institute Economic Opportunities Program (EOP), which advances strategies, policies, and ideas to help low- and moderate-income people thrive in a changing economy. We recognize that race, gender, and place intersect with and intensify the challenge of economic inequality and we address these dynamics by advancing an inclusive vision of economic justice. For over 25 years, EOP has focused on expanding individuals' opportunities to connect to quality work, start businesses, and build economic stability that provides the freedom to pursue opportunity. Within EOP, BOI works to build understanding and strengthen the role of business ownership as an economic opportunity strategy. Learn more: [as.in/boi](https://as.in/boi)

## Introduction

Small businesses play a critical role in creating new jobs, driving innovation, and employing workers who face barriers to employment. At a time when overall levels of entrepreneurship are in decline,<sup>1</sup> the relatively high growth in the rate of firms owned by people of color is a bright spot. According to research by the Center for Global Policy Studies, between 2007 and 2012, firm ownership among nonwhite Census categories – Black, Native American, Asian American, and Hispanic – grew at a faster rate than their participation in the US labor force.<sup>2</sup> Importantly, at the national level there were also strong increases in the number of firms with employees owned by entrepreneurs of color.<sup>3 4</sup>

### A Note on Language

In this paper, the preferred terms for the racial and ethnic categories of entrepreneurs of color are Black, Latinx, Asian, and Native American. However, when referencing research from other sources we use the terms in those sources, which include Hispanic, African American, and American Indian.

Although entrepreneurs of color show strength in the creation of new firms, they also face distinct challenges that stem in large part from systems, structures, and practices that have excluded them from opportunities and precluded them from building wealth. Occupational segregation that has kept people of color in lower wage jobs with limited benefits has limited their ability to accumulate wealth through benefits and savings, while redlining and predatory lending practices have precluded them from building or stripped them of home equity. Without the ability to invest their own wealth, the result is that businesses owned by many entrepreneurs of color are overleveraged or are unable to

access capital to invest in growth. Occupational segregation and barriers to accessing capital have also affected the types and sizes of firms owned by people of color. Entrepreneurs typically start firms that draw upon skills and industry knowledge developed through their engagement in the labor market. Thus, firms owned by entrepreneurs of color are more heavily concentrated in the industries where they historically were allowed to work and/or with relatively low barriers to entry. These industries – services; health care and social assistance; administrative and support and waste management; transportation; and construction – have relatively low average revenues. In addition, exclusion from and

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<sup>1</sup> Kenan Fikri, John Lettieri and Angela Reyes, *Dynamism in Retreat: Consequences for Regions, Market and Workers*. (Washington, DC: Economic Innovation Group, February 2017), 5.

<sup>2</sup> Algernon Austin, *The Color of Entrepreneurship*, (Washington, DC: Center for Global Policy Solutions, August 2016), 7, accessed February 21, 2020, <http://globalpolicysolutions.org/report/color-entrepreneurship-racial-gap-among-firms-costs-u-s-billions/>.

<sup>3</sup> Austin, Algernon, 7.

<sup>4</sup> It is important to note that Black men were the exceptions to these trends during this time period, which saw a decline in the number of firms owned and the number of firms with employees.

lack of connection to markets and business expertise have also historically inhibited the growth of firms owned by people of color.<sup>5</sup>

As a result, firms owned by entrepreneurs of color struggle to reach the same levels of performance as white-owned firms. An analysis of data captured through the Federal Reserve's Small Business Credit Survey prior to COVID-19 found the following key findings about the performance of firms owned by entrepreneurs of color:

- Smaller shares of Asian- (51%) and Black-owned businesses (46%) were profitable at the end of 2017 compared to white-owned firms (55%).
- A larger share of white-owned firms reported revenue growth (58%) compared to Black-owned firms (49%).
- A larger share of white-owned firms reported growth in the number of employees (37%) compared to Black-owned firms (31%).
- Minority-owned firms more frequently reported financial challenges. Seventy-eight percent of Black-owned firms, and 69% of Asian- and Hispanic-owned firms did so, compared to 62% of white-owned businesses.<sup>6</sup>

One of the key factors affecting the performance of firms owned by entrepreneurs of color is their ability to

access non-predatory capital. The Federal Reserve's Small Business Credit survey found that loan applications from entrepreneurs of color tended to have worse outcomes, and that Black and Hispanic business owners applied for potentially higher cost and less transparent credit products more frequently than white business owners.<sup>7</sup>

The San Francisco Entrepreneurs of Color Fund (SFEOCF) was a collaborative effort working to create and deliver a unified continuum of capital and consulting services to entrepreneurs of color in San Francisco, supporting entrepreneurs from the start-up through growth stages of their business. The collaborative was a collective effort among three community development financial institutions (CDFIs) led by Working Solutions CDFI and in partnership with Pacific Community Ventures (PCV) and ICA and funded by JPMorgan Chase & Co. As CDFIs, all three implementing partners have missions and mandates to serve those most excluded from access to the resources needed to start and grow a business and have served entrepreneurs of color since their inceptions. By bringing together their capital products and consulting services into a targeted fund, the CDFIs aimed to better market their offerings to entrepreneurs of color and provide a more seamless experience for entrepreneurs as they sought capital and consulting support.

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<sup>5</sup> For a deeper discussion of the factors affecting the size, type and growth of firms owned by entrepreneurs of color, see Joyce A. Klein, *Bridging the Divide: How Business Ownership Can Help to Close the Racial Wealth Gap*. (Washington, DC: The Aspen Institute, January 2017), accessible at <https://www.aspeninstitute.org/publications/bridging-divide-business-ownership-can-help-close-racial-wealth-gap/>

<sup>6</sup> *Small Business Credit Survey, Report on Minority Owned Firms*. (Atlanta, GA: Federal Reserve Bank of Atlanta, December 2019), iii. <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/20191211-ced-minority-owned-firms-report.pdf>

<sup>7</sup> *Small Business Credit Survey, Report on Minority Owned Firms*. (Atlanta, GA: Federal Reserve Bank of Atlanta, December 2019), iv.

As part of their work together, and as required by the funding they received from JPMorgan Chase & Co., the collaborative hired the Aspen Institute Business Ownership Initiative (BOI) to conduct an evaluation of its work. The purpose of the evaluation led by BOI and conducted in partnership with the SFEOCF member organizations was to document the experiences, lessons, and

outcomes from the San Francisco collaborative. This paper shares the results of the evaluation, focusing on the successes and challenges related to serving entrepreneurs of color, in particular attending to the dynamics at play in the San Francisco market, as well as the number and characteristics of borrowers served by the fund.<sup>8</sup>



Selamawet 'Nani' Tsegaye and Elias Shawel, Tadu Ethiopian Kitchen

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<sup>8</sup> The focus of this paper aligns with the guidance provided by Abt Associates, the national evaluator of JPMorgan Chase & Co.'s Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods) initiative. Funding for the SFEOCF was provided as part of PRO Neighborhoods, a \$125 million, five-year initiative to provide communities with the capital and tools they need to support locally driven solutions and address key drivers of inequality across the country.

# The Context facing Entrepreneurs of Color in San Francisco

## Racial Experience and Inequality in San Francisco

The experiences of entrepreneurs of color in San Francisco – and efforts to support their success – must be understood in the context of the history and current context of race in the city. San Francisco has a reputation as one of the most diverse cities in the US. This reputation is largely true. An analysis of data from the US Census by US News and World Report found that San Francisco is 19<sup>th</sup> among the nation's largest cities in terms of racial and ethnic diversity.<sup>9</sup> This diversity brings vibrancy and variety to the city. However, while diverse, San Francisco is also highly segregated as a result of policies and practices that began with colonization of the city. While some, if not most, of those factors may no longer be actively in play, they deeply impact where people of color live and work, and what they own – all factors that often affect their experiences and challenges as business owners today.

The majority of San Francisco's residents are people of color. According to the US Census Bureau's estimates as of July 2019, San

Francisco County's largest nonwhite racial and ethnic group was Asian, who comprise 35.9% of the population, followed by Latino at 15.2%, Black at 5.6%, people of two or more races at 4.4%, American Indian and Native Alaskan at 0.7%, and Native Hawaiian and other Pacific Islander at 0.5%. White, non-Latino individuals comprise 40.3% of the population.<sup>10</sup> The population of the county has increased substantially during the past two decades, from 776,733 residents at the time of the 2000 census to an estimated 883,305 in 2019. As the population has grown, most nonwhite racial and ethnic groups have increased as a percentage of the population, although some very slightly. The significant exception is Black people, who have declined from 7.79% of the population in 2000 to 5.6% in 2019. In fact, between 2000 and 2010, the number of Black residents in the city declined by almost 12,000, a decrease of close to 20%.<sup>11</sup> This continues a longstanding trend since the 1970s, when Black people comprised 13.4% of the county's residents.

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<sup>9</sup> Deidre McPhillips, "How Racially and Ethnically Diverse is Your City". US News and World Report, Jan. 22, 2020, at 12:01 a.m. <https://www.usnews.com/news/cities/articles/2020-01-22/measuring-racial-and-ethnic-diversity-in-americas-cities>, accessed February 21, 2019

<sup>10</sup> United States Census Bureau Quick Facts, San Francisco County, California, <https://www.census.gov/quickfacts/sanfranciscocountycalifornia>, accessed February 21, 2020.

<sup>11</sup> United States Census Bureau Census Viewer, <http://censusviewer.com/city/CA/San%20Francisco>, accessed February 21, 2020, and United States Census Bureau Quick Facts, San Francisco County, California.

**Table 1: San Francisco County Residents by Race and Ethnic Origin, 2019**

Race and Hispanic Origin	Percent
White alone	<b>52.9%</b>
Black or African American alone	<b>5.6%</b>
American Indian and Alaska Native alone	<b>0.7%</b>
Asian alone	<b>35.9%</b>
Native Hawaiian and Other Pacific Islander alone	<b>0.5%</b>
Two or More Races	<b>4.4%</b>
Hispanic or Latino	<b>15.2%</b>
White alone, not Hispanic or Latino	<b>40.3%</b>

Source: United States Census Bureau Quick Facts, San Francisco County, California, <https://www.census.gov/quickfacts/fact/table/sanfranciscocitycalifornia,US/PST045219>, accessed 9/20/2020

San Francisco sits on the aboriginal lands of the Ohlone tribes, who have lived in the area for thousands of years.<sup>12</sup> The first colonists were Spanish explorers who established presidios (forts), missions, and housing settlements. These later came under Mexican control when California won its independence from Spain. The California Gold Rush of 1849 brought whites as San Francisco became the major port and hub supporting the miners. Asian immigration began when large numbers of Chinese laborers came to support the building of the Central Pacific railroad.<sup>13</sup> Japanese immigrants began to arrive in the 1860s.<sup>14</sup> While Blacks began to move to San Francisco during the time of the Gold Rush, the city's Black population grew rapidly during the Second World War and the post-war period, when many left the southern US to escape segregation and racial violence

and in search of economic opportunity. San Francisco was a destination due to the growth in the shipbuilding industry and other sectors related to the wartime and Cold War military buildups.<sup>15</sup>

Although most who migrated to San Francisco came in search of economic opportunity, their race and ethnicity shaped the opportunities available to them, with most nonwhite people forced into or limited to lower-wage occupations. For example, in 1940, only 17.9% of white males and 19.7% of white females worked as domestic or service workers or laborers, compared to 69.7% and 89.6% of Black males and females, respectively, and 53.1% and 44.2% of other nonwhite males and females.<sup>16</sup> As Table 2 indicates, Blacks and other nonwhite males and females were also far less likely to be proprietors of a business.

<sup>12</sup> See <https://www.nps.gov/goga/learn/historyculture/ohlones-and-coast-miwoks.htm>, accessed February 21, 2020.

<sup>13</sup> See <https://www.history.com/topics/us-states/san-francisco>, accessed February 21, 2020.

<sup>14</sup> *San Francisco's Japantown*. Arcadia Publishing, 2005. 7.

<sup>15</sup> Albert S. Broussard, *Black San Francisco: The Struggle for Racial Equality in the West, 1900-1954*. (Lawrence, KS: University Press of Kansas, 1993), 143-146.

<sup>16</sup> Albert S. Broussard, 129.

**Table 2: Percent of San Francisco Employed Individuals Working as Proprietors, by Race and Sex, 1940**

	<b>Males</b>	<b>Females</b>
White	<b>13.3</b>	<b>6.3</b>
Black	<b>2.9</b>	<b>1.5</b>
Other nonwhite	<b>10.5</b>	<b>4.8</b>

Source: United States Bureau of the Census, *Sixteenth Census of the United States, 1940: The Labor Force* (Washington, D.C.: Government Printing Office, 1943), vol. 3., pt. 2, pp. 268-73, as cited in Albert S. Broussard, *Black San Francisco: The Struggle for Racial Equality in the West, 1900-1954*. (Lawrence, KS: University Press of Kansas, 1993), 129.

Similarly, housing shortages have been a longstanding issue in San Francisco, and race and ethnicity have historically deeply affected where residents of color could live and the value of the housing they purchased and/or occupied. In 1930, 13.6% of Black families in the city owned their own houses, compared to 35.1% of native-born whites and 41.6% of foreign-born whites. Chinese families were limited to living in Chinatown in extremely substandard conditions.<sup>17</sup> Black families settled largely in Bayview-Hunters Point because of proximity to the shipyard. Many immigrants and some Black migrants settled in the Fillmore and Western Addition, with the Black population of the neighborhood growing substantially when the Japanese population was interned during World War II. Today, a combination of factors including the development (and redevelopment) of public housing, development of restrictive housing covenants, and real estate and lending practices, among other factors, means that residential housing in the city remains highly segregated. Redevelopment projects that began in the 1950s with the aim of improving the housing stock actually resulted in increasing segregation, along with the displacement and often the closure

of firms owned by entrepreneurs of color. Analysis of Census data by the Othring and Belonging Institute at the University of California, Berkeley found that:

“Although African Americans are just 5 percent of the population...they are intensely clustered into the Hunters Point/Bayview neighborhoods and some parts of the downtown area. This is a consequence of the extremely high cost of housing and rents in San Francisco, but it is also a result of historical patterns of segregation which prevented blacks from moving into other neighborhoods.”<sup>18</sup>

A similar story could be told about Asians during the nineteenth and early twentieth centuries regarding San Francisco's famous Chinatown, which carefully restricted where Asians could live. The Mission, once an overwhelmingly Latino neighborhood, has been radically gentrified in recent years, with many of its original and long-term residents pushed out by rising costs. Whites are disproportionately concentrated in the

<sup>17</sup> Albert S. Broussard, 31-32.

<sup>18</sup> Stephen Menendian and Samir Gambhir, *Racial Segregation in the San Francisco Bay Area, Part 1*. <https://belonging.berkeley.edu/racial-segregation-san-francisco-bay-area>, accessed October 1, 2020.

northern and central parts of San Francisco, especially the Presidio.<sup>19</sup>

Because many entrepreneurs rely on personal and family wealth that has accumulated and passed down over time – through home and business ownership and through savings – these historical patterns in who owns homes and businesses, and the value of those assets, affect the ability of business owners to invest today in their own enterprises. Residential patterns also affect where many small business owners start and choose to locate their businesses, especially when those firms are service and retail businesses that focus largely on neighborhood residents or ethnic groups.

### **The State of the San Francisco Economy – Pre-pandemic**

San Francisco has one of our nation's strongest urban economies. Between 2010 and 2019, total employment in the city increased from 442,700<sup>20</sup> to 580,400.<sup>21</sup> The city's economy is concentrated in the technology, financial services, and services sectors. Growth in the technology sector has been particularly strong. In 2017 and 2018, the number of jobs in the high-tech software and services sector grew by almost 25%, or 19,947 jobs.<sup>22</sup> Job growth had occurred at

the ends of the wage spectrum. In the San Francisco-Redwood City-South San Francisco Metropolitan Division, between 2016 and 2018, the number of high-wage jobs grew by 14%, and the number of low-wage jobs grew by 11%, while the number of moderate-wage jobs remained stagnant.<sup>23</sup> Among all low-wage occupations, the median wage was \$18 per hour.<sup>24</sup>

The city's job growth had led to rising commercial and residential real estate costs, as demand far outstripped supply. In the second quarter of 2019, San Francisco had the lowest vacancy rate for office housing in the US at 3.6%, and the average asking rent was \$85.64 per square foot.<sup>25</sup> On the housing front, an analysis by San Francisco's Budget and Legislative Analyst found that San Francisco and San Mateo counties created 8.5 new jobs for every one new housing unit produced between 2010 and 2018.<sup>26</sup> It also found that in 2019, the median housing rent was \$4,500 per month, requiring an annual income of \$180,000, or 146% of area median income.<sup>27</sup>

These economic trends led to a city that was vibrant but also challenging for many low- to moderate-income workers, and for small businesses. The Brookings Institution

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<sup>19</sup> Stephen Menendian and Samir Gambhir, Racial Segregation in the San Francisco Bay Area, Part 1.

<sup>20</sup> <https://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/labForceReport.asp?menuchoice=LABFORCE>, accessed February 29, 2020.

<sup>21</sup> State of California Employment Development Department, Labor Market Information Division, *Monthly Labor Force Data for Cities and Census Designated Places (CDP)*, December 2019 – Preliminary, <http://www.labormarketinfo.edd.ca.gov>, accessed February 29, 2020.

<sup>22</sup> CBRE, 2019 Tech-30: Measuring Tech Industry Impact on North American Office Markets. (CBRE Research, 2019), p. 9.

<sup>23</sup> San Francisco Budget and Legislative Analyst, Policy Analysis Report on Job-Labor Fit, October 16, 2019, p. 11. [https://sfbos.org/sites/default/files/BLA\\_Jobs%20Housing.101619.pdf](https://sfbos.org/sites/default/files/BLA_Jobs%20Housing.101619.pdf), accessed February 29, 2020.

<sup>24</sup> San Francisco Budget and Legislative Analyst, p. 11.

<sup>25</sup> CBRE, p. 33.

<sup>26</sup> San Francisco Budget and Legislative Analyst, p. 2.

<sup>27</sup> San Francisco Budget and Legislative Analyst, p. 3.

ranked San Francisco sixth among central cities in the US on a metric of income inequality.<sup>28</sup> Some parts of the city that were already geographically isolated due to lack of adequate public transportation – such as Bayview-Hunters Point – have become even more disconnected as vehicle traffic becomes even more congested. The city's homeless population continues to rise, and a relatively high percentage of its homeless residents are unsheltered, living and sleeping on the streets or in their cars.<sup>29</sup>

The growth in the San Francisco economy created opportunities for small businesses that could meet the needs and preferences of the businesses that were growing, and of the increasing numbers of higher-wage

workers. But it also posed significant challenges. Rising real estate prices led to rising rental costs along business corridors that had long been home to minority-owned firms. Lower-wage workers in service and retail sectors who found it nearly impossible to afford housing in the city were moving to the suburbs, making it difficult for businesses in these sectors to hire and retain workers. Much of the growth in the city's technology sector had been concentrated among its largest firms, which can be hard for small firms to penetrate as contractors. And the presence of homeless individuals living on the street without adequate supports and facilities affected the accessibility and attractiveness of some small firms' retail locations.



Patty Rodriguez, SF Parking. Photo Credit: SF Parking

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<sup>28</sup> See <https://www.brookings.edu/research/city-and-metropolitan-income-inequality-data-reveal-ups-and-downs-through-2016/>, accessed August 21, 2019.

<sup>29</sup> City and County of San Francisco Performance Scorecard, Homeless Population, <https://sfgov.org/scorecards/safety-net/homeless-population>, accessed March 1, 2020.

## Purpose and Design of the SFEOCF collaborative

The SFEOCF aimed to build upon and support the drive of the city's entrepreneurs of color, assisting them to overcome the historical and present challenges identified above and take advantage of the city's dynamic economy. The collaborative worked to leverage the capacities of the three participating CDFIs to provide entrepreneurs of color with affordable capital and consulting services. The collaborative also sought to help entrepreneurs of color to access and build upon opportunities created by the new Chase Center, with the ultimate goal being to help entrepreneurs of color to launch, grow, stay, and hire in San Francisco.

### SFEOCF member organizations at the creation of the SFEOCF

The three members of the SFEOCF were well established Bay Area CDFIs. As CDFIs, each was created with a mission to serve entrepreneurs who are most excluded from access to the resources needed to start and grow a business. As such, their missions and histories always included a focus on entrepreneurs of color. In the case of Working Solutions CDFI, which had significant experience in lending to entrepreneurs of color, funding for both capital and operations provided by JPMorgan Chase & Co. would enable it to increase the scale of that lending. For PCV and ICA, the creation of the SFEOCF coincided with organizational strategies to more deeply connect with communities of color. The collaborative therefore provided an important support for their organizational priorities. Although the three CDFIs shared a common mission, each had its own set of products, organizational strengths, and specific targets in terms of the types of businesses it is seeking to serve. Specifically:

**Working Solutions CDFI**, the lead organization in the collaborative, was founded in 1999 and launched its microlending program in 2005. Working Solutions CDFI provides microloans – business loans from \$5,000-\$50,000 – paired with customized business consulting and community connections for underserved entrepreneurs with start-up or early-stage firms in the nine-county San Francisco Bay Area. Working Solutions CDFI was the highest-volume lender in the SFEOCF; at the time the collaborative was formed it had originated 551 loans totaling \$14.3 million over the course of its lending history. Working Solutions CDFI had also educated more than 14,500 entrepreneurs interested in starting or growing a business and assisted its borrowers in accessing an additional \$16 million in conventional and equity financing. In total, as of the creation of the SFEOCF in 2017, Working Solutions CDFI had supported the launch of more than 185 new businesses and the stabilization and expansion of 235 existing businesses. Among them, these companies created or retained 2,940 jobs in the community. The firms assisted by Working Solutions CDFI typically have gross annual revenues under \$250,000 and are most frequently home-based as well as sole proprietors. Coming into the collaborative, 46% of the loans made by Working Solutions CDFI were to entrepreneurs of color, and 36% had been made to businesses located in San Francisco.

**Pacific Community Ventures**, a partner in the collaborative, was founded in 1998 as a community development venture capital organization and social enterprise focused on providing venture capital, mentorship, and networks to Main Street businesses that were poised to grow. In 2003, PCV made its first investment in Southern California, leading to its expansion to become a statewide investor in 2004. In 2011, during

the aftermath of the recession and seeing the unfilled demand for small business credit, PCV pivoted from equity investing to lending with the launch of its “Loans + Advice” fund. The fund provides affordable small business loans from \$10,000-\$200,000 to bridge the “missing middle” between start-up loans and financing from banks. In 2012, the organization created a technology platform, BusinessAdvising.org, to scale and strengthen its mentoring program. The mentoring platform matches business owners with pro bono coaches and mentors who provide tailored, hands-on advising. This platform serves entrepreneurs nationwide and those receiving advice do not need to have a loan with the organization. As of the end of 2017, PCV had more than \$3.55 million in outstanding business loans and had originated more than \$5.5 million since the beginning of its lending program. In 2017, the organization provided credit or advising services to 358 firms that created 2,583 jobs. In that year, 42% of the businesses PCV assisted were owned by people of color. The firms targeted by PCV were generally larger and more established than those served by Working Solutions CDFI: its target customers were firms that had been operating for at least a year and had more than \$100,000 in revenues and one or more employees.

**ICA** was created more than two decades ago to provide advising, connections, and investment aimed at helping small, locally owned firms to grow. The organization has a central focus on scaling businesses that provide good jobs to local residents. At the launch of the collaborative, the ICA Accelerator and its investment portfolio were the focal point for its services and impact. The Accelerator provided a six-month tailored and holistic advisory program to two cohorts of businesses per year. Although ICA became a CDFI just

three years prior to the creation of the collaborative, it had connected companies to capital since its early days, providing integrated capital and equity-like investments (not exclusively debt). At the formation of the collaborative, only firms that graduated from its Accelerator were eligible to receive investments. Until just prior to the launch of the collaborative, the organization targeted businesses that had achieved at least \$1 million in revenues and had the potential for future growth. It also emphasized firms owned by people of color and women. As of the end of 2018, ICA had worked with more than 600 entrepreneurs who employed over 5,500 workers. Collectively, these firms had accessed more than \$300 million in investment and received more than \$18 million in advisory services. Over ICA's history, 56% of the entrepreneurs served were entrepreneurs of color. Located in and with an original focus on the city of the Oakland, only 11% of the entrepreneurs served by ICA through 2018 were located in San Francisco.

As organizations with multi-decade histories in a region with a well-connected CDFI community, the three SFEOCF partner organizations knew each other and worked together, although generally in less formal ways, to leverage each other's assets. As the above descriptions indicate, the three organizations each had largely distinct product offerings and served different market segments. As a result of their participation in Ascend 2020 (another JPMorgan Chase & Co. initiative), Working Solutions CDFI and ICA had already built a referral effort and were interested in ways to continue their partnership. Knowing that PCV offered complementary products and services, JPMorgan Chase & Co., as the funder, recommended PCV's inclusion in the SFEOCF collaborative.

### SFEOCF goals and objectives

The goal of the SFEOCF collaborative was to create a more accessible and seamless continuum of capital and services for entrepreneurs of color in San Francisco. The intent was that collaboration would help entrepreneurs of color by increasing the visibility of capital and services that were available and targeted to their needs and goals, and by more quickly and easily directing them to the CDFI that offered the most appropriate products and services. The partners also intended that structured coordination of marketing and referrals would improve their own customer acquisition – by increasing the flow of entrepreneurs coming to their programs and by improving the fit between the customers and their specific products and services.

As noted above, Working Solutions CDFI and ICA were already engaged in a collaborative partnership through the Ascend initiative. Incorporating PCV would allow the organizations together to offer a more complete continuum of services by including its services focused on the “missing middle” of existing firms working to stabilize and grow. The graphic below illustrates the continuum of capital and services of the SFEOCF, as it was originally conceived by the collaborative partners in the proposal submitted to JPMorgan Chase & Co. As is described later in the paper, the specific elements of the continuum were refined by the partners as they moved to implement the collaborative.

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#### SFEOCF Continuum of Services – Original Conception



Working Solutions CDFI was the lead organization in the collaborative. In that role, it assumed the overall management and coordination roles for the SFEOCF work. The targets for capital deployment varied across the collaborative members, based in part on each organization's historic lending experience and on anticipated demand for capital among entrepreneurs of color. As the experience of the SFEOCF members and research by the Federal Reserve indicated, entrepreneurs of color are more likely to be seeking credit in smaller amounts than white entrepreneurs.<sup>30</sup> Thus, the SFEOCF sought to make higher numbers of smaller loans, and the lending targets of the collaborative members were distributed accordingly. The goals of the collaborative, based on leveraged capital as well as the direct investment from JPMorgan Chase & Co., were as follows:

- Dollar volume of loans/investments deployed: \$4 million
- Number of loans deployed: 100 (80 Working Solutions CDFI, 15 PCV, and 5 ICA)
- Number of small businesses assisted: 300
- Percent of businesses assisted owned by entrepreneurs of color: 100%
- Number of jobs created/retained: 350

The goals for total deployment from the JPMorgan Chase & Co. funding alone were 31 to 35 loans totaling approximately \$2 million.

### Key evaluation questions and methods

The evaluation of the SFEOCF was designed to inform the following key questions:

- How many entrepreneurs of color were served? What were the characteristics of the entrepreneurs and their businesses?
- What were the major steps involved and lessons learned in developing and implementing the collaboration? What difference did the nature of the collaboration make in members' ability to better serve entrepreneurs of color in San Francisco?
- What practices in areas such as customer acquisition (outreach and engagement), financing, and consulting did the members use to reach and effectively serve entrepreneurs of color?
- What practices did SFEOCF members employ in response to specific economic and market conditions in San Francisco?

The evaluation involved a mixed-methods approach focused largely on qualitative methods to inform the key evaluation questions. In addition, the evaluation drew upon quantitative information the collaborative members reported to Abt Associates, the national evaluator for the JPMorgan Chase & Co. Foundation's PRO Neighborhoods program.

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<sup>30</sup> Federal Reserve Banks, 2016 Small Business Credit Survey Report on Minority-Owned Firms. November 2017, p. 8.

## Collaborative Outputs and Outcomes

### Financing outputs

As of September 30, 2020, the SFEOCF had disbursed 71 loans or investments totaling \$3,467,585 to 60 entrepreneurs of color.<sup>31</sup> These included 68 loans totaling \$2,667,585, one convertible note for \$300,000 and two equity investments totaling \$500,000. As was anticipated in the projections developed by the collaborative members, although the dollar value of loans and investments originated across the three lenders was fairly equal, a substantial majority of the financings were generated by Working Solutions CDFI. Thirty-three of the loans or investments were funded from capital in the SFEOCF that was provided by JPMorgan Chase & Co. Foundation; the remaining 38 were funded with dollars leveraged from other capital sources used to support the fund.

**Table 3: SFEOCF Financing Volume through 9/30/2020**

Collaborative member	Number of Loans/Investments	Dollar Volume of Loans/Investments
Working Solutions CDFI	54	\$1,149,374
Pacific Community Ventures	9	\$928,000
ICA	8	\$1,000,000
All SFEOCF members	71	\$3,467,585

With these outputs, the SFEOCF members met their goals for financing originated with grant funding from JPMorgan Chase by originating 33 investments totaling \$2,086,600. They did not meet their projected goals for financing originated through leveraged funds; in total the SFEOCF members had targeted originating 100 investments totaling \$4 million in capital. This outcome is partly due to the fact that when the COVID-19 pandemic hit in the spring of 2020, the SFEOCF members pivoted from originating loans from funds held on their balance sheets to providing relief in the form of both advisory services and special grant and loan programs.

### Borrower and business characteristics

All of the businesses served through the SFEOCF were business owners of color. Among the businesses financed, 29 percent were owned by Black entrepreneurs, 20 percent by Latinx, 25 percent by Asian/Pacific Islander, 4 percent Native American, and 4 percent were multiracial. In addition, 18 percent of the businesses

financed were owned by other non-White entrepreneurs. Individuals who submit applications for loans or services to SFEOCF members were asked to self-identify according to a list of racial and ethnic categories. The list provided include an "other" category. All individuals who identify as other than "White" are

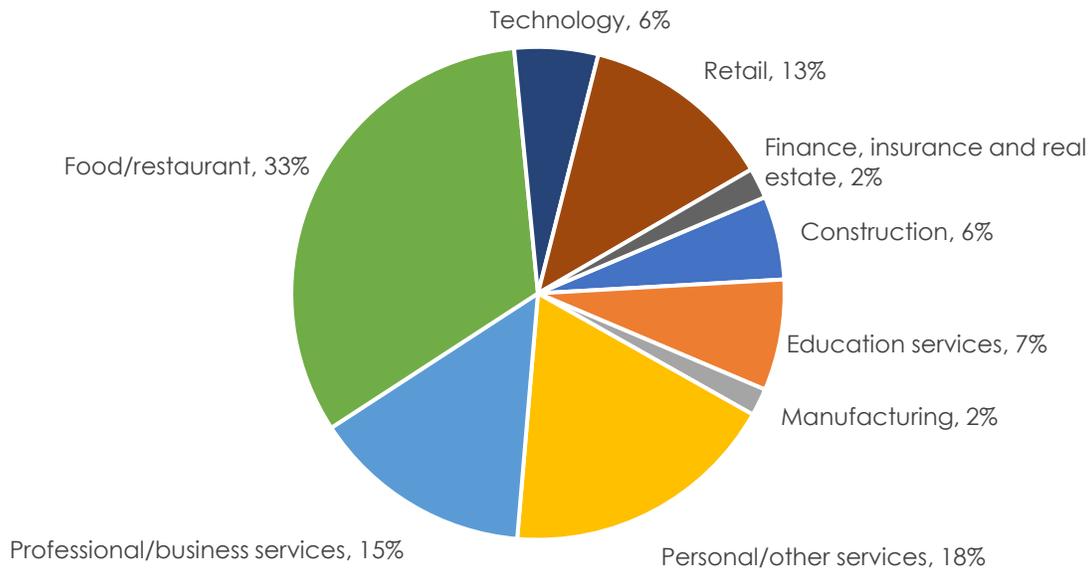
<sup>31</sup> The loans and investments originated from the SFEOCF include those funded with capital provided via the PRO Neighborhoods grant, as well as from capital provided by other sources that was leveraged by the PRO Neighborhoods investment.

considered entrepreneurs of color. Fifty-six percent of the businesses were owned by women. Seventy-five percent of the business owners were low-income, 5 percent were moderate-income, and 16 percent were neither low- nor moderate-income. The business owners with incomes above the CRA low- and moderate-income guidelines for San Francisco tended to own some of

the largest firms to receive financing from the fund.

The businesses financed through the SFEOCF span a range of sectors, with significant concentrations in the food and restaurant and services sectors. Figure 1 below shows the distribution of business types financed.

**Figure 1: Businesses Financed by SFEOCF by Industry Sector**



Among the businesses financed, 38% were start-ups that had been in operation for less than two years at the time they applied for financing, and 62% were businesses that had been in operation for more than two years. Twenty-nine percent of the financed had been generating revenues for less than one year at the time they received their first loan from the SFEOCF. Among the businesses that had been generating revenues for at least a year, their most recent annual revenues were as follows:

**Table 4: Annual Revenues of Businesses Financed by the SFEOCF**

Median	Average	Minimum	Maximum
\$246,589	\$519,719	\$400	\$ 5,844,223

According to data reported by the firms at the time of their financing applications, the investments would support or retain 279.5 existing jobs, and create a projected 285 new jobs. This exceeded the collaborative's projected goal of supporting 350 jobs. The number of supported and retained jobs ranged from 0 to 69.5, and the projected number of new jobs created ranged from 0 to 32.

## Practices Used to Serve Entrepreneurs of Color

All three participating CDFIs came to the Entrepreneurs of Color Fund collaborative with an existing commitment to serve entrepreneurs of color. From a mission perspective, their intent was always to serve entrepreneurs who were most excluded from access to the resources needed to start a business. Because of its role as a funder of all three organizations, JPMorgan Chase & Co. understood the alignment among their missions and recommended their formal collaboration.

In the case of Working Solutions CDFI, which had significant experience in reaching entrepreneurs of color, funding for both capital and operations provided by JPMorgan Chase & Co. would enable it to increase the scale of that lending. For PCV and ICA, the creation of the SFEOCF coincided with organizational strategies to reach deeper into communities of color. The collaborative therefore provided an important support for their organizational priorities.

The lessons they learned and practices they adopted in order to do so are summarized below.

**Reaching and serving entrepreneurs of color requires building trust with people who have been excluded from and denied capital and wealth by existing systems.** The experiences and history of being denied access to wealth building and financial systems – and of losing wealth due to predatory practices and redevelopment – excludes and discourages many people of color. Some entrepreneurs never walk in the door of these lenders, and the majority of these “discouraged” business owners are people of color. The most recent Small

Business Credit Survey by the Federal Reserve found that Asian, Hispanic, and African American business owners were all about twice as likely as their white counterparts to be discouraged from applying for financing.<sup>32</sup>

To build trust, SFEOCF members conducted outreach in new ways – by being consistently present in and connected to communities, organizations, and spaces where entrepreneurs of color feel a sense of trust and connection. This process requires patience, a consistent presence in neighborhoods where people of color are concentrated, and an understanding that building trust takes time. Each of the SFEOCF members increased its engagement and presence in neighborhoods and at events where communities of color live and meet. For example, prior to the launch of the SFEOCF, Working Solutions CDFIs' outreach strategy relied heavily on its business development team, whose roles also included outreach across the region to banks and corporations. As a result of its participation in the SFEOCF, Working Solutions CDFI added a Community Development team of staff dedicated to neighborhood-based outreach to community partners and entrepreneurs. Community Development team members built relationships by visiting and meeting with community organizations and attending and speaking at neighborhood and community events. Often their engagement involved demystifying the lending process to those who were unfamiliar or had negative experiences with financial institutions.

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<sup>32</sup> Federal Reserve Bank of Atlanta, *Small Business Credit Survey: 2019 Report on Minority-Owned Firms*. (Atlanta, GA: Federal Reserve Bank of Atlanta, December 2019), p. 9.

All three CDFIs have staff with cultural and language competencies that enable them to communicate effectively with entrepreneurs of color, and to understand the experiences they bring to accessing credit and building their businesses. The cultural competencies of key staff helped foster a sense of empowerment among prospective clients who might otherwise be dissuaded from engaging with financial institutions. Messages about the EOC Fund and the services of the CDFIs were communicated by trusted, relatable messengers who, over time, become an extension of the community. One collaborative member described some of the key benefits of this approach, “It’s an interaction that breaks down the walls and changes the narrative and also the mindset of the entrepreneurs.”

To further deepen its connection to communities of color, in August 2018 the collaborative formalized its existing individual organizational relationships with Renaissance Entrepreneurship Center (Renaissance) by executing a contract with Renaissance to become a formal referral partner with the SFEOCF. A long-established Bay Area business development organization,<sup>33</sup> Renaissance enhanced the collaborative’s reach and credibility in communities and with businesses that the collaborative seeks to serve. In particular, Renaissance has a long history and physical presence in the Bayview-Hunters Point neighborhood that includes work with contractors. These neighborhoods are geographically isolated and have historically been predominantly minority communities. Renaissance has had an incubation center in Bayview since 2001, which allowed it to build trusted relationships in the community. It was envisioned that the

partnership would help the collaborative reach more deeply into the Black business community. As a partner to the collaborative, Renaissance held Access to Capital workshops— in both its Bayview and in South of Market locations—featuring representatives from the collaborative who described their available products and services. Renaissance’s established name and accessible locations helped signal to entrepreneurs of color in or near those communities that the SFEOCF was a trusted source of capital and services. In addition to hosting the Access to Capital workshops, Renaissance, which does not have its own lending program but does work to package and connect its entrepreneurs to other financing sources, committed to referring at least 20 strong financing applicants to the SFEOCF. As of the end of 2019, this partnership had yielded 30 referrals and two closed loans.

**Effectively serving entrepreneurs of color requires that lenders stay deep in relationship with borrowers, in order to understand and address the specific challenges and issues they will face as they grow their firms and to connect them to appropriate resources at the right time.**

SFEOCF members shared a common commitment to understanding and addressing the circumstances, both personal and professional, that affect entrepreneurs and their businesses. One of the main purposes of deeply engaging clients and building this understanding was to demonstrate to clients that SFEOCF members care about them and their business outcomes. From this authentic engagement, collaborative members worked to build trust with entrepreneurs of color to help them overcome knowledge

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<sup>33</sup> Renaissance Entrepreneurship Center was established in 1985 and operates four offices across the Bay Area. <https://www.rencenter.org/mission-history/>. Accessed 1/23/20.

gaps and dispel misperceptions that prevent them from becoming clients.

Working Solutions CDFI, for example, approached the lending process with an awareness of the borrowers' circumstances, which in some cases included interactions with the justice system or experiences of trauma. Team members understood these circumstances and how they might diminish an entrepreneur's confidence or readiness to repay. At the same time, they also recognized these same circumstances could also create resilience and strengthen the ability of a borrower to handle hardships that arise during loan repayment.

One way in which Working Solutions CDFI attended to the circumstances of its clients was by providing more than a 'yes or no' decision on a loan. If a client was not initially approved, the organization offered a pathway with steps for getting to 'yes'. It also worked to maintain contact with those whose loans were initially declined, to encourage them to make progress and to reconnect as they addressed the issues with their credit application. This practice preceded Working Solutions CDFIs' involvement in the SFEOCF, but the addition of the Community Development team expanded its capacity to communicate this message effectively and to more entrepreneurs of color.

Attention to a client's circumstances continued during the underwriting, servicing, and collections process and takes time. During underwriting, Working Solutions CDFI and PCV worked to create a more complete picture of a client's credit by better understanding the personal challenges affecting their credit (e.g., the fact that entrepreneurs of color typically have higher levels of credit usage) or noting and valuing credit improvements over time. Part of building and responding to this understanding involved looking holistically at a client's financial and non-financial factors, providing pre-loan technical

assistance, and continuing to offer targeted business consulting to meet the clients' unique business needs. Working Solutions CDFI developed a partnership with Nova Credit, which draws on information from credit bureaus in other countries to build a credit score for recent immigrants.

In terms of non-financial factors, PCV is piloted use of a social impact underwriting tool that included non-financial factors about the business, such as owner demographics, employee demographics, and whether the company has partnerships with other social sector organizations. The tool also considered the quality of the jobs offered by the business, including wages and benefits, as well as whether schedules were provided more than two weeks in advance, whether training was offered beyond onboarding, and whether there is profit-sharing.

Using this tool allowed PCV to think about underwriting more holistically and in a way that accounted for the social impacts of the business. This more expansive approach to underwriting was articulated by one SFEOCF member during a focus group, who noted that the CDFIs she and her husband worked with saw their vision and listened carefully for ways to help them secure the financing or consulting support they need: "My first encounter with PCV was 'tell me about you'... give me your resume. No [one] had asked me for my resume [before]; I have extensive business background and degrees...[before] no one really even cared that I was qualified...so I was very hopeful."

All three partners were accessible to and engaged with clients even outside their financing relationships, offering ongoing technical assistance and advisory services. The collaboration among the SFEOCF members also helped Working Solutions CDFI and ICA by formalizing access to PCV's BusinessAdvising.org platform, which enabled them to offer a wider array of

business consultants who matched the particular needs of the business owner.

Deep relationships with clients are also important as part of loan servicing and collections. At Working Solutions CDFI, clients who fell behind on payments received attention early so that delinquency could be addressed before the client reaches 90 days past due. Options for clients were flexible: clients were able to submit a hardship request form that could be used to initiate an alternative payment plan. Clients who could make a partial payment were accommodated. Some late borrowers received a temporary payment

modification that provides breathing room. They were then asked to work with Working Solutions CDFI to make a plan for resolution. In some cases, this might include a strategy for exiting from the business. PCV's approach to loan servicing included similar flexibility for clients experiencing hardships. Deferment requests might include interest-only payments for several months or complete holidays. These approaches were intended to recognize the life circumstances that each borrower confronts and to be able to accommodate these while helping to achieve a resolution that supported both the borrower and CDFI.

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**“My first encounter with PCV was ‘tell me about you’... give me your resume. No [one] had asked me for my resume [before]; I have extensive business background and degrees...[before] no one really even cared that I was qualified... so I was very hopeful.”**

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**Products, services, and systems must be targeted and adjusted because firms owned by entrepreneurs of color are often smaller and lower-revenue firms.** Systemic and structural barriers that confront people and entrepreneurs of color constrain their growth, resulting in businesses that are often smaller than those owned by their white counterparts. As the SFEOCF members explored how to ensure that their products and services would meet entrepreneurs of color where they were in terms of their development, they realized that they—and in fact the broader entrepreneur and business support ecosystem—defined business stages and milestones in terms of metrics that were more difficult for entrepreneurs of color to achieve. For example, often business support organizations and lenders define their “target” customers in terms of metrics such as the number of employees, business revenues, or the amount of the financing required. In cases where entrepreneurs of color have experienced structural and systemic barriers to growth, many may not

qualify for support if the minimal thresholds for qualification are set too high. In response to this recognition, SFEOCF members adjusted the targeting criteria for their lending and consulting services in order to expand access to entrepreneurs of color.

For example, PCV recognized that entrepreneurs of color may struggle to achieve revenue levels that allow them to hire employees. As such, it has eliminated the firm size requirements for its borrowers. In the past, firms needed to have revenues of \$200,000 and at least two employees to qualify for financing from PCV. That requirement was removed. As PCV increased its lending to entrepreneurs of color, its average loan size declined from over \$120,000 to approximately \$85,000. Working Solutions CDFI similarly saw its average loan size decrease as it increased its lending to entrepreneurs of color. In part, this stems from challenging factors like lower revenues and higher existing debt burdens, which often affect the ability of entrepreneurs of color to service the payments on larger loans. Rather than

declining a loan, Working Solutions CDFI reduced the loan amount to size it to the borrower's repayment capacity.

In a similar vein, as ICA was rethinking how well its products and services met the needs of entrepreneurs of color, it recognized that the existing ecosystem's "old" ways of thinking – which judged firms reaching \$1 million in revenues as being ready to "scale" -- exposed a gap in the services and products available for businesses with revenues between \$200,000 and \$1 million. With that recognition, ICA changed the eligibility requirements and targets for its accelerator participants. In the past, firms had to have reached \$1 million in revenues to be eligible for the accelerator. Given the very low percentage of entrepreneurs of color that reach this scale, this made it highly challenging to bring in entrepreneurs of color. ICAs revised its requirements to seek firms with high growth potential, with a strong focus on recruiting entrepreneurs of color.

**Equity and near-equity investments are a necessary part of the financing continuum for entrepreneurs of color.** Starting and growing a firm ideally involves a mix of debt and equity capital. Most entrepreneurs get equity (or some form of patient capital) by investing their own money or that of friends and family. For entrepreneurs of color whose families have been precluded from building wealth, or had wealth stripped from them, these forms of equity are not accessible. When firms reach a growth stage, reliance solely on debt or on reinvestment of business profits can limit growth. However, many CDFIs are limited by their sources of capital to providing debt financing.

Understanding the need for and value of patient capital, ICA moved to strengthen its ability to provide equity and near equity to its accelerator participants. The grant funding it received through the SFEOCF played a critical role in its ability to take this step. Because previously its fund was

capitalized largely through low-cost program-related investments, ICA was limited to providing debt to its participants. But in most cases, providing debt either limited their growth or further added to already high levels of leverage. Having funds that could be used to provide equity enabled ICA to take two important steps as it worked to ensure that the entrepreneurs who participate in its accelerators are entrepreneurs of color. First, it enabled it to provide near-equity capital rather than debt to graduates of the accelerator. In the future, ICA planned to invest in companies as they joined the accelerator, the goal being to help businesses cover the cash gaps that they inevitably face at their stage of growth, allowing them to focus on raising growth capital (rather than addressing existing cash flow challenges) as they move through the accelerator. In one financing through the SFEOCF, ICA was able to replace some of the debt it had previously invested in one of its firms with near equity. This was a specific benefit to the grant dollars provided by Chase through the SFEOCF program. In this same example, ICA was also provided capital for the firms' employees to acquire a partial stake in the firm. In this way, it not only reduced the ongoing debt load faced by the firm, but also enhanced the job quality for its workers.

**Opportunity for strengthening the program:** In their work with entrepreneurs of color both prior to and during implementation of the SFEOCF, collaborative members are cognizant that heavy reliance on debt financing limits the growth of the businesses they are working with. The members are each exploring ways to expand their ability to offer grant and equity investments in the businesses they work with.

## Practices Used in Building the Collaborative

The SFEOCF members began their formal collaboration with established relationships and an identified framework for how their products and services could be integrated into a full continuum of support for entrepreneurs of color. However, even given this strong base, the partners found that moving to implementation required a significant investment of time and effort. The primary steps involved in implementing the collaborative, and the lessons learned in that process, are described below.

### Clarifying the respective products and services offered by collaborative members

In order to establish and market the SFEOCF as a single entity, and to realize the potential value of collaborative members marketing each other's services in addition to their own, the members needed a more detailed understanding of each other's products, services, and practices than when they were interacting less formally. To achieve this clarity (and to articulate it both internally and externally), the members took time to identify and align around a clear set of definitions and language to describe the collaborative and each member's position on the continuum of capital and consulting services, as well as the ways in which entrepreneurs would be referred among the partners and flow through the set of services offered. This resulting "Flow of Products and Services" document became a central tool for the collaborative.

Two examples are illustrative of the need to achieve clarity and alignment among collaborative members, and in the eyes of the broader community. First, internally the partners wanted to achieve a shared understanding of the features and general underwriting approaches that applied to all loans and capital investments made through the SFEOCF. This process required detailed exchange among the staff for

these organizations, during which they shared and discussed issues such as term, interest rate, fees, eligibility requirements, and consulting supports provided to their customers. As an example, this process yielded a set of areas where the two lending partners (Working Solutions CDFI and PCV) aligned their lending processes and those where each organization maintained its own practices (e.g., most eligibility requirements). Importantly for the goal of reaching entrepreneurs of color, loans made by either lender did not have a minimum credit score requirement, and the only collateral requirement was that a lien (UCC filing) be placed on all business assets. Although the SFEOCF partners agreed that it was important that each be able to maintain some distinct practices, having a shared understanding of the other organizations' practices and policies was critical in being able to effectively and efficiently refer entrepreneurs to the right partner.

Second, the SFEOCF partners realized early on that using investment size as the primary descriptor of their organization's focus was not effective from an entrepreneur's perspective. In its initial marketing efforts (particularly through the website described below), the SFEOCF sought to have entrepreneurs identify the organization that was the best fit for their needs by focusing on the capital request or financial need of the entrepreneur. However, the partners learned that while the entrepreneur might know the amount of capital she was seeking, her request might often not align with the amount of capital for which she could qualify. Thus, entrepreneurs who might first be connected to PCV (seeking a loan of more than \$50,000) should actually have been matched with Working Solutions CDFI because the stage or financial condition of their business did not match with PCV's products and services.

The SFEOCF made two changes to its practices to address this issue. First, it clarified its language so that the primary descriptor of each organization's services was based on the stage of the businesses it

served, rather than on loan/investment size. The graphic below summarizes the revised continuum of SFEOCF products and services that resulted from the partners' efforts to clearly align their work and language.

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**SFEOCF Continuum of Services – as implemented**



Employee, Red Bay Coffee. Photo Credit: Kola Shobo for ICA

The collaborative also changed its intake and referral process so that all initial inquiries from the SFEOCF website and other centralized SFEOCF marketing activities went to Working Solutions CDFI. Staff there conduct the first interview to assess where the entrepreneur was in terms of the stage of his business, and then determine whether that client should stay with Working Solutions CDFI or be referred to another SFEOCF member or to another community partner who was the best fit for their current needs. This process allows for a detailed and coordinated handoff between partner organizations, so that the entrepreneur was supported through the continuum of opportunity rather than bouncing between referrals or organizations.

### **Developing an identity for and marketing the SFEOCF**

The collaborative members and JPMorgan Chase & Co. envisioned that the SFEOCF would have its own identity in the community and the market. As such, the collaborative members worked with JPMorgan Chase & Co. to create a launch event in February 2018 to announce the fund, and a set of marketing materials and efforts to promote it. For example, although it was not envisioned as part of the original design for the fund, the SFEOCF members built a dedicated website for the SFEOCF. PCV stepped up to build the site, as it had the capacity to host it. Intended in part to leverage the publicity around the formal announcement of the SFEOCF's creation, the site was intended to be a central and easy-to-access source of information about the fund, and a tool that entrepreneurs could use to identify and contact the partner that was the best fit with their needs. As noted above, the site was subsequently revised so that all initial inquiries went to Working Solutions CDFI.

The original budget and staffing plan for the collaborative did not include resources to

create and market a distinct web identity for the SFEOCF. For example, they did not include resources needed to sustain effective online customer acquisition. The communications effort around the launch of the SFEOCF – which was supported by promotion by JPMorgan Chase & Co. – led to a large number of visits to the site and a flow of client inquiries. However, sustaining a strong flow of traffic to a website and maintaining the analytic capacity to assess it and improve its value as a customer-acquisition tool requires staff and resources.

### **Bringing on nonlending partners and collaborators**

In addition to the three CDFIs that constituted the SFEOCF, the collaborative engaged with other community-based partners that have the potential to support its work and/or its clients. Some engagement was envisioned as part of the original design of the fund. For example, each of the SFEOCF members had historically worked with community partners (small business assistance organizations and others working in low-income communities) as a source of referrals. These partners referred clients to the CDFIs. In some instances, they also received referrals of clients who may need their services before becoming ready for investment by the CDFIs. The SFEOCF design also envisioned engagement with JPMorgan Chase & Co., through referrals and connections to JPMorgan Chase & Co.'s business lines as well as opportunities to connect small business customers of the fund to the new Chase Center.

The most extensive collaboration of the SFEOCF involved Renaissance Entrepreneurship Center. The purpose of the partnership with Renaissance was two-fold: to support referrals of Renaissance clients seeking capital to SFEOCF members, and to expand the SFEOCF's outreach to and visibility in the Bayview and Hunters Point

neighborhoods of San Francisco. Although it did not make loans directly, Renaissance had built a strong loan packaging and referral practice in which one of its team members works with clients needing financing to build a loan package and connect them to lenders that were a fit for its needs and circumstances. The collaborative executed a formal contract with Renaissance for a one-year period between August 15, 2018 and August 14, 2019 that specified it would hold a set of Access to Capital workshops that included representatives of the SFEOCF members and provide 20 loan referrals, 15 of which would result in funding.

During the year in which the partnership was active, Renaissance made a total of 30 referrals to the SFEOCF; two of these resulted in closed loans. Referrals went to Working Solutions CDFI and PCV.<sup>34</sup> For Working Solutions CDFI, the number of referrals during that year represented an increase over the previous year, when they received 21 referrals from Renaissance.

The outcome that almost all referrals went to Working Solutions CDFI reflected a number of factors. First, Renaissance had a strong existing referral relationship with and knowledge of Working Solutions CDFI prior to the creation of the SFEOCF. It took time for Renaissance staff to familiarize themselves with the application processes and financing products offered by PCV and ICA – in part because, noted above, both organizations made changes to their eligibility criteria around the time that the collaborative was formed. There was also a less effective alignment between Renaissance's model and processes and PCV and ICA Fund's products. In the case of

ICA Fund, only participants in its accelerator program are eligible to receive financing, so referring clients who were actively looking for capital (but were not accelerator candidates) did not make sense. Second, the practice in Renaissance's Access to Capital team is to refer clients to the financing source that is the best fit for the businesses' needs and in some cases, there were other financing sources that were judged to be a better fit because of the loan terms, price, or speed of decision. For example, the City and County of San Francisco operated a loan fund for business owners living and operating businesses in certain corridors of the city which is priced at 3%; this is below the rate that most CDFIs can offer. Similarly, some other lenders offered terms of six or more years, which for longer-term loans often resulted in more affordable debt service for the business owners.

In addition to the formal partnership with Renaissance, the SFEOCF also engaged with other organizations referred by JPMorgan Chase & Co. These include Bon Appetit/Tastemakers, the catering/food manager for the new Chase Center arena. Experience with that effort is discussed in the following section.

**Opportunity to strengthen the program.**

Given that referrals from banks – particularly referrals that involved direct connections made by loan officers – were one of the most efficient means by which Working Solutions CDFI and PCV acquire customers, the members of the collaborative were interested in working with JPMorgan Chase & Co. to increase referrals from the bank as a means to drive capital to entrepreneurs of color.

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<sup>34</sup> Twenty-nine referrals went to Working Solutions CDFI; one went to PCV.

## Practices used to Serve Entrepreneurs of Color in the San Francisco Economic Context

Each of the SFEOCF member CDFIs serves customers across the Bay Area. However, the SFEOCF was specifically focused on entrepreneurs with businesses located within the city of San Francisco. The city was changing rapidly as its economy was becoming increasingly dominated by technology firms and the companies and infrastructure to support them. As noted previously in this paper, commercial real estate demand was growing, and the costs were high. Residential real estate prices were rising, and the demographics of neighborhoods were changing as technology workers elected to live in the city.

At the same time, the labor market remained tight and because workers found it increasingly difficult to afford living in the city they work in, retaining workers was difficult. Small businesses also struggled to compete with larger companies that often could more easily afford to pay higher wages and support benefits such as paid sick and family leave. San Francisco had passed several pieces of legislation aimed at improving the financial security of its workers. While the business owners interviewed acknowledged the importance of those policies to workers and their families, they also frankly noted that in the current economic context in San Francisco, it was hard to afford the associated costs of those policies. Despite mandating a higher minimum wage, the high and rising cost of living and rent meant that workers cannot make ends meet working only one job. As a result, small business owners contended with absenteeism and frequent turnover, even when the business owner had a strong relationship with their employees.

In addition to issues related to the tight labor market, housing costs, displacement,

financial insecurity, and other factors continued to contribute to the city's growing homeless population. The high level of homeless who are unsheltered, and therefore living on the streets or in cars, also affects the perceived attractiveness and safety of some commercial locations. Focus group participants commented how these challenges affected their ability to maintain an inviting storefront. And some parts of the city that were already geographically isolated due to lack of adequate public transportation were even more disconnected as vehicle traffic became even more congested. And as traffic becomes more congested, issues related to availability of parking for retail locations also created challenges.

There were also local economic conditions that specifically affected food businesses. One-third of SFEOCF borrowers were food-related businesses, and these had to navigate the complexities of building a sustainable business in a city with a workforce and residents who were particularly high users of app-based food delivery companies. Collaborative members and business owners who participated in focus groups commented on the challenging dynamics that food businesses faced as a result of the delivery services, which required owners to absorb listing and transaction-based fees, often around 30% of the sales price for the food. At the same time, the contracts with the delivery service limited owners' abilities to adjust menu prices to accommodate these additional costs for businesses that already operated on thin margins. These dynamics were affecting businesses' operations. One food entrepreneur we interviewed noted that he originally did not participate with the app services because of the potential impact on his profitability. However, when he

experienced significant revenue losses to neighboring businesses that were participating, he changed his decision. A collaborative member observed that many neighborhood food businesses were accustomed to fulfilling orders placed in person and that their operations were built to support that. With the introduction of a tech-based delivery system, owners now needed to regularly check for incoming orders and prepare foods in time for their delivery pick up and have space to accommodate the delivery people as they waited to pick up orders. The change in model affected restaurants' operations and margins. While some businesses were finding ways to benefit from these services, others were unwilling or unable to do so.<sup>35</sup> The consequence of these changes contributed to a challenging landscape for food businesses owners in San Francisco.

SFEOCF members engaged in the following activities to address the particular context that was San Francisco:

**Helping entrepreneurs understand, strategize about, and plan based on dynamics in the region.** SFEOCF members worked with entrepreneurs to look at the foundation of the business model to understand whether and how it is aligned with growth in the region. Similarly, members worked with entrepreneurs to think about their business' financial planning and growth

strategies in terms of the local context. Would their strategy allow them to take advantage of existing foot traffic or allow for flexibility in creating pop-up locations? When Working Solutions CDFI helped to review a client's business lease terms, it considered these things and whether the lease offered the option to sublease in the event the business owner needed to shift her business model. A focus group participant shared that one of the most valuable tools he received from Working Solutions CDFI was a template to calculate living costs and help build a business forecast to support both business and personal financial planning.

**Connecting clients to contracting opportunities with large firms and development projects.** As the collaborative worked with clients, it looked for ways to connect them to contracting opportunities that supported the business' growth. At the time, the growth in technology firms and associated development of commercial space in the city created business opportunities from which SFEOCF-financed firms could benefit. The SFEOCF members placed a specific focus on connecting their food entrepreneurs to opportunities in Chase Center, the new indoor arena in the Mission Bay neighborhood of San Francisco developed and owned by the Golden State Warriors. Their experiences in doing so are described in Box 1.

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<sup>35</sup> See <https://missionlocal.org/2019/05/custards-last-stand-mission-pie-vs-the-qig-economy/>.

### **Box 1: Connecting Entrepreneurs to Chase Center**

During the time the collaborative was being formed, Chase Center was in the process of developing its plan for filling its 28 retail spaces, 14 of which were dedicated to food service. The Warriors had contracted with Bon Appetit Management Company, an on-site restaurant company, to develop and manage food and beverage service at Chase Center. Responding to the growing market trend toward local food options, Bon Appetit created the Taste Makers at Chase Center program to offer an opportunity for Bay Area firms to connect with new contract work and to support individual business growth related to Chase Center.

To take advantage of this opportunity, the SFEOCF members notified all of their clients with food businesses (including those located outside of San Francisco and who were not entrepreneurs of color) about the Taste Makers program and encouraged them to complete the online information form that provided information about their business to Bon Appetit. Each of the businesses was then contacted by a staff member at Bon Appetit who was responsible for building out the offerings at Chase Center. Seven clients supported by the SFEOCF member CDFIs made it to the finalist stage of the selection process, and two – Sugar and Spun gourmet cotton candy and CC Made artisanal caramel popcorn – were selected as Chase Center vendors.

The Taste Makers at Chase Center program offered a significant but also very specific market opportunity to food entrepreneurs. There were some opportunities to provide products on a wholesale basis – such as packaged cotton candy and popcorn – that could be sold on site at Chase Center. This opportunity was a more likely fit for businesses that had already reached some level of scale, and therefore had or could somewhat easily reach the level of production needed to meet the volume of demand at Chase Center. Chase Center also set the prices for the products sold on site – wanting to make sure that price points matched both the consumer demand and the economics of its own business and operations. Selected businesses needed to be able to produce at costs that would work given the pricing determined by Chase. Thus, it is perhaps not surprising that the businesses selected for Chase Center were clients of PCV and ICA, which work with larger firms supported through the SFEOCF.

For food businesses, participation would involve the preparation of food on site at Chase Center, and so the opportunity and required specifications were even more specific. From its perspective, Bon Appetit needed to consider the overall mix of food options offered in Chase Center, as well as the layout and build-out of the space itself. For example, the Taste Makers program was launched after the food spaces had been designed and built, and a couple of the spaces were outfitted with woks, which dictated the food options that could be housed there. In addition, in cases where food was to be prepared on site, the opportunity for the entrepreneur was to license their product to Bon Appetit, who would manage and staff the preparation. In other words, Bon Appetit would hire and supervise the employees (who would all be union members), purchase the ingredients, and so forth. In their decision, they also considered the complexity of the dishes selected.

From the business owners' perspectives, the real value of participating in Taste Makers was not the revenue generated by the licensing fees – which were not extensive. Rather, the value was in the opportunity to raise awareness of their products and drive customers to their own retail storefronts. While some entrepreneurs clearly were interested in investing in this type of opportunity, others had concerns about whether Bon Appetit would maintain the level of quality they wanted to see in their product, and others lacked the time or ability to invest in marketing in ways that could ensure that sales at Chase Center would in fact drive traffic at their own locations. In addition, Bon Appetit will want to rotate the food options available at Chase Center, in the interest of meeting customer demand and as they learn about which products meet their financial requirements. Some business owners were not interested in investing time in pursuing what might be a relatively short-term opportunity.

In addition to the above considerations, participation by SFEOCF clients in the Taste Makers program was likely affected by the time it takes to build the mutual knowledge and understanding required in effective organizational partnerships.

Beyond the opportunity offered via Taste Makers at Chase Center, there were other opportunities for small businesses to benefit from the booming growth among larger firms and construction projects in the San Francisco economy. However, penetrating the procurement processes of larger firms can be a significant challenge for very small businesses. It requires understanding the bidding process, planning, and financing the scale-up of operations, which can endanger and even doom a business if not done properly. While there are firms that do achieve successful growth through contracting, they often require substantial and multiple types of assistance in order to access and execute on those opportunities. Only a limited number of the firms supported by the collaborative members had the size and operational experience to be able to take advantage of such opportunities.

**Providing real estate services to small business owners.** Working Solutions CDFI offered real estate support services to businesses through a program funded by the City and County of San Francisco. The program included support on lease review and evaluation, rent negotiation, and relocation advice. It was often provided to small businesses that are at risk of or in the process of being displaced by their current landlord. While the program could support some small businesses, it could not address the underlying costs of space in the city. Members of the collaborative shared stories of businesses they had worked with that tried to open and maintain locations in the city but were later forced to close or relocate those firms because of real estate costs, labor retention issues, and in some cases reduction in customers. While this trend disproportionately affected entrepreneurs of color, it was not a problem exclusive to entrepreneurs of color.

**Working with city government to address business climate and cost issues.** SFEOCF members engaged with the city's Office of Economic and Workforce Development to communicate about challenges their businesses faced in the city. One such example involved sharing information about the negative impact on business sales and traffic from discarded needles outside of business establishments. Collaborative members note that while they shared this information with the city, they had little to no ability to address the underlying issues themselves.

**Opportunities for strengthening the program:** The SFEOCF members expressed that having better market information about the number, size, and industry of small businesses in San Francisco would be helpful as they sought to identify and support entrepreneurs of color in the city. Generating the pipeline for their products and services is one of the most expensive parts of their work. Having a better sense of the scale and characteristics of the small business sector in San Francisco could help them to better and more efficiently size and target their efforts.

The members also noted their interest in expanding their ability to offer grant and equity investments to help address both financing and growth barriers in the businesses they work with. In addition, the lack of availability of contract financing seemed to limit the ability of entrepreneurs of color and other small businesses owned by low- and moderate-income individuals to participate in development related to the city's growth. Contract financing is risky and requires the development of specialized capacity on the part of CDFIs. JPMorgan Chase & Co. and other funders may want to engage with the SFEOCF members to determine whether it is possible to provide funding, financing tools, and other supports to assist them in offering both equity-like products and contract finance to local entrepreneurs.

## Conclusion

The three Bay Area CDFIs in the SFEOCF met critical targets in serving entrepreneurs of color in San Francisco. As of September 30, 2020, the partners disbursed 71 loans or investments totaling \$3,467,585 to 55 business owners of color. Of the businesses financed, 56% were owned by women and 75% by low-income individuals. According to data reported by the firms at the time of their financing applications, the investments would support or retain 279.5 existing jobs, and create a projected 285 new jobs.

The development and marketing of the SFEOCF required investment of time and resources to develop a shared understanding of the members' respective products and services, to build and deepen trust with community partners and each other, and to create tools for coordinating an ongoing presence in communities where entrepreneurs of color live and work. Key to the collaborative's approach and early success with lending and investment targets was its work to be more intentional about how best to market the fund and build trusted relationships with communities of color that have, due in large part to historical and current policies and systems, been excluded from access to capital and business opportunities and subjected to predatory lending practices. The SFEOCF also examined the fit between the continuum of products it offered and the needs of entrepreneurs of color. In doing so, it made adjustments that made members' products more responsive to entrepreneurs' stage of business and business goals.

The SFEOCF's efforts to build a continuum of affordable capital and accessible consulting services were important, as the

experiences of entrepreneurs of color that are working to grow their businesses indicate that they need access to a range of different capital products and types of different business and management support over time – especially for entrepreneurs seeking substantial growth and scale. For entrepreneurs of color, having access to a diverse yet connected set of supports is particularly valuable as a means to overcome the distinct barriers they face due to systems and practices that have excluded them from opportunities and precluded them from building wealth. Although the collaborative's work to date has created a more seamless continuum of products and consulting, there remain opportunities to further strengthen members' ability to meet the needs of entrepreneurs of color by adding additional financing products, as well as by investing in additional strategies to attract potential borrowers to existing products and services.

Although San Francisco's growing economy offered opportunities for entrepreneurs, the costs and operating pressures associated with that growth presented challenges for all small business owners. The SFEOCF members offered some services and supports to help entrepreneurs of color to take advantage of opportunities related to the city's growth, and to mitigate the challenges it brought. On the whole, however, the trend remained for lower-income residents and some small businesses to relocate to other parts of the Bay Area. As such, some of the value of the SFEOCF may lie in application of knowledge and capacity built by the SFEOCF members to their work with entrepreneurs of color in the other parts of the Bay Area.



Magdy Kotb, The Clothing Coach. Photo Credit: The Clothing Coach