San Francisco Entrepreneurs of Color Fund

Creating a Continuum of Capital and Consulting | Midpoint Report

Sarah Alvarez and Joyce Klein, The Aspen Institute

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

by Sarah Alvarez, Senior Program Associate, Business Ownership Initiative, The Aspen Institute Economic Opportunities Program

and Joyce Klein, Director, Business Ownership Initiative, The Aspen Institute Economic Opportunities Program

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 evaluation research for this report was conducted before March 2020 and therefore reflects the experiences of collaborative members and entrepreneurs of color before the COVID-19 pandemic. The final evaluation paper will reflect experiences since the onset of the pandemic.

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.pn/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, 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. Importantly, at the national level there were also strong increases in the number of firms with employees owned by entrepreneurs of color.

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

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.

3 Austin, Algernon, 7.
4 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.\(^5\)

As a result, firms owned by entrepreneurs of color struggle to reach the same levels of performance as white-owned firms. The most recent analysis of data captured through the Federal Reserve’s Small Business Credit Survey 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.\(^6\)

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.\(^7\)

The San Francisco Entrepreneurs of Color Fund (SFEOCF) is 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 is a collective effort among three community development financial institutions (CDFIs) led by Working Solutions 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 aim to better market their offerings to entrepreneurs of color and provide a more seamless experience for entrepreneurs as they seek capital and consulting support.

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As part of their work together, and as required by the funding they have received from JPMorgan Chase & Co., the collaborative has 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 is to document the experiences, lessons, and outcomes from the San Francisco collaborative. This paper – the second of three to be generated as part of the evaluation – focuses on the collaborative’s progress to date, namely 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.  

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 19th among the nation’s largest cities in terms of racial and ethnic diversity. 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. 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%. This continues a longstanding trend since the 1970s, when Black people comprised 13.4% of the county’s residents.

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

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


San Francisco sits on the aboriginal lands of the Ohlone tribes, who have lived in the area for thousands of years. 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. Japanese immigrants began to arrive in the 1860s. 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.

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. As Table 2 indicates, Blacks and other nonwhite males and females were also far less likely to be proprietors of a business.

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16 Albert S. Broussard, 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.\(^{17}\) 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 Othering 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.”\(^{18}\)

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

\(^{17}\) Albert S. Broussard, 31-32.

northern and central parts of San Francisco, especially the Presidio.\textsuperscript{19}

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 Current State of the San Francisco Economy**

San Francisco has one of our nation’s strongest urban economies. Since 2010, total employment in the city has increased from 442,700\textsuperscript{20} to 580,400.\textsuperscript{21} 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.\textsuperscript{22} 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.\textsuperscript{23} Among all low-wage occupations, the median wage was $18 per hour.\textsuperscript{24}

The city’s job growth has led to rising commercial and residential real estate costs, as demand has 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.\textsuperscript{25} 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.\textsuperscript{26} 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.\textsuperscript{27}

These economic trends have led to a city that is vibrant but also challenging for many low- to moderate-income workers, and for small businesses. The Brookings Institution ranked San Francisco sixth among central

\textsuperscript{19} Stephen Menendian and Samir Gambhir, Racial Segregation in the San Francisco Bay Area, Part 1.


\textsuperscript{24} San Francisco Budget and Legislative Analyst, p. 11.

\textsuperscript{25} CBRE, p. 33.

\textsuperscript{26} San Francisco Budget and Legislative Analyst, p. 2.

\textsuperscript{27} San Francisco Budget and Legislative Analyst, p. 3.
cities in the US on a metric of income inequality. 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.

The growth in the San Francisco economy creates opportunities for small businesses that can meet the needs and preferences of the businesses that are growing, and of the increasing numbers of higher-wage workers. But it also poses significant challenges. Rising real estate prices are leading to rising rental costs along business corridors that have long been home to minority-owned firms. Lower-wage workers in service and retail sectors who find it nearly impossible to afford housing in the city are 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 has been concentrated among its largest firms, which can be hard for small firms to penetrate as contractors. And the presence of homeless individuals who live on the street without adequate supports and facilities affects the accessibility and attractiveness of some small firms’ retail locations.

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Purpose and Design of the SFEOCF collaborative

The SFEOCF aims 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 works to leverage the capacities of the three participating CDFIs to provide entrepreneurs of color with affordable capital and consulting services. The collaborative also seeks 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 are 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 have always included a focus on entrepreneurs of color. In the case of Working Solutions, which had strong 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 its lending to entrepreneurs of color. 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 share a common mission, each has 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, the lead organization in the collaborative, was founded in 1999 and launched its microlending program in 2005. Working Solutions provides microloans – business loans from $5,000-$50,000 – along with customized business consulting and community connections for underserved entrepreneurs across the nine-county San Francisco Bay Area. Working Solutions is 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 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 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 clients typically have an average gross annual revenue 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 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: 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. The ICA Accelerator and its investment portfolio are currently the focal point for its services and impact. The Accelerator provides a six-month tailored and holistic advisory program to two cohorts of businesses per year. Although ICA became a CDFI just three years ago, it has connected companies to capital since its early days, providing integrated capital and equity-like investments (not exclusively debt). At present, only firms that graduate from its Accelerator are 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 has worked with more than 600 entrepreneurs who employed over 5,500 workers. Collectively, these firms have 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 have largely distinct product offerings and serve different market segments. As a result of their participation in Ascend 2020 (another JPMorgan Chase & Co. initiative), Working Solutions 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.
San Francisco Entrepreneurs of Color Fund: Creating a Continuum of Capital and Consulting

**SFEOCF goals and objectives**

The goal of the SFEOCF collaborative is to create a more accessible and seamless continuum of capital and services for entrepreneurs of color in San Francisco. The intent is that collaboration will help entrepreneurs of color by increasing the visibility of capital and services that are available and that are targeted to their needs and goals, and by more quickly and easily directing them to the CDFI that offers the most appropriate products and services. The partners also intend that structured coordination of marketing and referrals will 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 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

<table>
<thead>
<tr>
<th>Working Solutions</th>
<th>Pacific Community Ventures</th>
<th>ICA</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $5,000 - $50,000 loans</td>
<td>• $50,000 - $200,000 loans</td>
<td>• $250,000 - $1M equity-like investments</td>
</tr>
<tr>
<td>• Pre-loan support and referrals</td>
<td>• Pro-bono skills based advisor</td>
<td>• Technical assistance and advisory services</td>
</tr>
<tr>
<td>• Post-loan 1:1 consulting</td>
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Working Solutions is the lead organization in the collaborative. In that role, it has assumed the overall management and coordination roles for the SFEOCF work. The targets for capital deployment vary 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 indicate, entrepreneurs of color are more likely to be seeking credit in smaller amounts than white entrepreneurs. 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., are as follows:

- Dollar volume of loans/investments deployed: $4 million
- Number of loans deployed: 100 (80 Working Solutions, 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 are 31 to 35 loans totaling approximately $2 million.

Key evaluation questions and methods

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

- How many entrepreneurs of color were served? What are the characteristics of the entrepreneurs and their businesses?
- What have been 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 involves a mixed-methods approach focused largely on qualitative methods to inform the key evaluation questions. In addition, the evaluation is drawing upon quantitative information that the collaborative members are reporting to Abt Associates, the national evaluator for the JPMorgan Chase & Co. Foundation’s PRO Neighborhoods program.

Collaborative Outputs and Outcomes

Financing outputs

As of December 31, 2019, the SFEOCF had disbursed 55 loans or investments totaling $2,577,374 to 48 entrepreneurs of color. These included 53 loans totaling $2,077,374 and one convertible note and one equity investment totaling $500,000. As was anticipated in the projections developed by the collaborative members, the large majority of the financings are microloans originated by Working Solutions. Thirty-one of the loans or investments were funded from capital in the SFEOCF that was provided by JPMorgan Chase & Co. The remaining 24 were funded with dollars leveraged from other capital sources used to support the fund.

<table>
<thead>
<tr>
<th>Collaborative member</th>
<th>Number of Loans/Investments</th>
<th>Dollar Volume of Loans/Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Solutions</td>
<td>45</td>
<td>$1,149,374</td>
</tr>
<tr>
<td>Pacific Community Ventures</td>
<td>8</td>
<td>$928,000</td>
</tr>
<tr>
<td>ICA</td>
<td>2</td>
<td>$500,000</td>
</tr>
<tr>
<td>All SFEOCF members</td>
<td>55</td>
<td>$2,577,374</td>
</tr>
</tbody>
</table>

Borrower and business characteristics

Among the businesses financed by the SFEOCF, 27% were owned by Black entrepreneurs, 19% by Latinx, 23% by Asian/Pacific Islander, 4% by Native American, and 4% had multiracial owners. In addition, 21% of the businesses financed were owned by other non-White entrepreneurs. Individuals who submit applications for loans or services to SFEOCF members are asked to self-identify according to a list of racial and ethnic categories. The list provided includes an “other” category. All individuals who identify as other than “White” are considered entrepreneurs of color. Fifty-four percent of the businesses were owned by women. Seventy-six percent of the business owners were low-income, 8% were moderate-income, and 16% were neither low- nor moderate-income. The business owners with incomes above the Community Reinvestment Act 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.

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31 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. Some business owners received more than one loan.
Among the existing businesses financed, 18 were start-ups that had been in operation for less than two years at the time they applied for financing, and the remaining 30 were businesses that had been in operation for more than two years.

Sixteen of the businesses financed had been generating revenues for less than one year at the time they received their first loan from the SFEOCF. The remaining 32 businesses had been generating revenues for at least a year. Their most recent annual revenues were as follows:

<table>
<thead>
<tr>
<th>Median</th>
<th>Average</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>$267,794</td>
<td>$417,781</td>
<td>$400</td>
<td>$5,844,223</td>
</tr>
</tbody>
</table>

According to data reported by the firms at the time of their financing applications, the investments would support or retain 256 existing jobs and create 286.5 new jobs. The projected number of retained and new jobs ranged from a minimum of one to a maximum of 101.5.
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 has always been to serve entrepreneurs who are 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, which had strong 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 its lending to entrepreneurs of color. 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 have learned and practices they have 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.\(^3\)

To build trust, SFEOCF members conduct 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 has 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’ 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 has added a Community Development team of staff dedicated to neighborhood-based outreach to community partners and entrepreneurs. Community Development team members build relationships by visiting and meeting with community organizations and attending and speaking at neighborhood and community events. Often their engagement involves demystifying the lending process to those who are unfamiliar or have negative experiences with financial institutions.

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 help foster a sense of empowerment among prospective clients who may otherwise be dissuaded from engaging with financial institutions. Messages about the EOC Fund and the services of the CDFIs are being 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, 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 has 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 is 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 share a common commitment to understanding and addressing the circumstances, both personal and business, that affect entrepreneurs and their businesses. One of the main purposes of deeply engaging clients and building this understanding is to demonstrate to clients that SFEOCF members care about them and their business outcomes. From this authentic engagement, collaborative members seek to build trust with entrepreneurs of color to help them overcome knowledge gaps and

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dispel misperceptions that prevent them from becoming clients.

Working Solutions, for example, approaches the lending process with an awareness of the borrowers’ circumstances, which in some cases include interactions with the justice system or experiences of trauma. Team members understand these circumstances and how they may diminish an entrepreneur’s confidence or readiness to repay. At the same time, they also recognize these same circumstances may also create resilience and strengthen the ability of a borrower to handle hardships that arise during loan repayment.

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

Attention to a client’s circumstances continues during the underwriting, servicing, and collections process and takes time. During underwriting, Working Solutions and PCV work 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 involves 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 has 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 piloting the use of a social impact underwriting tool that includes 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 considers the quality of the jobs that are offered, including wages and benefits, as well as whether schedules are provided more than two weeks in advance, whether training is offered beyond onboarding, and whether there is profit-sharing.

Using this tool has allowed PCV to think about underwriting more holistically and in a way that accounts 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 are accessible to and engaged with clients even outside their financing relationships, offering ongoing technical assistance and advisory services. The collaboration among the SFEOCF members has also helped Working Solutions and ICA by formalizing access to PCV’s BusinessAdvising.org platform, which enables them to offer a wider array of business consultants who match the particular needs of the business owner.
Deep relationships with clients are also important as part of loan servicing and collections. At Working Solutions, clients who fall behind on payments receive attention early so that delinquency can be addressed before the client reaches 90 days past due. Options for clients are flexible: clients are able to submit a hardship request form that can be used to initiate an alternative payment plan. Clients can often make a partial payment, and this can be accommodated. Some late borrowers may receive a temporary payment modification that provides breathing room. They are then asked to work with Working Solutions 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 includes similar flexibility for clients experiencing hardships. Deferment requests may include interest-only payments for several months or complete holidays. These approaches are intended to recognize the life circumstances that each borrower confronts and to be able to accommodate these while helping to achieve a resolution that supports both the borrower and CDFI.

“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.”

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 are 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 have adjusted the targeting criteria for their lending and consulting services in order to expand access to entrepreneurs of color.

For example, PCV has 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 is no longer the case. As PCV has increased its lending to entrepreneurs of color, its average loan size has declined from over $120,000 to approximately $85,000. Working Solutions has similarly seen its average loan size decrease as it has 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 will reduce the amount of the loan 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. It has revised its requirements so that it now seeks 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 is moving to strengthen its ability to provide equity and near equity to its accelerator participants. The grant funding it received through the SFEOCF has played a critical role in its ability to take this step. Because previously its fund was capitalized largely through low-cost program-related investments, it 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 access to funds that can be used to provide equity has enabled ICA to take two important steps as it has worked to ensure that the entrepreneurs who participate in its accelerators are entrepreneurs of color. First, it is now providing near-equity capital rather than debt to graduates of the accelerator. In the future, ICA hopes to invest in companies as they join 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 a recent 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 able to provide 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 would like to expand their ability to offer grant and equity investments in the businesses they work with. They have identified a joint fundraising effort to raise grants to support small-dollar grants as an area for future collaboration under this initiative. These services might mirror grant programs that Working Solutions has implemented for funders who provide grant funds to businesses affected by natural disasters.
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 has 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 is 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 and PCV) aligned their lending processes and areas where each organization has maintained its own practices (e.g., most eligibility requirements). Importantly for the goal of reaching entrepreneurs of color, loans made by either lender do not have a minimum credit score requirement, and the only collateral requirement is 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 because the stage or financial condition of their business did not match with PCV’s products and services.
The SFEOCF has made two changes to its practices to address this issue. First, it has clarified its language so that the primary descriptor of each organization’s services is based on the stage of the businesses it serves, 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.

**SFEOCF Continuum of Services – as implemented**

- **Start-up and early-stage firms**
  - Working Solutions
  - $5,000 - $50,000 loans
  - Customized pre- and post-loan consulting

- **Existing firms - stabilize and grow**
  - Pacific Community Ventures
  - $50,000 - $200,000 loans
  - Customized post-loan business mentorship

- **Firms with high growth potential**
  - ICA
  - $200,000 - $1M hybrid capital investments
  - Entrepreneur education and Good Jobs Accelerator

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 now go to Working Solutions. Staff there conduct the first interview to assess where the entrepreneur is in terms of the stage of his business, and then determine whether that client should stay with Working Solutions, or be referred to another SFEOCF member or to another community partner who is the best fit for their current needs. This process allows for a detailed and coordinated handoff between partner organizations, so that the entrepreneur is supported through the continuum of opportunity rather than bouncing between referrals.

**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 has now been revised so that all initial inquiries go to Working Solutions.

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. This is an area where additional in-kind or financial resources could be of benefit.

**Bringing on nonlending partners and collaborators**

In addition to the three CDFIs that constitute the SFEOCF, the collaborative has 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 has historically worked with community partners (small business assistance organizations and others working in low-income communities) as a source of referrals. These partners refer clients to the CDFIs. In some instances, they also receive 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 has 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 does not make loans directly, Renaissance has built a strong loan packaging and referral practice in which one of its team members works with clients who need financing to build a loan package and connects them to lenders that are a good 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 their 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 and PCV.\(^\text{34}\) For Working Solutions, 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 reflected a number of factors. First, Renaissance had a strong existing referral relationship with and knowledge of Working Solutions 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 operates 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 has 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 involve direct connections made by loan officers – are one of the most efficient means by which Working Solutions and PCV acquire customers, the members of the collaborative are 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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\(^{34}\) Twenty-nine referrals went to Working Solutions; 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 is specifically focused on entrepreneurs whose businesses are located within the city of San Francisco. The city is changing rapidly as its economy has become increasingly dominated by technology firms and the companies and infrastructure to support them. As noted previously in this paper, commercial real estate demand is growing, and the costs are high. Residential real estate prices are rising, and the demographics of neighborhoods are changing as technology workers elect to live in the city.

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

In addition to issues related to the tight labor market, housing costs, displacement, financial insecurity, and other factors continue 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 affect 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 are even more disconnected as vehicle traffic becomes even more congested. And while traffic becomes more congested, issues related to availability of parking for retail locations also cause challenges.

There are also local economic conditions that specifically affect food businesses. One-third of SFEOCF borrowers are food-related businesses, and these have to navigate the complexities of building a sustainable business in a city with a workforce and residents who are 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 face as a result of the delivery services, which require 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 limit owners’ abilities to adjust menu prices to accommodate these additional costs for businesses that already operate on thin margins. These dynamics are 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 are accustomed to fulfilling orders placed in person and that their operations are built to support that. With the introduction of a tech-based delivery system, owners now need 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 wait to pick up orders. The change in model is affecting restaurants’ operations and margins. While some businesses are finding ways to benefit from these services, others are unwilling or unable to do so. The consequence of these changes is contributing to a challenging landscape for food businesses owners in San Francisco.

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

Helping entrepreneurs understand, strategize about, and plan based on dynamics in the region. SFEOCF members work with entrepreneurs to look at the foundation of the business model to understand whether and how it is aligned with growth opportunities in the region. Similarly, members work with entrepreneurs to think about their business’ financial planning and growth strategies in terms of the local context. Will their strategy allow them to take advantage of existing foot traffic or allow for flexibility in creating pop-up locations? When Working Solutions is helping to review a client’s business lease terms, it considers these things and whether the lease offers the option to sublease in the event the business owner needs to shift their business model. A focus group participant shared that one of the most valuable tools he received from Working Solutions 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 works with clients, it looks for ways to connect them to contracting opportunities that support the business’ growth. The growth in technology firms and associated development of commercial space create 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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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. As Taste Makers continues, there will be opportunities to build the knowledge and communications processes that will enable more effective and efficient matching of SFEOCF-supported clients to the program.
Beyond the opportunity offered via Taste Makers at Chase Center, there are 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. And it seems most likely that it will be larger and more established firms supported by the collaborative members that will be most able to take advantage of such opportunities.

**Providing real estate services to small business owners.** Working Solutions offers real estate support services to businesses through a program funded by the City and County of San Francisco. The program includes support on lease review and evaluation, rent negotiation, and relocation advice. It is often provided to small businesses that are at risk of or in the process of being displaced by their current landlord. While this program can help to support some small businesses, it does not address the underlying costs of space in the city. Members of the collaborative shared stories of businesses they have worked with that have tried to open and maintain locations in the city but have later been 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 affects entrepreneurs of color, it is not a problem exclusive to entrepreneurs of color.

**Working with city government to address business climate and cost issues.** SFEOCF members engage with the city’s Office of Economic and Workforce Development, where they communicate about challenges their businesses face in the city. One such example is sharing information about the negative impact on business sales and traffic from discarded needles outside of business establishments. Collaborative members note that while they are able to share the information with the city, they have little to no ability to address the underlying issues themselves.

**Opportunities for strengthening the program:** The SFEOCF members have expressed that having better market information about the number, size, and industry of small businesses in San Francisco would be helpful to them as they seek 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 would also like to expand their ability to offer grant and equity investments in the businesses they work with to help address both financing and growth barriers. In addition, the lack of availability of contract financing does seem to be limiting the ability of entrepreneurs of color and other small businesses owned by low- and moderate-income individuals from participating 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

Since the SFEOCF launched in February 2018, the three Bay Area CDFIs have met critical targets in serving entrepreneurs of color in San Francisco. As of December 31, 2019, the partners had disbursed 55 loans or investments totaling $2,577,374 to 48 business owners of color. These financings include 31 loans and investments totaling $1,659,000 from the direct investment by JPMorgan Chase & Co.\textsuperscript{36} Of the businesses financed, 54% were owned by women and 76% by low-income individuals.

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 is 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 the SFEOCF by adding additional financing products, as well as by investing in additional strategies to attract potential borrowers to existing products offered by the SFEOCF.

Although San Francisco’s growing economy offers opportunities for entrepreneurs, the costs and operating pressures associated with that growth present challenges for all small business owners. The SFEOCF members offer 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 brings. On the whole, however, the trend remains 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.

\textsuperscript{36} The grant agreement between the SFEOCF partners and JPMorgan Chase & Co. called for the partners to make a total of 31-34 investments with the capital it provided to the partners.
to their work with entrepreneurs of color in the other parts of the Bay Area.

In the remaining 10 months of their formal collaboration under the PRO Neighborhood program, the SFEOCF members will continue to implement and refine their work to serve San Francisco’s entrepreneurs of color. The final evaluation report, to be issued in early 2021, will share information on the full set of lending outcomes they achieve, and document additional improvements and lessons from their work together.