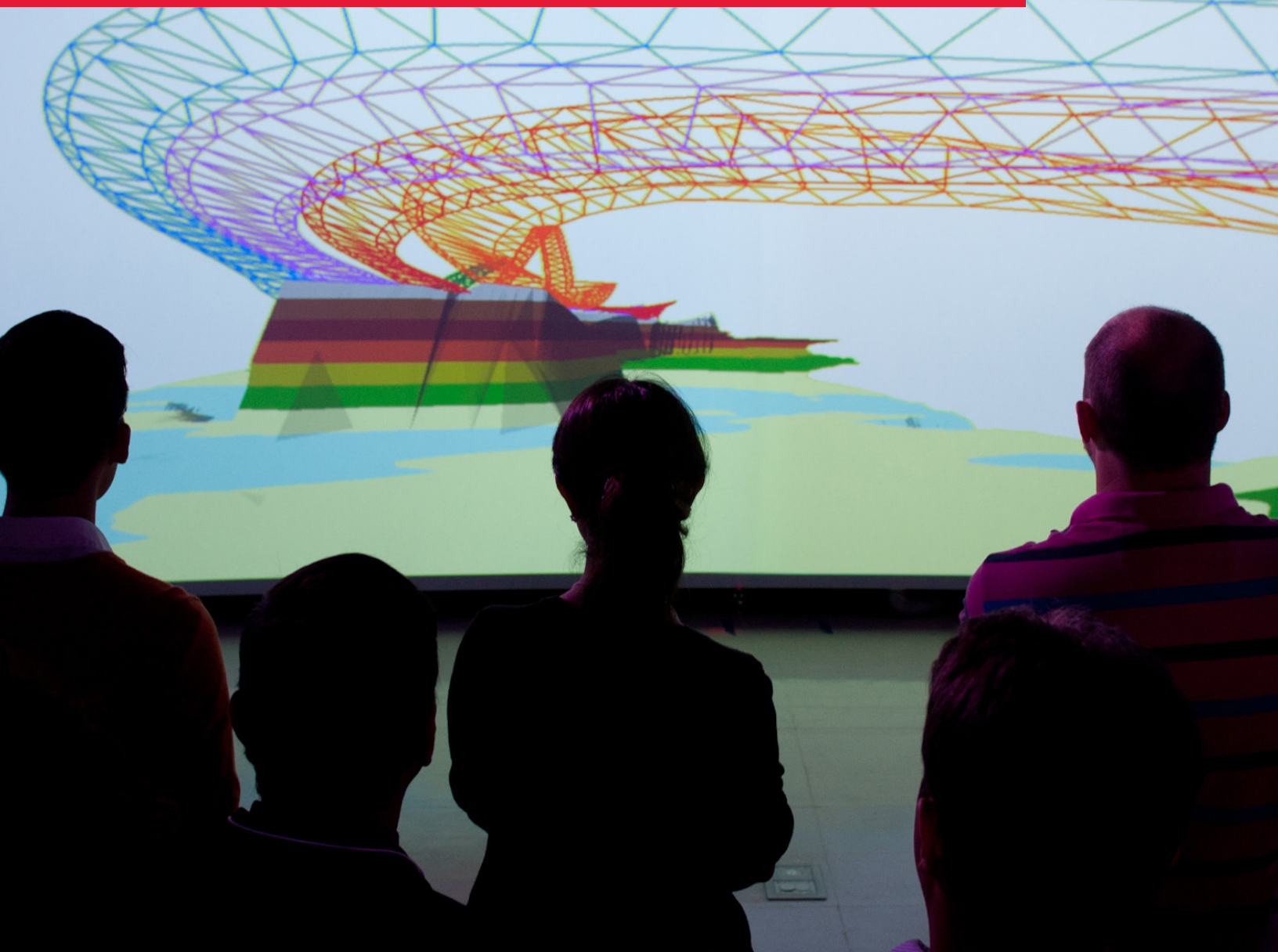


The Force for Good Fund:

How Investors Can Better Support Women-
and People of Color-owned Businesses



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Introduction

This report represents a collaboration between the NC State University's Poole College of Management, LIFT Economy, and Community Ventures's Force for Good Fund. The Force For Food Fund (FFGF) is a \$1M pilot fund that was designed to invest in high-impact, women and people of color-owned businesses. The idea behind the fund was to demonstrate that a more diverse and inclusive economy is possible—an economy where enterprises can create needed goods and services while creating outsized beneficial impact for people and the planet.

The goal of this report is to help impact investors, foundations, family offices, policymakers, and other financial institutions better understand why it is important to support women and person of color-owned businesses and how they can best do so.



Background

Women now make up 40 percent of new entrepreneurs in the United States — the highest percentage since 1996, according to the 2016 Kauffman Index of Startup Activity.¹ Over the last 10 years, minority-owned business enterprises accounted for more than 50 percent of the two million new businesses started in the United States and created 4.7 million jobs, based on recent Census Bureau data.² Yet, according to a study by First Round Capital, women-owned businesses receive just 2.7 percent of venture capital investment money³ and women of color only obtain 0.2 percent of venture capital investment dollars.⁴

“Investing in women means investing in the people who invest in everyone else.”

- Melinda Gates

Despite the limited access to capital, research shows that startups founded and co-founded by women are significantly better financial investments. Based on a study of 350 startups by BCG and MassChallenge, businesses founded by women deliver twice the returns compared to those founded by men.⁵ The Center for Global Policy Solutions recently reported that as a result of discriminatory financing practices and a bias favoring companies primarily operated by white males, “America is losing out on over 1.1 million minority-owned businesses, and as a result, foregoing over 9 million potential jobs and \$300 billion in collective national income.”⁶

Over the course of our 12-month project, our research team conducted a series of interviews with senior leadership and founders of the FFGF portfolio companies in order to identify themes that demonstrate how these companies are having an

1 “The Kauffman Index of Startup Activity,” Robert W. Fairlie, E.J. Reedy, Arnobio Morelix, and Joshua Russell, The Kauffman Foundation, August 2016. https://www.kauffman.org/~media/kauffman_org/microsites/kauffman_index/startup_activity_2016/kauffman_index_startup_activity_national_trends_2016.pdf

2 Need citation.

3 “Venture Capital Is Broken. These Women Are Trying to Fix It,” Kimberly Weisul, Inc. Magazine, November 2016. <https://www.inc.com/magazine/201611/kimberly-weisul/new-face-of-funding.html>

4 “The Comprehensive Case for Investing more VC Money in Women-Led Startups,” Wendy DuBow and Allison-Scott Pruitt, Harvard Business Review, September 18, 2017. <https://hbr.org/2017/09/the-comprehensive-case-for-investing-more-vc-money-in-women-led-startups>

5 “Women-Owned Startups Deliver Twice as Much Per Dollar Invested as Those Founded by Men,” John Harthorne, MassChallenge, March 07, 2019. <https://masschallenge.org/article/report-women-owned-startups-deliver-twice-much-dollar-invested-those-founded-men>

6 “The Color of Entrepreneurship: Why The Racial Gap Among Firms Costs the U.S. Billions,” Algernon Austin, Center for Global Policy Solutions, April 20, 2016. <http://globalpolicysolutions.org/report/color-entrepreneurship-racial-gap-among-firms-costs-u-s-billions/> <https://www.forbes.com/sites/forbesnonprofitcouncil/2018/02/15/founders-and-venture-capital-racism-is-costing-us-billions/#4cb37f1e2e4a>

outsized impact on their employees, the communities, and the broader industries in which they operate. We also interviewed the entrepreneurs to identify how funders (e.g., impact investors, lenders, foundations, etc.) can best serve their needs. Finally, we gathered survey data from a number of investors in the Force for Good Fund to learn more about why they invested and how they would measure success. We developed a series of case studies (see the Appendix) to highlight the different portfolio companies and the responses from investors.

Community Services Unlimited (South Central Los Angeles, CA)



Overview

Community Services Unlimited (CSU), a 501c3 nonprofit based in South Central Los Angeles, was established in 1977 by the Black Panther's "Feed South LA" program. CSU recently launched the Village Market Place, a for-profit, social enterprise that is South LA's first organic produce market and local food hub.

Impact

While organic, locally-sourced, healthy food trends rapidly spread across the country, South Los Angeles and its residents are being left behind. Like other urban, lower-income and majority people of color communities across the country, South Los Angeles is grossly underserved by healthy food retail of any kind, from grocery stores to healthy restaurants. Many residents in South L.A. spend a great deal of money on groceries outside of the community, known as "leakage." By bringing locally produced, healthy grocery to residents, the Village Market Place offers a unique and desperately needed lifeline to healthy food in South Los Angeles.

Alongside this need and demand for healthy food is the dramatic need for living wage jobs and job training opportunities, especially among youth, in the local community. CSU addresses these needs by providing training and jobs in the community.



csuinc.org

Why Does the FFGF Exist?

The original idea for the FFGF started in 2014. The team at LIFT Economy had noticed that many of its clients (typically smaller social enterprises with less than \$1M in annual revenues) were interested in raising capital to grow their businesses. However, many of these same clients—particularly women and people of color—were having a very difficult time raising money.

The LIFT team, working in conjunction with a wide variety of impact investors, family offices, foundations, social entrepreneurs, activists, and community groups, identified a number of barriers that affect traditionally underrepresented entrepreneurs. Some of these barriers include, but are not limited to:

- The legacies of structural sexism and structural racism in the capital raising process, the financial system, the economy, and society more broadly
- Investors' desire for "market rate returns" (or higher)
- Aversion to investing in "riskier," "early-stage" companies (particularly those run by women and people of color) with less than \$1M in annual revenues
- The difficulty women and people of color face to meeting the requirements for securitized and/or asset-based lending
- The lack of capital available to companies who are focused on creating smaller local or regional businesses (as opposed to companies that are trying to rapidly scale and capture a very large market share)

The Town Kitchen (Oakland, CA)



Overview

The Town Kitchen (TTK) is on a mission to empower underserved youth in the Bay Area. The organization is a community-driven food company that employs and trains youth by delivering chef-crafted meals to corporate clients. TTK addresses a need in the Bay Area area for locally-sourced meals, fair-wage jobs (i.e., at least \$15/hr), and job training programs for at-risk youth.

Impact

There are currently 5.5 million youth-at-risk (aged 16-24) in the US who are not employed or in school. These young people are less likely to receive a high school diploma and more likely to be incarcerated. At the current rate, youth unemployment costs the state and federal governments \$8.9 billion annually in social services such as food stamps and Medicaid payments.¹

TTK is designed to address these challenges because of its focus on 1) increasing post-secondary education access, which is shown to reduce unemployment, 2) increasing health outcomes, and 3) decreasing incarceration rates.

The company has shown great results. When the FFGF invested in 2018, TTK had trained 17 young people, 90% of whom enrolled in post-secondary education and 100% of whom used on-the-job case management. 66% percent of this group participated in the foster care system and 100% of the group were people of color.

The goal is to scale this model to thousands of youth while increasing the distribution of healthy, organic, locally-grown food.

¹ In This Together: The Hidden Cost of Young Adult Unemployment, a policy brief by: O'Sullivan, Mugglestone, Allison (January, 2014)

- Flexible and customized repayment options (e.g., deferred payments, interest only payments, royalty on gross revenue, etc.) that match the cash flow needs of the entrepreneur
- The lack of available assistance, both in helping entrepreneurs get “investment ready” (e.g., helping entrepreneurs get their financials in line, creating a pitch deck, making introductions to investors, etc.) and in providing post-investment technical assistance to help support the entrepreneur over the next 12-24 months

The cumulative effect of these barriers means that female entrepreneurs and entrepreneurs of color are often categorically excluded from access to capital. The Force for Good Fund, which launched in 2016, was specifically designed to help address these obstacles.

7 Ways the FFGF was Designed to Address Systemic Barriers

Here are seven ways that the FFGF was intentionally designed to address systemic inequality:

1. Focusing on Women and People of Color

Research conducted over the last few years has shown that women and people of color receive a fraction of the investment that men (particularly white men) receive. For example, one study found that only 8% of founders who received venture capital funding were female. The same study found less than 1% of startup founders receiving funding were Black or Latinx.⁷ The FFGF was explicitly designed to address this imbalance by primarily investing in women and/or people of color (with a particular focus on women of color). After investing \$1.1M in 13 enterprises, 77% of the FFGF portfolio companies are majority woman-owned and 85% of portfolio companies are majority person-of-color-owned.

2. “Living Return” vs “Market Rate Return”

The FFGF was designed to target a “living return” of 2.5% for investors. This living return target enables the terms of the loans to investees to be very flexible. In other words, this fund was explicit in asking investors to share a larger proportion of the risk without the potential for an outsized financial return on investment. This is

⁷ Retrieved July 3, 2019 from <https://www.cbinsights.com/research/team-blog/venture-capital-diversity-data/>

the exact opposite of most other investment funds. Most investors in the U. S. are used to “market rate” returns from the stock market of 7-10% per year, and even higher for private equity. However, these same investors often fail to question the assumptions behind this return on investment. For instance, money does not start accruing 7-10% interest by itself. That value is being extracted from somewhere, and in many cases the value is being extracted from a location that is often unseen, misunderstood, or ignored. The founders of the FFGF argued that market rate returns have been generated by various forms of oppression, such as the enslavement of Africans, the theft of land from Native Americans, the exploitation of workers, and the unsustainable extraction of resources from the environment. Based on this analysis, the team behind the FFGF argued that impact investments that seek market rate returns should not be emulated. Notably, even with a 2.5% living return target, the FFGF was still able to raise \$1.1M from 125 investors. There is clearly an appetite for this type of investment vehicle.

“As a real estate company, I think about, how can we maximize impact per square foot, rather than profit per square foot, which is what traditional real estate models look like.”

– The Guild

3. Avoiding the Need for an Exit

One of the problems with venture capital, even “mission-driven” or “impact-oriented” venture capital, is that investors often put an enormous amount of pressure on entrepreneurs to rapidly scale and then “exit” the company (i.e., have a liquidity event that allows investors to make an outsized return on their original investment) within a timeframe of roughly five to eight years. “Exiting” is usually accomplished in one of two ways: taking the company public (i.e., through an initial public offering) or getting acquired by a larger company. The pressure that entrepreneurs feel to scale their businesses in hopes of a successful exit means that entrepreneurs can, and do, make decisions that dilute the company’s original social and environmental mission. While exiting is often good for investors, it can dramatically decrease the positive impact the company is able to create for its workers, the community, and the environment.

4. Entrepreneur Friendly Investments

Investments from the FFGF were designed to be entrepreneur friendly. For example, investments were made in the form of low-interest unsecured debt (rather than equity) that could be customized to the needs of each particular entrepreneur.

Based on their cashflow needs, investees were given one, two, three, or even four year grace periods before they were expected to begin repaying the fund. In addition, by focusing on debt and not equity, the founders of the FFGF were not placed in the awkward position of needing to pressure investees to scale and exit in order to pay back the fund. These types of unsecured, low-interest loans are rare for early stage entrepreneurs. These types of loans are almost non-existent for early stage entrepreneurs who are women and people of color.

5. Integrated Capital Approach

Investments from the fund were completed with an “integrated capital approach.” This is sometimes referred to as a “cobbler” approach (i.e., a customized model) rather than a “cinderella” approach (i.e., a stricter, one size fits all approach to investees). The integrated capital approach calls for designing investment terms with each investee that match their stage, cash flow, market, anticipated future capital needs and sources. Additionally, a loan loss reserve was created to provide investors with confidence that their investment would be protected even if the FFGF does not perform as expected.

6. Democratizing Capital

Another aspect of the FFGF was an intentional design to rebalance the power dynamics between entrepreneurs and investors. This was accomplished through the inclusion of crowdfunding as a means to raise a portion of the total investment. Traditionally, if a fund wants to raise money, it has to pitch high net worth investors, wealth advisors, and other “accredited” institutions. This can be problematic for entrepreneurs and fund managers because it can be harder to raise money from a small population that is predominately conservative (from a risk standpoint), white, and male. However, in May 2016, the The Jumpstart Our Business Startups Act (JOBS Act) was signed into law by President Obama, allowing companies to raise up to \$1M from “unaccredited” (i.e., non-wealthy) individuals. The founders of the FFGF decided to take advantage of this new regulation and launched an investment crowdfunding campaign in September 2016. This campaign was very successful. It raised \$400,000 from over 100 investors in the Fall of 2016. Raising this initial \$400,000 was critical to the fund’s success. Once over 100 people had put money down to invest in the company, it was much easier to raise the remaining money from accredited investors. In fact, the FFGF’s target was \$1M total, but due to the interest from the accredited investors the final raise was \$1.1M with 125 investors total.

Tanka Resilient Agriculture (Pine Ridge Indian Reservation, SD)



Overview

Tanka Resilient Agriculture (TRA) is a Native American-owned producer cooperative whose mission is to return buffalo to one million acres of grasslands in partnership with Native producers. TRA is based on Pine Ridge Indian Reservation in South Dakota, the poorest place in the Western Hemisphere outside of Haiti.

Impact

TRA is a spinoff from Native American Natural Foods, the owner and creator of the Tanka Bar brand of healthy buffalo snacks. Based on a traditional Lakota recipe for preserving buffalo meat with fruit (called Wasna), Tanka products are the first nationally distributed food products from an Indian reservation.

Native American Natural Foods started TRA because they wanted to source 100% of their buffalo meat from Native ranchers. Until now, this goal of 100% Native sourcing has been unattainable because there have not been enough Native-owned buffalo.

TRA addresses three main challenges faced by Native ranchers: capital, land, and training. Most Native buffalo ranchers operate in significant debt and need patient capital, which is absent on the large land-based reservations. In addition, it's common for reservation land to be leased or owned by non-Indian ranchers who send their cows to concentrated animal feeding operations (CAFOs). The revenue from these operations leaves the reservation along with the animals. Last, even though grazing buffalo adds value to the land and grass, there has not been effective education, training, or sustainability protocols in place to capture this value or provide any type of certification, such as humane handling, organic, GMO-free, or grass-fed.

TRA helps address these three interrelated challenges so that Native ranchers can move from a cycle of debt into a place of financial and ecological sustainability.

7. Providing Capital and Services

Very few funds provide meaningful technical assistance in addition to capital. The FFGF provides investees with capital and 12-18 months of customized technical assistance to help entrepreneurs work on their vision, culture, strategy, and operations. These support services are needed because, among other things, the decisions that entrepreneurs make very early in the life of the company (e.g., where to seek financing, who to choose as their suppliers, who to hire, how to split equity/ownership, etc.) can affect the company's ability to maximize its positive impact over the long term.

Key Research Findings

Based on recurring themes that we observed across the interviews with FFGF investees, investors, and other key stakeholders, a model emerged that contained four main themes: Time, Systems, Impact, and Champion. We organized the following sections around these four themes. In the results provided below we summarize the themes gathered from the interviews, and also provide quotations and comments that represent our findings.

Time

Time is a limited and precious commodity for all entrepreneurs, but assigning traditional time parameters to these companies can set them up for failure. Impact takes time and these triple bottom line companies often need more of it to prove their success. Two themes emerged (from our coding of second-order themes) that describe the concept of time. These two themes include "patience" and "time limit."

'Patient capital,' a phrase used by Community Service Unlimited, was one of the most powerful descriptors that emerged from these interviews and was accurate for what these types of companies need from their investors. Patient capital means taking the time to understand what a successful timeline looks like, based on a company's business model and the stakeholders involved. For example, Owinza's work with a marginalized community required more time to break down barriers and build up trust. Patient capital also means understanding what healthy growth looks like and that the rate of return may be lower for these triple bottom line businesses. East Bay Permanent Real Estate Cooperative said, "***You can produce profits, but in the field of impact work, if you want to make a bigger impact, you need to accept a lower return on your investment because if you're asking for those higher returns that's coming out of either the pocket of the, you know, the entrepreneur serving or the pockets of the people who you're serving.***" When referring to one of their funding partners, Spotlight Girls complimented their investors' patience. "***I feel like those two are examples of, of funds that are recognizing that my business will grow, but not to this place of huge going public kind of thing.***"

Time is a precious commodity, and a CEO at one of the firms we studied could lose

a lot of it to fundraising. With relatively fewer investors interested in high impact, lower rate of return companies, a fundraising timeline can become even longer. As the founder of Red Bay Coffee said when discussing fundraising, *"The challenges are that it just takes so long that it pulls me away from what I do best, which is growing this coffee company, growing my company, attending to my team and making the weak parts strong. And just doing all the things that the founder and CEO is supposed to be doing."* The right investment can release these companies from the barriers of time and extend the runway for them. The Town Kitchen said, *"...it obviously was capital that allowed us to continue to sort things out and be able to*

Owinza (Pine Ridge Indian Reservation, SD)



Overview

The Owinza Quilters Cooperative is a cooperative business that sells hand-crafted star quilts and other products made by local Lakota quilters from the Pine Ridge Reservation in South Dakota. Owinza's mission is to support self-determination, self-sufficiency, and cultural identity through social enterprise.

Impact

Owinza aims to create a pipeline for training and jobs. The company hopes to funnel potential employee-owners into the business and create community wealth. The primary objectives of the Owinza Quilters Cooperative are to serve the following social aims through the operation of a business:

- Create local, sustainable employment opportunities for Lakota men and women on the Pine Ridge Reservation through employee-ownership;
- Develop and strengthen the skills, abilities, processes, and resources the Quilters Cooperative will need to survive, adapt, and thrive;
- Expand social and economic development through the arts;
- Provide a quality handmade art form created by inspired Native artists as a positive alternative to cultural appropriation and misrepresentation of native-inspired products dominating the current market

push through that from an inflection point...

In sum, something we heard over and over is “...**as a woman and/or person of color I am constantly out raising money.**” In addition, there were examples of sexual harassment / outright racism from prospective investors. These entrepreneurs spend so much time raising money that they don’t have time to focus on growing their businesses. Accordingly, and not surprisingly, we saw an aggregate construct of Time emerge from our data collection efforts.

“I think of like black girls and then being in a community where they feel safe, they know their neighbors and they know that they can stay where they have grown up, like they know that they’re not, they’re not afraid of being kicked out and they don’t see their neighbors getting kicked out and they trust that, that they have a safe place to be.”

– East Bay Permanent Real Estate Cooperative

Systems

Our research revealed the need to re-examine the relationships between investors and companies and look more closely at the value these companies create for their communities. Building a relationship and understanding companies at a systemic level are important steps in understanding impacts beyond the financials. As 10 Power said, “**I feel like those one-size-fits-all approaches don’t really work as well.**” In our research, three themes emerged during the identification of second order themes that tell a more holistic story of what makes up the systemic level. These themes include “**ecosystems,**” “**relationships,**” and “**community.**”

From an ecosystem perspective, there was the money and time that these companies invest into every person in the supply chain, and how that time and attention trickles down to create larger impact was important to highlight. As Red Bay Coffee Company said, “**I think about the positive role that we play and everyone associated with our value chain, from the farmer through our entire staff and company to our customers.**” These new economic models that provide capital invest not just in the bottom line, but in everyone who is contributing to the product or service to help create the whole ecosystem. These types of companies provide more economic health for everyone and the Guild stated, they “**...introduce and incubate new economic models that just don’t perpetuate the same social inequities that current capitalistic models do.**” The value of thinking at a larger scale and tackling pressing issues that affect larger numbers of people should not go unnoticed. As Preserve Farm Kitchen expressed when addressing the issues of the disappearance of farmers, “**...that’s not just a problem for those people trying to make a living, that’s a problem for our whole system.**”

Relationships take time to cultivate, and as highlighted above time is not always available in the investment world. However, for impact investing to be successful with

Spotlight:Girls (Oakland, CA)



Overview

Spotlight:Girls is a woman of color-owned business and a certified B Corp based in Oakland, CA. The company's mission is to educate, inspire, and activate girls and women to take center stage. Spotlight: Girls produces media, events and learning experiences with and for girls and girl advocates that promote leadership, creativity, courage, connection, and radical care.

Impact

Since 2008, Spotlight: Girls's camps and afterschool clubs have taught thousands of elementary and middle school-aged girls key social-emotional skills through the process of making their own plays, art, music, and media. Attendees have learned to become more confident, take more creative risks, set healthy boundaries with their peers and others, and express their feelings in productive ways.

In recent years, Spotlight: Girls partnered with Camp Reel Stories, a popular media camp for teens, to offer a more advanced, behind-the-scenes program aimed at tween and teen girls. This program gives rising fifth and sixth grade girls a chance to produce, direct, edit, and star in their own short films. They also offer a Go Girl! Leadership Team, giving rising seventh, eighth and ninth graders an opportunity to mentor younger camp participants, fostering their leadership skills and becoming effective role models for younger girls.



these type of company demographics, the relationship has to have the time and flexibility go beyond money. These companies want to feel like the impact investor is growing with them. When referencing this partnership, The Town Kitchen said, *“Those are the kinds of transformative type of relationships that can really catapult us forward, because they love what we stand for, they love what we do.”* Since many of these companies are experimenting with new approaches to business or are building out models that grow more slowly, investors will need to spend more time understanding the business model and what these companies are trying to accomplish in the long term.

Finally, the investment these companies make into their communities can lead to much larger system-wide impact. Our research revealed that many of the entrepreneurs interviewed were working within a cooperative model and working with networks of people. By addressing larger issues, companies like those in the FFGF, help to build communities of safety and trust and transform depressed communities. As East Bay Permanent Real Estate Cooperative said when addressing how they see impact, *“I think of community, I think of children actually I think of like black girls and then being in a community where they feel safe, they know their neighbors and they know that they can stay where they have grown up, like they know that they’re not, they’re not afraid of being kicked out and they don’t see their neighbors getting kicked out and they trust that, that they have a safe place to be.”* Investors should re-examine the types of communities they are supporting through venture funding and consider how their investment is shaping the future of these communities. As Our Table Cooperative said, *“We always think about saving money for retirement, but we never really think about what kind of world we’re going to retire into.”*

Overall, we see that there is a plausible connection to how these companies are building broader systemic impacts versus narrow, near-term interests. In the business model itself, each company highlighted an opportunity to add long-term value. Here, we see a connection between building networks within structure organization and usage of the concept of community.

Impact

One additional aggregate construct that emerged clarifies how these companies interpret what it means to make an impact. To Red Bay Coffee company, impact is to *“... create opportunities for folks who have high barriers to entry.”* Their founder said, *“I know we have an impact because we grow people.”* For others, they see impact as something more long term. Native American Natural Foods is always asking itself, *“...what [is] our impact that we’re going to be doing for future generations and for other long-term of the company?”* Second-order themes that emerged included: *“passion”, “exclusion”* and *“diversity.”*

The founders in these FFGF companies feel a strong connection to the mission of their work, which translates into a strong passion for their company. One thing we took away is that these founders go all in because they believe so strongly in the impact they can make.

The Founder of Red Bay Coffee Company went as far as to invest his savings. He said, ***“I was on the verge of losing my house, and we had already had a foreclosure notice sent.”***

This study brought to light some of the investment challenges that these companies face and how certain exclusions can slow down their growth and ultimately limit the financial and social impacts they can achieve. Racial inequalities exist in the investment world and many of these companies have seen this first hand. East Bay Permanent Real Estate Cooperative said, ***“There’s just a little more distance between communities of color, women, from those typically white male investors.”*** Community Service Unlimited saw a financial world where, ***“Underwriting is so heavily weighted in favor of white folks with money.”*** And in the experience of Spotlight Girls, the founder suggested that there are investments for women of color, but that is focused on technology companies. She said, ***“I feel like when a black woman does a business that’s like traditionally women’s work, you know, then people were like that’s nice, but they don’t want to invest the money in it.”***

An additional take away from these data was how this diverse group of companies could create access and open doors for more individuals who were qualified, but they to work to create these opportunities. Creating pathways to success for communities at risk of displacement or underrepresented is at the center of how many of these companies offer impact. As Owinza said, ***“... it’s creating, you know, income for families who really haven’t had that before, and it gives families opportunities to, you know, really have income in their families that, you know, allow them to do things, allow them to, you know, go places and well, allow them to grow.”*** Spotlight Girls said, investors ***“...have the power to make choices about where that money is invested.”*** And we need to show them how we have a much more impact than simple financials.

We heard over and over: ***“we are here to create a better life”, “strengthen ecosystem”, “build community wealth”, “working in a broken system, working to fix this system.”*** These are businesses that are having direct impacts by addressing broader social and environmental issues.

Related to this point, 11 of the 13 portfolio companies filled out questions from the B Impact Assessment (BIA) so that the research team could compare their social and environmental performance with each other and across other similar businesses.

Of note, all 11 have 50%+ of their board of Director positions filled with women or individuals from chronically underemployed communities. That is 25%+ higher than the 3830 ordinary based companies based in the United States and 17%+ higher than the 1793 B Corps based in the United States. Of the 11 companies that responded, 10 out of 11 have 50%+ of their workforce filled with women or individuals from chronically underemployed communities. That is 22%+ higher than the 3830 ordinary based companies based in the United States. The data to compare to B Corps were not available.

Red Bay Coffee
(Oakland, CA)



Overview

Red Bay Coffee envisions a world in which coffee is a vehicle for inclusion, social and economic empowerment, entrepreneurship, innovation, and environmental responsibility.

Impact

Red Bay Coffee is at the forefront of the “fourth wave” of coffee—a firm commitment to ensure coffee production is not only high quality and sustainable, but a vehicle for diversity, inclusion, and sustainability. The company focuses on single origin, fair trade, direct trade, and organic coffees.

Red Bay seeks to create unity by hiring and serving people of all backgrounds, striving to be diverse and inclusive of those who have traditionally been left out of the specialty coffee industry, especially people of color, the formerly incarcerated, women and people with disabilities.

In addition, Red Bay works with local sellers and acts as a platform for their promotion and distribution. The space is used for cultural events including live music, poetry, and art viewings.

“I think about impact, I think about people who even have-- on this side of the chain, folks who have very professional experience, like our director of coffee, but didn't really have a place to take it even higher. So completely qualified to become a director of coffee, but as a woman, as a black woman who hasn't had that job title before.”

– Red Bay Coffee

There are two additional points that we heard from these participants. Regarding a living wage, we heard that impact is placing value on all people in the workplace. Based on the BIA survey data: Of the 11 companies that responded 10 out of 11 pay 100% of their full time employees the equivalent of a living wage. That is 78%+ higher than the 3830 ordinary based companies based in the United States and 59%+ higher than the 1793 B Corps based in the United States.

Regarding collaborative business models—more collaborative business models may lead to higher margins. As Northern California Fibershed cooperative pointed out, when a company is employee owned “...*people have shared incentive to make things profitable.*”

Champion

Ventures led by women and people-of-color need investors who recognize that these ventures have historically been marginalized and had very limited access to capital. According to the Guild’s experience of raising capital, “...*most people of color don’t have access to the friends and family round.*” They need champions who recognize that traditional investment models may not work for them. As Preserve Farm Kitchen said, “*A lot of those impact investment groups, they might be lending to the, to the right people, you know, to the companies that are making a difference in the world, but their terms and everything else about them is exactly the same as everybody else.*” From our coding of second-order themes, four themes emerged to best describe what it means to be a champion. These include “*trust*”, “*inclusion*”, “*business models*” and “*new perspectives.*”

Trust is at the core of a good champion. As Native American Natural Foods said, “*Partnerships work at the speed of trust.*” Most of these founders come from communities that don’t have regular engagement with investors, and many investors are not familiar with communities of color. Companies need to know that the investor has their best interest in mind so they can feel better about taking certain strategic advice, such as raising larger rounds of funding. To echo the words of Main Street Project, these companies need “*de-risking strategies without public scrutiny.*”

Impact happens when all people are given a chance to share their voice. These types of ventures provide opportunities to be inclusive and bring more people to the table. They need champions who recognize that this inclusion is a value add. Native American Natural Foods was clear about this need to share more voices when they said, “*The needs that we see would be to actually put Native American or First Nations producers back at the table.*” Inclusion also means providing people with the right skills to lift them up and give them a chance to succeed. Spotlight Girls sees the work they do as empowering their community and “...*teaching girls the skills that they need to make bold and brave choices in their lives.*”

These businesses need champions who will be open to new ways of approaching business either through the support from new business models or by using a traditional model with a new perspective or expanded values. Most investors are looking for proven solutions, even in impact investing space. For many of these companies, their models are not proven. They are creating completely new ways of thinking and organizing their impact businesses. Some of these companies are taking a risk and testing something new with a specific impact ‘return’ in mind. Table Cooperative notes that they are the “*only multi stakeholder co-op around in the food space in the nation that includes consumers as one of the ownership stakeholders.*” Others see a new approach to traditional business practices. As

the Guild stated, *“As a real estate company, I think about, how can we maximize impact per square foot, rather than profit per square foot, which is what traditional real estate models look like.”* New perspectives is a two way street, and these entrepreneurs need champions that will not only be open to new business models and new perspectives on traditional business, but they also need someone who will critique them and give them insights to strengthen their approach. Many of these entrepreneurs don’t know investment language because of limited exposure. Diverse and inclusive ownership will only be successful if it comes with opportunities to learn. As East Bay Permanent Real Estate Cooperative said “Don’t write people off if they don’t speak the same languages [as] you.”

Future Research and Next Steps

The limited nature of the study meant that the research was conducted with a small sample of companies, limited to the 13 companies in the FFGF. There is not yet an opportunity to conduct a longitudinal study (ideally 3-5 years). As a result, there are some constraints on the generalizability of the results.

There are several opportunities for extension and expansions of the current research:

- 1) Examine how/why investing in women- and people-of-color owned enterprises creates an “outsized benefit,” explore what types of business models will work for other ‘non-extractive’ community-style investments.
- 2) Collect data from similar funds such as,
 - [Seed Commons](#) - a decentralized network of locally-rooted loan funds from around the US who practice non-extractive lending to build productive, sustainable cooperative enterprises in marginalized communities. The Seed Commons is building cooperative national infrastructure for a financial commons, and planting the seeds of the next economy.
 - [Southern Reparations Loan Fund](#) - makes loans to community-based businesses in marginalized southern communities.
 - [Boston Ujima Project](#) – organizes neighbors, workers, business owners and investors to create a community-controlled economy in Greater Boston.
 - [Buen Vivir](#) - The Buen Vivir Fund is a collective response to the need for a truly transformative approach to impact investing. Buen Vivir is designing forms of investment that support grassroots economic initiatives to build wealth, community power, and wellbeing.
 - [BackStage Capital](#) – the fund has invested \$5M in 100 companies led by underrepresented founders.
 - [SheEO](#) – engages a network of more than 1 million, including 10,000 women-led Ventures and a \$1B perpetual fund to support women for generations to come.

3) Further explore the connection between how these companies are building networks and broader systemic impacts. Document how these companies define their role and how they are shaping the ecosystem, economies. See how these systematic changes match the goals of the investment community. Finally, explore how holistic measures of impact might create additional interest from investors.

4) Look more closely at the language used by investors on their websites and in their print marketing. Compare the phrases and technical terms they use to the level of understanding by “impact” driven companies. This type of analysis could be used to provide investors with more inclusive verbiage.

5) Use the B Analytics tool (developed by B Lab) on a larger cohort of companies to get a better sense of the positive social and environmental impact created by these types of businesses

Questions for Investors

The following are a number of questions that investors, family offices, foundations, and other financial institutions should consider when making investments and/or creating a fund:

- Do you really need “market rate” returns, even when the concept of “market rate” is based on historical oppression, exploitation, theft, and enslavement?
- Is it really a positive goal to strive for “high impact” and “high returns”? Or should we be striving for “high impact” and “living returns”?
- Who benefits when you exit an investment? Is it workers, the local community, the environment, or traditionally underrepresented entrepreneurs? Or does the financial upside of exiting disproportionately benefit white wealth holders, thereby increasing the racial wealth gap?
- How can more of the risk and burden of the investment process be shifted onto investors and away from women- and people of color-owned businesses? For example, many organizations could drop the requirement for asset based or other types of securitized lending.
- Do women and people of color have meaningful representation on your decision-making bodies that decide who gets funded? To counter historical imbalances, we recommend striving for 50% or more women and 50% or more people of color on these decision-making bodies.
- Can you co-design customized investment terms that take into account stage, cash flow, market, anticipated future capital needs, and other similar variations?
- Are you planning on providing (and/or contracting with an organization that can provide) technical assistance to your investees over the long term?

Conclusion

This research project has highlighted how institutional and individual bias, conscious or unconscious, limits access to capital for women-owned, and people-of-color-owned ventures. This bias can also put unrealistic pressure to adopt business models that will not allow the venture to flourish, to grow the business in an unsustainable manner, to 'exit' in a manner that is inconsistent with the impact metrics that drive the venture or to embrace extractive practices that leave the community that supports the venture less well-off.

We would like to acknowledge that while some of the recommendations in this paper may seem radical, unrealistic, and/or may make some funders uncomfortable, we would assert that avoiding dramatic changes to the accumulation and deployment of capital will create even worse outcomes for society and the environment. There needs to be a monumental shift away from the belief that "market rate returns" are a positive benchmark for which to aspire. Perhaps that change will begin once we shift from storytelling to truth-telling. Believing that we can have both high impact and high returns is a great story. It just might not be the truth.

In sum, we hope that our work not only provides a foundation for future research related to impact investing, but also sheds light on the intricacies of providing access to capital for women and people of color.

Appendix: Mini Case Studies

The Town Kitchen (Oakland, CA)

Overview

The Town Kitchen (TTK) is on a mission to empower underserved youth in the Bay Area. The organization is a community-driven food company that employs and trains youth by delivering chef-crafted meals to corporate clients. TTK addresses a need in the Bay Area area for locally-sourced meals, fair-wage jobs (i.e., at least \$15/hr), and job training programs for at-risk youth.

Impact

There are currently 5.5 million youth-at-risk (aged 16-24) in the US who are not employed or in school. These young people are less likely to receive a high school diploma and more likely to be incarcerated. At the current rate, youth unemployment costs the state and federal governments \$8.9 billion annually in social services such as food stamps and Medicaid payments.⁸

⁸ In This Together: The Hidden Cost of Young Adult Unemployment, a policy brief by: O'Sullivan, Mugglestone, Allison (January, 2014)

TTK is designed to address these challenges because of its focus on 1) increasing post-secondary education access, which is shown to reduce unemployment, 2) increasing health outcomes, and 3) decreasing incarceration rates.

The company has shown great results. When the FFGF invested in 2018, TTK had trained 17 young people, 90% of whom enrolled in post-secondary education and 100% of whom used on-the-job case management. 66% percent of this group participated in the foster care system and 100% of the group were people of color.

The goal is to scale this model to thousands of youth while increasing the distribution of healthy, organic, locally-grown food.

Tanka Resilient Agriculture (Pine Ridge Indian Reservation, SD)

Overview

Tanka Resilient Agriculture (TRA) is a Native American-owned producer cooperative whose mission is to return buffalo to one million acres of grasslands in partnership with Native producers. TRA is based on Pine Ridge Indian Reservation in South Dakota, the poorest place in the Western Hemisphere outside of Haiti.

Impact

TRA is a spinoff from Native American Natural Foods, the owner and creator of the Tanka Bar brand of healthy buffalo snacks. Based on a traditional Lakota recipe for preserving buffalo meat with fruit (called Wasna), Tanka products are the first nationally distributed food products from an Indian reservation.

Native American Natural Foods started TRA because they wanted to source 100% of their buffalo meat from Native ranchers. Until now, this goal of 100% Native sourcing has been unattainable because there have not been enough Native-owned buffalo.

TRA addresses three main challenges faced by Native ranchers: capital, land, and training. Most Native buffalo ranchers operate in significant debt and need patient capital, which is absent on the large land-based reservations. In addition, it's common for reservation land to be leased or owned by non-Indian ranchers who send their cows to concentrated animal feeding operations (CAFOs). The revenue from these operations leaves the reservation along with the animals. Last, even though grazing buffalo adds value to the land and grass, there has not been effective education, training, or sustainability protocols in place to capture this value or provide any type of certification, such as humane handling, organic, GMO-free, or grass-fed.

TRA helps address these three interrelated challenges so that Native ranchers can move from a cycle of debt into a place of financial and ecological sustainability.

Spotlight:Girls (Oakland, CA)

Overview

Spotlight:Girls is a woman of color-owned business and a certified B Corp based in Oakland, CA. The company's mission is to educate, inspire, and activate girls and women to take center stage. Spotlight: Girls produces media, events and learning experiences with and for girls and girl advocates that promote leadership, creativity, courage, connection, and radical care.

Impact

Since 2008, Spotlight: Girls's camps and afterschool clubs have taught thousands of elementary and middle school-aged girls key social-emotional skills through the process of making their own plays, art, music, and media. Attendees have learned to become more confident, take more creative risks, set healthy boundaries with their peers and others, and express their feelings in productive ways.

In recent years, Spotlight: Girls partnered with Camp Reel Stories, a popular media camp for teens, to offer a more advanced, behind-the-scenes program aimed at tween and teen girls. This program gives rising fifth and sixth grade girls a chance to produce, direct, edit, and star in their own short films. They also offer a Go Girl! Leadership Team, giving rising seventh, eighth and ninth graders an opportunity to mentor younger camp participants, fostering their leadership skills and becoming effective role models for younger girls.

Community Services Unlimited (South Central Los Angeles, CA)

Overview

Community Services Unlimited (CSU), a 501c3 nonprofit based in South Central Los Angeles, was established in 1977 by the Black Panther's "Feed South LA" program. CSU recently launched the Village Market Place, a for-profit, social enterprise that is South LA's first organic produce market and local food hub.

Impact

While organic, locally-sourced, healthy food trends rapidly spread across the country, South Los Angeles and its residents are being left behind. Like other urban, lower-income and majority people of color communities across the country, South Los Angeles is grossly underserved by healthy food retail of any kind, from grocery stores to healthy restaurants. Many residents in South L.A. spend a great deal of money on groceries outside of the community, known as "leakage." By bringing locally produced, healthy grocery to residents, the Village Market Place offers a unique and desperately needed lifeline to healthy food in South Los Angeles.

Alongside this need and demand for healthy food is the dramatic need for living wage jobs and job training opportunities, especially among youth, in the local community. CSU addresses these needs by providing training and jobs in the community.

Owinza (Pine Ridge Indian Reservation, SD)

Overview

The Owinza Quilters Cooperative is a cooperative business that sells hand-crafted star quilts and other products made by local Lakota quilters from the Pine Ridge Reservation in South Dakota. Owinza's mission is to support self-determination, self-sufficiency, and cultural identity through social enterprise.

Impact

Owinza aims to create a pipeline for training and jobs. The company hopes to funnel potential employee-owners into the business and create community wealth. The primary objectives of the Owinza Quilters Cooperative are to serve the following social aims through the operation of a business:

- Create local, sustainable employment opportunities for Lakota men and women on the Pine Ridge Reservation through employee-ownership;
- Develop and strengthen the skills, abilities, processes, and resources the Quilters Cooperative will need to survive, adapt, and thrive;
- Expand social and economic development through the arts;
- Provide a quality handmade art form created by inspired Native artists as a positive alternative to cultural appropriation and misrepresentation of native-inspired products dominating the current market

Preserve Farm Kitchens (Sonoma, CA)

Overview

Preserve Farm Kitchens makes gourmet foods from local farm produces that might otherwise go unsold or wasted. The company's vision is to strengthen regional food systems by supporting local family farms. The company aims to deliver amazing food in jars produced in a kitchen rather than a factory, containing only naturally ripened, simple ingredients.

Impact

Preserve Farm Kitchens fills the infrastructure void with right-size processing kitchens, then they partner with small family farms to directly source local ingredients. The result is local, fair-trade, sustainable products. Other positive impacts include:

- 100% woman-owned
- Creates outsized, beneficial environmental impact via food waste upcycling
- Increasing farmer income for sustainable and regenerative producers
- More healthy, nutritious food available to consumers
- Hiring from marginalized populations and communities

Red Bay Coffee (Oakland, CA)

Overview

Red Bay Coffee envisions a world in which coffee is a vehicle for inclusion, social and economic empowerment, entrepreneurship, innovation, and environmental responsibility.

Impact

Red Bay Coffee is at the forefront of the “fourth wave” of coffee—a firm commitment to ensure coffee production is not only high quality and sustainable, but a vehicle for diversity, inclusion, and sustainability. The company focuses on single origin, fair trade, direct trade, and organic coffees.

Red Bay seeks to create unity by hiring and serving people of all backgrounds, striving to be diverse and inclusive of those who have traditionally been left out of the specialty coffee industry, especially people of color, the formerly incarcerated, women and people with disabilities.

In addition, Red Bay works with local sellers and acts as a platform for their promotion and distribution. The space is used for cultural events including live music, poetry, and art viewings.

Main Street Project (Northfield, MN)

Overview

Main Street Project has developed a regenerative model for free-range poultry production. They have pioneered a multilingual, field-based training program, that has trained over 70 aspiring Latino agripreneurs in their poultry-centered model. The emphasis of their work is on greater equity and access for those who labor in the system.

Impact

By building a new model for regenerative agriculture, Main Street Project is creating pathways for immigrant farmers to control their own economic destiny in the American midwest while modeling better practices for carbon sequestration, reducing amendments and pollution, and benefitting soil health.

The current model includes farmer profit share to ensure that farmers collect the profits from their farms. Through methodical testing, there is potential for replication in other areas to create, model, and share what works.

The Guild (Atlanta, GA)

Overview

The Guild builds spaces for social change. They bring together diverse changemakers in a coliving environment that is thoughtfully designed to encourage collaboration. In addition to living space, The Guild provides holistic programming and workshops that give members 22

more tools to maximize their impact on the world.

Impact

Members of The Guild are entrepreneurs and changemakers from marginalized backgrounds, with a focus on supporting people of color. This woman owned business chooses entrepreneurs who align their work around the themes of just transition, broad climate change mitigation and social equity.

10 Power (Haiti)

Overview

10 Power, a certified B Corp, works together with local partners to develop and finance commercial-scale solar projects in Haiti, making renewable energy affordable and accessible for tangible improvements in livelihood and prosperity. The company views renewable energy as the key to provide access to clean water, gender empowerment, livelihood improvement, education and technology. 10 Power is a for-profit, social impact enterprise.

Impact

10 Power reinvests revenue to grow positive impact in the communities they serve. They measure impact following the UN Sustainable Development Goals. As a Certified B Corps, they address both employment equality and climate change issues. With a focus on gender equality, 10 Power is partnering with local educational institutions to provide technical training for maintaining solar installations and creating local enterprise. Solar photovoltaics provide clean water and power to some of the poorest communities in the world, building distribution hubs for sustainable development.

OurTable Coop (Sherwood, OR)

Overview

OurTable is a cooperative where everyone has a seat at the table, everyone gets a vote, and everyone shares in the profits. The cooperative includes a certified organic farm that practices biodynamic agriculture and a logistics operation that invites farmers from the surrounding area to store and sell their goods. The facility includes cold storage, warehousing, delivery logistics, a commercial kitchen and retail store.

Impact

OurTable cooperative is a new paradigm that brings together all stakeholders in a food value network, from farm to table, as members of a single vertically integrated cooperative:

- Worker members raise crops on the Certified Organic 58-acre farm and perform aggregation, value-added processing, distribution, and retail services.
- Independent producer members allow the cooperative to scale in both product diversity

and volume.

- Consumer members complete the loop by fostering a deep integration with the Community.
- Ownership is comprised of 60% women and people of color.

Fibershed (San Geronimo, CA)

Overview

The Northern California Fibershed Cooperative is focused on helping fibershed communities create economic independence. The fibershed products include soil based fibers, natural dyes and value-added goods that are farmed and ranched through practices known to re-balance the carbon cycle. They do this by marketing and promoting fibershed products and by working with these communities to develop sustainable plans to sell the goods that are farmed and ranched on their land.

Impact

The Northern California Fibershed Cooperative is working to provide disadvantaged communities with long term, stable economic development that is non-extractive and biologically driven. This work also provides resources to maintain environmental ecosystems that sequester carbon. Other positive impacts include:

- 100% Woman-owned
- 100% Worker-owned

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