About Pacific Community Ventures (PCV)

Closing the Racial and Gender Wealth Gap through Restorative Capital and Good Jobs

Pacific Community Ventures is a 501c3 impact investor that supports small business owners and their communities in the fight for economic, racial, and gender justice.

We work side-by-side with growing small business leaders and solopreneurs through our integrated model: combining impact-first Restorative Capital and Pro Bono Business Advising with our Good Jobs Innovation Lab that propels thriving communities with equitable jobs.

PCV is the first, and only, CDFI in the country to pair lending capital with micro grants for entrepreneurs who improve the quality of jobs they create for their workers.
An Age Old Question

Is there a tradeoff between social and financial returns?

Financial returns to whom?

Consider Instead: Should social benefits ever outweigh personal financial returns to address market failures?

What We Know About the Challenge

The Racial Wealth Gap Creates a **Systemic Risk** for Our Economy and Democracy.
ABOUT THE SOLUTION-COMMUNITY ASSET FRAMING

The exclusion of BIPOC Entrepreneurs from accessing capital could cost our economy $1 trillion by 2028.

Entrepreneurs of color provide essential services (e.g., child care) that are critical to the wellbeing of the economy.

BIPOC-led businesses in our portfolio created more jobs than their white counterparts in 2021.

Entrepreneurialism creates a check on extractive labor practices.

Small businesses are also invaluable incubators for groundbreaking innovation that our economy cannot compete without.
of workers in the U.S. are employed by small businesses

89% of the new businesses opened every day are led by women of color

59% of PCV’s small business owners surveyed are keen to adopt good job standards but unable due to: i) lack of financial resources, and ii) lack of support

59% of female-identifying BIPOC entrepreneurs report access to capital and resources as their biggest barrier to creating good jobs and wealth creation for themselves and their workers

75% of Black business owners and 20% of Latinx business owners got the PPP loans they applied for in 2021

13% of venture capital dollars were invested in Black founders in 2021
Our Restorative Capital Strategy

Place-based ecosystem partnerships that democratize access to capital by centering power with local community leaders and organizations

Policy & Research on a learning agenda that centers small business owners, worker empowerment, and advocates for systems change

Fund Innovations that leverage our impact investing roots decolonize access to capital, mentor networks, and build wealth by, for, and with communities
Small Business Restorative Loans

Use data infrastructure + behavioral economics insights to identify accessible drivers of good job creation in BIPOC small business ecosystems.

Disseminate findings and co-create financial product innovations, place-based resources and policies to support small business good jobs journeys.

Thousands of essential good, quality jobs are created, sustained in communities and industries historically deemed “too hard to reach.”

Small business owners, solopreneurs, and workers meet their personal income goals, build wealth, and pursue their longer-term aspirations.

Successfully eradicate the market failures that create barriers for small business that perpetuate the racial and gender wealth gap in America.
**Our Methodology**

- **70 loans**: 35 from place-based Oakland Restorative Fund + 35 from comparison set of similar sized SBOs
- Map impact financial frontier in order to:
  - Understand how place-based approaches alter investment strategies and provide opportunities for greater impact
  - Assess what range of amounts an impact investor needs to “pay” – or concede in returns – to achieve deep, intentional impact

- Developed, piloted impact underwriting rubric
  - Finalized the following impact categories:
    - Racial equity
    - Ability to create good jobs
    - Enterprise access to financing
    - Potential to create positive community impact
  - Finalized weights, scoring to value business potential
  - Aligned impact methodology with Aeris assessment
  - Currently applying scores to 70 selected loans

- Applying risk-adjusted return framework (return on equity) on selected loans

  **Estimated Returns:**
  - Oakland loans = 0%
  - Comparison loans between 4.25 - 6.5%

  **Estimated Loss:**
  - Assume average 0.5% default rate (aligned to SBA FY21 chargeoff rate), with probabilities adjusted based on loan delinquency
Geographic spread of Oakland loans
## Approach to rating impact of small business loans

PCV’s lending impact rating is calculated along the following dimensions (and weights):

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<th>Demographic Equity (50%)</th>
<th>Enterprise Access to Financing (30%)</th>
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<td>Are the business owners and employees from historically underestimated backgrounds?</td>
<td>Does the business have access to affordable financing outside of PCV?</td>
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<th>Ability to Create Good Jobs (10%)</th>
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<td>Does the business have the capacity and willingness to create and maintain quality jobs?</td>
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<th>Customers and Community (10%)</th>
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<td>What is this business’s potential to create trust and positive impact in its community, society, and the environment?</td>
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Overall impact rating results

Impact ratings for the place-based Oakland Fund have a higher median and lower variance, suggesting a place-based approach offers more certainty in achieving meaningful impact.
Impact scores by category

On average, Oakland Fund loans score higher on demographic equity, access to financing, and customers and community, showing the deliberate focus on restorative capital for underestimated communities yields intended results.
There is no observable, significant linear relationship between financial return and impact ratings in this small sample, but median impact score is higher for the Oakland portfolio. Savings accrued to small businesses and loan affordability represent a crucial form of impact despite negative ROE, which aligns with the Fund’s stated intent.
Where we go from here

Lessons learned:
- Information about businesses at the time of loan underwriting is limited; so forecasting potential impact improves alignment of ratings to the theory of change but is imprecise
- Impact ratings are correlated with geography, which supports the effectiveness of place-based funds but makes it difficult to differentiate between opportunities within communities

Next steps:
- Expand analysis to full portfolio (350 loans) to validate insights
- Develop live-updating tools, leveraging a new data warehouse, to inform lending strategy on an ongoing basis