



Delivering Financial Return and Community Results

Pacific Community Ventures

By Beth Sirull and Todd Schafer, Pacific Community Ventures

Pacific Community Ventures (PCV), the West Coast's first Community Development Investment Capital organization, brings the tools of venture capital – both financial and non-financial – to bear to stimulate business development in California's low- and moderate-income (LMI) communities. In making investments, PCV seeks competitive financial returns as well as measurable "social returns." Since 1999, while achieving market rates of return for investors, financed companies have employed over 1,500 residents of California's LMI communities, paying an average wage more than 20 percent greater than the surrounding area's living wage ordinance, and providing health care, vacation, sick leave, training benefits and wealth-building opportunities.

Small Business and the Financial Marketplace in Distressed Communities

The financial marketplace in LMI communities is characterized by a lack of available equity capital and a lack of access to the business networks that provide opportunities for strategic support and professional development.

A lack of available equity capital. Most of the businesses in which PCV invests are located in geographic areas, or participate in industries, that are overlooked by institutional equity investors. While California received approximately 20 percent of the \$585 billion in venture capital investments made globally between 2000 and 2005, over 60 percent of this investment was concentrated in 35 zip code geographies, primarily in Silicon Valley and other economically well-developed areas. In addition, the majority of venture capital investments made nationally between 2000 and 2005 were investments in technology-related companies, not businesses that generally employ lower-income workers.¹

A lack of strategic support and networking opportunities for emerging entrepreneurs. In addition to lacking access to capital, PCV's target businesses also lack access to business networks through which they could gain valuable, board-level strategic advice. These advisory networks often come through the same institutional investors that traditionally have not invested in PCV's target industries and geographies, or through alumni or other networks prominent in the "mainstream" business community.

PCV's Model: Investing Capital, Deploying Expertise and Extending Networks

There are two primary ways by which PCV invests in promising businesses in California's LMI communities: by deploying capital and by providing advisory services.

Investing Capital. PCV is the managing member of two private equity funds through which it makes investments in high potential companies located in, or near, and hiring from, LMI communities. PCV makes investments in traditional industries including food distribution and services, value-added manufacturing, and consumer and business services, where the organization has expertise and robust deal-flow. PCV commits \$1-\$2 million to businesses with at least \$5 million in revenue, a clear path towards profitable growth, a strong management team and independent governance. To date, PCV's investment funds have deployed over \$11 million in nine active companies. As of year-end 2005, PCV's first fund had a competitive implied net IRR compared to other 2000 vintage funds. PCV's second fund had an implied net IRR that put it in the top quartile of 2002 vintage funds.

At the same time, PCV's financed companies paid a weighted average wage of \$13.18 per hour, considerably above the living wage ordinances in surrounding areas. All of PCV's financed companies offered health benefits to low-income employees, compared to just 67 percent of all companies in California. Two-thirds of portfolio companies offer retirement plans and all of those make contributions to those plans. Through PCV's Individual Development Account (IDA) program, which provides financial literacy training and matched savings, 48 employees at three portfolio companies are saving for retirement, education or a home purchase.

Leading financial institutions, including Wells Fargo Bank, Citibank and the California Public Employees Retirement System (CalPERS) have committed capital to PCV's funds as have regional and community banks such as Silicon Valley Bank and Greater Bay Bank. Foundations including the Rockefeller Foundation have also invested. Through these investments, banks can earn CRA credit, bolster community involvement, earn a competitive financial return and build an additional loan pipeline source.


Deploying Expertise and Extending Networks. Most private equity investors provide governance and management assistance to the businesses in which they invest. PCV goes further through its Business Advisory Service, providing non-financial resources including mentoring, strategic advice and access to business networks to our financed companies, and providing these services, free of charge, to other small businesses – outside of our financed portfolio – located in California’s LMI communities.

PCV’s Business Advisory Service links experienced business professionals with the management teams of qualifying businesses. Each volunteer advisor works one-on-one with the advised company over a 6-12 month period. Over 25 percent of advising projects address sales/marketing issues, 21 percent strategic planning/business development, 18 percent operations/manufacturing, 15 percent financial planning and the remainder address new product development and fundraising preparation issues. In a recent survey, over three-quarters of advised management teams indicated that their advising relationship had resulted in a tangible impact on their business.

In addition, through CEO Forums—leadership and management workshops lead by top business school professors—and Business Roundtables—where one advised company presents an issue it is facing and receives practical input from a diverse group of executives—participating entrepreneurs develop their management abilities, learn new frameworks for addressing business challenges, and have the opportunity to network with their peers.

From its inception in 1999, through year-end 2005, PCV’s Business Advisory Service has provided intensive support to nearly 90 growth-stage companies. In addition to contributing to the business climate in LMI communities, these efforts prepare the pipeline for future equity investment, enhancing next generation “deal flow” for capital providers, all while providing significant benefits to residents of LMI areas. At year-end 2005, PCV’s advised businesses employed 470 residents of LMI communities. Nearly two-thirds of advised companies provide health insurance to their low-income employees while over three-quarters provide paid vacation and offer skills training on an ongoing basis.

Market Need, Market Opportunity

America’s underserved communities present an enormous opportunity for investors who seek both financial and social return. Through its two-pronged model that provides management and capacity-building resources in addition to capital, PCV has shown that investors can integrate private equity investments in businesses in these communities into their portfolios, earning CRA credit while producing competitive returns, building new sources of loan volume, and yielding significant community benefits. 

Case Studies

PCV Promotes Economic Development by Supporting Growing Businesses in Underserved Areas

Equity Investment

PCV first invested in Timbuk2 Designs, a bicycle messenger bag manufacturer in an LMI neighborhood of San Francisco, in 2000. Two years later, PCV led the company’s recapitalization necessary for long-term success. Along the way, the company expanded its product lines and distribution with the addition of over 30 new items – from computer carrying cases to luggage to daypacks. Over the life of PCV’s investment, Timbuk2 grew its San Francisco workforce while increasing both wages and benefits for its front-line workers. Over the same period, Timbuk2’s revenue grew more than four times.

With Timbuk2’s sale from the portfolio in 2005, PCV’s investment funds realized a substantial return multiple. In addition, the sale triggered an equity-based Wealth Sharing Mechanism – negotiated by PCV at the time of investment – that produced cash payouts of up to 2 times annual salary (more than \$1 million total) for the 40 factory and warehouse employees of the company.

The Business Advisory Service

ValueFinders, a real estate appraisal firm founded in 1999, has several employees from LMI neighborhoods in Compton and Los Angeles. The company joined PCV’s Business Advising program in March 2005 and was matched with advisor Brian Garrett, a Principal at Santa Monica’s Palomar Ventures. The project – to assist in launching an online technology solution for mortgage brokers, appraisers, and their clients – made good use of Brian’s expertise in infrastructure software and business development for technology start-ups. The newly launched www.appraiserConnect.com is paying tangible dividends, with increased company revenues and new jobs for LMI residents.

To learn more about PCV, please visit

www.pacificcommunityventures.org and/or www.pcvfund.com.

PCV is currently raising its next Investment Fund. For more information, please email info@pcvmail.org.

COMMUNITY INVESTMENTS

Endnotes

Small Business: An Overview

- 1 SBA Office of Advocacy (2005). "SBA by the Numbers."
- 2 SBA Office of Advocacy (2005). "Small Business Profile: United States."
- 3 CFED (2004). "Desktop Study: SMEs and Poverty Reduction."
- 4 Clark, Peggy and Amy Keys (1999). "Microenterprise and the Poor: Findings from the Self-Employment Learning Project, a Five-Year Survey of Microentrepreneurs". The Aspen Institute.
- 5 CFED (2004). "Desktop Study: SMEs and Poverty Reduction." While the total share of loans under \$100,000 has dropped, the volume of very small loans by large financial institutions has increased. This is thought to reflect increased credit card issuance.
- 6 Immergluck, Daniel and Geoff Smith (2003). "How changes in small business lending affect firms in low and moderate income neighborhoods." *Journal of Developmental Entrepreneurship*.
- 7 Yago, Glenn, Betsy Zeidman, Bill Schmidt (2003). "Creating capital, jobs and wealth in emerging domestic markets." Milken Institute.
- 8 Immergluck and Smith (2003).
- 9 Ely, David and Kenneth Robinson (2001). "Consolidation, Technology, and the Changing Structure of Banks' Small Business Lending." *Economic and Financial Review*, Federal Reserve Bank of Dallas.
- 10 Craig, Ben, William Jackson, and James Thomson (2006). "Small Firm Credit Markets, SBA-Guaranteed Lending, and Economic Performance in Low-Income Areas." *Working Paper 06-01*, Federal Reserve Bank of Cleveland.
- 11 Chrisman, James (2005). "Economic Impact Of Small Business Development Center Counseling Activities In The United States: 2003-2004," www.asbdc-us.org/Impact_0916.pdf . The Chrisman Report estimated that the performance improvements of SBDC-counseled long-term clients generated \$2.78 in tax revenues for every dollar spent on the SBDC Program in 2003, and that \$2.6 billion in capital was raised by clients as a direct result of the assistance received from the SBDCs- stated another way, each dollar spent on counseling leveraged approximately \$14.22 in debt and equity capital.
- 12 Ratliff, Gregory and Kirsten Moy (2004). "New Pathways to Scale for Community Development Finance." *Profitwise News and Views*, Federal Reserve Bank of Chicago.

Box 1.2

- 1 CFED (2004). "Desktop Study: SMEs and Poverty Production."
- 2 Board of Governors of the Federal Reserve System (2002). "Report to the Congress on the Availability of Credit to Small Businesses."
- 3 Ibid.

Microbusiness, Macro-impact: Capitalizing on Potential

- 1 Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) (2005) "Funder Guide #2:" 1. Poverty data: www.census.gov/prod/2005pubs/p60-229.pdf; unemployment data: www.bls.gov/cps/home.htm; data on the unbanked: Katy Jacob, "Utilizing Partnerships to Test Emerging Market Strategies: A Case Study of H&R Block Initiatives in Five Cities", Center for Financial Services Innovation, July 2005, www.cfsinnovation.com/managed_documents/blockpaper.pdf; data on asset ownership: Ray Boshara, Reid Cramer and Leslie Parrish, "Policy Options for Achieving an Ownership Society for All Americans, New America Foundation." Asset Building Program, *Issue Brief #8*, February 2005, www.newamerica.net/Download_Docs/pdfs/Doc_File_2224_1.pdf.

- 2 Edgcomb, Elaine and Joyce A. Klein, "Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States."
- 3 Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) (2005). "Funder Guide #2".
- 4 Clark, Peggy and Amy Keys (1999). Microenterprise and the Poor: Findings from the Self-Employment Learning Project, a Five-Year Survey of Microentrepreneurs, 1999, (2001).
- 5 Else, John. *The Role of Microenterprise Development in the United States*, published in cooperation with AEO.
- 6 Ibid.

Box 2.1

- 1 Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) (2005). "Funder Guide #1".

Box 2.2

- 1 Microenterprise Development Fact Sheet, AEO: www.microenterpriseworks.org.

The Corner Store: Investing in a "Sense of Place"

- 1 Edgcomb, Elaine and Joyce A. Klein (2005). "Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States." Aspen Institute. See also, Margaret Sherraden, Cynthia K. Sanders, and Michael Sherraden (2004). *Kitchen Capitalism: Microenterprise in Low-Income Households*. State University of New York Press: Albany, NY.
- 2 The Aspen Institute (2005). "Monitoring Client Outcomes: A Report from MicroTest's 2004 Data Collection," *Microtest: Performance Counts*, September 2005.
- 3 Temali, Mihailo (2004). *The Community Economic Development Handbook: Strategies and Tools to Revitalize Your Neighborhood*. Amherst H. Wilder Foundation: St. Paul, Minnesota.
- 4 Servon, Lisa J. (2005) "Policy Options to Support Entrepreneurship among Low-Income Americans," New America Foundation Issue Brief, and Lisa J. Servon (1997). "Microenterprise Programs in the U.S. Inner Cities: Economic Development or Social Welfare?" *Economic Development Quarterly* 11(2): 166-180.
- 5 For an interesting review of this topic, see CFED and Northwest Area Foundation (2004). Native Entrepreneurship: Challenges and Opportunities for Rural Communities.
- 6 Edgcomb, Elaine and Tamra Thetford (2004). *The Informal Economy: Making it in Rural America*. The Aspen Institute: Washington, D.C.
- 7 Congressional Testimony (2006). American Indian Economic Development – Elsie Meeks. Committee on Senate Indian Affairs, May 10, 2006.

Delivering Financial Return and Community Results: Pacific Community Ventures

- 1 PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree Survey, available at www.pwcmoneytree.com/moneytree/index.jsp.