

Who's Counting? Measuring Social Outcomes from Targeted Private Equity

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The term “private equity”¹ might invoke images of big buyouts such as Clear Channel Communications and Chrysler. But private equity is also a potential source of capital to fund business growth or innovation for smaller companies. While mainstream venture capital tends to concentrate in particular places and industries, an evolving asset class referred to as “underserved,” or emerging domestic markets (EDM), is directing capital to more diverse and traditional business types. The potential of this sector to deliver strong financial returns while also giving rise to public benefits has drawn the attention of both venture and economic development capital, as well as policy-makers and researchers.

EDM portfolios tend to feature businesses different from typical venture capital portfolios; they are often largely composed of retailers, financial service entities, makers and distributors of consumer products, business service providers, and computer hardware companies—sectors that, when combined, account for only 10 percent of mainstream venture capital investments.² EDM investors seek favorable returns by channeling capital to underserved sectors: minority-run ventures, inner-city companies, rural enterprises, and ventures that hire lower-skilled workers or supply underserved customer groups. In this pursuit, they can have positive indirect benefits in the form of job creation, economic stimulus in disadvantaged communities, and ownership and management opportunities for minorities and women.

The Center for Community Capitalism, with funding from the Kauffman Foundation, is exploring the hypothesis that profit-driven investing can achieve measurable societal benefits in line with mission-targeted investing—but on a larger scale. Further, we seek to understand which particular activities within the private equity arena can deliver high returns to both financial and social bottom lines.

The EDM Market Opportunity

Private equity can take many forms, from buyouts of large companies to early-stage venture funding of startups, and the sums are substantial. In 2006, venture capital funds

1 We use the term to mean non-publicly-traded equity and near equity investments in enterprises, including venture, mezzanine, and buyout funding, but excluding angel and owner/friends/family investments.

2 Figures for 2006, see PricewaterhouseCoopers and National Venture Capital Alliance 2007, 3.

and buyout and mezzanine funds raised about \$130 billion (NVCA, 2007). In the same year, venture firms reported investing \$25.5 billion in 3,416 deals (PricewaterhouseCoopers, 2007).

While this sounds like a lot of capital, it is not a common tool for most businesses. Sixty percent of venture capital goes to just four industries: software, biotech, medical devices, and telecommunications.³ Previous surveys of small business firms found that less than 1 percent used external equity capital. Although firms that were younger or larger were more likely to have tapped private equity, the percent of either using external equity was still below 3 percent (Ou and Haynes, 2006).

The fact that businesses need to be of a certain scale (actual or potential) to tap private equity limits the universe of candidates for funding. While there are a reported 23 million firms in the United States, less than one-quarter have employees, and of those employer firms only about 20 percent have annual sales above \$1 million.⁴

Venture capital and private equity are even less accessible to certain categories of businesses, such as those that are located far from financial centers and those owned by minority or female entrepreneurs. These underserved markets might offer significant potential for future investment as illustrated by the following facts:

- Eight percent of employer firms in this country are owned by racial minorities, and close to 4 percent are owned by Hispanics.⁵ Yet minority-owned companies receive less than 2 percent of Venture Capital (Milken Institute, 2000).
- The IRS predicts that Latinos will soon own one in ten businesses. Growth rates in the number of minority-owned ventures are three to four times higher than for white-owned businesses (Boyd, 2006).
- Population trends put minority purchasing power at one-third the total purchasing power by 2020 (up from one-fifth in 2000) (He and Hobbs, 2000). The dramatic growth in the Hispanic population, projected to grow at three times the overall population rate by 2020 is creating new markets (Pew Hispanic Center, 2005).
- The inner city, home to 8 percent of the U.S. population according to the Initiative for a Competitive Inner City (ICIC), offers retail, hiring, and investment opportunities that are often overlooked. The “Inner city 100” has seized on these advantages: 445 businesses selected since 1999 with average annual sales of \$20 million and an impressive 54 percent average annual growth rate (ICIC 2006). Yet these companies and their inner-city peers often struggle to find growth capital.
- Rural enterprises account for 19 percent of all businesses but receive less than 2 percent of venture capital (Schmitt, 2003).

3 Ibid.

4 U.S. Census Bureau; Statistics about Business Size, 2002.

5 Ibid., 2002 Survey of Business Owners.

Small and mid-sized businesses have been described as the backbone of the economy. According to the U.S. Small Business Administration, small businesses provide approximately 75 percent of net new jobs added.⁶ To put the job-creation potential of the small and mid-sized business sector in perspective, the 5 percent of firms with between \$1 million and \$50 million in revenues account for 35 percent of U.S. nonfarm, private-sector jobs.⁷ Although only 1 percent of black-owned businesses have over \$1 million in annual receipts, these firms employ more than half the workforce of all black-owned firms.⁸ Thus, this particular slice of the small business universe can be an important component of an area's economic engine. Moreover, there is a compelling case to be made that the economy can benefit from strengthening the number, size, and capital of emerging enterprises. According to a Boston Consulting Group study, "Large minority-owned businesses can create the kind of explosive and transformative growth that is needed to invigorate minority communities, inner-city markets, minority entrepreneurs and business leaders" (Boston Consulting Group, 2005, 1).

The Milken Institute includes the following under the umbrella of EDM: "ethnic- and women-owned firms, urban and rural communities, companies serving low-to-moderate-income populations, and other small- and medium-sized businesses," all of whom face constraints in accessing capital due to "systemic undervaluation." The book *Untapped: Creating Value in Underserved Markets* describes "a multi-trillion-dollar opportunity that is largely untapped. This market has some of the fastest-growing companies and fastest-growing business opportunities. It is also a market with the fastest-growing workforce and a rapidly expanding supplier base" (Weiser et al., 2006, 1). Additionally, in its case for greater recognition of the value of the asset class, Pacific Community Ventures (PCV) describes the opportunity as "investing in an array of traditional, brick-and-mortar businesses with revenues between \$5 and \$30 million that are located in distinct, untapped geographies" (Douglas et al., 2006, 1). These sketches suggest a typical company profile: an existing business with a demonstrated market and track record but hemmed in by lack of capital. With a sizable cash infusion from equity investors, often coupled with specialized expertise, the enterprise can grow to the next level, at which point the investor hopes to realize a return.

The business case for EDM private equity is founded on two factors: (1) growth potential, and (2) a lack of competition from other capital sources. These two factors suggest the opportunity to capitalize on a market imperfection. A landmark study of the financial performance of minority-focused venture capital funds over a 15-year period by Timothy Bates and William Bradford found that the returns were "certainly no lower—and perhaps higher—than those of mainstream funds" (Bates and Bradford, forthcoming, 14). Despite this performance, the field is projected to remain underserved by mainstream funds due to a lack of relationships, the poor fit between EDM business types and mainstream venture capital preferences, and discrimination.

6 <http://www.census.gov/epcd/www/smallbus.html>.

7 U.S. Census Bureau, Statistics about Business Size, 2002.

8 Ibid., U.S. Census Bureau, 2002 Survey of Business Owners.

The public case for EDM investing grows directly out of this business case and the notion that by filling a capital gap EDM investing yields economic benefits for communities, employees, customers, and entrepreneurs. Investors benefit as well, and while each investor comes to the table looking for a particular blend of social and economic returns, very few are willing to give up economic returns for social returns, which are typically regarded as by-products of investing. Conditions giving rise to social returns include:

- Minority-owned employer firms have created more than 4.7 million jobs.⁹
- Black-owned businesses are much more likely to hire minorities than white-owned businesses. While the vast majority of black-owned firms hire workforces that are mostly nonwhite, white-owned firms—even those operating in minority communities—hire predominantly white workforces (Bates, 2006). Emphasizing high-potential black entrepreneurs, Bates suggests: “With increased access to capital, black firms can form, grow, and create jobs, often hiring those who need employment most” (235).
- Minority entrepreneurs tend to enter business with lower levels of personal wealth and face barriers when tapping traditional financing sources, contributing to lower rates of success and growth (Robb and Fairlie, 2006); EDM investing can help overcome the capitalization barrier.
- Urban and inner-city companies create jobs where they are most needed. For example, the 445 Inner City 100 companies recognized from 1999 through 2006 employ 73,000 people, nearly half of whom are inner-city residents. Of these companies, 31 percent are minority-owned, almost three times the national average (ICIC, 2006).

However plausible the theoretical connections between EDM investing and social benefits are, there have been only a handful of attempts to document the connection. In the next sections of this essay, I describe notable sources of targeted private equity and then provide early evidence of favorable social outcomes of three EDM investment vehicles.

Alternative Sources of Equity Capital: CDVCFs, SBICs, and EDM Investors

Most providers of equity capital do not target mid-sized, traditional enterprises. Exceptions include Small Business Investment Companies (SBICs), Community Development Venture Capital Funds (CDVCFs) and New Markets Venture Capital Funds (NMVCFs), and a cadre of profit-oriented EDM funds. In the overview of these targeted investors and their social returns follows, there will be some overlap between categories.

CDVCFs. These funds are “mission-driven organizations that benefit low-wealth people and communities while working to earn solid financial returns,” according to the website of the industry’s trade association, the Community Development Venture Capital Alliance (CDVCA). Tracing its roots to Appalachia in the 1970s, the CDVC industry has since grown

9 U.S. Census Bureau, 2002 Survey of Business Owners.

to more than 80 funds and \$900 million under management. Because of the relative youth of the CDVC industry, few funds have existed long enough to mature and report conclusive financial results. The three oldest funds reported a 15.5 percent gross IRR¹⁰ on 31 investments made between 1972 and 1997 that have since been realized, including just seven total write-offs (Teddell, 2007).

To successfully navigate the implied trade-off between financial and social returns, CDVCFs seek low-cost sources of capital, primarily from banks, government, and foundations. As of 2003, 42 percent of CDVCF capital came from banks, which are motivated by the Community Reinvestment Act. Government and foundations combined constituted another 29 percent of CDVCF capitalization in 2003. Nondepository financial institutions (such as pension funds and insurance companies) are another important, growing source of capital to the industry.

CDVCA developed an impact assessment tool as a template for individual funds to tailor to their own needs. Many individual CDVCFs report detailed results individually as well. For example, the companies in SJF Venture's \$13 million investment portfolio added 1,021 jobs from investment through 2005, about one new job per \$13,000 invested, 75 percent of which went to LMI individuals (Broughton and Klein, 2006). Pacific Community Ventures (PCV) tracks the number of "designated" employees working for their portfolio companies.¹¹ As of 2005, PCV reports 1,531 designated employees in its nine-company/\$10 million portfolio, two-thirds of whom are minorities (PCV, 2006). To gauge job quality as well as quantity, SJF Ventures, PCV, and other CDVCFs also track such metrics as change in wage levels, benefits provision, wealth-building and profit-sharing programs, and training and promotion opportunities for target employees.

The CDVC industry has historically estimated a social yield of one full-time job added for just under \$15,000 invested (CDVCA, 2001). For 2005, sixteen CDVC funds reported a 48 percent increase in employment at portfolio companies since the time of first investment. Data from a subset of CDVCFs indicate that 62 percent of portfolio company employees are low income, that 41 percent of the companies are in low- to-moderate income (LMI) areas and that 32 percent are in rural areas (CDVCA, n.d.).

Certainly CDVCFs have been pioneers in applying "the tools of venture capital...to grow small businesses that create good jobs for low-income people and promote entrepreneurial capacity in economically distressed urban and rural areas" (CDCVA 2002, 2). The industry has amassed a capital pool of nearly \$1 billion, more than doubling in size since 2000. However, this model faces constraints because of a lack of scale capital available in the market at that particular risk/return/social impact offering. Additional hindrances include the small scale

10 Caution should be observed when comparing venture IRRs since funds usually report their returns net of fees and may include unrealized investments; see Schmitt 2004.

11 Designated employees are those hired below a certain compensation level who either live in an LMI area or were hired through an employment program.

of the individual funds and attendant lower management fees, coupled with the high costs of making complex but relatively small investments that often require technical assistance (Rubin, 2001). To illustrate, the average CDVC investment is around \$350,000 compared to \$7 million for mainstream venture capital, and small transactions can require as much work as large ones. The average CDVC fund at just over \$10 million is modest compared to \$299.5 million for the average venture fund.¹² In short, these funds explicitly invest for social returns and have made an impact, but structural conditions may hamper their ability to carry their results to a more substantial scale.

SBICs. Since 1958, the U.S. Small Business Administration's (SBA) Small Business Investment Company program has fostered venture and mezzanine financing for small business growth. Most of this equity and near equity capital has been channeled through two different programs: the Debenture program and the Participating Securities program. In the former, private, for-profit funds use low-interest ten-year SBA-guaranteed debt to leverage private capital; in the latter, the SBA takes an equity stake in the funds. In 2004, following a period of poor financial performance that mirrored trends in the overall venture capital market, the SBA ceased funding new SBICs under the Participating Securities program. It continues to fund the debenture mechanism. In both models, the subsidization of a substantial portion of capital allows SBICs to generate below-market returns in the aggregate while providing market-level returns to private capital. For example, the Participating Securities program had an overall IRR of 2.5 percent for the 1994 to 2004 vintage years as of September 2004, while the private investors earned a 17.7 percent IRR (SBA, n.d.).

As of the end of 2005, the SBIC industry had capital "resources" of \$23 billion¹³ in 418 funds, averaging \$55 million. In the 2006 fiscal year, SBICs made 3,674 investments in 2,121 companies totaling \$2.9 billion. The average investment was \$788,580, or \$1.4 million per company. The split between debenture and participating securities was roughly 45/55 (SBA, 2006).

For the most part, the SBIC program is not designated for particular geographic places or types of companies but instead targets all small businesses because they are viewed as economic growth engines.¹⁴ In fiscal year 2006, nearly one-third of SBIC financing went to manufacturers, followed by "Information" (15.5 percent) and "Professional, Scientific and Technical Services" (12 percent). SBICs reported on 958 companies with a combined workforce of 129,256 and median employment of only 35 prior to receiving financing, and with average pre-financing sales of \$16 million (median \$5.5 million). Some 23 percent of SBIC-program financing went to low- and moderate-income areas in 2006 (SBA, 2006). Historically, just 5 percent or less of SBIC dollars have been invested in minority-owned companies

12 Figure for 2005, according to the National Venture Capital Association. <http://www.nvca.org/faqs.html>. Accessed April 12, 2007.

13 According to <http://www.sba.gov/INV/faq.html> accessed on March 7, 2008, this includes \$6.3 billion of SBA-sourced funds and \$5.1 billion of SBA commitments plus \$12 billion of private capital.

14 Generally, for purposes of the SBIC Program, "small" means a company whose net worth does not exceed \$18 million and whose net income does not exceed \$6 million.

and 3 percent or less in women-owned companies.¹⁵

Over the years, SBA has earmarked funding for certain categories. From 1972 to 1996, it offered special terms for funds invested in minority and disadvantaged enterprises through the Minority Enterprise Small Business Investment Company (MESBIC) program, later renamed the Specialized Small Business Investment Company (SSBIC) program. SSBICs accounted for less than 1 percent of SBIC dollars invested in 2006. The New Markets Venture Capital (NMVC) program was enacted in 2001. These special debentures carry no interest for the first five years and are coupled with operational assistance grants to enable the funds to provide technical assistance to companies. Six funds, all CDVCFs, participated in the inaugural round of this program. By March 2006, they had invested \$32.2 million in 75 companies with 1,626 jobs “created or maintained.” More than 90 percent of the investments were in low-income areas (CDVCA, 2006).

EDM Funds. A third approach to providing patient, high-risk, growth capital to targeted business types represents a growing force due to the interest of larger-scale, profit-oriented investors. This field includes minority-oriented venture funds such as the members of the National Association of Investment Companies, which reports around \$5 billion under management altogether. It also includes some SBICs and CDVCFs as well as bank-managed funds. The typical investors—banks, insurance companies, corporations, and public pension funds—are seeking market rates of return without tangible subsidy. Along the spectrum of financial and social return requirements, this group of funds is most closely positioned to mainstream venture capital and private equity. If EDM investments produce sustained returns to these private-sector investors, the pool of capital is potentially enormous.

Case Studies: Examples of Making Investments in EDMs

Benchmarking financial results using agreed upon metrics such as IRR or the ratio of distributions to investments is relatively straightforward. However, measuring societal benefits is less cut and dried. The data included from these three case studies represent only the starting point of an effort to document the total returns, both financial and social, from EDM private equity. At this stage, the indicators are both basic and preliminary, focusing on employment (number of jobs, changes in employment levels, share of jobs going to disadvantaged workers), community (characteristics of places where business are located), and entrepreneurship (characteristics of business owners and managers). These rough but widely understood indicators can ultimately enable comparison to other development financing activities.

The business model for each of the three examples is summarized below, followed by a side-by-side illustration of the early results of social measurements.

15 For example, in FY 2006, 3.6 percent of SBIC dollars were invested in minority-owned companies and 1.3 percent in women-owned; in FY 2004, the shares were 5.2 percent and 2.3 percent, respectively (U.S. SBA: SBIC Program Financing to Small Business-Fiscal Year 2006; *ibid.*, Fiscal Year 2004).

Banc of America Capital Access Funds (BACAF)

Formed in 1997, Banc of America Capital Access Funds is housed within the bank's primary private equity management division, which manages around \$7 billion in private equity capital. Bank of America describes itself as one of the oldest private equity investors in the banking industry and, through BACAF, one of the largest investors in underserved markets.

The "Fund of Funds" approach is enabling Bank of America to consolidate a considerable amount of capital and deliver it to underserved markets through about 15 private equity funds. BACAF combines Bank of America's previous experiences in EDM private equity with sizable investments of \$175 million from two of the ten largest pension funds in the world: CalPERS and CalSTRS (Hebb 2006 and CalSTRS). Combined, these pension funds have more than \$378 billion in assets as of January 2007 and combined private equity investments of more than \$21 billion.¹⁶ The BACAF represents less than .5 percent of the total private equity funding pool.

Bank of America sums up its investment criteria as seeking to make investments of between \$5 million and \$15 million—not to exceed 20 percent of the total private capital raised by each fund. By the third quarter of 2006, BACAF had invested or committed to invest in 13 funds with total expected combined capital of more than \$2 billion. At that early stage, these funds had invested in only 44 companies. The funds have an average size of \$155 million but range from under \$50 million to over \$500 million. BACAF's total commitment ranges from \$5 million to \$15 million (from a 2 to a 20 percent stake). The allocation by asset type is about half buyout funds, 30 percent growth-oriented funds, and the remainder venture and mezzanine.

Among the 13 funds to which BACAF has committed:

- Ten focus on ethnic minority opportunities
- Ten focus on low- to moderate-income geographies
- Eleven have at least one ethnic minority partner
- Three have at least one female partner¹⁷

Investment strategies of the funds are just as diverse. The funds target a broad spectrum of investment size: some will consider investments as small as \$1 million, while others aim to make investments larger than \$35 million.

The types of companies and markets represented are also diverse, consistent with the principles of underserved and EDM investing. Less than one-quarter of BACAF companies funded to date are in the mainstream venture-capital sectors of software and biotech. Conversely, 45 percent of the BACAF portfolio companies are in sectors that receive about

16 Investment portfolio as of January 2007. Private equity figure does not include funds committed but not yet invested. From pension funds' websites www.CalSTRS.com and www.CalPERS.com. Accessed March 1, 2007.

17 Many funds span more than one category and are therefore counted multiple times.

10 percent of mainstream venture-capital investments such as financial services, retailing, and business services.¹⁸

Annual revenues for the portfolio companies are broadly distributed, with 15 percent reporting baseline year revenues of \$500,000 or less and 15 percent reporting in excess of \$50 million.¹⁹

Average investment size is comparable to that of mainstream venture capital due to the presence of two very large investments. With the majority of investments falling between \$1 and \$5 million, the median is just above \$3 million, significantly larger than for CDVCs and SBICs.

California is home to the largest share (45 percent) of BACAF's underlying company investments; New York and New Jersey combined account for another 21 percent of the companies; and the remaining 34 percent is distributed in ten other states. Table 1 shows early social outcome measurement results for BACAF.

The California Public Employees Retirement System (CalPERS)

CalPERS' "California Initiative" has thus far committed close to \$1 billion in EDM investments. The initial round of \$475 million, launched in 2001, was funded through ten investment firms, including \$100 million in BACAF (described above), Garage Technology Bank, Pacific Community Ventures, and Yucaipa Corporate Initiatives Fund, and features investments made through the various partners as well as direct co-investments. As with BACAF, the funds covered the spectrum of investment types, from seed, to venture, growth, middle-market, and corporate. By late 2006, these funds had invested in 130 companies. CalPERS reported a preliminary average annual return of 16.3 percent on those investments as of late 2005 (Hebb, 2006). And, in 2006, CalPERS announced a further \$500 million investment through yet another investment partner, Hamilton Lane (Cutland 2006).

The primary objective of the California Initiative is "to earn attractive risk-adjusted rates of return" (CalPERS, 2007) and to that end CalPERS is reportedly aiming for an annual rate of return in the 15–20 percent range (Hebb, 2006). "Positive impact on underserved markets" is described as an "ancillary benefit" (CalPERS, 2007) that is to be realized as a result of the emphasis on investing activities: "providing capital to areas . . . that have historically had limited access to institutional equity capital, employing workers living in economically disadvantaged areas, and supporting women and minority entrepreneurs and managers" (CalPERS and PCV, 2007).

CalPERS engaged PCV to research, collect, and evaluate these indirect benefits on an annual basis. The launch of the California Initiative predates the inception of the BACAF, thus there are two years of data to report. Findings shared below in Table 1 (as of 2006) are from the report "Impacting California's Underserved Communities: Taking a Second Look."

18 44 companies reporting as of June 2006.

19 For 2005; 20 companies reporting revenue figures.

The nine investment partners (other than BACAF) had invested in 89 companies as of that date. As with BACAF, the portfolio features a diversity of business types, with 38 percent of the investments going to consumer-related companies and service and communications accounting for another 37 percent. Employment size of firms ranges from three to 22,000.

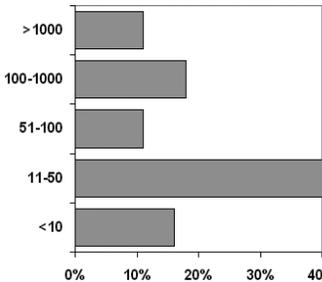
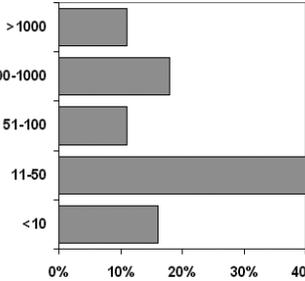
NewSpring Capital

NewSpring Capital is not a mission-driven investor, but it set out to measure what kind of social benefit it had in EDM communities. NewSpring Capital is a family of targeted private equity funds focused on the Mid-Atlantic region. Since the group's founding in 1999, NewSpring has grown to three funds with more than \$340 million of capital under management. The NewSpring Capital family of funds includes:

- NewSpring Ventures, a venture fund providing equity capital to growth- and expansion-stage companies focused on enabling technologies, business services, and information technology.
- Commerce Health Ventures, a diversified health-care private equity fund that invests in biopharmaceutical, health-care services, and medical device companies.
- NewSpring Mezzanine Capital, a mezzanine private equity fund and an SBIC focused on late-stage and buy-out opportunities in business services, information technology, health care, and specialty manufacturing.

Fund management has recognized the growing interest of investors in understanding the potential social benefits of private equity. And in response to the ongoing discussion about the effects of private equity on the larger economy, in early 2007 management took the initiative to gauge the employment and economic outcomes of their own investments. The findings suggest that even though the social implications were considered after the investments were made, they were similar to those realized in the two case studies with stated ancillary benefits objectives and even to outcomes reported by explicitly mission-driven investors.

Table 1.

BACAF (Baseline)	California Initiative "Year 2"	NewSpring
<p>June 2006 — 44 companies (less than 20% of funds disbursed).</p>	<p>June 2006 — 131[§] companies; 89 non BACAF companies.</p>	<p>37 companies.</p>
Employment		
<p>† The 23 companies funded before 12/31/05 employed 4,831 people (average 210).</p>  <p>† 55 percent minority employees. † 52 percent female employees. Employment growth/change not available (first year reporting only).</p>	<p>16 percent have 10 or fewer employees, while 11 percent have more than 1000.</p>  <p>For 56 companies reporting for 2 years, employment fell 5 percent due to loss of 3,800 jobs in 4 large companies. Those with fewer than 500 employees added 724 jobs (28 percent). 8 exiting companies added 135 jobs (+27 percent) while in portfolio. 25 new additions added 846 jobs (+16 percent) since investment.</p>	<p>385 percent cumulative job growth since 2000. 1 job per less than \$5000 invested. 68 percent minority employees. 54 percent female employees.</p>
Community		
<p>39 percent in LMI communities.¹ 15 percent rural. 45 percent in markets not traditionally served by venture capital.² 43 percent in communities with >50 percent minority population.</p>	<p>40 percent of employees live in LMI areas (note: 38 percent of all employed Californians live in LMI areas). 40 percent in markets not traditionally served by venture capital.</p>	<p>40 percent located in LMI areas.</p>

† Data is provided only by 23 companies reporting at year end 2005.

§ Data is provided on 82 non-BACAF companies.

1 Low- to Moderate-Income communities defined as census tract with median income equal to or less than 80 percent of area median or with poverty rate of 20 percent or higher.

2 As defined by PCV (see CalPERS and PCV 2007); outside the 1000 zip codes receiving the most venture capital investment (75 percent) from 2000 to 2005.

Entrepreneurship		
<i>Nationally, minorities own 12 percent of employer firms and 7 percent of firms with revenues > \$1MM; Women own 10 percent of firms with revenues > \$1MM</i>		
38.6 percent minority owned/ managed. 23 percent at least 50 percent owned by minorities. 5 percent women owned/managed.	15 percent minority owned/ officers. 12 percent women owned/officers.	23 percent minority owned/managed.
Other		
16 percent of companies serve under-served customer groups (eg: ethnic or minority markets). † On average, health insurance and disability were each provided to nearly half of workers, retirement to a third.	Share of companies offering the following benefit to at least 75 percent of employees: Health insurance: 80 percent. Retirement plan: 60 percent. Paid vacation: 83 percent. Stock options or other wealth building mechanism: 55 percent.	
Data Collection and Analysis		
Funds enter into side letter agreement to submit preinvestment profiles, quarterly updates and annual employment data. Data tracked by UNC with Kauffman Foundation funding. Confidentiality restrictions.	Third party (PCV) engaged by CalPERS to evaluate annually. Anonymous data collected from funds; companies. Submission includes residential zip code for each employee.	One-time voluntary data gathering by fund manager.

† Data is provided only by 23 companies reporting at year end 2005.

Conclusion

What do these nascent measurement efforts reveal? They give early indications that certain private equity investments may result in substantial benefits in the way of economic development by capitalizing underserved but promising businesses. At the same time, they highlight the need for more consistency and rigor in measuring the social outcomes of such investment.

Perhaps the most intriguing point is that there is a growing interest among fund managers, for-profit investors, banks, and foundations in dedicating resources to collect this non-financial data. As previously noted, CalPERS has just announced an additional \$500 million commitment to the California Initiative, while CalSTRS recently made a \$200 million

commitment to Bank of America's underserved fund of funds (PIOnline 2007). These developments coincide with a shift in bank and foundation investment strategies, recently highlighted in an American Banker commentary: "Large banks, whose CRA related investments in community development banks have been a significant source of funding, are seeking higher financial and social returns on their investments. Also, private foundations increasingly are requesting specific measures of social benefits" (Hanley and Norwell, 2007).

This trend comes at a time when SBA funding for SBICs has been dampened by the wind-down of the Participating Securities program, and federal funding for community development finance seems designed to do more with less. For example, by 2006, appropriations for the Community Development Financial Institutions Fund had ebbed to \$54.5 million, less than half of its 2001 peak of \$118 million (CDFI Coalition). New community development programs, such as the New Markets Tax Credit, are designed to use relatively thin incentives to leverage billions of dollars of private investments in low-income communities.

Encouraged by the Community Reinvestment Act, profit-oriented financial companies have worked through such intermediaries as SBICs and Community Development Financial Institutions (CDFIs) to explore previously overlooked markets, and in the process have identified attractive opportunities for direct loans and investments. As mainstream providers of capital increase competition for the higher-quality segments of underserved markets, they create new challenges for those in the vanguard of community development finance. In a telling sign of changing times, the CDFI membership organization, originally known as the National Community Capital Association, changed its name to the Opportunity Finance Network and emphasizes its role in "finding opportunities that others miss."

There will still remain many financing opportunities that require mission-driven financing, but activities where the convergence of social and financial returns can be clearly demonstrated stand to attract substantial amounts of private capital.

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The Center for Community Capitalism at the University of North Carolina at Chapel Hill engages in multidisciplinary research and outreach activities that explore ways to apply private-sector approaches to revitalization of America's distressed communities. The Center's work focuses on techniques that are effective in building wealth and assets in disadvantaged communities and are sustainable from a business perspective.

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