

RSF Racial Justice Collaborative
Leveraging Integrated Capital to Support BIPOC-Led Social Enterprises
September 9, 2020

Case for Support

Across the spectrum of funding, BIPOC (Black, Indigenous and People of Color) entrepreneurs are routinely left out or underfunded by conventional investors, venture capital firms, and commercial banks. Founders of color face great challenges obtaining funding, and face significantly higher hurdles accessing capital than their white counterparts.

According to a U.S. Federal Reserve report, over half of companies with Black owners were turned down for loans, which is twice as high as the rejection rate for white business owners. While the average seed funding for all startups is \$1.1 million, Black women founders raise an average of \$42,000. Latinx-owned businesses applied for financing at slightly higher rates than white-owned businesses (47 percent compared to 40 percent), but were much more likely to experience funding shortfalls: 28 percent received full funding, compared to 49 percent of white-owned businesses.* Research from UC Santa Cruz and a report by the National Bureau of Economic Research found that 41 percent of Black-owned businesses have been shuttered by COVID-19, compared to just 17 percent of white-owned businesses.**

Providing capital for BIPOC-led social enterprises can increase positive social, economic and environmental impacts and contribute to a more inclusive and equitable economy. The U.S. could add trillions of dollars and thousands of jobs to the economy if people of color and women became million-dollar employer firms at the same rate as white men.***

The Racial Justice Collaborative (RJC)

This Collaborative will provide diverse forms of capital to social enterprises that are:

- Owned and led by BIPOC entrepreneurs
- Supporting diverse stakeholders (employees, customers/clients, communities)
- Based in the U.S.

We've seen the way that systemic racism shows up in lending practices, including our own. The Racial Justice Collaborative will serve as a resource to strengthen RSF's broader efforts to support racial and economic justice organizations, and will be part of a larger strategy to deepen and expand this work.

Through this Collaborative, RSF will provide the following types of capital to BIPOC-led social enterprises:

1. Loan Guarantees: The RJC will provide partial first-loss guarantees that will support enterprises that otherwise could not get access to financing. Loan guarantees are a vital way to provide earlier stage organizations with the financing needed in order to grow.

* Latino-Owned Businesses: Shining a Light on National Trends, Stanford BGS Latino Entrepreneurship Initiative, 2017

** National Geographic, *More Than Half of Black-Owned Businesses May Not Survive COVID-19*, Rodney Brooks, 7/17/20

*** Forbes, *VCs Are Missing Out on ROI by Short-Changing Founders of Color*, Geri Stengel, 5/13/20

2. Technical Assistance Grants: The RJC will provide small (\$5k to \$20k) technical assistance grants to support the capacity and development of social enterprises.
3. Participatory Grantmaking: The RJC can deploy grants using a variety of participatory grantmaking models, including Flow Funding and Shared Gifting Circles.
4. Recoverable Grants: The RJC can provide recoverable grants beginning in 2021.

How the Collaborative Will Work

RJC Working Group: We will create and refine our strategy, selection criteria, pipeline development, impact metrics and capital deployment options with a working group consisting of representatives from lending, philanthropic services, investments and client engagement, as well as advisors with expertise on racial justice and community wealth building. RJC working group members include Donna Daniels, Deb Nelson, Casey Johnson, Steven Chai, Carolyn Ezelino, Kelley Buhles, Rodney Foxworth and Nwamaka Agbo.

Fundraising: We have raised \$350k from a lead donor who heard about the RJC through our Integrated Capital Institute. Our initial goal is to raise at least \$1.5 million in donations from individuals and foundations who seek to support BIPOC entrepreneurs. Our medium-term goal is to raise \$10 million.

Feedback and Measures of Success: Feedback loops will help assess the effectiveness of the RJC and highlight areas for improvement. Measures of success can include the number of new jobs created or current jobs sustained due to funding, other forms of capital unlocked or catalyzed due to RJC funding, how the funding contributed to the sustainability of the enterprise, and the entrepreneur's level of satisfaction with their experience with RSF.

Why is RSF launching a Racial Justice Collaborative?

For 36 years, RSF has been in the business of supporting social enterprises by providing them with integrated capital to help them thrive and expand their impact. With deep expertise in lending and grant-making, RSF can offer values-aligned capital to social entrepreneurs.

RSF has strong experience using collaborative decision-making models in our Shared Gifting Circles (empowering grantees to distribute grant funds to each other), and Community Pricing Gatherings (engaging with investors and entrepreneurs to recommend interest rates). We have provided diverse forms of capital to female entrepreneurs, primarily women of color, through our Women's Capital Collaborative (a philanthropic initiative to support women-led social enterprises). However, RSF has not been leading the way in JEDI work, and needs to become more nimble and flexible in supporting social enterprises such as The Runway Project and Higher Purpose. With the launch of a Racial Justice Collaborative, RSF will partner with thoughtleaders, practitioners and funders committed to racial and economic justice, and leverage our experience providing integrated capital to innovative social enterprises. We will learn from others, deepen our impact, and contribute to the success of BIPOC entrepreneurs.