Funding for Social Enterprises in Detroit:

ASSESSING THE LANDSCAPE

MARCH 2019
Preface

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The concept of integrating social aims with profit-making has been an emerging trend in the world for quite some time now, changing the way philanthropies think about impact and the way businesses operate.

In fact, increasingly organizations “are no longer assessed based only on traditional metrics such as financial performance, or even the quality of their products or services. Rather, organizations today are increasingly judged on the basis of their relationships with their workers, their customers, and their communities, as well as their impact on society at large—transforming them from business enterprises into social enterprises.”

The Max M. & Marjorie S. Fisher Foundation is one of the entities leading this transformation of the business and philanthropy worlds.

Mission & Program Goals

The Max M. & Marjorie S. Fisher Foundation
To enrich humanity by strengthening and empowering children and families in need.

Four Impact Areas:

- Provide for the needs of and ensure the future of the Jewish people
- Support high quality early childhood education aimed at improving kindergarten readiness and third-grade reading proficiency
- Promote a robust arts & culture environment and increase access for families and children in need
- Further mission through impact investing strategies—namely Program Related Investments (PRIs) and Mission Related Investments (MRIs)

Project Goals:

- Identify capital barriers and gaps within the social enterprise ecosystem in Detroit, MI
- Evaluate whether there are existing funds or financing vehicles that provide funding to social enterprises
- Determine what is the optimal way to deploy capital (direct investment, investing in existing intermediaries, or creation of a new social enterprise fund) with the goal of maximizing impact
The Max M. & Marjorie S. Fisher Foundation

Impact Areas:

Jewish
Strengthen the Jewish community by fostering an increased connection children and families in Detroit feel to their Jewish identity and Israel; providing support for children at-risk; and strengthening the culture of tzedakah within the broader Jewish community.

Impact Investing
Lead alongside others by investing in individual deals to build the field of impact investing, learn through participating in collaborative investments with seasoned impact investors, and accelerate the field by investing in opportunities that create on-ramps for new impact investors.

Early Childhood
Support a multi-generation approach that develops adult skills, provides basic needs and advances policy to support families in need to ensure children are ready to learn when they enter kindergarten; support delivery of accessible, high-quality early care and education; advance an early education ecosystem.

Arts and Culture
Create a vibrant arts and culture community by encouraging arts education in neighborhoods and schools and providing opportunities for exposure, enrichment, and instruction.
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Financing Vibrant Communities

Executive Summary

Findings

✔ There is a shortage of capital for small business social enterprises.

✔ Most early-stage equity capital available in Detroit is geared towards tech-enabled firms.

✔ Small business social enterprises face significant barriers to obtaining debt financing.

✔ Limited grant capital is available to social enterprises focused solely on Detroit as grants are largely reserved for models that can rapidly scale and be replicated nationally/globally.

✔ Considerable effort is being made to strengthen Detroit’s entrepreneurship ecosystem for technology startups and small businesses, resulting in an increase in the number and quality of local support organizations.

✔ There is a need for an impact fund to provide direct equity investments in small business social enterprises in Detroit.

Recommendations

✔ Create an impact investment fund to provide debt and equity capital for small business social enterprises in Detroit.

✔ Partner with local entities to manage the fund and provide a dedicated ecosystem of support. Specifically, institutions with experience providing technical assistance to small businesses, underwriting loans, offering grants to social enterprises and/or doing early-stage equity deals.
01

Landscape Overview

Methodology
Introduction to Social Enterprise
The Social Entrepreneurship Ecosystem
Context: Detroit’s Decline
Methodology

This study is grounded in the M&M Fisher Foundation’s mission and values. An iterative process comprised of desk research, interviews, synthesis and analysis was used to arrive at an understanding of the social entrepreneurship ecosystem, driving forces and capital flows in the City of Detroit. From these we distilled criteria, principles and an investment strategy against which to make an assessment regarding the optimal deployment of capital.

Notes:

Interviewees were identified from among leaders of top entities operating across different capital providers (VC/angel, CDFIs, Foundations, etc.) as well as local chapters of organizations like the Social Enterprise Alliance (Detroit hub).

Literature was identified from reports published by leading entities, organizations and alliances within the past three years and screened for geographic alignment.
Introduction to Social Enterprises: What is a Social Enterprise?

As defined by the Social Enterprise Alliance¹, social enterprises are “organizations that address a basic unmet need or solve a social problem through a market-driven approach.”

As many strictly-for-profit enterprises solve social problems, it is important to dispel the notion that the difference between conventional enterprises and social enterprises can be ascribed simply to motivation – with entrepreneurs spurred on by money and social entrepreneurs driven by altruism. For this reason, we define social entrepreneurship as having the following three components²:

- Recognizes a stable but inherently unjust equilibrium that causes the exclusion, marginalization, or suffering of a segment of humanity;
- Identifies an opportunity in this unjust equilibrium, developing a social value proposition, thereby challenging the stable state’s hegemony; and
- Forges a new, stable equilibrium that releases trapped potential or alleviates the suffering of the targeted group

¹https://socialenterprise.us/about/social-enterprise/
Introduction to Social Enterprises: What types of Social Enterprises are there?¹

**Entrepreneurial Nonprofits**
Tax-exempt entities supported, at least in part, by earned income coming from the implementation of revenue-generating programs or adoption of an overall entrepreneurial business model. Primarily funded through grants and donations.

**Socially Responsible Businesses**
Entities pursuing double- and triple-bottom-line returns² by adopting practices benefiting community, employees, or the environment. These practices can be undertaken even at the expense of shareholder profit maximization. Examples may include environmentally sustainable practices such as reducing an organization’s carbon footprint by sourcing locally or ethical labor practices such as paying living wages and providing other employee benefits. Traditionally funded by angel investment, venture capital, PRIs, or internally-generated funds.

**Businesses that “Do Good”**
Entities that direct a portion of their business toward charitable work. Revenue-generating activities are generally wholly separate from change-making activities and, in many cases, the social component is an add-on to the company’s core business.

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¹Nicole Motter, “There Are Actually 6+ Types of Social Enterprise”, Conscious Company Magazine, August 2017

²Double- and triple-bottom-line returns refer to social, financial and environmental returns.

³NESTA/Young Foundation 2011
Introduction to Social Enterprises: What are Fisher Foundation’s target Social Enterprises?

Definition

For the purpose of this landscape scan, we are assessing the availability of capital for Detroit-based social enterprises ("Target Social Enterprises") with the following characteristics:

☑️ For-profit entity explicitly pursuing double-line returns, even at the expense of shareholder profit maximization.

☑️ Social impact created by the entity can come from several fronts:
   - Product or service offered.
   - Interactions with the community (e.g. employing locally,..), giving back programs, etc.

☑️ Structured as a traditional/small business, as opposed to a tech-enabled startup.

☑️ An investment in it is expected to generate a financial return (likely below market-rate, but at a minimum ensuring return of capital).

Local Examples

Rebel Nell empowers women, creating Graffiti Jewelry from chipped paint and offering classes in financial success.

Fresh Corner is a mission-driven food service provider working toward a fresher, healthier, and even more delicious Detroit.

1 SocEntCity, “A Deeper Dive: Social Enterprise Ecosystems in the U.S.”, 2018
Social Entrepreneurship Ecosystem: The U.S.

The social enterprise ecosystem framework presented is adapted from SocEntCity¹, a joint initiative by Deloitte, Capital one, University of Maryland, and Halcyon.

The framework was created based on survey responses from over 400 social entrepreneurs from 21 cities, as well as consultations with dozens of experts and thought leaders in the social enterprise space.

The framework identifies four areas, or “pillars”, critical to the existence of a healthy ecosystem—availability of funding, quality of life, human capital and regulation & receptivity. We have added support institutions, like small business development centers and legal clinics, to acknowledge the important link between technical assistance and early-stage business success. We build on this framework to develop a comprehensive understanding of the key drivers of growth for Detroit’s social enterprise ecosystem and assess which areas capital should be deployed in to maximize mission impact.

Among these core elements, the SocEntCity study found that at a national level funding is the most significant challenge faced by social entrepreneurs, including seed funding, grants and venture capital from public and private sources. Quality of life was also important and includes elements such as the vitality of a city where the social enterprise is located, as well as the affordability of housing.

¹SocEntCity, “A Deeper Dive: Social Enterprise Ecosystems in the U.S.”, 2018
Interview Quotes Highlight Ecosystem Needs

“I can’t think of any groups or foundations focusing exclusively on social enterprise investments in Detroit or Michigan.”

Martin Dober, Managing Director
Invest Detroit

“There is no clear institutional element that social entrepreneurs seeking direct investments can look to.”

Jamie Shea, Director of Portfolio Strategy
Quicken Loans Community Investment Fund

“There is a critical need for direct seed investments of social enterprises in Detroit.”

Jennifer Oertel,
Impact Investing and Non-Profit Expert

Interviews with local social entrepreneurs and impact investing experts conducted over the phone during May – June 2018
Social Entrepreneurship Ecosystem: Detroit

The SocEntCity study ranked Detroit #20 out of 21 cities surveyed, and identified funding and human capital as critical deficiencies for social enterprises in the region. Furthermore, quality of life and regulation & receptivity also received low scores for the city, pointing to an overall weak local entrepreneurship ecosystem in Detroit.

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Total Score</th>
<th>Funding</th>
<th>Quality of life</th>
<th>Human Capital</th>
<th>Regulation &amp; Receptivity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Boston, MA</td>
<td>70.6</td>
<td>16.9</td>
<td>15.1</td>
<td>19.8</td>
<td>18.7</td>
</tr>
<tr>
<td>2</td>
<td>San Francisco, CA</td>
<td>68.2</td>
<td>16.9</td>
<td>15.0</td>
<td>19.0</td>
<td>17.4</td>
</tr>
<tr>
<td>3</td>
<td>Washington, D.C.</td>
<td>67.0</td>
<td>14.2</td>
<td>14.7</td>
<td>19.8</td>
<td>18.2</td>
</tr>
<tr>
<td>20</td>
<td>Detroit, MI</td>
<td>41.5</td>
<td>9.3</td>
<td>11.5</td>
<td>7.6</td>
<td>13.2</td>
</tr>
<tr>
<td>Max value</td>
<td></td>
<td>100</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

Support Institutions

Healthy entrepreneurship ecosystems have organizations that offer various support services to small businesses in areas such as business planning, legal, office space, financial management, R&D, and workforce development. The following presents a summary of the number of institutions offering such services within Detroit.

1 SocEntCity, “A Deeper Dive: Social Enterprise Ecosystems in the U.S.”, 2018
2 Detroit BizGrid, New Economy Initiative and Detroit Economic Growth Corporation, August 2018
Sample Technical Assistance Provides

**ACCESS Growth Center**

**Name:**
ACCESS Growth Center

**Services**
Legal/licensing services, financial literacy training, sales and marketing, coaching

**Description:**
The Growth Center is an idea activator and small business incubator focused on providing services and support to entrepreneurs and small businesses in underserved neighborhoods and communities in Detroit and the surrounding suburbs. Most clients are disadvantaged immigrants, refugees, artists, women and other minorities.

**BUILD Institute**

**Name:**
BUILD Institute

**Services**
Business planning classes, mentorship

**Description:**
BUILD Institute helps people turn their business ideas into reality by providing them with the necessary tools, resources, and support networks in Detroit. To date, they have graduated over 1400 aspiring and experienced entrepreneurs from their classes, many of whom have gone on to start successful businesses in the city.

**Techtown Detroit**

**Name:**
Techtown Detroit

**Services**
Idea incubation & commercialization, industry-specific programs, work space

**Description:**
TechTown was founded in 2000 by Wayne State University, Henry Ford Health System and General Motors. Originally founded to support tech-based spinoffs from the university, they soon turned their incubation and acceleration strategies towards strengthening neighborhood small businesses and commercial corridors across Detroit. Today, Techtown offers a full suite of entrepreneurial services for tech and neighborhood businesses, with satellite offices across the city.
Context: Detroit’s Decline

The economic and fiscal struggles of Detroit and the wider metropolitan area are evidenced by the loss of industrial and working-class jobs, a shrinking population, and high rates of poverty.

![Median Household Income in 2015 Dollars](image1)

- **Non-hispanic white**
- **African American**
- **Hispanic**

![Detroit's Population 1900–2016](image2)

Detroit’s population shrank nearly 30% between 2000 and 2016.

Over the past 15 years, the median income of Detroit residents has declined. In 2015, the median income in the city was less than half that of the region.

At all levels of educational attainment, Detroiters have higher rates of unemployment relative to regional and national peers.

Detroit is a city with an extremely high poverty rate. More than 40% of Detroit residents live below the federal poverty line of $24,339 for a family of four.

Detroiters face serious issues with the affordability of housing, with 37% of renters spending more than half of their income on housing.

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*American Community Survey 2006-2010 5 Year, 2011-2015 5 Year*
*U.S. Census*
*The John S. and James L. Knight Foundation, 139 Square Miles Report*
Driving Forces

Millennials are Reshaping the Global Economy
The Impact Investing Sector is Growing
New Legal Status is Enabling Enterprises
to Put Purpose Before Profits
Millennials are Reshaping the Global Economy

According to the Pew Research Center, millennials are now the largest segment of the U.S. labor market, and represent more than a third of the U.S. workforce. This demographic transition is causing seismic changes to the economy, as millennials are more likely to start, work for, and invest in social enterprises than any other generation coming before them.

**Statistics**

- 70% of millennials are willing to pay more for products that make an impact on issues they care about. ²
- Millennials are starting twice as many businesses as baby boomers. Furthermore, while boomers build their businesses first and then think about contributions to society, millennials try to incorporate social responsibility into their enterprises up front. ³
- Millennials are the most likely generation to change careers, give up promotion opportunities or take pay cuts to find purpose and better manage work and family life. ⁴

**Notes:**

1. Richard Fry, “Millennials are the largest generation in the U.S. labor force”, Pew Research Center, April 2018
2. CONE, “New Cone Communications Research Confirms Millennials as America’s Most Ardent CSR Supporters”, September 2015
3. BNP Paribas, “The Emergence of the Millennipreneur”, 2016
4. Ernst & Young, “Younger Managers Rising in the Ranks”, 2013
The Impact Investing Sector is Growing

The impact investing sector has roughly doubled in value in just one year, from assets under management (AUM) of $114 billion in 2017 to $228 billion in 2018.¹

Several trends are driving the growth of the sector, most notably changing investment preferences, innovative financial instruments, entry of new types of investors, and improved impact tracking.

Statistics

Millennials, who are significantly more likely to invest in social enterprises than other generations, are expected to inherit over $30 trillion in wealth as baby boomers grow old and pass.²

Governments are increasingly allocating capital towards social enterprises, allowing the public sector to achieve improved societal outcomes, more effectively track impact, and generate government savings.³

The philanthropy world is deploying capital previously allocated to grants and stock markets to PRIs and MRIs, respectively.⁴

Venture capital is increasingly funding social enterprises as investors recognize that making money and making a positive impact on the world doesn’t have to be mutually exclusive.⁵

¹Global Impact Investing Network, Annual Impact Investor Survey 2018
⁴Ben Paynter, “The Philanthropy World is Embracing Impact Investing”, Fast Company, June 2017
⁵Mary Ann Azevedo, “Growth With An Impact: The Rise of VCs Looking To Fund A (Profitable) Cause”, Crunchbase, February 2018
New Legal Status are Enabling Enterprises to Put Purpose Before Profits

Under traditional corporate structures, corporate directors have a fiduciary duty to exercise business judgment with the goal of maximizing profits so long as it is lawful. In fact, corporate officers and directors can be held legally liable to shareholders of the corporation if they did not maximize profits to the exclusion of other goals. For this reason, individuals and entities seeking social purpose in the past had to do so through non-profit corporations, which by their tax-exempt nature have limitations in their ability to raise capital and scale operations.

In recent years, however, two new types of corporations have been created to address the goals of making money, attracting private investors and addressing societal concerns: the benefit corporation and low-profit limited liability company.

**Benefit Corporation**

A benefit corporation is a for-profit entity, but in addition to creating value for its shareholders, it has three additional legal duties: accountability, transparency, and purpose.

To uphold this additional legal burden, benefit corporations must assess their overall social and environmental performance on a yearly basis using an independent third-party standard such as the B Impact Assessment, and report it to its shareholders and the public in an annual benefit report.

**Low-Profit Limited Liability Companies (L3C)**

Like a limited liability company, the L3C is a for-profit private entity where owners don’t face personal liability for the organization’s debts and obligations. Unlike conventional for-profit entities however, L3C have a social mission as their primary goal.

Conversely, unlike traditional non-profit entities, L3C are allowed to generate modest profits from its business. For this reason, L3C often attract PRIs as their primary source of funding.

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2 Jonathan Storper, “What’s The Difference Between a B Corp and A Benefit Corporation?”, Conscious Company, April 2015
3 Anne Field, “Another Reason To Become An L3C”, Forbes, August 2014
FUNDING FOR SOCIAL ENTERPRISES IN DETROIT:
ASSESSING THE LANDSCAPE

03

Capital Flows

III. CAPITAL FLOWS

Angel and Venture Capital
Community Development Financial Institutions (CDFIs)
Angel and Venture Capital – Available Sources of Early-Stage Financing

Investor Stage Focus (out of 56 investment organizations)

- Mezzanine: 7
- Growth / Expansion: 40
- Startup/Early: 50
- Seed: 39
- Idea/Pre-Seed: 17

Michigan Statistics 1,2

- **56**
  - There are 56 angel and venture capital investment organizations in MI
- **$25k−500k**
  - Preferred initial investment for Angel Funds is generally $25K-$500K
- **$25k−5M**
  - Preferred initial investment for VC Funds is generally $25K-$5M

Detroit Statistics 3,4

- **62M**
  - During 2016, startups in Detroit received more than $62 million from venture capital firms.
- **80%**
  - Over 80% of Detroit venture-backed startups are in the early growth stage or earlier, earning revenues from operations but not yet having positive cash flows.
- **50%**
  - During the 2015–2017 period there was an increase of 50% in the number of startup companies.
- **5**
  - There are five VC firms headquartered or with an office in Detroit, representing 15% of all firms in the state.

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1Michigan Venture Capital Association, 2018 Michigan Entrepreneurial & Investment Landscape Guide
2Zachary Crockett, “Life in the Silicon Prairie: Tech’s great migration to the Midwest”, The Hustle, June 2018
3Michigan Venture Capital Association, 2017 Detroit Entrepreneurial Study
4Tyler Clifford, “Michigan no longer a flyover state for venture capital”, Crain’s Detroit, July 2017
5Interviews with local social entrepreneurs and impact investing experts conducted over the phone during May–June 2018
Angel and Venture Capital – Summary\(^1\,\,2\)

Our research and conversations with local investors indicate the angel/venture capital groups listed below are representative of most investment firms currently operating in the Detroit early-stage market. The table summarizes the types and amounts of capital they offer, broken down by the growth stage of the investment.

<table>
<thead>
<tr>
<th>Angel/VC Firm</th>
<th>Debt</th>
<th>Pre-Seed</th>
<th>Seed</th>
<th>Series A+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invest Detroit</td>
<td>$50K–$2.5M</td>
<td>$50K–$100K</td>
<td>$100K–$250K</td>
<td></td>
</tr>
<tr>
<td>Grow Michigan</td>
<td>$500K–$3.0M</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michigan Angel Fund</td>
<td>$250K–$2.0M</td>
<td>$250K–$2.0M</td>
<td>$250K–$2.0M</td>
<td></td>
</tr>
<tr>
<td>Invest Michigan</td>
<td>Up to $500K</td>
<td>Up to $500K</td>
<td>Up to $500K</td>
<td></td>
</tr>
<tr>
<td>Grand Angels</td>
<td>$250K–$1.0M</td>
<td>$250K–$1.0M</td>
<td>$250K–$1.0M</td>
<td></td>
</tr>
<tr>
<td>BELLE Michigan / Impact</td>
<td>Up to $250K</td>
<td>Up to $250K</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Community Angel Investors</td>
<td>Up to $250K</td>
<td>Up to $250K</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Huron River Partners</td>
<td>$1.0M–$5.0M</td>
<td>$1.0M–$5.0M</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detroit Venture Partners</td>
<td>Up to $500K</td>
<td>Up to $500K</td>
<td>Up to $500K</td>
<td></td>
</tr>
</tbody>
</table>

The different types of early-stage funds currently operating in Detroit can be segmented into three groups:

**Active Seekers:** Actively seeking to invest in social enterprises (through thematic, sector or gender lenses)

**Inactive Non-Seekers:** Not actively seeking to invest in social enterprises and have thus far not made any investments in Detroit

**Active Non-Seekers:** Not actively seeking to invest in social enterprises but have made investments in Detroit social enterprises

The following slides present profiles of three different angel/VC funds that are representative of each of the aforementioned segments.

\(^1\)Michigan Venture Capital Association, 2018 Michigan Entrepreneurial & Investment Landscape Guide

\(^2\)Interviews with local social entrepreneurs and impact investing experts conducted over the phone during May – June 2018
Angel and Venture Capital – Active Seekers

**BELLE Michigan / BELLE Impact**

**Type:** Angel Investor  
**Preferred investment size:** $25,000 - $250,000  
**Investment vehicle:** Equity  
**Stages:** Pre-Seed, Seed, Startup/Early  
**Sector Focus:** Gender lens (focuses on women-led companies), industry agnostic.

**Description:**
BELLE’s mission is to provide superior returns for investors while serving the early-stage capital needs of women-led companies. The companies invested have access not only to BELLE’s capital but to a network of limited partners who bring years of experience as entrepreneurs, professionals, and corporate executives to support the success of portfolio companies.

**Invests in Social Enterprises?**
Besides applying a gender lens when sourcing and assessing potential investments, the firm does not actively seek or pursue the funding of social enterprises. Our research indicates the firm has not made any investments in Detroit-based social enterprises yet.

**Target Social Enterprises Funded:** N/A
Angel and Venture Capital – Inactive Non-Seekers

Name: Detroit Venture Partners
Type: Venture Capital
Preferred investment size: $500,000
Investment vehicle: Equity
Stages: Seed, Startup/Early
Sector Focus: Information Technology, Media, Consumer Products, Mobility

Description:
Detroit Venture Partners backs seed and early stage technology startup teams with the grit, creativity, and passion to tackle and mold opportunity. The fund looks for founders who are creative, disciplined, and trustworthy, and offers mentorship and connections throughout the Quicken Loans Family of Companies and to the broader businesses and leaders committed to seeing Detroit’s entrepreneurs succeed.

Invests in Social Enterprises?
The firm does not actively seek or pursue the funding of social enterprises, and our research indicated it has not made any investments in Detroit-based social enterprises yet.

Target Social Enterprises Funded: N/A
Angel and Venture Capital – Active Non-Seekers

<table>
<thead>
<tr>
<th>Name</th>
<th>Invest Detroit Ventures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Venture Capital</td>
</tr>
<tr>
<td>Preferred investment size</td>
<td>$50,000-$250,000 (equity) - $50,000-$2,500,000 (debt)</td>
</tr>
<tr>
<td>Investment vehicle</td>
<td>Equity, Debt</td>
</tr>
<tr>
<td>Stages</td>
<td>Pre-Seed, Seed, Startup/Early, Growth/Expansion</td>
</tr>
<tr>
<td>Sector Focus</td>
<td>Industry Agnostic, except Business Services and Consumer Products</td>
</tr>
</tbody>
</table>

**Description:**
Detroit Ventures is committed to supporting the entrepreneurial ecosystem with capital, ongoing mentorship, and community engagement, and has invested in over 80 companies since its inception in 2010. The firm implements targeted venture development programs to help build and promote scalable businesses in the region, and is collectively focused on implementing an investment strategy that is inclusive and supportive of minority, immigrant, and women.

**Invests in Social Enterprises?**
While Invest Detroit Ventures has invested in Detroit-based social enterprises, the firm does not actively seek or pursue the funding of social enterprises.

**Social Enterprises Funded (not Target however):** N/A
“Our work in Detroit, as I believe that of most other CDFIs operating locally, has been focused on microlending and real-estate lending aimed at revitalizing communities.”

*Ian Wiesner, Business Development Manager*  
*Capital Impact Partners*

“We do not fund social entrepreneurs directly; we invest in intermediaries (funds and CDFIs).”

*Katherine St. Onge, Director of Syndications and Institutional Partnerships*  
*Calvert Impact Capital*
Community Development Financial Institutions (CDFIs) 1

- 14 of 19 CDFIs in Michigan cover the Detroit area

- Detroit CDFIs offer technical assistance and debt capital to entrepreneurs, ranging from $10,000 microloans to $250,000 term loans for working capital, equipment financing and business expansion purposes

- CDFIs do not offer equity capital to entrepreneurs in Detroit

- The Detroit CDFI Coalition, founded in 2014, is a collaborative group of CDFIs and Detroit stakeholders that work together to strategically expand CDFI investment, loans and banking services within the city

- Some CDFIs make grants available for social enterprises, but only if they are non-profits

Community Development Financial Institutions (CDFIs) – Summary 2, 3

Consistent with our conversations with local economic development professionals, the research shows that while there are 14 active CDFIs in Detroit, most of them focus their lending on real estate projects. As such, we have narrowed the list of active CDFIs in Detroit to focus on entities directing their lending activities towards small businesses. The table below summarizes the amount of loan capital they offer, broken down by the use of proceeds.

<table>
<thead>
<tr>
<th>CDFI</th>
<th>Predevelopment</th>
<th>Startup</th>
<th>Equipment</th>
<th>Micro&amp;Small Business</th>
<th>Working Capital</th>
<th>Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Impact Partners</td>
<td>$1.0M and Up</td>
<td>-</td>
<td>-</td>
<td>$250K-$6.0M</td>
<td>-</td>
<td>$1.0M+</td>
</tr>
<tr>
<td>Opportunity Resource Fund</td>
<td>-</td>
<td>$10K-$250K</td>
<td>-</td>
<td>$10K-$250K</td>
<td>$10K-$250K</td>
<td>-</td>
</tr>
<tr>
<td>LISC Detroit</td>
<td>-</td>
<td>-</td>
<td>$50K-$250K</td>
<td>$50K-$250K</td>
<td>$50K-$250K</td>
<td>$400K-$5.0M</td>
</tr>
<tr>
<td>Detroit Development Fund</td>
<td>$50K-$200K</td>
<td>-</td>
<td>$50K-$150K</td>
<td>$50K-$150K</td>
<td>$50K-$150K</td>
<td>Up to $500K</td>
</tr>
<tr>
<td>Invest Detroit</td>
<td>$50K-$350K</td>
<td>-</td>
<td>$50K-$2.5M</td>
<td>$50K-$500K</td>
<td>-</td>
<td>$500K-$2.5M</td>
</tr>
</tbody>
</table>

Two notable trends that emerge from the data:
1 - There is limited loan capital available for startups
2 - There is wide availability of microloans and traditional small business loans

The following slides present profiles of three different CDFIs whose offerings align closest with the capital needs of the types of social enterprises the Fisher Foundation seeks to fund. We have highlighted the most significant eligibility requirements for each of them to point out the barriers small business owners face when seeking CDFI loans.

1. Michigan Venture Capital Association, 2017 Detroit Entrepreneurial Study
3. Interviews with local social entrepreneurs and impact investing experts conducted over the phone during May – June 2018
Community Development Financial Institutions (CDFIs) – Detroit-Focused

Name: Detroit Development Fund
Type: CDFI
Loan Amounts: $50,000-$250,000
Terms: 24 to 84 months
Working Capitals: Working Capital, Equipment Financing, Business Acquisition

Eligibility:
- Business must be located in the City of Detroit
- Business must have sales of at least $100,000 and fewer than 50 employees
- Business must have been existence for at least 12 consecutive months
- Entrepreneur must demonstrate inability to obtain sufficient financing from traditional lending sources

Description
Detroit Development Fund provides loans and technical assistance to small business owners, developers, building owners, contractors, and subcontractors who cannot get all of the capital they need from traditional financing sources. It delivers its products and services with the goals of revitalizing businesses and neighborhoods in Detroit, Michigan, creating economic equity, and promoting a healthy environment.
Community Development Financial Institutions (CDFIs) – Statewide

<table>
<thead>
<tr>
<th>Name</th>
<th>Opportunity Resource Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>CDFI</td>
</tr>
<tr>
<td>Loan Amounts</td>
<td>$10,000–$250,000</td>
</tr>
<tr>
<td>Terms</td>
<td>Up to 60 months</td>
</tr>
<tr>
<td>Working Capitals</td>
<td>Startup Capital, Working Capital, Expansion/Build-Out, Inventory</td>
</tr>
</tbody>
</table>

**Eligibility:**
- All loans must be secured
- Equity investment of 10% for loans up to $150,000, 15% for loans greater than $150,000

**Description**
Opportunity Resource Fund is a nonprofit loan fund with a successful history of investing in families, businesses, and communities across the state of Michigan.
# Community Development Financial Institutions (CDFIs) – National Reach

**Name:** LISC Detroit  
**Type:** CDFI

| Loan Amounts: | SBA 504 Mortgage loans $400,000–$5,000,000  
|             | SBA Community Advantage $50,000–$250,000  

| Terms:       | SBA 504 Mortgage 30–year  
|             | SBA Community Advantage 7–10 years  
|             | Non-SBA business lending (if not for real estate–projects) is limited  

| Working Capitals: | Working Capital, Equipment Financing, Inventory, Business Acquisition, Debt Refinance  

| Eligibility:     | SBA 504 Mortgage loans $400,000–$5,000,000  
|                 | - Personal Credit Score above 680  
|                 | - Business must occupy at least 51% of property  
|                 | - Minimum of two successful years in industry  

| ✔️ SBA Community Advantage $50,000–$250,000  
|     | - Personal Credit Score above 625  
|     | - Two years of direct industry experience  
|     | - Emphasis on minority-, veteran-, and women-owned businesses or those located in LMI areas  

Nonprofits, Foundations and Initiatives

Trends and Approaches

☑ Much of the work being done by donors in Detroit is focused on strengthening the business ecosystem.

☑ Programs like the New Economy Initiative are enhancing the capacity of support institutions that provide business resources to social enterprises, offer access to capital for small business owners, and deliver technical assistance to entrepreneurs.

☑ Foundations like Draper Richards Kaplan (DRK) are taking a direct approach and deploying capital directly into early-stage, scalable social enterprises via grants.

☑ Additional local sources of philanthropic capital are thematic or sector-specific, like the $30 million Michigan Good Food Fund.

☑ Some are taking alternative approaches focused on providing workforce development to local workers in hopes of decreasing unemployment and improving quality of life. Goodwill, which runs three for-profit social businesses that provide workforce development and offer ownership to workers, is a prime example of this trend.²

³“While we’ve done a few modest grants to support the early formation of partnerships between nonprofits and mission-driven entities, we really don’t fund social enterprises currently (as defined using the more traditional definition of smaller or emerging operating businesses that are double bottom line). The only thing close is our support of the New Economy Initiative, which is a re-grantor and has provided some support to social enterprises”

Aaron Seybert, Kresge Foundation Social Investment Officer

¹https://neweconomyinitiative.org/impact/
²Goodwill looks to buy companies for programs”, Crain’s Detroit Business, November 2017
³Interviews with local social entrepreneurs and impact investing experts conducted over the phone during May – June 2018
Nonprofits, Foundations and Initiatives


The Ralph C. Wilson Foundation (RCW) has invested heavily strengthening the business ecosystem; training of local talent and fostering inclusive entrepreneurship in Detroit. RCW has also generated powerful partnerships with local and national organizations to develop the local technology sector and increase the number of tech-enabled startups being created and retained in the city. Examples of progress made include:

- Formation of a grant-funded educational program covering the cost of 100 local technology apprenticeships over the next three years\(^1\)

- Development of a competition that funds entrepreneurs who use technology to provide low- and moderate-income earners with skills needed for an evolving job market, in collaboration with the MIT.\(^2\)

- Expanded access to capital for minority-owned businesses by contributing to the Entrepreneurs of Color Fund, which has assisted >40 minority entrepreneurs obtain $4.5 million in working capital since 2015.

- Creation of a multimillion dollar center supporting nonprofits in the city and surrounding region with the goal to provide a hub for social innovators to convene and access resources designed to accelerate solutions to mission-related challenges.\(^3\)

- Such ecosystem-building activities are likely expected to continue in the near future, as per direction of the foundation’s late founder, RCW must spend its endowment down within 20 years.\(^4\)

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\(^1\)Crain’s Detroit Business, June 2018
\(^2\)Corey Wilson, “Wilson Foundation working with MIT on tech competition”, Detroit Free Press, March 2018
\(^3\)Philanthropy News Digest, December 2017
\(^4\)Inside Philanthropy, “Turnaround Job: A Foundation Backs Inclusive Innovation in a Transitioning Region”, March 2018
Nonprofits, Foundations and Initiatives

Enhancing Capacity of Support Institutions

The New Economy Initiative (NEI) focuses on empowering small business owners to generate more local employment. A collaboration amongst thirteen large foundations, NEI launched in 2007 and has since its inception deployed close to $100 million in grants.¹

Impact from the New Economy Initiative to date:

- More than 9,600 companies have received technical assistance services.
  NEI has significantly contributed to the design of a regional network of capital support for local businesses resulting in the launch of over 290 neighborhood enterprises and startups.

- By creating support systems for minority entrepreneurs and increasing the diversity of capital sources (such as small business pitch competitions and incubation programs awarding up to $25,000), NEI has generated employment opportunities for more than 24,000 individuals.

Initiatives like these are crucial to effectively deploy capital in small amounts over a large territory in an attempt to deliver the high-touch technical support small business and minority entrepreneurs need. This is the case as big foundations are increasingly doing fewer investments in larger amounts as a function of the fact that they do not have large staffs but still have to move large amounts of capital.²

¹ New Economy Initiative, 2017 Annual Report
² Interviews with local social entrepreneurs and impact investing experts conducted over the phone during May – June 2018
Community Development Financial Institutions (CDFIs) – National Reach

While the previously discussed initiatives offer meaningful insights into the viability and potential impact of indirect investment approaches, it is critical to also understand the way in which other philanthropic players are injecting capital directly into social enterprises. The following two sample profiles are representative of the direct-investing models currently present in Detroit, from both equity/grant and debt perspectives.

Draper Richards Kaplan Foundation

**Name:** Draper Richards Kaplan Foundation

**Type:** Foundation

**Geographic Focus:** Global

**Capital Provided:** Grants ($300,000)

**Areas of Impact:**
Social Enterprises with a focus on healthcare, education, food security, social justice, water and sanitation, transparency and accountability, and shelter.

**Description:**
The Draper Richards Kaplan Foundation (DPK) is a global philanthropy firm supporting early stage, high impact social enterprises. DPK provides unrestricted capital over three years and, most importantly, provides rigorous, ongoing support by joining the board of directors and partnering with the leader to help build capacity in the organization and greatly scale their impact.

**Eligibility:**
- Operating model must be likely to scale.
- Enterprise must be in early stages of their development.
- Organizations must be between 1-3 years old and the leader is prepared to execute an ambitious plan.
- National or global in reach and/or social issue.
- DPK supports non-profit, for-profit and hybrid social enterprises.
Community Development Financial Institutions (CDFIs) – National Reach

**Name:** Michigan Good Food Fund  
**Type:** Initiative  
**Geographic Focus:** Michigan  
**Capital Provided:** Term loans ranging from $5,000 to $6,000,000

**Areas of Impact:** Enterprises increasing access to affordable, healthy food in low-income and underserved communities in Michigan.

**Description:**  
The Michigan Good Food Fund is a $30 million public-private partnership loan fund that provides financing and business assistance to good food enterprises working to increase access to affordable, healthy food in low-income and underserved communities in Michigan. This includes the range of businesses that grow, process, distribute, and sell healthy food that reaches those who need it most.

**Eligibility:**  
- Two years of operating history. If startup, operator must have industry experience.  
- Annual revenue of $50,000 for loan requests less than $250,000.  
- Annual revenue of $750,000+ for loan requests of more than $250,000.  
- Profitable or can demonstrate a path to profitability within 12 months.  
- Collateral in the form of business and/or personal assets, corporate and/or personal guarantees.  
- Strong, committed management team.  
- Able to provide financial projections  
- Supports both non-profit and for-profit enterprises.
Insights and Recommendations

Findings
Potential Structures
Recommendation
Findings

- There is a shortage of capital for small business social enterprises.
- Most early-stage equity capital available in Detroit is geared towards tech-enabled firms.
- Small business social enterprises face significant barriers to obtaining debt financing.
- Limited grant capital is available to social enterprises focused solely on Detroit as grants are largely reserved for models that can rapidly scale and be replicated nationally/globally.
- Considerable effort is being made to strengthen Detroit’s entrepreneurship ecosystem for technology startups and small businesses, resulting in an increase in the number and quality of local support organizations.¹
- There is a need for an impact fund to provide direct equity investments in small business social enterprises in Detroit.

“While funding for early-stage firms in Detroit is growing, I know of no angel or VC fund that is willing to take concessionary returns for the sake of impact”

Martin Dober
Managing Director Invest Detroit²

¹ Detroit BizGrid, New Economy Initiative and Detroit Economic Growth Corporation
² Interviews with local social entrepreneurs and impact investing experts conducted over the phone during May – June 2018
# Potential Structures

The table below summarizes four potential investment structures, highlighting the benefits and disadvantages of each from a control, cost and learning perspective.

<table>
<thead>
<tr>
<th>Key Advantage</th>
<th>Direct</th>
<th>Fund</th>
<th>Fund of Funds</th>
<th>Syndicate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity to leverage or build foundation skills and relationships to enhance grants with investment capital.</td>
<td>Experienced management team for targeted or aligned sectors and/or geography.</td>
<td>Experienced management team selects portfolio of funds with strong track records and aligned focus. Portfolio may include a range of sectors and/or business stages.</td>
<td>Investor groups organized by a lead investor for transactions, sectors, or geographies of mutual interest. Funds may organize syndicates to support their portfolio companies through all growth stages.</td>
<td></td>
</tr>
</tbody>
</table>

| Key Risk | | | | |
|----------| | | | |
| Foundations may lack in-house capacity, creating greater risk and lower impact. Managing investments | Qualifying fund may not exactly target a foundation’s priority programs or geography. | Qualifying fund of fund holdings may offer limited relevance to a foundation’s priority programs or geography. | Divergent investor priorities on specifics such as PRI versus MRI eligibility, social geography may complicate the investment process and increase transaction costs. |

| Cost | | | | |
|------| | | | |
| High, due to staff time and opportunity cost. | Like conventional investments: in the range of a 2 percent management fee plus 20 percent carry. | May add a fee layer for assembling portfolio of qualified funds. | May add a fee or cost layer for investing in a deal that another qualified investor leads and/or manages |

| Social Metrics | | | | |
|----------------| | | | |
| Customized. | May provide detailed reporting. Foundations should document expectations in advance. | May provide detailed reporting. Foundations should document expectations in advance. | Determined on a case-by-case basis, as metrics reflect the goals of particular investors in the syndicate. |

| Institutional Learning | | | | |
|-----------------------| | | | |
| Institutional Learning | Largely determined by the level of engagement a foundation seeks. | Largely determined by the level of engagement a foundation seeks. | Largely determined by the level of engagement a foundation seeks with syndicate and/or lead investors. |

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1 Grant Makers in Health, "Guide To Impact Investing", May 2011
Recommendations

- Create an impact investment fund to provide debt and equity capital for small business social enterprises in Detroit.
- Partner with local players to manage the fund and provide a dedicated ecosystem of support.

The following local entities could potentially be great partners based on their experience providing technical assistance to small businesses, underwriting loans, offering grants to social enterprises and/or doing early-stage equity deals.

Training Programs and Pitch Competitions

Early-Stage Investors

CDFIs and Initiatives

Invest Detroit

Detroit Development Fund

Opportunity Resource Fund

Michigan Good Food Fund
Appendix

Detroit Landscape Interviews
Avivar Capital Team
Detroit Landscape

Angel Investors and Venture Capital Firms

Entrepreneurial Ecosystem Builders & Technical Assistance Partners

Nonprofits, Foundations and Initiatives

Community Development Financial Institutions
Interview - Industry professionals

Linda Darragh
Co-Founder, Impact Engine

Martin Dober
Managing Director, Invest Detroit Ventures

Elizabeth Garvin
Senior Analyst, Mission Throttle

Natalie Hazen
Managing Director, Gingras Global

Jennifer Oertle
Impact Investing Lawyer & Philanthropy Expert

Sahar Omrani
Previous Director, University of Michigan’s Social Venture Fund

Aaron Seybert
Social Investment Officer, The Kresge Foundation

Jamie Shea
Director of Portfolio Strategy, Quicken Loans Community Investment Fund

Katherine St. Onge
Director of Syndications and Institutional Partnerships, Calvert Impact Capital

Ian Wiesner
Business Development, Capital Impact Partners
## THE AVIVAR CAPITAL TEAM

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tina N. Castro, CFA</td>
<td>Managing Partner</td>
<td>Tina brings over 15 years of experience in the fields of finance and investment management and co-leads the firm’s overall business activities, serving as an impact investment advisor to Avivar’s clients and providing guidance on the development and execution of impact investing portfolios and funds.</td>
</tr>
<tr>
<td>Lisa Richter</td>
<td>Managing Partner</td>
<td>Lisa co-leads Avivar’s overall business activities, bringing over two decades of fund management and investing experience spanning asset classes, return expectations, geographies and issue areas, and frequently incorporating place-based or sector focus to increase equitable access to opportunity.</td>
</tr>
<tr>
<td>Matt Rho</td>
<td>Managing Director, Investments</td>
<td>Matt was previously a founding Managing Director of New Richmond Ventures (NRV), an early-stage venture capital firm focused on backing social entrepreneurs in Central Virginia. Prior to that, he was the COO and CFO of PrecisionIR and a partner at SV Investment partners. Matt began his career as an investment banking analyst at JP Morgan, in the firm’s Global Energy M&amp;A practice.</td>
</tr>
<tr>
<td>Anita Foster</td>
<td>Analyst</td>
<td>Anita first joined Avivar as a Special Projects Advisor. Previously, she served as a Development Specialist at The Center for Working Families (TCWFI), managing TCWFI’s fundraising. Before that, she served as Development Consultant to Boys Speak Out in Atlanta and a Development Intern for Students First in Sacramento.</td>
</tr>
<tr>
<td>Carlos E. Peña</td>
<td>Summer Associate</td>
<td>Carlos is currently an MBA candidate at CU Boulder’s Leeds School of Business and the acting Managing Director of the university’s graduate student-run investment fund DCVF. Previously, he was a Sr. Loan Officer at non-profit microlender Accion Chicago and a Business Valuation Associate at Deloitte.</td>
</tr>
</tbody>
</table>