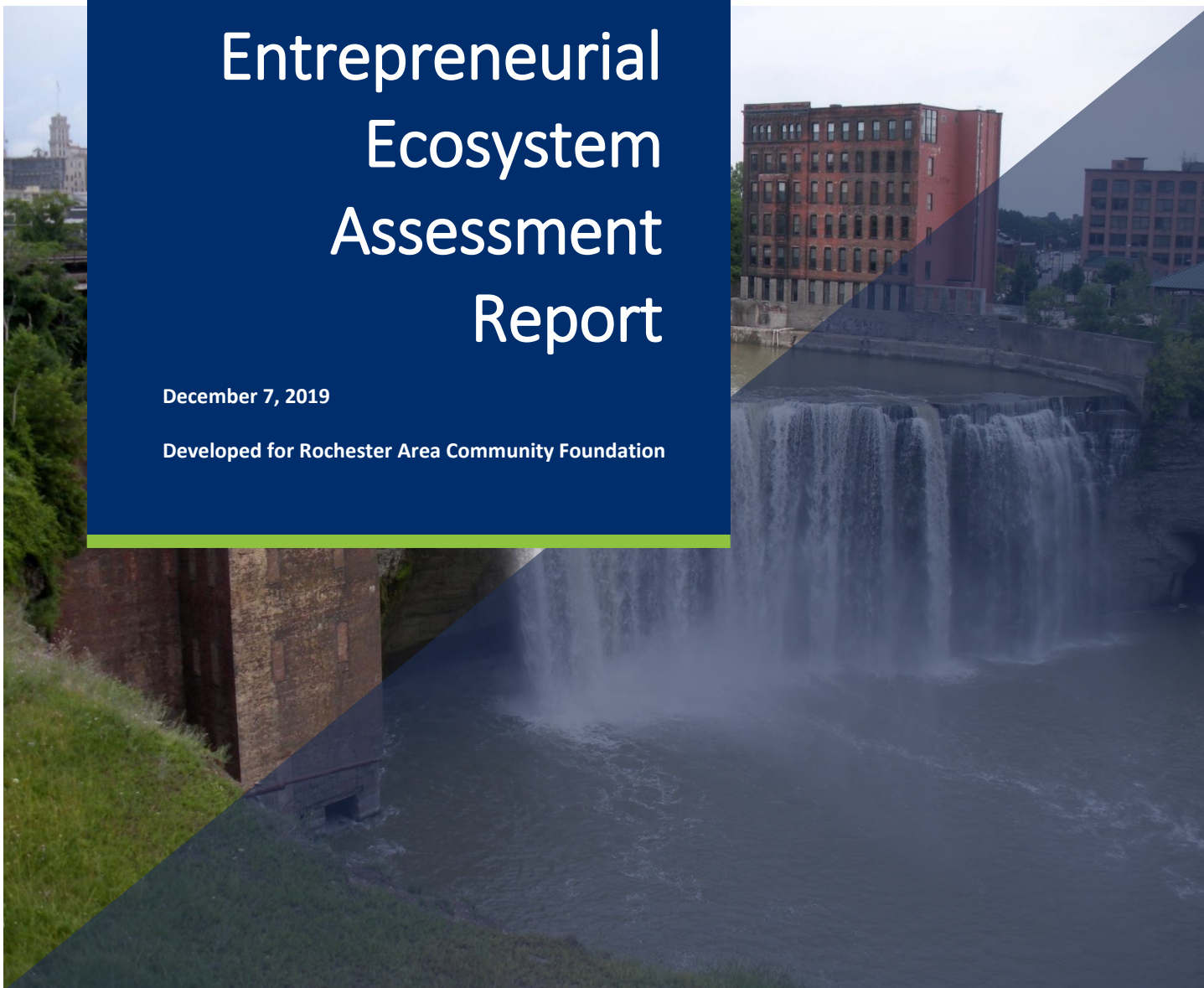


Rochester Entrepreneurial Ecosystem Assessment Report

December 7, 2019

Developed for Rochester Area Community Foundation





THE
COMMUNITY
FOUNDATION

ROCHESTER, NY

Mission-Related Investing Journey

Rochester Area Community Foundation's board of directors has approved a \$2 million allocation from endowment to support a Mission-Related Investing (MRI) initiative. With this new tool, the Community Foundation will join other organizations in Rochester – public, private and philanthropic – that are committed to making positive and enduring change in the city. This commitment has led staff to explore support for urban entrepreneurs as a path toward job and wealth creation particularly for residents of the city's more disadvantaged neighborhoods. Urban entrepreneurs include low-income entrepreneurs, women entrepreneurs and entrepreneurs of color who seek to start and grow a business in Rochester's neighborhoods. Recognizing that this work will be done in partnership with other stakeholders to be most effective, the Community Foundation contracted with LOCUS Impact Investing to complete an assessment of the entrepreneurial ecosystem – with attention to how well it serves urban entrepreneurs – as a prelude to the development and implementation of its MRI initiative. This report summarizes the key results and themes from that assessment and provides recommendations for next steps by the Foundation.

Section 1 — The Entrepreneurial Ecosystem

What is an Entrepreneurial Ecosystem?

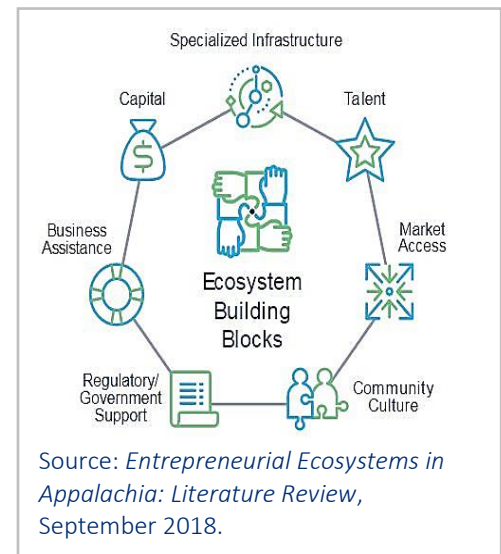
There is no consensus definition of an entrepreneurial ecosystem. A literature review conducted as part of a recent study of the entrepreneurial ecosystem in the Appalachian region found strong agreement about the importance of an entrepreneurial ecosystem but less agreement about how to define it.¹ A relatively simple definition provides the guidance needed by Rochester Area Community Foundation to explore the current state of the ecosystem in the city of Rochester:

The entrepreneurial ecosystem is the set of interconnected support organizations, institutions, policies and cultural context that help potential and existing entrepreneurs start, grow and transition their businesses. It is the environment that nurtures entrepreneurial ventures.

Assessing the strength and performance of an entrepreneurial ecosystem requires a more nuanced understanding of the elements of that system. The research in Appalachia identified a set of common elements of strong ecosystems:

- Talent
- Market Access
- Community Culture
- Regulatory/Government Support
- Business Assistance
- Capital
- Specialized Infrastructure

For the purposes of this assessment, we use these elements to define and assess the quality and strength of the ecosystem that serves entrepreneurs in the city of Rochester.



Why is the entrepreneurial ecosystem important?

There is consensus that entrepreneurial ventures create most of the new jobs in the United States. More recent research qualifies this observation, demonstrating that new firms and high-growth firms (those growing employment by 25% per year) contribute to 70% of job creation in a given year.² This data speaks to the importance of entrepreneurs to overall economic development; even more important from the perspective of the Community Foundation is the contribution that self-employment – having your own business – makes to wealth creation. Drawing on data from the *Survey of Consumer Finances*, the national Transfer of Wealth study completed by LOCUS Impact Investing in 2018 found that households led by someone who was self-employed as compared to working for someone else had 5 to 6 times greater average net worth.³ Self-employment – a proxy for entrepreneurship – is one important pathway to wealth creation.

¹ [Entrepreneurial Ecosystems in Appalachia: Literature Review](#), September 2018.

² Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda, "The Role of Entrepreneurship in U.S. Job Creation and Economic Dynamism," *Journal of Economic Perspectives*, Vol. 28, No. 3, Summer 2014, pp. 3-24.

³ [National Transfer of Wealth Technical Report](#), January 2018.

Section 2 — Inventory of Rochester’s Ecosystem

The first step in assessing the performance of Rochester’s entrepreneurial ecosystem is to understand the actors. Using the ecosystem elements described previously, the LOCUS team conducted a high-level inventory of major ecosystem actors in Rochester. This inventory provides a first step toward identifying gaps – places where there are few or no actors addressing an element – and is offered with caveats. Some programs or initiatives may not be identified, or they may be included under one element when their programming cuts across several elements. Most importantly, this inventory does not speak to the performance of the ecosystem overall or more specifically in support of the urban entrepreneurs. Performance of the ecosystem is addressed in the next two sections through analysis of secondary data and themes uncovered during interviews with system stakeholders.

Overview

Based on the inventory elements described below, Rochester has a relatively resource-rich entrepreneurial ecosystem, i.e., there are no “empty” elements. However, the ecosystem does not appear to be universally strong across all elements. Specifically:

- There are few programs focused on youth entrepreneurship or the entrepreneurial talent pipeline. For any older city historically dominated by strong employers, building an entrepreneurial culture will require starting early and exposing young people to entrepreneurial opportunities. One example of this approach is the America’s Entrepreneurial Schools Initiative launched by EntreEd to instill entrepreneurial thinking in “every student, every year”.⁴ Closer to home, the Young Entrepreneurs Academy program has a strong track record and network of program licensees across the country and the world that could be more strongly embedded in Rochester’s ecosystem.⁵
- Market access programs appear to be limited to public sector efforts to support exporting and government contracting. It is less clear what market development and access support is available for sectors beyond some of the high-tech efforts supported by NextCorps (i.e., Luminate & Hardware Scaleup). OWN Rochester may fill some of this niche sector support as it develops, like the work of the Evergreen Cooperatives in Cleveland.
- The specialized infrastructure seems to be targeted to higher-tech entrepreneurs and centered around Sibley Square and Center for Urban Entrepreneurship (CUE). There seem to be few spaces appropriate for neighborhood start-up businesses, although food businesses should find a niche at The Commissary. One relevant example is MEMShop, a Memphis-based model to “activate vacant and underused storefronts to help build local businesses.”⁶
- While there are a number of actors providing business assistance and capital resources, what is less clear is how well connected these actors are, how well they collaborate to create a seamless system, and whether they effectively serve the higher-risk, urban entrepreneurs that the Community Foundation is targeting.

Talent

The talent element refers to efforts to inject entrepreneurial skills and thinking into youth and emerging entrepreneurial talent. Of importance in Rochester are efforts to expose more young people within the city’s neighborhoods to the opportunities offered through self-employment and business ownership. It is difficult to dream about entrepreneurship if the seeds are not planted early and often.

⁴ EntreEd, [America’s Entrepreneurial Schools](#)

⁵ [Young Entrepreneurs Academy](#)

⁶ Communities Unlimited, [MEMShop](#)

- [Future Business Leaders and Entrepreneurs](#) – summer camp; youth entrepreneurship program offered by the Center for Urban Entrepreneurship
- [Young Entrepreneurs Academy](#) – yearlong national program headquartered in Rochester and sponsored by Chambers of Commerce for students in grades 6-12
- [Junior Achievement Discovery Center](#) – state-of-the-art learning lab planned for Eastman Business Park; model developed by Junior Achievement in the United States

Market Access

Particularly for startup entrepreneurs who are entering new markets, like a neighborhood, or existing entrepreneurs attempting to grow, market intelligence is critical. Market access also includes specific efforts in support of sectors like local/regional food systems or types of entrepreneurs, like minority business certification programs.

- [Rochester U.S. Export Assistance Center](#) – support for entrepreneurs entering global markets
- [Monroe County Finger Lakes - PTAC](#) – support for entrepreneurs seeking to become government contractors
- [New York State MBWE Certification](#) – website to help entrepreneurs get certified
- [Own Rochester](#) – cooperative development around market niches
- [Black-Owned Businesses \(BOB\) Website](#) – created to provide a culturally-relevant community and economic development resource for Black-owned, -operated, and -oriented establishments throughout Greater Rochester
- [Business Innovation Center, Rochester Public Library](#) – offers free market research services for business enterprises including market trends, intellectual property landscapes, patent holdings, registered trademarks, and business and financial reports

Community Culture

Vibrant entrepreneurial ecosystems have a “feel” – a culture that supports individuals as they take the steps to start a business. Often this culture is explicit – supporting the startup community through meet-ups and business plan competitions. In other ways it is more implicit – quality of life investments to attract innovators and buy local campaigns.

- [ROCGrowth](#) – RocGrowth Coffee (meet-ups) and Candids (E speaker series)
- [Downtown Innovation Zone](#) – Rochester Downtown Development Corporation
- [Greater Rochester Chamber of Commerce](#) – business information
- [Hispanic Business Person of the Year Award and Luncheon](#) – Rochester Hispanic Business Association
- [Boost & Build Pitch Competition](#) – Urban League of Rochester
- [Business Pitch Competition](#) – RIT Center for Urban Entrepreneurship

Regulatory/Government Support

The public sector plays a role in the ecosystem through efforts such as streamlined business licensing, working across economic development, workforce development, and education silos, and passing supportive regulations and ordinances.

- [Minority and Women-Owned Business Policy](#) – established by the city
- [Rochester MWBE Directory](#) – city

Business Assistance

Usually the most robust element in the ecosystem, business assistance providers help build the skills and capacities needed to start and grow a business. Services include business plan development, business counseling, and business acceleration programs to help entrepreneurs advance their startup.

- [Greater Rochester SCORE](#) – SBA-supported program to provide coaching support
- [Brockport SBDC](#) – SBA-supported free counseling, business plan development
- [Rochester Hispanic Business Association](#) – Business Growth training sessions
- [NextCorps](#) – Manufacturing Extension Partnership services
- [Center for Urban Entrepreneurship](#) – intensive capacity-building program for existing businesses (1-year program for businesses with some revenue)
- [Greater Rochester Enterprise](#) – Regional Economic Gardening Program providing sophisticated, tailor-made technical assistance to second-stage companies poised for growth in the greater Rochester region – from developing new markets and refining business models, to assessing competitive intelligence
- [The Commissary](#) – workshop series to connect food businesses and startup food concept entrepreneurs to industry-specific resources and business development advice; sponsored by Rochester Downtown Development Corporation (prior to launch of physical space in spring 2020)
- [Urban League of Rochester](#) – classroom instruction and one-on-one technical assistance for minority and women entrepreneurs; also provides assistance to dislocated workers, the disabled, and aspiring small business persons in the start-up, development and/or expansion of independent, self-owned micro enterprise ventures. One of 20 Centers in New York State, funded by Empire State Development.
- [Jobs Kitchen Accelerator](#) – 9-week program for start-ups or business owners seeking to grow; paired with mentor; offered by Venture Jobs Foundation
- [Jobs Kitchen Academy](#) – modular toolkit focused on budding or potential entrepreneurs; offered by Venture Jobs Foundation
- [NxLevel Business Training](#) – courses offered by the Entrepreneur Assistance Center of the Urban League of Rochester
- [Beechwood neighborhood intensive business coaching](#) (offered by George Gotcsik) – in partnership with North East Area Development, Inc. (NEAD) and Third Presbyterian Church members

Capital

High performing ecosystems provide a range of financial tools such as microlending, angel and venture investing, and revolving loan funds to help get businesses off the ground and to their next level of growth. While traditional banking institutions are important components of the ecosystem, the presence of nontraditional lenders is often indicative of a more developed ecosystem.

- [Pathstone Enterprise Center](#) – Community Development Financial Institution (CDFI) providing micro to mid-sized loans
- [Venture Jobs Foundation](#) – nontraditional lending to small businesses with limited credit, collateral and/or equity
- [Rochester Angel Network](#) – network of accredited investors interested in seed and early stage startup
- [RIT Venture Fund](#) – investment capital to entrepreneurs with strong ties to RIT
- [Genesee Coop FCU](#) – small business loans
- [Monroe County Industrial Development Corporation](#) – public capital programs such as SBA 504 loans for long term financing
- [KIVA](#) – interest-free, crowd-funded loans up to \$10,000; city program
- [Rochester Economic Development Corporation \(REDCO\) Revolving Loan Fund](#) – new or expanding business low-interest loan fund

- [Neighborhood Commercial Assistance Program](#) – matching grants for capital purchases by retail and service neighborhood businesses; city
- [Rochester Gas & Electric Corporation](#) – a variety of investment and energy cost-reduction programs

Specialized Infrastructure

This element includes physical spaces and other built environments that support entrepreneurship. This may include a specific building, such as an incubator space, or something larger, like a downtown revitalization effort.

- [Venture Creations](#) – RIT seed/mid-seed tech startup incubator
- [NextCorps](#) – LaunchPad, Lennox Tech Enterprise Center and Sibley Square (incubator space), Luminate (accelerator for photonics, optics and imaging), Hardware Scaleup (scaling clean energy prototypes), NEXUS-NY (clean energy proof of concept center), Fab Lab (prototyping)
- [URVentures](#) – tech transfer web platform
- [Rochester Technology Park](#) – privately-owned business park
- [The Commissary](#) – food business incubator and shared kitchen under construction in Sibley Square (opening in 2020)

Section 3 — Data Snapshot

Overview of Rochester's Entrepreneurial Economy

Relying on secondary data to describe the entrepreneurial environment and performance of any geography is problematic. There is no single data point that measures “entrepreneurship” and the best we can do is rely on proxies. In this section, we compare Rochester to a set of peer urban centers across select entrepreneurial indicators. The peers were chosen to be consistent with those selected by Boston Consulting Group in the Finger Lakes Economic Development Action Plan:

- Allentown, PA
- Buffalo, NY
- Columbus, OH
- Dayton, OH
- Grand Rapids, MI
- Omaha, NE
- Springfield, IL

The entrepreneurial indicators selected for this assessment were those included as part of the Appalachian Entrepreneurial Dynamism Dashboard developed for an assessment of the Entrepreneurial Ecosystem in Appalachia completed in 2018.⁷ These indicators provide a snapshot of entrepreneurship in Rochester from two perspectives. One assesses the importance of entrepreneurs in the current business base using three proxy measures:

- **Start-ups** – establishments that existed in 2016 and/or 2017 but not earlier

⁷ Entrepreneurial Ecosystems in Appalachia, [Dynamism Dashboard](#), September 2018. LOCUS was part of the research team on the project for ARC and worked with another partner, the Center for Regional Economic Competitiveness, to obtain the secondary data for this assessment of Rochester's ecosystem.

- **Stage 2 Businesses** – establishments with 10-99 employees in 2017, traditionally defined as small businesses and often viewed as the job generators in a local economy
- **High-Growth Businesses** – establishments with at least 25% employment growth annually from 2013-2017, often considered the drivers of innovation

Economies with higher percentages of these types of businesses are viewed as being more entrepreneurial. These data should be viewed with some caution since they speak only to potential. One stage 2 business, for example, may be innovative and seeking new markets to support expansion while another may be a lifestyle business with no plans or interest in growth.

The other perspective looks at how the local economy is growing new businesses and how those businesses are performing in terms of job creation:

- **Establishment Growth Rate** – the rate at which new businesses were starting up in the local economy from 2012-2017
- **Employment Growth Rate** – the rate at which local businesses were adding new employees from 2012-2017

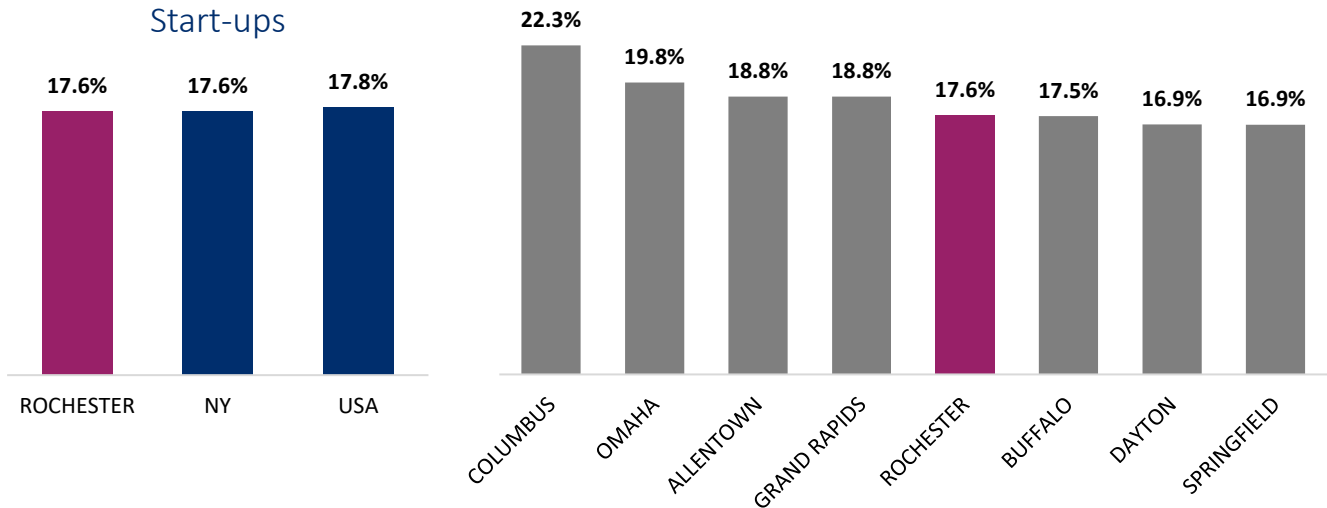
These data show the capacity of a local area to support the creation of new businesses and new jobs, with higher rates defining a more entrepreneurial and innovative economy. Because of the limits of secondary data, it is not possible to ascribe all this performance to entrepreneurial ventures; it is a reflection of the economy as a whole.

The tables on the following pages provide data for Rochester city as compared to New York state, the United States, and the seven peer urban centers. Two key themes emerge from the data:

- **In terms of the importance of entrepreneurs to the economy, Rochester ranks below the middle of its peer group – ranking fifth or sixth out of the eight urban centers.** For startups, the highest-ranked city, Columbus, had a rate 24% higher than the lowest-ranked city, Springfield. For Stage 2 businesses, the highest-ranked city, Grand Rapids, was 22% higher than the lowest-ranked city, Allentown. And, for high-growth businesses, the highest-ranked city, Dayton, was 26% higher than the lowest-ranked city, Allentown.
- **In terms of economic performance, Rochester rose to the top of the group.** For establishment growth, Rochester was about 64% higher than the lowest-ranked city, Grand Rapids. For employment growth, Rochester was 58% higher than the lowest-ranked city, Omaha.

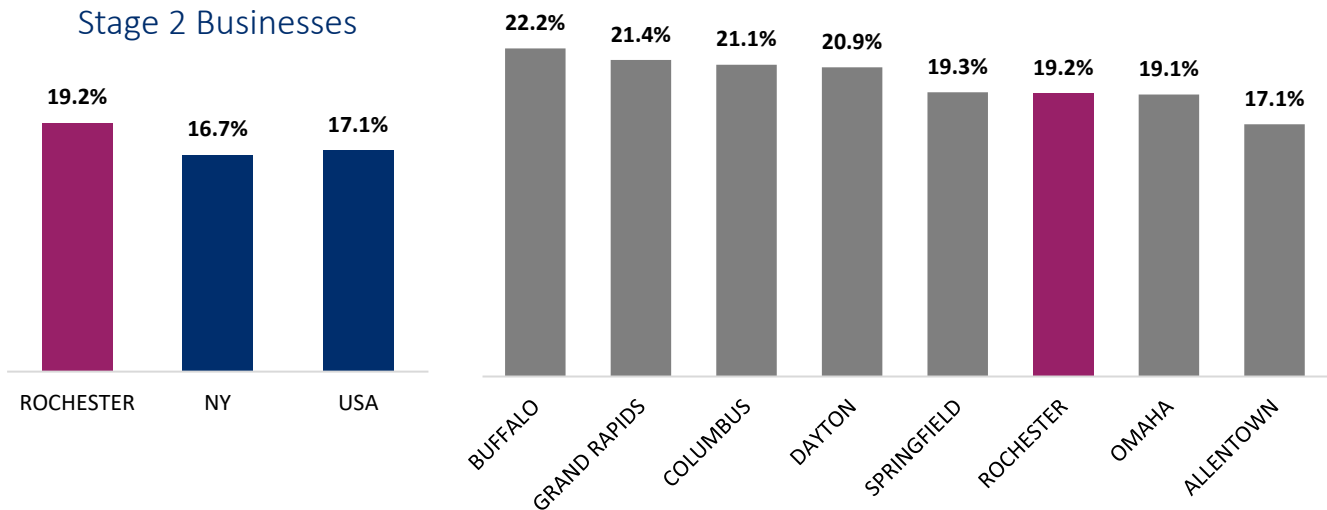
Start-ups. Rochester's start-up rate is consistent with New York and the United States overall. But compared to its peer urban centers, Rochester ranks fifth out of eight with 17.6% of establishments considered startups. The highest-performing peers are Columbus, OH (22.3%) and Omaha, NE (19.8%).

Start-ups

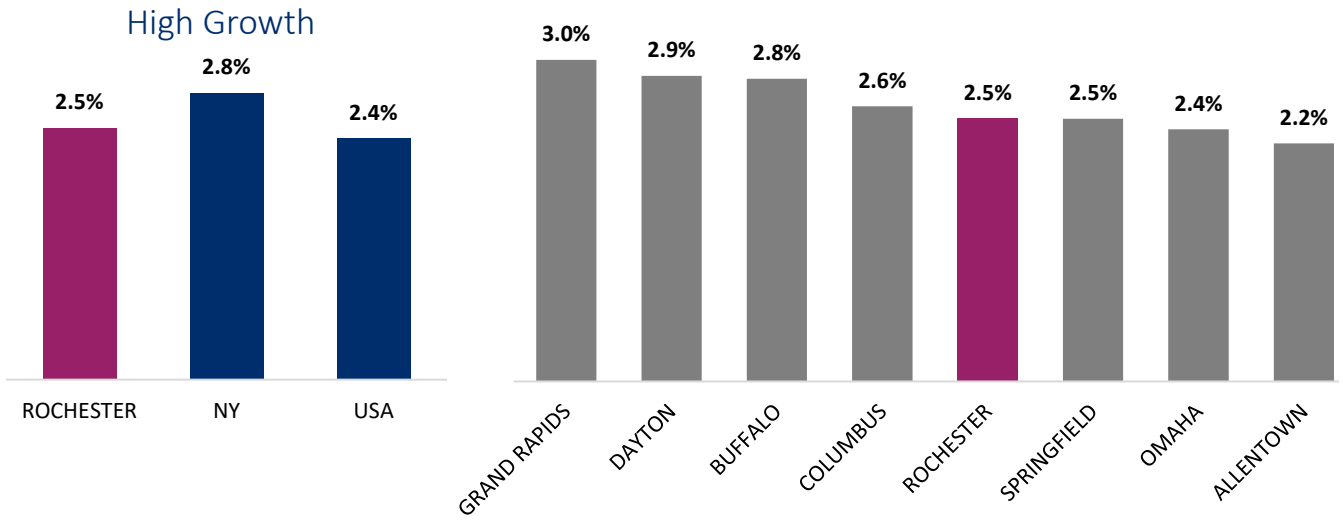


Stage 2 Businesses. Rochester has a higher rate of Stage 2 businesses than New York and the U.S. overall. Among its peers, Rochester ranks seventh out of eight with 19.2% of businesses in Stage 2 (10-99 employees). The highest performing peers are Buffalo, NY (22.2%), Grand Rapids, MI (21.4%) and Columbus, OH (21.1%).

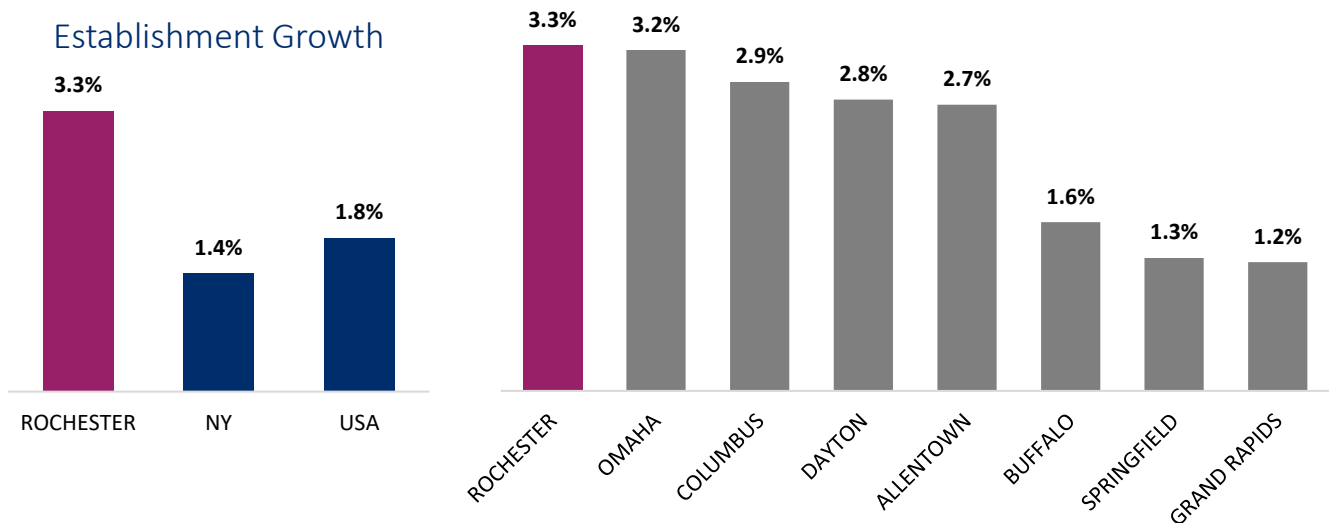
Stage 2 Businesses



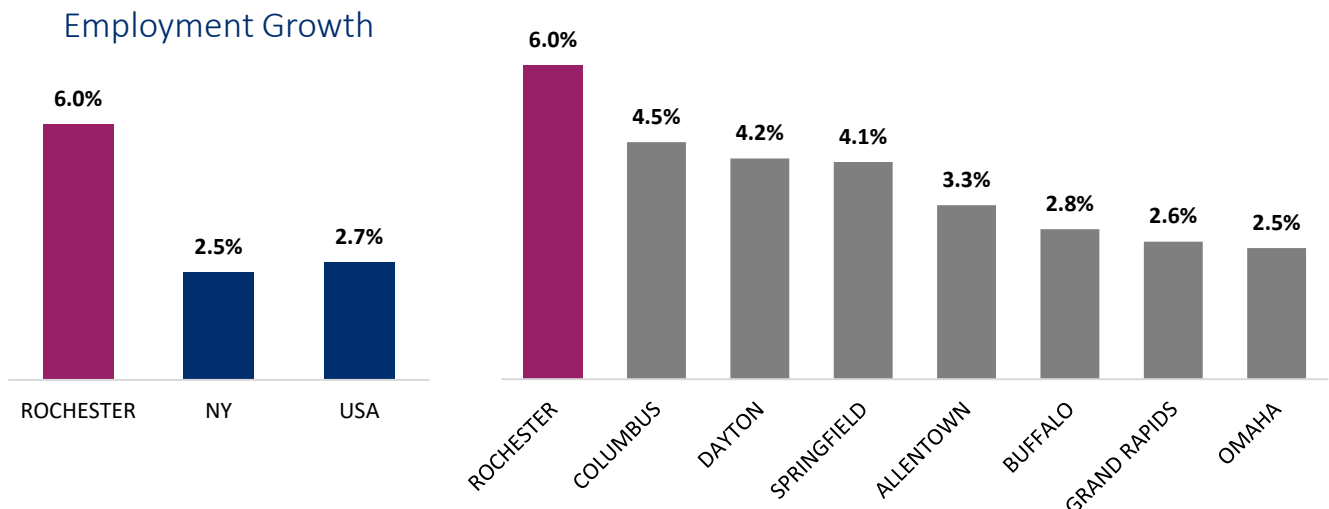
High Growth Businesses. Rochester has a lower rate of high growth businesses than NY and about the same as the U.S. Among its peers, Rochester ranks fifth out of eight. Grand Rapids, MI (3.0%) and Dayton, OH (2.9%) outperform Rochester and New York state.



Establishment Growth. The growth rate in establishments in Rochester from 2012 to 2017 was twice the rate in New York and almost twice the rate in the U.S. Number of establishments grew at a rate of 3.3% over that period, outperforming all its peers. Omaha, NE was closest with a growth rate of 3.2%.



Employment Growth. The employment growth rate for businesses in Rochester from 2012 to 2017 was more than twice the rate in New York and the U.S. The 6.0% rate of growth exceeded all peers with Columbus, OH being second at 4.5%.



Secondary data provide only a snapshot of the economy in Rochester at a point in time. Data related to the entrepreneurial composition of the economy – share of startups, Stage 2 businesses and high-growth businesses – suggest that Rochester is about average compared to its peers. It does not have the percent of startups that Columbus and Omaha boast, the Stage 2 businesses of Buffalo and Grand Rapids, or the high-growth firms of Grand Rapids and Dayton. In each case, a simple web search uncovered stories of the innovation cultures being built in these places:

➤ Columbus was ranked 5th in terms of startup cities.⁸

⁸ <https://www.business.org/business/startup/top-cities-for-entrepreneurs-and-startups/>

- Omaha has a Startup Collaborative committed to entrepreneurship.⁹
- Grand Rapids has a mature ecosystem with a 30-year organization supporting women entrepreneurs¹⁰ and an initiative to empower black entrepreneurs in urban neighborhoods.¹¹
- The Entrepreneur Center in downtown Dayton received a significant state investment to advance its work.¹²

More research on the potential models that these peer cities offer to the Community Foundation is warranted.

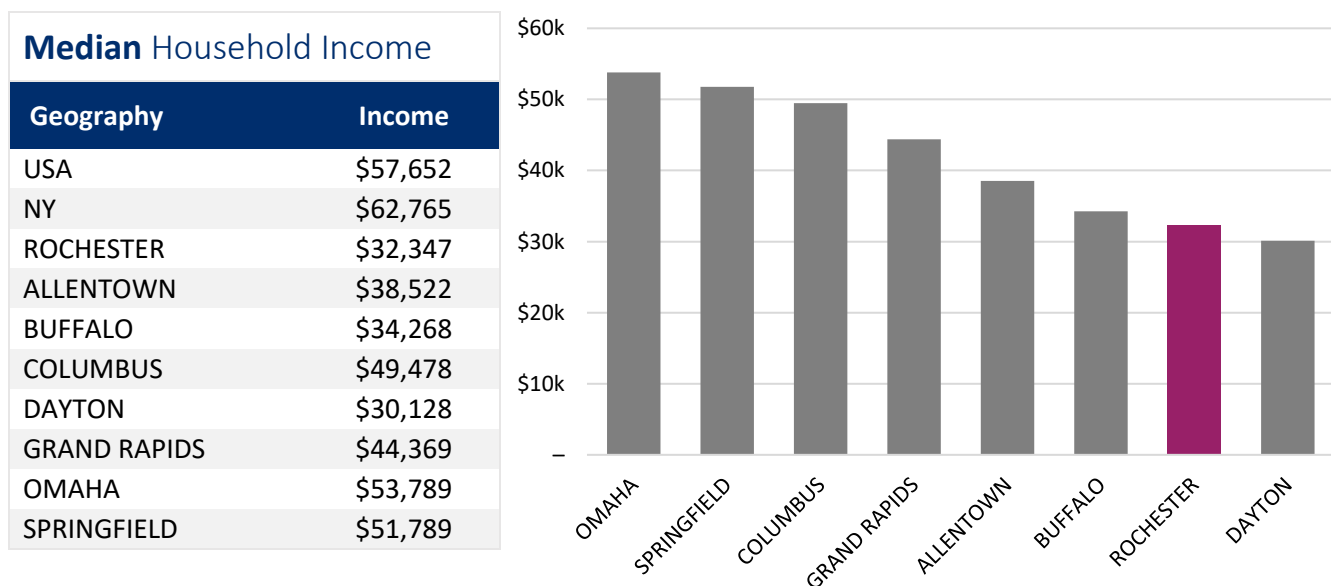
Data related to the performance of the Rochester economy paint a picture of a higher-performing system. Rochester is outperforming its peers in terms of the creation of new businesses and jobs. It is important to recognize that these two views of the city are not necessarily in conflict. Job creation is driven by all the businesses in the city including those with 100 or more employees. Those larger businesses are not included among the proxies for entrepreneurs but are likely contributing to job creation.

None of the secondary data, however, provide insights into how the entrepreneurial ecosystem is supporting urban entrepreneurs – entrepreneurs of color, women entrepreneurs and lower income entrepreneurs who are starting and growing businesses in Rochester’s neighborhoods. The data behind these indicators does not break down business ownership by race and gender. Demographic data for Rochester provides insights into the importance of exploring how the ecosystem supports these types of entrepreneurs.

Insights from Rochester Demographics

Compared to its peers, Rochester demographics present a challenging landscape for entrepreneurship.¹³ This reality makes it even more critical to answer the question – “How is Rochester’s entrepreneurial ecosystem helping low-income residents, women and entrepreneurs of color start and grow their businesses?”

Median Household Income. Rochester ranks second to last among its peers with an annual median household income (MHI) of \$32,347. Only Dayton (\$30,128) has a lower MHI. Rochester’s rate is significantly less than its peer leaders – Omaha, Springfield, and Columbus.



⁹ <https://www.omahachamber.org/startupcollaborative/>

¹⁰ <https://www.growbusiness.org/>

¹¹ <http://www.grabblocal.com/>

¹² <https://www.bizjournals.com/dayton/news/2019/02/20/dayton-group-earns-2-6m-in-state-funding.html>

¹³ The source for all demographic data is Census American Community Survey, 2017 estimates (based on previous 4 years).

People in Poverty. Rochester has the highest rate of people in poverty among its peers, with a third living in poverty. Combined with the low MHI in the city, these data suggest that urban entrepreneurs are likely to have limited wealth to bring to their startup enterprise, a reality that the entrepreneurial ecosystem needs to address.

Household Income and Percent in Poverty in Last 12 Months

	< \$25,000	\$25,000 - \$49,999	\$50,000 - \$74,999	\$75,000 - \$99,999	\$100,000+	People in Poverty	Families in Poverty
USA	21.3%	22.5%	17.7%	12.3%	26.2%	14.6%	10.5%
NY	21.5%	19.7%	15.9%	11.9%	31.0%	15.1%	11.3%
ROCHESTER	40.4%	26.9%	15.3%	7.4%	10.0%	33.1%	29.6%
ALLENTOWN	33.0%	27.3%	19.4%	10.1%	10.2%	27.3%	23.4%
BUFFALO	39.2%	25.2%	14.7%	8.8%	12.1%	30.9%	25.4%
COLUMBUS	24.7%	25.7%	19.4%	12.2%	18.0%	20.8%	15.9%
DAYTON	43.0%	27.3%	15.2%	6.8%	7.7%	32.7%	28.5%
GRAND RAPIDS	27.9%	27.3%	19.0%	11.6%	14.2%	22.5%	15.5%
OMAHA	21.9%	24.5%	18.5%	12.1%	23.0%	15.1%	10.8%
SPRINGFIELD	26.6%	21.9%	17.3%	12.2%	21.9%	20.3%	15.0%

Population by Race. Compared to its peers, Rochester is not unique in having a relatively diverse population – more diverse than the state of the United States. And, the diversity includes Hispanic and African American populations, unlike places like Buffalo, Columbus, Dayton and Springfield where their Hispanic populations are most predominant. Rochester’s entrepreneurial ecosystem needs to be responsive to the needs of entrepreneurs of color.

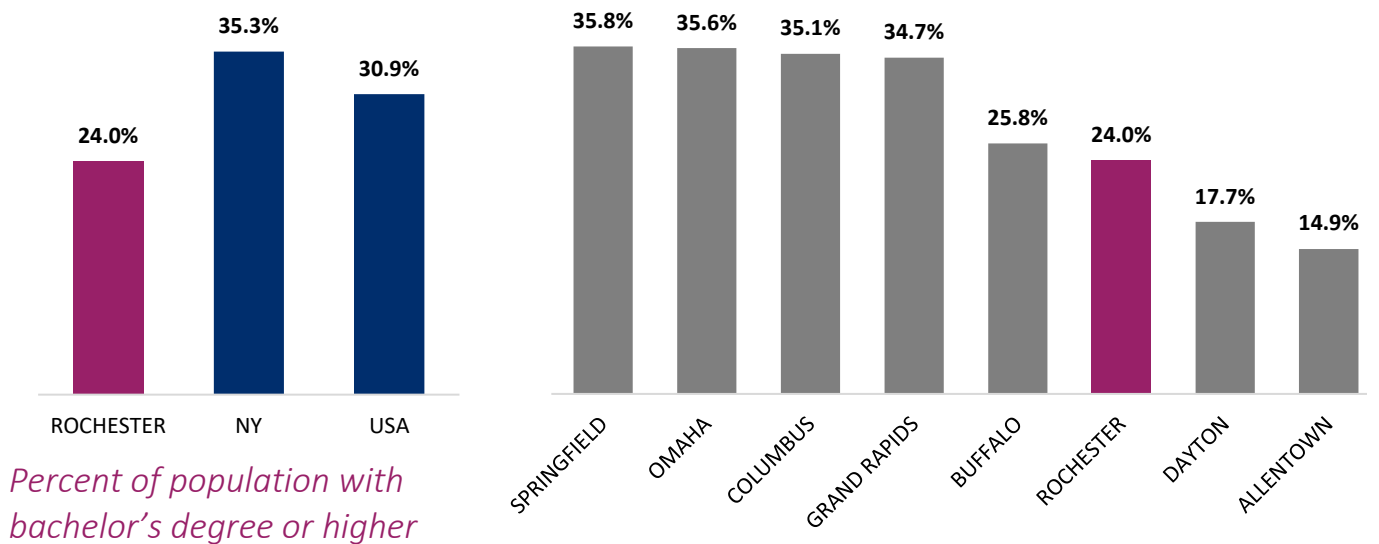
Percent of Total Population by Race

	White	Hispanic or Latino	Black or African American	American Indian and AK Native	Asian	Hawaiian or Pacific Islander	Some other race/ Two or more races
USA	61.5%	17.6%	12.3%	0.7%	5.3%	0.2%	2.5%
NY	55.9%	18.8%	14.4%	0.2%	8.3%	0%	2.4%
ROCHESTER	36.8%	17.8%	38.5%	0.2%	3.2%	0%	3.4%
ALLENTOWN	34.4%	50.6%	10.4%	0.2%	2.1%	0%	2.3%
BUFFALO	44.0%	11.3%	36.3%	0.4%	5.2%	0%	2.8%
COLUMBUS	56.8%	6.0%	27.9%	0.1%	5.2%	0%	4.0%
DAYTON	52.6%	3.9%	38.9%	0.3%	0.9%	0%	3.3%
GRAND RAPIDS	59.7%	15.3%	19.1%	0.3%	2.1%	0%	3.5%
OMAHA	67.4%	13.7%	12.1%	0.4%	3.5%	0.1%	2.9%
SPRINGFIELD	71.6%	2.6%	19.7%	0%	2.7%	0%	3.2%

Educational Attainment. Only about a quarter of the population in Rochester has a college degree or higher. While college education is often associated with innovation, entrepreneurship can be a viable path for individuals who do not plan to attend college, particularly when combined with technical skills or education. Rochester's entrepreneurial ecosystem should be responsive to the significant percent of the population that does not bring a college degree to their entrepreneurial venture.

Population 25 years and over by Educational Attainment

	Less than 9th grade	9th-12th grade, no diploma	High school grad (or=)	Some college, no degree	Associates Degree	Bachelor's degree	Graduate or professional degree
USA	5.4%	7.2%	27.3%	20.8%	8.3%	19.1%	11.8%
NY	6.5%	7.4%	26.3%	15.9%	8.7%	19.9%	15.4%
ROCHESTER	6.1%	13.2%	28.0%	18.5%	10.3%	14.1%	9.9%
ALLENTOWN	8.3%	13.4%	37.2%	18.2%	7.9%	10.0%	4.9%
BUFFALO	5.2%	10.9%	27.4%	21.0%	9.7%	14.9%	11.0%
COLUMBUS	3.6%	7.3%	25.8%	21.1%	7.1%	22.9%	12.2%
DAYTON	4.5%	12.5%	29.1%	26.7%	9.5%	11.1%	6.7%
GRAND RAPIDS	6.8%	7.2%	22.3%	21.4%	7.5%	22.5%	12.2%
OMAHA	5.5%	6.1%	22.5%	22.9%	7.4%	23.0%	12.6%
SPRINGFIELD	2.3%	6.4%	26.2%	22.0%	7.3%	21.6%	14.2%



There are important limitations to using secondary data to assess the overall performance of the entrepreneurial ecosystem. Proxies are imperfect. The data are typically 2 years old, at best, so indicators do not rapidly reflect the impacts of any intentional efforts to support entrepreneurship, such as a major investment in a new program, or radical changes in the overall economy, such as a business closure. Important insights on performance are best obtained from the key stakeholders in the system – the support providers and the entrepreneurs for whom they work. These insights are particularly important in identifying how well the system serves the entrepreneurs on which the Foundation is focused. The next section shares the themes about Rochester's entrepreneurial ecosystem identified through stakeholder interviews and a small sample of entrepreneur focus groups.

Section 4 — Themes

Rochester Area Community Foundation joins a growing number of organizations – foundations and others – that are considering the best ways to support inclusive ecosystem building, especially in communities of color. A guide prepared by the Federal Reserve Bank of Kansas City and the Opportunity HUB directly addresses this challenge:

Entrepreneurship ecosystem building is a fast-growing economic development strategy. To date, little work has been done to ensure this strategy is inclusive for both people of color and their communities. In a time of changing demographics in the United States, it is important to include diverse communities in all economic development strategies. Inclusion is important particularly in ecosystem building in communities of color because of the power entrepreneurship has to create jobs and decrease the racial wealth gap.¹⁴

In addition to equity considerations, building a more inclusive entrepreneurial ecosystem is a smart economic development strategy. Three data points pulled from the report demonstrate the untapped potential in providing more effective support to minority entrepreneurs (Census Bureau Survey of Business Owners, 2012):

- Average sales of nonminority businesses were 3 times those of minority businesses
- Average employees of nonminority businesses were 2.5 times those of minority businesses
- Percentage of nonminority businesses with employees was more than twice the percentage for minority businesses

Helping more minority entrepreneurs start and grow businesses in the city of Rochester has the potential to positively impact the city’s job creation and wealth-building potential.

Gines and Sampson define an inclusive entrepreneurial ecosystem as one where “all entrepreneurs, regardless of background, have equitable knowledge of, support, encouragement, opportunity and access to appropriate resources to start and grow their business venture.”¹⁵ This lens frames the six themes identified for the Rochester entrepreneurial ecosystem discussed here.

Theme 1: A Tale of Two Ecosystems

The most universal and consistent theme from the interviews conducted for this assessment is the tale of two ecosystems. Rochester was described as having a strong and effective ecosystem for high tech entrepreneurs, particularly those connected with Rochester Institute of Technology (RIT) and the University of Rochester (UR). Interviewees often referenced the Downtown Innovation Zone and NextCorps as strong elements in this ecosystem, providing space, support and a culture of innovation. The development of the Sibley building, with its focus on “innovation – incubation – education,” is positioned to contribute positively to this ecosystem.

For urban neighborhood entrepreneurs – women, minority, lower income – these strong ecosystem elements are lacking. Interviewees identified far more gaps – in a culture of entrepreneurship, basic financial literacy, capital access, mentors, intensive technical assistance, outreach – when asked to describe how well the ecosystem

¹⁴ Dell Gines and Rodney Sampson, *Building Entrepreneurship Ecosystems in Communities of Color*, <https://www.kansascityfed.org/~media/files/publicat/community/smallbusiness/ecosystem%20building%20in%20communities%20of%20color%20web.pdf#targetText=The%20primary%20point%20is%20that,of%20color%20are%20not%20islands.>

¹⁵ Gines and Sampson, p. 11.

serves the entrepreneurs that are the focus for the Community Foundation. The entrepreneurial ecosystem for these entrepreneurs was most often described as lacking, ineffective and filled with gaps.

What is encouraging from these interviews, however, is the recognition that the ecosystem is not working for these targeted entrepreneurs – that there is more work to do to build an inclusive entrepreneurial ecosystem as defined previously. And, partners within the system are stepping up to recognize the gaps and view them as emergent opportunities for developing new initiatives, building new infrastructure, supporting new partnerships and investing resources in new and more productive ways – all with the goal of creating an ecosystem that works for all. Interviewees referenced the unprecedented support from the city and Mayor Lovely Warren, particularly that equity considerations are driving action and that the city is considering how to support the whole ecosystem and not be a provider of capital only.

Theme 2: Strengthening Connections

As is often true in an entrepreneurial ecosystem, all entrepreneurs in Rochester do not know where to turn for help. The ecosystem in Rochester was described as working well for entrepreneurs with connections, often to the universities, and resources but as being opaque and confusing to others. There are many important ecosystem partners as the ecosystem inventory shared earlier in this report depicts. However, it is not always clear to which partner an entrepreneur should turn. This theme was specifically shared during the two focus groups with entrepreneurs. There is also no efficient and effective way to track an entrepreneur being served by many partners in the system. An ecosystem works best when each organization can focus time and attention on the entrepreneurs it is best suited to support and provide “warm handoffs” to other service providers as needed. However, without strong collaborative relationships to clearly define each partner’s “sweet spot” and an effective referral and tracking system, it is likely that less well-resourced and connected entrepreneurs will fall through the cracks.

The need for stronger connections is recognized in Rochester, as evidenced by the investment to create a [SourceLink](#) platform for Rochester. One interviewee referenced a partnership group that was meeting monthly to share information and build stronger and more seamless connections. These efforts are essential to building a more inclusive ecosystem so that when an urban neighborhood entrepreneur makes the leap of faith to reach out for help, she is met by a responsive system that helps her navigate to the right resource, at the right time, to put her on the path toward success.

Theme 3: Building an Entrepreneurial Culture

Gines and Sampson point out that most ecosystem building starts at the point where an entrepreneur has an idea, a plan or has launched a business. They argue that it must begin well before that point, especially in places without a strong history, culture and presence of successful entrepreneurs – whether a distressed urban neighborhood or a small rural community. Ecosystem building should start with early exposure to entrepreneurial thinking and concepts primarily through youth entrepreneurship. Despite Rochester being the home base of a successful youth entrepreneur program – the Young Entrepreneurs Academy (YEA) – there were few examples of youth entrepreneurship provided during the interviews. Yet most interviewees agreed that more needs to be done to help aspiring entrepreneurs understand what is involved in starting and growing a business – giving them the “dose of reality” about the opportunities and the challenges. Programs like YEA that support young people to identify, pitch and start a business help to build entrepreneurial skills that may be further developed by other support providers in the ecosystem.

Another aspect of this culture is that novice entrepreneurs need role models and examples that can help them see the possibilities that business ownership offers. The focus groups with entrepreneurs emphasized the importance of role models that reflect their own diversity – women, entrepreneurs of color, someone who managed to build a successful business without the benefit of wealth or connections. Mentors that reflect the

diversity of Rochester are lacking, based on input from the interviewees. As one interviewee put it, “Mentoring needs to be more than old white men; we need to get the word out and attract more mentors of color so that mentors mirror the population they serve.”

Theme 4: Access to Capital and Capital Readiness

A 2016 report by the Federal Reserve System found that entrepreneurs of color faced significantly greater credit challenges than their white peers.¹⁶ Often this means starting the business undercapitalized, relying on higher cost capital or having to put in more owner equity. Capital access and readiness issues exist within the Rochester ecosystem. Many interviewees identified capital readiness as an important need for many of the entrepreneurs with which they work. Capital readiness includes building basic financial literacy and personal financial skills, often lacking in entrepreneurs targeted by the Community Foundation. The city’s focus on financial empowerment was viewed as an encouraging effort in this area. Interviewees also spoke to the need to help entrepreneurs become bankable through efforts such as establishing or repairing credit scores and providing access to micro loans to strengthen the business and build a track record of handling debt. The city’s KIVA micro loan program was described as a first step in meeting small-scale capital needs. The Genesee Co-op Federal Credit Union has provided micro loans since 1998 but faces some capacity constraints on its small business lending.

Another important capital gap identified during the interviews is for equity capital. Access to traditional venture capital is highly dependent on sector – flowing mostly to technology and health care firms – and geography – flowing mostly to California, Massachusetts, New York, Texas and Washington.¹⁷ In Rochester, a significant capital gap identified by interviewees was small scale equity or startup capital. Many entrepreneurs – especially low-income, women, and minority entrepreneurs – have limited personal assets to inject into the business and, as a result, struggle to raise the initial equity needed to qualify for either a traditional bank loan or even micro loans from lenders like the credit union. Even Community Development Financial Institutions like Pathstone Enterprise Center or city lending programs like REDCO have trouble financing under-capitalized entrepreneurs who lack equity and/or collateral.

Theme 5: Intensive Technical Assistance

While access to capital is important, it is insufficient to ensure that entrepreneurs have the best chances for success. Interviewees, including those who provide capital, acknowledged that culturally appropriate, intensive technical assistance is needed along with capital to help low-income, minority and women entrepreneurs start and grow sustainable businesses in Rochester’s urban neighborhoods. For capital providers, this type of intensive assistance is a “de-risking” strategy. Entrepreneurs who are receiving support are more likely to repay a loan or to be able to manage financial problems as they arise, so they do not negatively impact ability to repay.

Interviewees highlighted several characteristics of effective, intensive technical assistance:

- Offered at times that are accessible by working entrepreneurs – either those currently operating a business or working at another job while they plan for a business startup.
- Offered in partnership with trusted neighborhood organizations and at locations in the community.
- Follows the entrepreneur over time and supports the entrepreneur from idea to startup to sustainability.
- Provides connections to other support providers with follow-up and continued engagement.
- Specifically reduces barriers to participation caused by limited financial resources or language, education, child care, or other cultural barriers.

¹⁶ 2016 Small Business Credit Survey: Report on Minority-Owned Firms, Board of Governors of the Federal Reserve System, <https://www.fedsmbusiness.org/survey/2017/report-on-minority-owned-firms>

¹⁷ MoneyTree Report, Q1 2018. https://www.pwc.com/us/en/technology/assets/MoneyTree_Report_2018_Q1_FINAL.pdf

One example of this intensive approach to assistance is the work being done in the Beechwood neighborhood, with leadership from George Gotcsik. With support from a neighborhood faith community and in partnership with a neighborhood organization, he provides support to entrepreneurs by being in the community, doing “shoe leather” outreach and providing customized business support and micro loans as appropriate. Another example of the assistance continuum is the Venture Jobs Foundation. The Jobs Kitchen was launched to fill a gap in the ecosystem and help entrepreneurs get ready for micro loans. Then the Café was launched to help entrepreneurs get ready to compete for more traditional bank loans.

This type of assistance is also related to helping strengthen existing businesses. Often assistance is focused on starting up – classes on “how to start a business” or support for developing a business plan. Less prevalent are programs and resources targeted to helping existing businesses that might be struggling or in need of a leadership transition or growing rapidly enough that they need support on moving to the next level. This type of assistance requires meeting the entrepreneur where he is and working one-on-one in more of a coaching relationship. For most service providers, the capacity and resources to support this type of assistance are lacking.

Theme 6: Effective Outreach and Engagement

Most interviewees acknowledged that their capacity to conduct effective outreach for their programs was limited. Marketing budgets are small or nonexistent. In some cases, connections to neighborhood organizations like Boys & Girls Clubs or faith-based communities were being made but not universally. And, most interviewees agreed that building an inclusive entrepreneurial ecosystem will require more and better efforts to engage the communities and entrepreneurs that are the priority of the Community Foundation. Engagement requires efforts beyond marketing and communication; it requires showing up in Rochester’s neighborhoods, convening neighborhood partners, building trust and bringing resources to entrepreneurs in their communities. Effective outreach and engagement, based on the interviews, has at least these dimensions:

- Engaging residents and potential entrepreneurs in neighborhoods to identify retail, service and other market gaps that are needed and would be supported by the local community.
- Outreach to and engagement with low-income, minority and women entrepreneurs to better understand their needs and opportunities so that assistance is better customized and targeted.
- Outreach to and engagement with community organizations to understand the residents they serve, identify potential entrepreneurs, and cultivate partnerships that enable trust building in these neighborhoods.
- Engaging a diverse group of successful entrepreneurs who could be culturally-appropriate mentors.

The most effective approach to outreach and engagement was summarized by one interviewee this way: “The only way to find entrepreneurs is to be in the community, walk the streets, get to know people so they know that you are there to help them.” This approach was affirmed by a neighborhood resident who invited the interviewee to speak to a group of residents about starting a business. The resident explained, “I’m talking to you now because you’re different – we can see that because you keep coming back.”

Summary

These themes should be viewed as a starting point for the Community Foundation and a guide to further developing an MRI strategy. These themes are based on a diverse but limited set of interviews and focus groups with 28 people. While some of these themes reflect current weaknesses or gaps in the entrepreneurial ecosystem, they also highlight emergent impact scenarios for the Foundation to explore. The next section of this report describes three such scenarios and potential next step actions associated with each. These opportunities affirm the directions identified as part of the Foundation’s ongoing discussions about its MRI strategy.

Section 5 — Emergent Impact Scenarios

Insights shared during the assessment interviews suggest a set of **emergent impact scenarios** for consideration by Rochester Area Community Foundation. The term “scenario” is used intentionally because in each case, more research on specific deals or opportunities is needed. Appropriate models from other community foundations are included in Appendix A as fodder for the Foundation’s continued discussions about its MRI strategy and portfolio.

Scenario 1: Capital Access for Urban Entrepreneurs

The interviews identified capital access challenges for the urban entrepreneurs who are the focus of the Foundation. The table below describes the gap, the potential impact and most appropriate tools to consider.

GAP	IMPACT	COMMUNITY FOUNDATION TOOL
Micro loans (< \$25,000) for low-income, women, minority entrepreneurs operating in city of Rochester neighborhoods	<ul style="list-style-type: none"> ▪ Wealth-building ▪ Self-employment ▪ Equity ▪ Neighborhood revitalization 	<ul style="list-style-type: none"> ▪ Loan to CDFI or credit union, e.g. 1.5% loan over 10 years (Baltimore Community Foundation) ▪ Grant to provide collateral support, in partnership with CDFI or credit union (Foundation for Appalachian Kentucky) ▪ Linked deposits
Bridging loans for targeted entrepreneurs (larger than micro but still not bankable)	<ul style="list-style-type: none"> ▪ Wealth-building ▪ Self-employment ▪ Equity ▪ Neighborhood revitalization 	<ul style="list-style-type: none"> ▪ Loan to CDFI or credit union (e.g. 1.5% loan over 10 years) ▪ Direct loans (Community Foundation of St. Clair County MI) ▪ Loan participations with intermediary lenders to make a deal happen (Hutchinson Community Foundation) ▪ Loan guarantee to enable current lenders to accept more risk (Kresge Foundation) ▪ Grant to create a loan loss reserve to enable current lenders to unlock other loan capital (e.g. federal, state) ▪ Grant to buy-down interest rates charged to entrepreneurs by CDFI partners ▪ Linked deposits
Small-scale equity capital for targeted entrepreneurs	<ul style="list-style-type: none"> ▪ Wealth-building ▪ Self-employment ▪ Equity ▪ Neighborhood revitalization 	<ul style="list-style-type: none"> ▪ Equity pool that supports royalty financing vs. ownership stakes (Flexible Capital Fund VT) ▪ Donor-supported fund to do angel investing by donors (Community Foundation of St. Clair County MI)

Recommended Next Steps. The local investing tools identified through interviews and described above are aligned with the tools the Community Foundation is considering as part of its MRI toolbox. There are several potential partners for the Foundation in the Rochester ecosystem to advance this emergent impact scenario including the Genesee Co-op Federal Credit Union, Pathstone Enterprise Center, Venture Jobs Foundation and the city through its KIVA program and potentially REDCO. Suggested next steps might include:

- Additional research and discussion with potential partners about capital need, return, risk and impact.

- Additional research about and engagement with peer foundations using these tools as part of their MRI portfolios.

Scenario 2: Grant Pool to Support the Ecosystem

Rochester Area Community Foundation’s mission-related investing in support of urban entrepreneurs will have the greatest impact when coupled with support for the local ecosystem – the often-intensive technical assistance that minority and other new entrepreneurs need to be successful. And, ecosystem support requires grant funding. For example, nonprofit CDFIs typically operate with additional grant support. For every \$1 of investment, they may require 10 to 30 cents in grant support to provide technical assistance. In addition to the uses of grant funds to address capital gaps (previous page), the interviewees suggested several different ways that ecosystem grants would have the most impact:

- Grants to support youth entrepreneurship – If building an inclusive ecosystem requires culture change, expanding opportunities to expose more young people in Rochester’s urban schools and communities to entrepreneurship is important. Gines and Sampson reference research to support investment in youth entrepreneurship as a pathway to creating more entrepreneurial intention and energy in communities.¹⁸
- Grants to support “Neighborhood Navigators” – While key partners are taking steps to implement SourceLink and build a stronger ecosystem network in Rochester, several interviewees also identified the need for what were named “Neighborhood Navigators.” These individuals or organizations, operating at the grassroots level, would help to address the outreach, engagement, trust-building and cultural relevancy challenges experienced in the ecosystem right now.
- Grants to support models for providing intensive technical assistance – Rochester has several promising efforts that are using a more customized approach to technical assistance, including the Venture Jobs Foundation programs, The Commissary for food entrepreneurs, and the organic work being done in the Beechwood neighborhood. While these efforts are early stage – or yet to launch – they are the types of innovative, solution-seeking efforts that might benefit from grant support to move more quickly from proof of concept to scaling.

Recommended Next Steps. The Community Foundation already has considered ways that strategic grantmaking can be aligned with and better leverage the Foundation’s MRI tools. Possible next steps include:

- Explore the potential and partnerships for expanding use of the nationally recognized YEA program in Rochester schools and youth organizations.
- Convene ecosystem partners engaged in the SourceLink implementation to better understand the value added that “Neighborhood Navigators” might provide; convene neighborhood groups to assess the interest in and value of these outreach positions.
- Additional research and exploration of the intensive assistance models – what is working well, where grant dollars might fuel additional innovation and scaling.

Scenario 3: Place-Focused Investment Strategy

There is a strong commitment to neighborhood development inherent in the Community Foundation’s approach to supporting urban entrepreneurs. This commitment was echoed by many of the interviewees who encouraged a place-focused investment strategy to build a more inclusive ecosystem that gets to the impact goals of the Foundation and others – wealth building, quality and family-sustaining job creation, equity of opportunity, neighborhood revitalization. One community foundation example of a place-focused strategy is the [Greater Kanawha Valley’s West Side of Charleston Initiative](#) (see Appendix A).

¹⁸ Gines and Sampson, p. 18.

Interviewees suggested that the Foundation – with its partners – identify a specific urban neighborhood and focus resources there. Suggested elements of a place-focused investment strategy include:

- Inventory existing businesses – who owns them, how and what are they doing.
- Engage the community in identifying market needs – e.g. pharmacy, healthy food store, coffee shop, youth gathering place.
- Build a portfolio of small business entrepreneurs in the neighborhood who receive the support and capital needed to start, grow and sustain businesses that address these needs.
- Consider attracting “second locations” for businesses from other parts of the city when local entrepreneurs are lacking.

Working in place would allow some economies in providing support – being able to work with several entrepreneurs in proximity and place at the same time – and create a culture of possibility for others in the neighborhood. These entrepreneurs could become the role models and even mentors for other entrepreneurs, alleviating one of the gaps identified through this assessment. The growth of these businesses, particularly if they are providing needed services to the neighborhood, could have the spillover effect of neighborhood revitalization, an impact goal for many partners in Rochester. And, this approach seems well-aligned with the ongoing work of the city related to the Commercial Corridor Strategy.

This strategy is similar to the approach behind the Sibley development but would be anchored in a neighborhood rather than a single large building. The strategy is also aligned with the approach being taken by several service providers now. Venture Jobs Foundation envisions working with developers who are rehabbing neighborhood buildings to help identify and support the entrepreneurs who will operate there; they are also exploring ways to attract small entrepreneurial companies into neighborhoods to provide jobs in proximity to the local workforce. The Commissary will create the same economies for food entrepreneurs by bringing them together, an approach that might generate potential entrepreneurs to root in neighborhoods once they are launched. George Gotcsik’s work in the Beechwood neighborhood represents a small-scale, place-focused investment strategy.

Recommended Next Steps. Often entrepreneurial development strategies are focused on the entrepreneur and not the place. For example, business plan competitions or accelerator programs reward an individual entrepreneur’s idea or skills. The entrepreneur can then start the business in whatever place or market seems best. The benefit of a place-focused strategy is the potential it has to change a neighborhood culture and economic prospects. Working to support and embed a portfolio of entrepreneurs in place creates leverage – for the investment dollars but also the connections and networks between entrepreneurs, the sense of place and opportunity. However, for the Foundation, such a place-focused strategy means choosing a neighborhood, potentially advantaging one part of the city over another. While this is a short-term concern, if positioned as part of a longer-term approach to building a more inclusive entrepreneurial ecosystem, the Foundation can potentially mitigate such concerns. To further consider such a strategy, the Foundation might:

- Convene a set of partners, including the city and service providers, to consider the merits and potential pitfalls of a place-focused strategy; review existing studies such as the Commercial Corridor Study for potential alignment and leveraging opportunities.
- Inventory current neighborhood-focused development efforts to identify easy entry points for the Foundation as a pilot.
- Facilitate staff and board discussion about how a place-focused strategy would align with the current MRI investment policy thinking and direction.

Section 6 – Future Goals and Recommended Next Steps

Rochester Area Community Foundation board has approved a \$2 million allocation from the endowment to support its MRI initiative. This assessment was designed to help Rochester Area Community Foundation maximize the impact of this new tool by better understanding the emergent opportunities to invest capital in ways that support urban entrepreneurs – low-income, minority and women entrepreneurs seeking to build, grow and/or sustain a business and wealth for themselves, their families and their neighborhoods. Given the overarching theme that emerged from this assessment – a tale of two ecosystems – the Community Foundation’s work should be viewed as building a more inclusive ecosystem that better serves these targeted entrepreneurs. Defined in this way, Rochester Area Community Foundation joins a growing number of community foundations that are placing equity considerations at the heart of their MRI and related efforts to strengthen economic opportunities for individuals and families. The Foundation also joins other organizations in Rochester that are committed to this goal, as demonstrated most clearly in the draft Rochester 2034 Comprehensive plan.

This assessment identified three emergent impact scenarios related to building an inclusive ecosystem that are worth further exploration as the Foundation refines its MRI strategy. In many important ways, these scenarios are consistent with the staff and board conversations related to the MRI strategy to date. The good news is that this assessment uncovered gaps in the ecosystem that can be addressed with **local impact investing tools** (e.g. loans to intermediaries, direct or participation loans, loan guarantees). At the same time, the assessment identified a clear need and imperative for ecosystem-building efforts that will generate community benefits but not financial returns, thus requiring grant funding. And, the recommended place-focused investment approach may require additional discussion as it is not consistent with a more distributed strategy that may have appeal to Foundation stakeholders.

Local Impact Investing Defined

Local impact investing is investing into local companies, organizations and funds with the intention to generate measurable community benefits alongside financial returns.

Future Goals

While it is beyond the scope of this assessment to develop a comprehensive Theory of Change related to the Community Foundation’s MRI portfolio, the insights gained through this assessment provide the basis for suggested future goals for the Foundation.

Long-Term Goal – Wealth-Building for Urban Entrepreneurs. One of the Community Foundation’s broad goals is to create an equitable community by working to close the educational opportunity gap, foster racial and ethnic understanding and equity, and partner against poverty. Given the positive association between entrepreneurship and family wealth creation, a long-term goal related to the MRI initiative is wealth building for urban entrepreneurs.

Urban entrepreneurs build wealth for themselves, their families and their neighborhoods by starting, growing and sustaining viable businesses.

To achieve this goal, this assessment suggests that three **preconditions** must be met:

Urban entrepreneurs have the capacity – and the ecosystem products – to access capital with the right terms and cost, and when it is needed most.

Urban entrepreneurs can access culturally appropriate and targeted assistance from an effective and inclusive entrepreneurial ecosystem.

Place-based investments are made at a scale that begins to change the entrepreneurial culture in urban neighborhoods.

Strategies – Emergent Impact Opportunities. This assessment identified three emergent impact opportunities that form the strategies to address these preconditions and, ultimately, achieve this long-term goal:

1. Work with partners in Rochester to meet the capital needs of urban entrepreneurs.
2. Target grant dollars to strengthen and make Rochester’s entrepreneurial ecosystem more inclusive.
3. Implement a place-focused investment strategy by working with partners to target resources to a particular urban neighborhood to demonstrate impact.

To measure progress toward this long-term goal, Rochester Area Community Foundation should consider two related activities. One, with your partners, you can identify a set of impact measures associated with each strategy to track and report over time. These impact measures will be specific to each strategy and could include measures such as absolute number and dollar value of micro loans, increase in number and dollar value of loans over time – for women entrepreneurs, entrepreneurs of color, entrepreneurs in specific urban neighborhoods, etc. These types of impact measures will help the Community Foundation assess short-term progress toward capturing these emergent impact opportunities.

Two, the Community Foundation could track changes in its standing relative to peer cities over the next 5 to 10 years as a measure of progress toward its long-term goal. If efforts to build an inclusive ecosystem and provide capital to urban entrepreneurs are successful, more urban entrepreneurs should start, grow and sustain their businesses. Over time, these efforts should result in changes in the composition of the urban economy with increases in rates of startups, Stage 2 Businesses and High-Growth Businesses. **One goal for the Foundation would be to see Rochester among the top 3 peer cities in terms of Startups, Stage 2 Businesses and High-Growth Businesses by 2029 – moving from 5th or 6th out of 7 peer cities in 2017.**

If advancing an effective, inclusive entrepreneurial ecosystem is truly a wealth building strategy for urban entrepreneurs, Rochester should also see progress relative to its peers in demographic indicators related to income and poverty. **One goal for the Community Foundation would be to see Rochester among the top 4 peer cities in terms of growth in median household income and a reduction in families living in poverty by 2029 – moving from 6th or 7th now.**

The 10-year time horizon is important. The work of building an inclusive ecosystem, supporting cultural change and ultimately achieving wealth building for urban entrepreneurs is not fast or easy. Systemic indicators such as median household income and poverty are moved only with sustained efforts to address both short-term needs and deeper systemic challenges. The realities of data collection and reporting also mean that investments made today will be reflected in data that appears two or three years down the road.

Recommended Next Steps

Based on this assessment and our understanding of Rochester Area Community Foundation, what next steps might move the Foundation toward action with its MRI strategy?

- **Continue research and “due diligence” with potential partners.** The Community Foundation is not alone in its commitment to building an inclusive ecosystem. The assessment identified public and private sector partners for both local investments (i.e. Genesee Co-op Federal Credit Union, Pathstone Enterprise Center, city’s KIVA and REDCO programs, Venture Jobs Foundation) and ecosystem building efforts (i.e. The Commissary, Beechwood neighborhood initiative, Venture Jobs Foundation, CUE). While this assessment identified specific capital needs, a deeper investigation of risk, return, capital need and the appropriateness of specific tools (e.g. loan vs. loan guarantee) should be undertaken with specific partners so that the Foundation can better understand what a portfolio of local impact investments might look like.
- **Formalize governance, policy and decision-making process.** Any additional research will create interest and even potential demand for local impact investments. To prepare for this, the Community Foundation should begin to create the governance systems, policies and processes to guide investment decisions including such things as:
 - Specific criteria for investments including impact (e.g. number of minority entrepreneurs receiving loans) and financial return targets
 - Process for sourcing and evaluating investments (e.g. direct outreach to specific partners vs. an open call for investable opportunities)
 - Desired portfolio of investments within the impact pool (e.g. % direct loans, equity, real estate)
 - Financial and impact reporting requirements
 - Committee and Board review process
- **Establish an Inclusive Ecosystem Grant Fund.** Capital is only one part of the entrepreneurial ecosystem. As described in this report, investing in the ecosystem itself, including intensive technical assistance, is a way to mitigate your risk and respond to the identified need for strategic grant dollars alongside loans or equity investments expressed by your potential partners. The Community Foundation might consider the following:
 - Identify discretionary grant dollars that might be used to capitalize the fund.
 - Explore how donors could be engaged to capitalize this fund as part of a broader the Foundation strategy around inclusive entrepreneurship.

Rochester Area Community Foundation is well-positioned through its community leadership and MRI initiative to help create a more inclusive entrepreneurial ecosystem in Rochester. Fortunately, there are peer community foundations and national entrepreneurship efforts like those referenced in this report from which to learn. The LOCUS team is also ready to provide strategic coaching and consulting to the Foundation team as you take the next steps with your MRI initiative.

For questions about the assessment, themes, emergent impact opportunities and next steps, contact Deb Markley, deb@locusimpactinvesting.org.

Appendix A. Foundation Models

Baltimore Community Foundation

In 2017, Baltimore Community Foundation committed to investing 4% of its endowed funds directly into Baltimore. They believe they can match or beat the returns their fixed income assets are receiving in the market. Because they were inexperienced in investing locally, they decided to start by working through Community Development Financial Institution (CDFI) partners, who are already experts in this business. One of the Foundation's first investments was in Baltimore Community Lending to be re-loaned to small and startup businesses with insufficient collateral, otherwise required for a bank loan or SBA loan.

Community Foundation of St. Clair County MI

The Foundation created the Community Capital Club, a donor-supported fund to help support businesses that bring vitality to the region's downtowns. The fund makes loans and equity-like investments to businesses and entrepreneurs, usually in the startup or early stage, guided by fund "members" – those who donate at least \$1,500 to the fund. For larger placemaking investments, the Foundation makes direct loans from its Mission Investing pool – up to 5% of its main investment pool. For example, the Foundation made a \$750,000 loan to the local college for a dorm project involving the renovation of an old motel adjacent to downtown. This loan met the Foundation's mission investing goal because it is part of a placemaking strategy. Similarly, the Foundation invested in the creation of a courtyard in St. Clair that has been the catalyst for development of the downtown. The Foundation followed this investment with a loan to an upscale restaurant on the courtyard because it served to leverage their investment in placemaking.

Flexible Capital Fund

A Vermont-based CDFI, the Flexible Capital Fund, provides equity and equity-like capital to companies with at least \$500,000 in revenue but that cannot meet venture capital expectations for growth and scale or do not want to give up business control. One tool they use is royalty financing, which "sells" the investor a piece of the revenue stream instead of selling ownership. The royalty payments can be structured over a fixed period or until the investor reaches the negotiated rate of return. Royalty financing allows for flexible repayment that adjusts to a growth company's actual revenue and offers a "natural" way to exit the deal. The Fund focuses on companies with growth rates of 15-20% per year and margins of at least 20-25% to support investor expectations. While not a community foundation example, the structure of the fund and tool of royalty financing might be appropriate for emerging businesses in Rochester with growth potential, including those coming out of NextCorps or The Commissary that want to remain in the city.

Foundation for Appalachian Kentucky

In partnership with a regional CDFI, the Foundation created a collateral enhancement mechanism called the Leveraging Enterprise in Appalachia Fund (LEAF). Simply, LEAF is a donor-advised fund housed at the Foundation for Appalachian Kentucky that can be collateral support for a prospective small business loan where the borrower has insufficient credit. LEAF was seeded with grant capital from the Foundation and the CDFI.

Greater Kanawha Valley Foundation

The Foundation made a strategic decision to a place-focused investment approach when it decided to concentrate its resources and partnerships in a targeted neighborhood in the city's West side. Their approach has been to invite collaboration with other funders and community residents to identify approaches that can address the systemic challenges facing the neighborhood, all with the aim of wealth building in this community.

Hutchinson Community Foundation

The Foundation participated in a workforce housing development in downtown Hutchinson with a community bank. There was a \$35,000 financing gap in the development phase that the Foundation filled with a short-term loan and a \$200,000 gap in the construction phase filled by the Foundation with a 15-year, 2% subordinated loan. In both cases, the community bank partner handled all the due diligence, underwriting and servicing of the loans, enabling the Foundation to participate without building their own in-house capacity. The total investment was \$1.7 million, resulted in a new pocket development of workforce housing in downtown – an impact goal for the Foundation – and provided an opportunity for the Foundation to test MRI direct investing and engage donors who opted in to provide 50% of the loan capital committed by the Foundation.

Kresge Foundation

A proponent of loan guarantees, the Foundation has made effective use of this tool to support organizations investing for mission-aligned impact while maintaining the guarantee funds in Kresge's portfolio. Kresge's managing director of Social Impact Practice, Kimberlee Cornett, says "Unfunded guarantees have helped Kresge leverage its balance sheet, make financial commitments to reduce or mitigate risk, and drive social impact, all while keeping funds fully invested in our corpus earning an average of 7.5 percent each year."¹⁹ Along with other foundation partners, Kresge is launching later in 2019 a national guarantee pool to try to bring this tool to a broader set of foundations. LOCUS Impact Investing has been selected as the program manager to help develop this new infrastructure.

¹⁹ [*Mission, Money & Markets: A Needed Piece of Community Development Infrastructure, the 'Guarantee Bank'*](#)

Appendix B. List of Interviewees

The table below includes only those people interviewed one-on-one during the site visit to Rochester on June 17-19, 2019 or by phone follow up. It does not include the 10 entrepreneurs who participated in one of the two focus groups scheduled during the site visit.

Interviewee	Organization
Lomax Campbell	Mayor's Office of Community Wealth Building
Denny DeLeo	Venture Jobs Foundation
Henry Fitts	Mayor's Office of Innovation and Strategic Initiatives
Richard Glaser	RochesterGrowth
George Gotcsik	Beechwood neighborhood initiative
Ken Greene	Sibley Tower
Gayle Jagel	Young Entrepreneurs Academy
Shelia James	Urban League of Rochester
Joe Leone	UNICON Rochester
Melissa Marquez	Genesee Co-Op Federal Credit Union
Dana Miller	City Neighborhood and Business Development
Ebony Miller-Wesley	Center for Urban Entrepreneurship (CUE)
Baye Muhammad	City Neighborhood and Business Development
Laura Fox O'Sullivan	The Commissary
Jan Pisanczyn	Brockport Small Business Development Center
Thaddeus Scofield	REDCO
Brad Willows	Mayor's Office of Community Wealth Building
Heidi Zimmer-Meyer	RDDC & RocDiz