



PATH TO
15  **55**

How Usable Capital Will Unleash Black Business Growth

DISCUSSION BRIEFING

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ABOUT PATH TO 15|55

Black business ownership is a proven path to wealth and job creation that concurrently stimulates the U.S. economy. Deep-rooted, systemic challenges limit their growth-inhibiting economic prosperity and preventing generational wealth. The Path to 15|55 is a collaborative initiative, among experts from every sector, designed to grow Black businesses and their communities based on research that proves: *if just 15% of Black-owned businesses are able to hire one more employee, the American economy could grow by \$55 billion.*

Path to 15|55 is galvanizing government agencies, nonprofits, financial institutions, and investors working to achieve major social impact with practical, innovative strategies.

Path to 15|55 is a network of networks that

BRIDGES AND CONNECTS ORGANIZATIONS

Creates cross-sector partnerships to align existing efforts towards shared outcomes.

REMOVES SYSTEMIC BARRIERS

Mobilizes teams to optimize impact, share stories, and address national, systemic barriers.

AGGREGATES AND DISTRIBUTES CAPITAL

Negotiates capital to meet Black business needs and leverage lessons learned to embed change within financial institutions.

ACCELERATES CHANGE

Identify and implement innovative tools and amplifying proven practices to ensure faster adoption.



PATH TO 15|55

STRATEGIC GOALS + SUCCESS METRICS

We have coalesced around three core areas to support Black businesses:



GROW EXISTING BUSINESSES

Target existing businesses and position them to accelerate growth and hire additional employees.



INVEST IN INTERCONNECTED SYSTEMS

Invest in systems and networks focused on policy, advocacy, and removing barriers to capital.



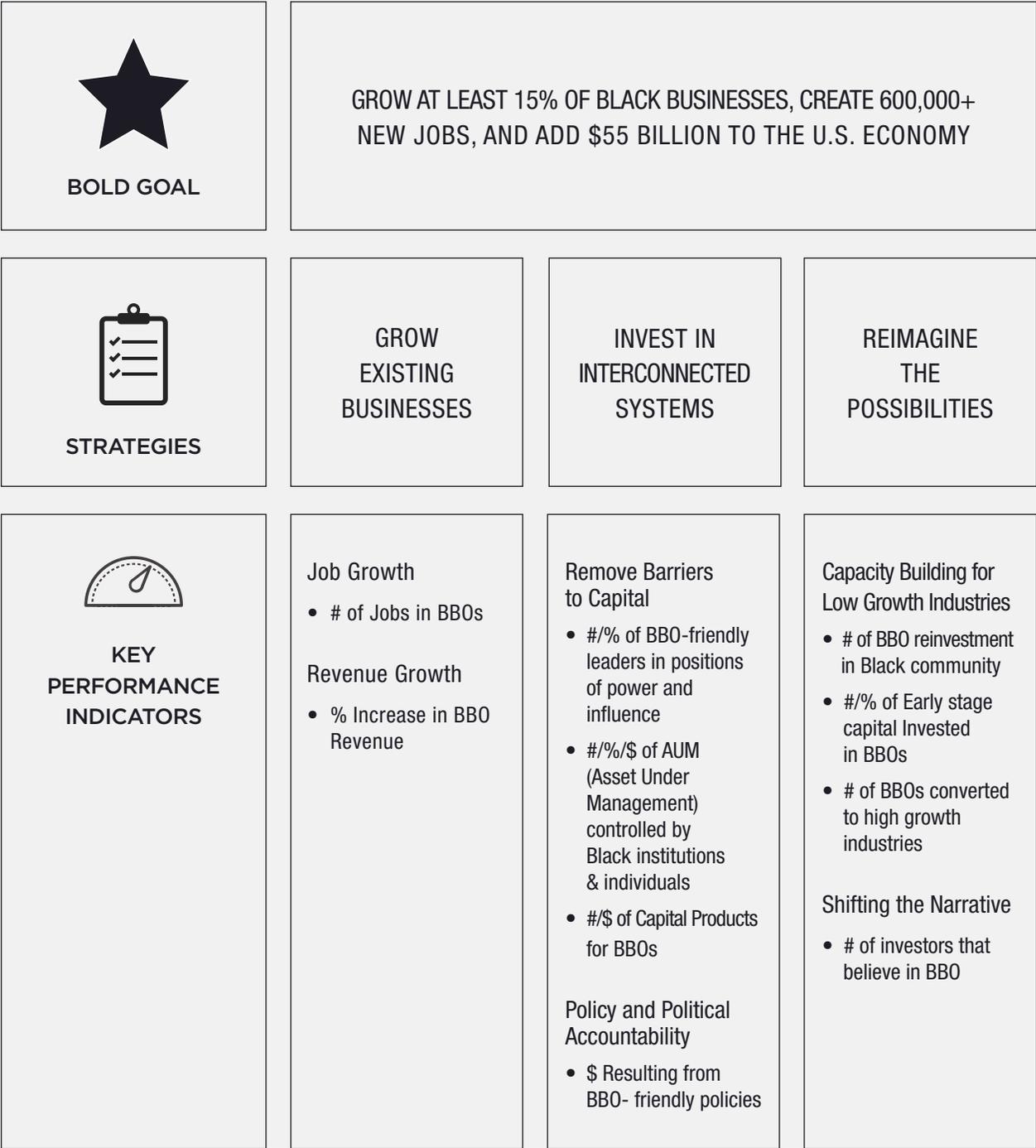
REIMAGINE THE POSSIBILITIES

Transform how business owners and investors view and value existing assets in the Black community to drive growth.



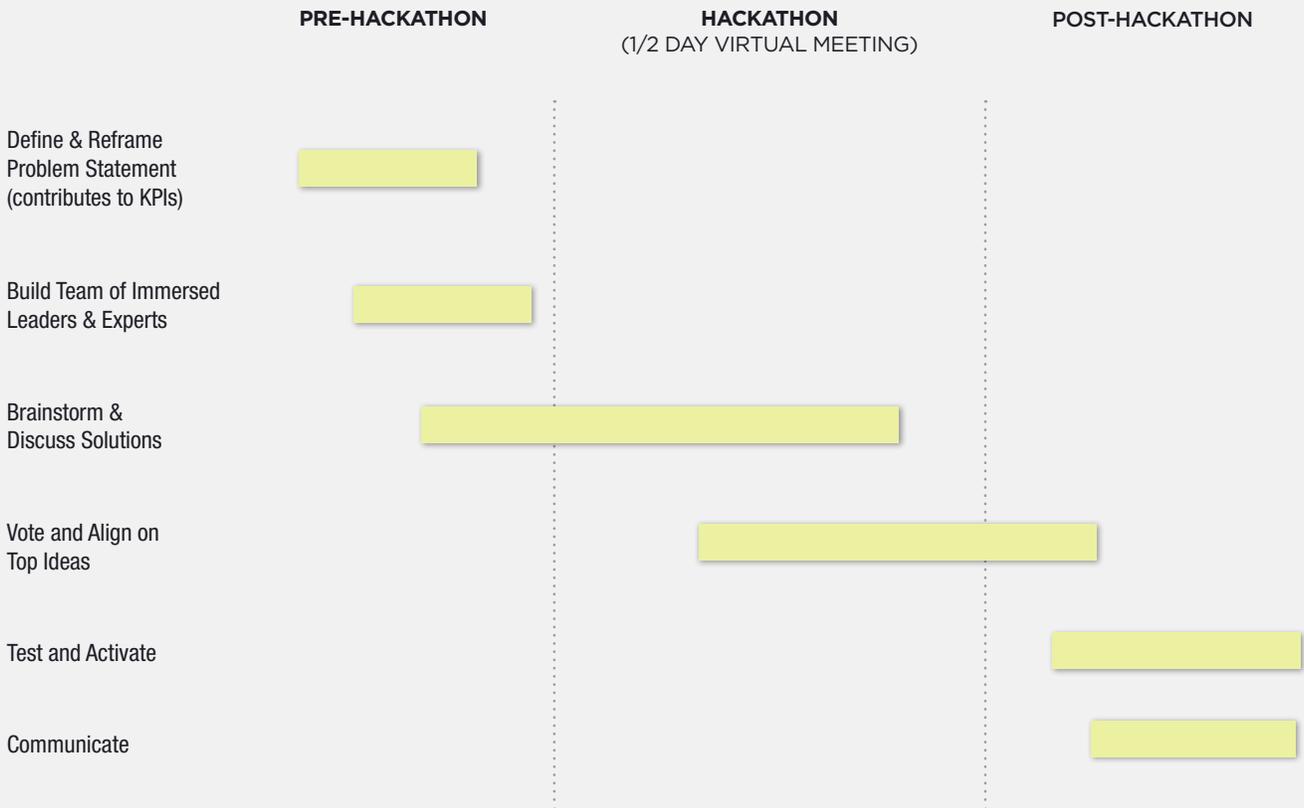
PATH TO 15|55

OUR STRATEGIC GOALS



METHODOLOGY: PATH TO 15|55 HACKATHON

The Path to 15|55 Hackathon is an accelerated ideation and innovation process designed to identify transformational solutions that address systemic challenges hindering Black business growth.



BUILDING AN ECOSYSTEM THAT SUPPORTS BLACK BUSINESSES

On July 31, 2020, Path to 15|55 convened a group of practitioners and thought leaders across asset classes to discuss how to build a stronger ecosystem to support Black businesses. (To learn more about these individuals, see “Acknowledgments.”) These attendees collectively wrestled with the question:

“How might we improve capital access for existing Black-owned businesses — specifically non-employer firms that have been in business 2-5 years?”

The goal was to surface solutions to drive measurable impact within the next 6-12 months.

The remainder of this briefing outlines the way forward for creating usable capital for Black businesses.



BRIGHT SPOTS

While much has to be addressed to fuel Black business growth, attendees noted several bright spots across the country. According to the AEO tapestry report, most Black business owners who face barriers to capital experience issues with trust, credibility, and credit. Inherent in each of these challenges is both individual and institutional bias. Case studies later in the briefing outline ways that different organizations

are directly addressing these barriers by intentionally designing supportive partnerships based on trust, re-evaluating underwriting processes and criteria to reduce inequitable distribution, and providing a range of capital options that center the needs of the Black business owner.





**CHALLENGES +
RECOMMENDATIONS**

CHALLENGES

The barriers to capital for Black businesses are complex, multifaceted, and built on a centuries-long foundation of systemic racism. Many of the barriers will take years to dismantle, but the Hackathon attendees identified three major barriers as a place to start:



GAPS IN UNDERWRITING PROCESS

Traditional underwriting is a rigid process that has been formed without an acknowledgment of the historical discrimination against Black and brown communities. It relies on factors like credit scores and personal guarantees, which are barriers to Black entrepreneurs because of their systematic exclusion from traditional financial systems. These underwriting structures have been codified into law through the disconnect between government and capital providers.



GAPS IN CAPITAL STACK

“Gaps in Capital Stack” refers to several barriers that prevent Black business owners from engaging with and benefiting from the capital markets as currently structured. First, Black business owners do not have the same access to capital because of lack of traditional relationships with financial institutions, as well as lack of “friends and family” funding for small startups. There is also a higher cost of capital for many Black businesses due to the smaller size of needed loans leading to higher transaction fees. Finally, when Black businesses do have access to capital, it is usually through a CDFI or an SBA loan, which has less capital available than traditional commercial banks.



LACK OF CONNECTIONS TO NETWORKS

Black businesses do not have the same access to networks as white businesses, resulting in fewer paths to success. They do not have similar peer platforms to share best practices and technical details of how to develop successful products or services. Because investors are typically white and do not have connections to Black people and their social circles, Black business owners are often seen as too “new” or “risky” and have higher burdens of proof placed on them before an investment.

RECOMMENDATIONS

Given these challenges, Hackathon attendees identified several recommendations on how to overcome existing barriers:



GAPS IN UNDERWRITING PROCESS

- Invest capital in lenders piloting/experimenting with alternative processes
- Make more direct investments in companies led by owners with lived experience; build companies to solve these problems
- Diversify the underwriters
- Credit scores:
 - Reduce weight of credit scoring
 - Advocate for strong legislation about credit score reporting



GAPS IN CAPITAL STACK

- More capital focused on the missing middle above micro and below bank
- Increase patient capital to defray risk of commercial capital via loss reserves/ subordinated positions
- Connect different lenders in the ecosystem so there's better referral of borrowers and co-investing
- Leverage philanthropic dollars to fill friends and family gaps and fund innovation.
- Encourage profit sharing-investment
- Increase and streamline community-led funding opportunities



LACK OF CONNECTIONS TO NETWORKS

- Change the representation of who's making the decisions — both by leadership development and shifting away from the normal network-based committee selection (community member spots, etc.)
- Hire a more diverse lending and investment team
- Support existing Entrepreneur Serving Organizations to expand their reach and increase their impact. Examples include Founders of Color (www.foundersofcolor.org) and Founder's First (www.foundersfirstcdc.org)



CALL TO ACTION

The findings and recommendations reveal three clear calls to action that government agencies, nonprofits, financial institutions, and investors should take to help increase usable capital for Black-owned businesses:



CHANGE DECISION MAKERS

Leadership development programs can support increasing the diversity of capital allocation decision makers. But also shifting the traditional network-based committee selection process, e.g., adding community members to decision-making boards, can help increase the flow of capital to Black businesses.



ALTERNATIVE UNDERWRITING PROCESSES

Investors should pilot alternative underwriting processes, including equity investments and supporting mission-driven financial institutions.



FILL CAPITAL GAPS

There is a “missing middle” of capital support that exists above the level of microfinancing, but below the level of traditional banking. Providing capital products at this level can help Black businesses grow.





CASE STUDIES



MISSION DRIVEN FINANCE IS GROWING EXISTING BUSINESSES

ABOUT MISSION DRIVEN FINANCE

Mission Driven Finance is an impact investing firm that reconnects capital and community in transformative ways. Founded in San Diego, but now working with partners nationwide, they believe in making investments that aren't happening — but should. To expand access to capital, MDF combines operational infrastructure to welcome many kinds of investors with curiosity and creativity in community financing models.

One of Mission Driven Finance's big innovations to support businesses locked out of traditional finance is to not rely on personal credit scores or personal guarantees. "We do not use personal scores as we realize they have deeply racist undertones in their algorithms that prevent wealth creation in Black communities," said Lauren Grattan, Co-Founder & Chief Community Officer at Mission Driven Finance. "We are always looking for 'curb cut' approaches and systemic shifts to our operations to not just serve one community but serve many."

STEPS ON THE PATH TO 15|55

Mission Driven Finance designs investment products that support the growth and development of businesses that do not normally get attention from traditional financiers. This involves engaging with community members in different ways to seek out entrepreneurs with new and interesting ideas, as well as putting in the time to understand how Mission Driven Finance can add value to their business model and help them grow. This frequently requires re-thinking traditional underwriting practices or repayment schedules.

"The banks have been screwing over these communities for centuries," said David Lynn, Co-Founder and Chief Executive Officer. "And the banks are the ones who are supposed to solve this problem, without fundamental change?...If the decisions are being made by the same people who have been making decisions for decades or centuries, that's not going to change anything."

STORIES OF IMPACT

Somali Family Service of San Diego (SFS) offers support for East African immigrants and refugees in San Diego. SFS got a lucrative opportunity from the City of San Diego's economic development department to train refugee entrepreneurs, but they needed cash to run the program ahead of reimbursements from the City's Community Development Block Grant (CDBG) funding. Mission Driven Finance provided that working capital, and structured the investment in accordance with Islamic financing principles to meet the cultural needs of SFS.



Skinny Gene Project works to prevent type 2 diabetes, and is one of only 11 organizations recognized by the CDC for their ability to prevent or delay type 2 diabetes by over 50% with their clients. They use lifestyle interventions through community events, relationship building, and coaching with their clients. Mission Driven Finance made an investment to support their growth as they began to seek out prevention contracts with national health plans, including investments in data infrastructure and financial capacity building.

Carter Transportation is a Black-owned general freight delivery service that operates nationwide. They know that hiring from your community is one of the best ways to make an impact. 90% of their current team are BIPOC and they're looking to hire formerly incarcerated/justice-involved individuals as they grow. With a large corporate contract expanding their volume and trucking fleet, Carter Transportation needed to access a new tier of insurance. Being a relatively young company, they didn't have the operating history for traditional bank financing and turned to Mission Driven Finance instead to support their growth.





BENEFICIAL STATE FOUNDATION IS INVESTING IN INTERCONNECTED SYSTEMS

ABOUT BENEFICIAL STATE FOUNDATION

Beneficial State Foundation is a shareholder in Beneficial State Bank, a community development bank that is completely owned by nonprofit organizations, with profit redistributed back directly into communities. They recently launched Underwriting for Racial Justice, a national collaborative working to change underwriting practices to remove barriers to capital and support racial justice.

In addition to being a shareholder in Beneficial State Bank, Beneficial State Foundation advocates for an equitable regulatory and policy agenda in banking, along with additional field-building activities to strengthen and connect different players involved with equitable banking.

STEPS ON THE PATH TO 15|55

Beneficial State Foundation is committed to shifting how the banking industry works to create a more equitable financial system that distributes capital to benefit Black and brown businesses. They are particularly focused on shifting underwriting to include a racial equity lens.

“We want to change the way underwriting is done,” said Maritessa Bravo Ares, Director of Industry Relations & Partnerships at Beneficial State Foundation. “Traditional underwriting holds businesses back because it does not take into account the historical discrimination of Black and brown business owners.”

Bravo Ares noted that after the racial uprisings following the murder of George Floyd in 2020, there has been a lot of momentum in the industry to focus on and better support Black businesses.

“After the events of the last year, there has been more urgency to determine how to support Black businesses than I have ever seen in my lifetime,” she said. “Not just for our organization, but other CDFIs as well.”

STORIES OF IMPACT

With the onset of COVID-19, the widespread shutdown, and resulting economic collapse, Beneficial State stepped up to support under-resourced businesses in accessing the capital their clients needed to survive. They decided to take a different approach to distributing the federal Payroll Protection Program (PPP) loans, which primarily benefited white-owned businesses at the national level.

They dedicated more time and energy to their clients who needed additional support walking through the complicated process of applying for and receiving those loans. “The guidelines from the fed government [about PPP] were so unclear,” said Bravo Ares. “You didn’t need the data to tell you that these funds were going to be skewed to certain types of businesses....but we decided to work 24/7 to have a different lending philosophy around PPP loans to make a difference in who receives the loans.”





LIVING CITIES IS REIMAGING THE POSSIBILITIES

ABOUT LIVING CITIES

Living Cities is a collaboration of the world's largest foundations and financial institutions, and makes direct investments to address the racial wealth gap and shift power within the capital systems. It supports racial equity initiatives in cities through grant dollars and technical assistance, and convenes leaders to create peer networks of support. In addition to direct capital investments, Living Cities also works to reimagine and develop new capital solutions to support its racial equity approach.

“As applied researchers, we see capital as a key driver of social change and an important tool needed to shift who gets to make capital allocation decisions in the market,” said Demetric Duckett, Managing Director. “We have learned that traditional capital market channels have failed fund managers of color, so we are committed in our partnership...to leveraging our unique risk models to test innovative investing approaches to better address their realities and expand their ability to make different decisions.”

STEPS ON THE PATH TO 15|55

Living Cities is actively working to reimagine a capital ecosystem that actively supports Black businesses and businesses owned by people of color. They have developed a cohort of Black and brown founders and fund managers working to scale businesses and close racial income and wealth gaps, called the “Builders and Benefactors” network. They are also collaborating on an impact investing fund with the Kauffman Foundation dedicated to closing the racial income and wealth gaps.

“[Black, indigenous and people of color] are less likely to be approved for small business loans, and when they are approved, receive lower amounts at higher interest rates compared to their white counterparts,” said Duckett. “The picture on the equity side of the equation is not any brighter. While at least 77 percent of venture capital is invested in white men, only 1 percent of venture-backed founders are Black.”

STORIES OF IMPACT

Jacmel Growth Partners is a growth private equity firm targeting family-operated, lower middle market companies. Living Cities made an investment in Jacmel as a part of its Capital for the New Majority strategies to address the challenges faced by Black and brown fund managers and improve their ability to make equitable capital allocation decisions — ultimately increasing support for founders of color and achieve better outcomes for all people living in U.S. cities.

Aux21 Capital Partners is a BIPOC-owned venture capital firm that supports entrepreneurship in U.S. immigrant communities by increasing access to early-stage growth capital and sourcing diverse micro-funds that invest in underrepresented entrepreneurs. This investment is also a part of Living Cities' Capital for the New Majority strategy.



ACKNOWLEDGMENTS



Maritessa Ares
Beneficial State Foundation

Beneficial State Foundation: Beneficial State Foundation is a shareholder in Beneficial State Bank, a community development bank that is completely owned by nonprofit organizations, with profit redistributed back directly into communities. They are also a part of a national collaborative working to change underwriting practices to remove barriers to capital and support racial justice. (www.beneficialstate.org)



Dionne Gumbs
GenEQTY

GenEQTY: GenEQTY is working to create a new banking platform to support women- and minority-owned businesses. GenEQTY recommends more suitable financial solutions that empower business owners to manage cash flows, steer clear of potential financial problems, and secure relevant funding. (www.geneqty.com)



Maggie Parker
Innovan Neighborhoods

Innovan Neighborhoods: Innovan Neighborhoods is a development and consulting firm that advances community-anchored real estate projects, working to strengthen neighborhoods with community stakeholders. They focus on low-income entrepreneurs of color. (www.innovanneighborhoods.com)



Jill Johnson
Institute for Entrepreneurial Leadership (IFEL)

Institute for Entrepreneurial Leadership: IFEL works with entrepreneurial women and people of color to generate wealth for themselves and the communities in which they live. They help strengthen their businesses, connect them to resources, and break down barriers to capital. (www.weareifel.org)



JaNay Queen Nazaire
Living Cities

Living Cities: Living Cities is a collaboration of the world's largest foundations and financial institutions, and makes direct investments to address the racial wealth gap and shift power within capital systems. They have developed a cohort of Black and brown founders and fund managers working to scale businesses and close racial income and wealth gaps. (www.livingcities.org)



Neeraj Aggarwal
Michael & Susan Dell Foundation

Michael and Susan Dell Foundation: The Michael and Susan Dell Foundation has a broad mission to support many aspects of the Black business ecosystem, including providing financial stability for low-income families and creating job and career opportunities. They are in the process of launching a CDFI to support communities of color in the US south. (www.dell.org)



David Lynn
Mission Driven Finance

Mission Driven Finance: Mission Driven Finance is an impact investing firm that deploys transformative capital to local impact investments. It has developed innovative financing models to support more equitable financing, such as event-based triggers for loan repayments and integrating community members into its due diligence process. (www.missiondrivenfinance.com)



Gregory Campbell
Rainmaker, Inc

Rainmaker: Rainmaker works with non-traditional clients to create disruptive business models and innovative solutions that create new customer segments and capture specific market niches. (www.rainmaker-inc.com)



APPENDIX

TYPES OF ASSET CLASSES



Equity - ownership of business



Debt - lending money and receiving interest when it's repaid



Real estate - ownership of property

TYPES OF INVESTORS



Traditional banks



Mission-driven banks



Friends and family



Angel



Community Development Financial Institutions (CDFIs)



Venture capital (VC)



Private equity (PE)



Corporate



Crowd funding



THE PATH TO 15|55 TEAM



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President and CEO,
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Path to 15|55's briefing draws upon research from AEO - "The Tapestry of Black Business Ownership in America," as well as the Brookings Institution - "To expand the economy, invest in Black business."





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15  **55**

www.pathto15|55.org