Partnership for Lending in Underserved Markets

Phase II Summary: Lessons Learned for Advancing Minority Small Business Capital Access

CAROLYN KARO SCHULMAN

MILKEN INSTITUTE

ABOUT THE MILKEN INSTITUTE

The Milken Institute is a nonprofit, nonpartisan think tank determined to increase global prosperity by advancing collaborative solutions that widen access to capital, create jobs, and improve health. **The Center for Financial Markets** promotes financial market understanding and works to expand access to capital, strengthen—and deepen—financial markets, and develop innovative financial solutions to the most pressing global challenges.

The Center for Regional Economics promotes prosperity and sustainable growth by increasing understanding of the dynamics that drive job creation and promote industry expansion. Our research, programming, and convenings develop and disseminate innovative, actionable economic and policy solutions that provide changemakers with the tools to create jobs and improve access to capital.

Partnership for Lending in Underserved Markets

Phase II Summary: Lessons Learned for Advancing Minority Small Business Capital Access

CAROLYN KARO SCHULMAN

LESSONS LEARNED

OVERCOME DATA DEFICITS TO IDENTIFY OPPORTUNITY

ENGAGE ANCHOR INSTITUTIONS AND LOCAL STAKEHOLDERS, AND RECOGNIZE COMPETITION

DEVELOP CULTURALLY-COMPETENT MARKETING, OUTREACH, PRODUCTS, AND SERVICES

BUILD WIDER AND MORE TARGETED NETWORKS

USE TECHNOLOGY AS A TOOL, NOT A SOLUTION

IDENTIFY CHAMPIONS TO PROMOTE LOCAL POLICY

EXECUTIVE SUMMARY: LESSONS LEARNED FOR COLLABORATION

Through the Milken Institute and U.S. Small Business Administration (SBA) Partnership for Lending in Underserved Markets (PLUM) initiative, we are learning how to improve collaborative efforts in a given market and around specific capital access solutions. There have been many across-the-board lessons learned through our local pilot programs and national work to date. Some speak to approaches to partnership and coalition-building while others are reflections and recommendations for existing capital and technical service providers.

Overcome Data Deficits to Identify Opportunity

Maximum opportunity for economic growth lay in the overlap among industries in which Blacks and Hispanics are strong (i.e., own businesses and are employed), in the industries that are growing regionally, and the communities in which Blacks and Hispanics live and work. The challenge is identifying and accessing data that is sufficiently localized to be instructive. Yet, it is possible to piece together the minority small business and capital landscapes by leveraging resources and information from think tanks, universities, and city and county agencies. Supplementing the information with community insights and local knowledge and expertise will further facilitate identifying gaps and opportunities for minority business owners.

Engage Anchor Institutions and Local Stakeholders, and Recognize Competition

A committed local partner, who knows the market and its players well, is essential to advancing any capital access solution. In addition to compensating for data deficits, local partners lend legitimacy to programs and initiatives and create trust among stakeholders. Anchor institutions provide local leadership and support buy-in from service providers and potential clients to new capital solutions. This local ownership matters because it empowers communities to be a part of long-term, sustainable impact. With providers engaged, it is more likely clients, borrowers, and small businesses will embrace new opportunities.

However, there are challenges when casting the net widely. Competition for clients and resources can hinder collaboration, and some organizations and institutions fear that new solutions will disrupt the status quo. Moreover, some local organizations can be hesitant to engage with national partners because they lack the on-the-ground knowledge and might impose standards or requirements that do not work locally. A comprehensive minority capital access strategy should include existing players while making room for innovation. The value and necessity of engaging local stakeholders far outweighs the tensions, but it is helpful to recognize that these tensions exist with regard to outreach, expectations for participation, and buy in for new ideas. Furthermore, embedding a sustainable strategy requires a long lead time for both a diagnostic of the issues and potential solutions, as well as a runway for executing efforts with local ownership driving the way forward.

Build Wider and More Targeted Networks

The current networks among debt and equity providers are disparate, and shifting the discussion can result in an entirely different set of stakeholders. Often, capital and service providers have narrow channels of relationships or even awareness of the broader ecosystem of players. For example, banks and online lenders do not typically operate in the same space as crowdfunding organizations and angel investors, and lenders only know to refer declinations to a limited pool of organizations. Bridging the divide and bringing together those who do not traditionally interact will support new solutions and directly increase access to capital by growing the pool of options.

At the same time, minority businesses benefit from targeted networks that prioritize their needs. Deliberate, targeted matchmaking will support connections between capital providers to minority entrepreneurs and business owners.

Use Technology as a Tool, Not a Solution

Technology offers tools to support improved data collection, networking, and collaboration, as well as operational efficiencies, yet there is much mistrust, apprehension, and doubt around its application. Some providers are hesitant to leverage online platforms because they rely on algorithms versus human relationships to bridge the disconnect between providers and clients. There is no substitute for a personal relationship, but there are FinTech companies who seek to integrate high-tech and high-touch in their models. Any online matchmaking should be routing small businesses to the most cost-efficient products and services available that are tailored to their needs. Predatory lending, or routing to the highest cost products and services to gain a better commission, are clearly activities to monitor and discourage. Yet, to realize the objective of increasing access to capital, we must embrace the opportunities technology, and technology partners, offer to save time and money and reach more people, particularly the unbanked and underbanked.

Develop Culturally-Competent Marketing, Outreach, Products, and Services

In the context of capital access, cultural competence refers to an institution or organization's ability to understand how race, ethnicity, gender, age, national origin, disability, language, and other demographics shape a population's relationship to financial products and services. The lack of understanding and recognition of cultural factors is a major barrier to capital access for Black and Hispanic entrepreneurs and small business owners. For example, lack of generational wealth and experience-based human capital (professional and management experience), as well as poor or limited credit histories change what business readiness means to minority entrepreneurs and for which products they may qualify.

Developing cultural competence is a dynamic and complex process requiring ongoing assessment and feedback. It is important to building trust between providers and clients, and increases the likelihood that products and services reach their target audience.

Identify Champions to Promote Public Policy

In addition to programmatic efforts, there are policy solutions to minority barriers to capital access. Identifying policy champions, individuals with the influence, access, and credibility to promote solutions to legislators and other policymakers is paramount. Whether locally, statewide, or nationally, relationships and partnerships with policy champions can be the difference between good ideas and executed outcomes.

CONTENTS

BACKGROUND

Minority-owned small businesses play an important role in the nation's economic health by driving job creation, raising wages, and elevating better standards of living in urban and rural communities throughout the United States. Business ownership is also a critical pathway for Blacks and Hispanics to close the racial wealth gap—an increase in entrepreneurship among people of color can create income for both entrepreneurs and the people of color who work at the businesses.[1]

In 2015, Blacks made up 12.7 percent of the population, yet only owned 2.2 percent of classifiable small employer firms that made up 1.0 percent of sales (average receipts of $818,512), 2.0 percent of employees, and 1.4 percent of payroll (average wages of $28,241). Hispanics were 17.6 percent of the population, yet owned 6.0 percent of classifiable small employer firms that accounted for 3.5 percent of sales (average receipts of $1,020,706), 5.0 percent of employees, and 3.8 percent of payroll (average wages of $30,534).[2] See Figure 1.

These employee and payroll figures reflect a history of disadvantage and its lasting economic effects—the number of employed workers and how well those workers are paid.

Starting a new firm or growing an established business requires capital, but Black and Hispanic businesses are reported to have higher barriers to capital access. Generally, all Americans rely mostly on personal and family savings to finance their startups and acquisitions (66.7 percent).[3] However, nationally, the second most used capital product is business loans (17.9 percent); among Black and Hispanic small firms it is credit cards (17.9 percent and 14.2 percent, respectively). As seen in Figure 2, heavy reliance on credit cards reflects the difficulty minorities face securing a loan due to poor or limited credit history, lower net worth, and lack of assets to leverage as collateral, among other factors.[4]

To address minority capital access barriers, the Milken Institute (the Institute) and the U.S. Small Business Administration (SBA) convened financial institutions, regulatory agencies, community groups, and research institutes at a national roundtable at the White House in June 2016. The product of that meeting was the Partnership for Lending in Underserved Markets (PLUM), a Milken Institute and SBA initiative to develop actionable solutions to long-standing barriers that constrain minority entrepreneurs from accessing capital to start and grow businesses. The objective is to increase not only the amount of capital reaching minority-owned businesses, but also the number of successful (growing) minority businesses in Black and Hispanic communities employing Black and Hispanic workers.

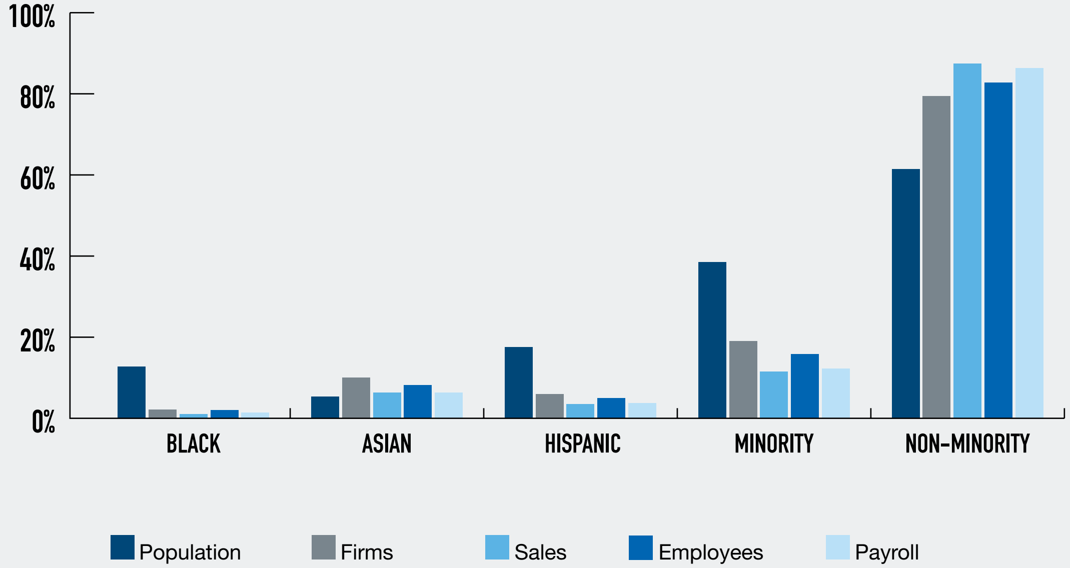
1 The Milken Institute recognizes the difference between "Hispanic" and "Latino" designations and the ongoing debate regarding which is most appropriate. When citing others' works, we defer to the designation used by each organization or agency. Otherwise, for consistency, we use "Hispanic" versus "Latino," and "Black" versus "African American," per U.S. Census Bureau classifications.

2 2015 population data: U.S. Census Bureau, 2015 American Community Survey 1-Year Estimates. 2015 business data: U.S. Census Bureau, 2015 Annual Survey of Entrepreneurs.

3 U.S. Census Bureau, "2015 Annual Survey of Entrepreneurs." Percentages are based on 3,511,285 classifiable employer firms who reported their source of capital to start or acquire a business.

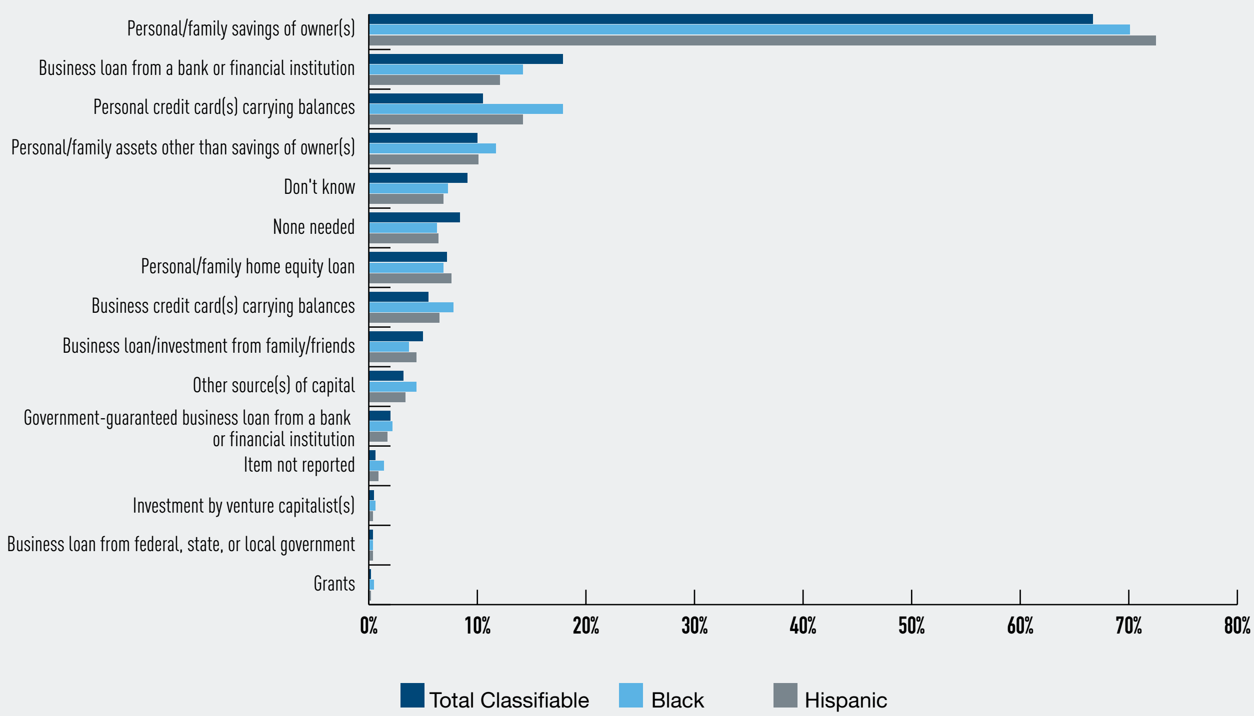
4 Fairlie, Robert W. and Robb, Alicia M. "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs." U.S. Department of Commerce, Minority Business Development Agency. January 2010.

FIGURE 1: **RACE AND ETHNICITY AS A PERCENT OF POPULATION AND BUSINESS (2015)**



Sources: U.S. Census Bureau, "2015 American Community Survey 1-Year Estimates" and U.S. Census Bureau, "2015 Survey of Entrepreneurs"

FIGURE 2: **SOURCES OF CAPITAL TO START OR ACQUIRE A BUSINESS (2015)**



Source: U.S. Census Bureau, "2015 Survey of Entrepreneurs"

THE PARTNERSHIP FOR LENDING IN UNDERSERVED MARKETS

National Efforts

Nationally, the Milken Institute committed to initiate research, explore improvements to federal policies and institutions that affect minority small business capital access, and identify broader opportunities to address investor capacity and alternative credit underwriting criteria.

Congressional Engagement

The Institute participated in a Congressional Black Caucus (CBC) Wealth Creation and Economic Development Task Force event covering the Community Reinvestment Act (CRA), small business data collection, and the role of FinTech in providing capital to underserved communities. We continue to engage with the members of the CBC and other lawmakers to inform the debate surrounding key legislation, including the Small Business 7(a) Lending Oversight Reform Act of 2018, regulatory requirements, including Section 1071 of the Dodd-Frank Act, and other public policies that affect minority entrepreneurship, economic development, and community revitalization.

Comment Letters

We submitted several comment letters to federal agencies. First was in response to an SBA request for comment regarding reducing or eliminating unnecessary regulatory burdens and bringing greater efficiencies to the agency.[5] In our mission to also improve the capital access pipeline to small businesses, we proposed action items such as expanding and making permanent the Alternative Size Standards to provide for greater certainty and to account for loan size when determining whether a small business qualifies for a program, making permanent the Community Advantage 7(a) Loan Program and refining specific protocols, relaxing requirements for minimum SBIC capitalization thresholds to encourage smaller investment, and increasing the number of nonbank licenses with a specific low- and moderate-income focus.

We also submitted a series of recommendations and calls for clarification on the Consumer Financial Protection Bureau's (CFPB) efforts to bring transparency and information to the small business lending market through Section 1071 of the Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).[6] Efforts to address the data gap on small business lending could result in reduced product mismatch and more tailored technical assistance, enhanced responsiveness from local, state, and federal agencies, and reduced reliance on "cookie-cutter" underwriting processes.

Lastly, the Milken Institute responded to the CFPB's Request for Information (RFI) regarding the use of alternative data and modeling techniques in the credit process.[7] Comments included a recognition that despite the inherent risks associated with the use of alternative data in the credit underwriting process, alternative data and modeling techniques are necessary when considering the fact that a growing segment of the U.S. population is either underbanked or unbanked and that relationship-banking is increasingly being replaced with automated credit scoring processes that fail to look beyond the FICO score and take into account the local economies within which small business operate.

5 Klowden, K., & Betru, A. Comment Letter to the SBA: Small Business Administration's Request for Information Aimed at Reducing Regulatory Burden, Docket No. SBA-2017-0005. November 2017. Retrieved from: https://www.regulations.gov/document?D=SBA-2017-0005-0254.

6 Mueller, J., & Betru, A. Comment Letter to the CFPB for Information Regarding the Small Business Lending Market, Docket No. CFPB-2017-0011. September 2017. Retrieved from: http://www.milkeninstitute.org/publications/view/882.

7 Betru, A., & Mueller, J. Comment Letter to the CFPB: Alternative Data and Modeling Techniques in the Credit Process, Docket No. CFPB-2017-0005. March 2017. Retrieved from: http://www.milkeninstitute.org/publications/view/861.

Research and Initiatives

In response to the 40th anniversary of the Community Reinvestment Act (CRA) and our continued engagement with the CBC, the Institute has initiated a series of meetings with stakeholders to determine what CRA policy should look like for the 21st century, given the proliferation of online, non-bank financing platforms, and the continued consolidation of the traditional banking sector.

We have also engaged a third-party to assess the role (and impact) of alternative data for small business credit underwriting purposes to produce potentially more accurate (and holistic) credit profiles. This work will inform the development of policy options for lawmakers and regulators to consider in efforts to redirect capital to otherwise credit-worthy small businesses.

Finally, the Institute is researching the potential impact of increasing Minority Depository Institution (MDI) equity capital and how it could translate to increased access to capital for minority-owned small businesses. Historically, MDIs have been a critical source of financial capital for low- to moderate-income (LMI) communities. However, today MDIs are significantly smaller in scale, limiting their ability to serve their communities. In order for MDIs to scale up their efforts, they require capital themselves, tier 1 equity capital in particular. We also will explore the effects on job growth and wealth creation in underserved markets.

Milken Institute Events

At the 2017 Milken Institute Global Conference and the 2017 Milken Institute California Summit, we held sessions where local stakeholders and government officials discussed ways to address the ongoing challenges in moving capital to underserved small business communities.

Looking ahead, the Milken Institute will continue to engage stakeholders, conduct research, and inform public policies that affect minority entrepreneurs, economic development, and community revitalization.

Pilot Cities

In 2016, the Milken Institute and the SBA also initiated two-year local pilots in Baltimore, Maryland and Los Angeles, California to better understand how local dynamics affect capital access in a given market and test solutions. The Baltimore protests, in the wake of the 2015 death of Freddie Gray while in police custody, brought attention on a national level to the consequences of long-standing racial tension and community divestment. Los Angeles is a microcosm of racial and ethnic diversity with an instructive mix of overlapping jurisdictions and governance structures. We formed Steering Committees of community leaders and broader task forces of partners in both cities, and divided the pilot into three phases:

PHASE I—PROBLEM DEFINITION

Identify specific challenges related to the loan underwriting process, public policy, and economic development that impede minority capital access.

PHASE II—SOLUTIONS

Identify solutions and opportunities for action. Develop plans with defined objectives, tactics, and execution timelines.

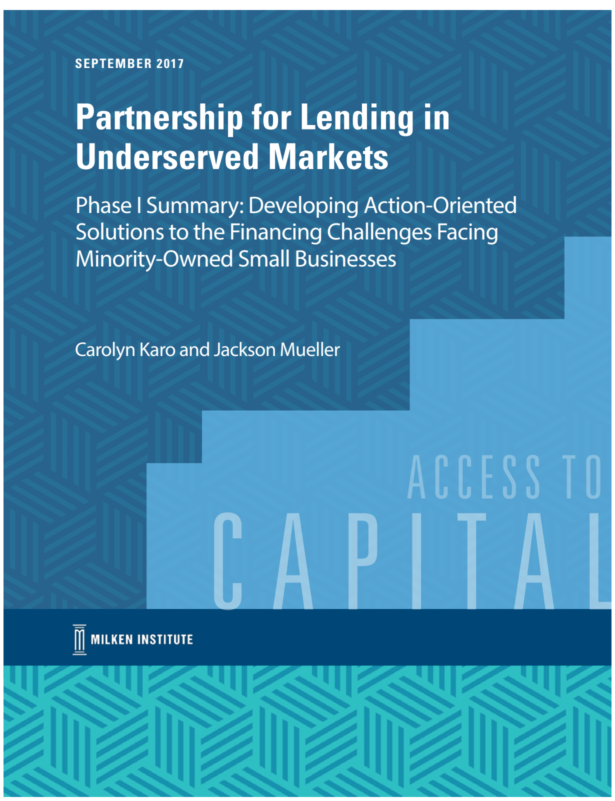
PHASE III—IMPLEMENTATION

Begin to execute the plans and other recommendations developed during Phase II.

Phase I

Phase I launched in the fall of 2016 and concluded in early 2017. Government officials, data providers, economic development workers, traditional and alternative capital providers, and others participated in kick-off events and joined working groups to identify specific issues related to lending, public policy, and economic development. They provided on-the-ground evidence, presented qualitative and quantitative survey data, shared local studies, and engaged with additional stakeholders.

The task forces reconvened in January and February of 2017 to summarize the discussions thus far, share what had been learned, and ask the groups to choose a path forward. The Milken Institute presented landscaping data on the Los Angeles and Baltimore small business and lending environments, a summary of root causes for the capital access gap, and potential solutions.



At the end of Phase I, we produced a Phase I summary report that included information and data on the minority small business and lending environments, the genesis of the PLUM initiative, and key findings from Phase I working groups around capital access challenges related to lending, policy, and economic development.[8]

Phase II

39 ACTION GROUP MEETINGS

7 MATCHMAKING, NETWORKING, AND CONFERENCE EVENTS

300+ PARTICIPANTS

Based on task force feedback, survey results, additional discussions with PLUM participants and stakeholders, as well as consideration of what other partners and groups were doing, the steering committees decided to move forward on the following:

Local Research: Gather data-driven insights on minority-owned small businesses, the lending environments, and the industry sectors and geographic clusters to provide the evidence base to enhance access to capital for new and growing Black- and Hispanic-owned small businesses.

Local Policy: Engage with local and county officials to establish champions to drive the PLUM effort forward.

8 Karo, C., & Mueller, J. Partnership for Lending in Underserved Markets Phase I Summary: Developing Action-Oriented Solutions to the Financing Challenges Facing Minority-Owned Small Businesses. Milken Institute. September 2017. Retrieved from: http://www.milkeninstitute.org/publications/view/879.

Solutions to Root Causes of Minority Capital Access Gap

EXPAND AND CUSTOMIZE TECHNICAL ASSISTANCE

- Technical assistance programs are not tailored for minority entrepreneurs and small business owners
- Businesses are not bankable without sound operations and attention to business fundamentals
- Financial illiteracy limits capital opportunities

OVERCOME STRUCTURAL LIMITATIONS OF MINORITY SMALL BUSINESS LENDING

- Traditional credit scoring models prioritize common minority deficits including limited or poor credit history and lack of collateral
- Lender products are homogenous and not responsive to borrower profiles
- The Community Reinvestment Act favors compliance with compulsory obligations before rewarding innovative and flexible lending practices
- Lenders (CDFIs, MDIs) in underserved markets are undercapitalized

IMPROVE TRANSPARENCY AND EFFICACY OF SMALL BUSINESS LENDER ENGAGEMENT

- Lenders have a limited knowledge and understanding of existing policies and programs that promote lending to underserved markets
- The process to refer businesses that do not qualify for traditional loans to other sources of capital lacks standardization and best practices
- Predatory lenders target small businesses with limited financing options
- Brokers do not have a fiduciary responsibility to their small business clients and instead are motivated to maximize prophets

INCREASE EQUITY/PATIENT CAPITAL IN UNDERSERVED MARKETS

- Investors perceive underserved markets as high risk
- There is a lack of coordination in sourcing and funding equity investments in underserved markets
- State laws prevent some cities from participating in online fundraising from multi-investor facilities

COORDINATE URBAN DEVELOPMENT

- Narrow or singular financing and development strategies do realize the multiplier benefits and increased impact of coordinated efforts

EXPAND SMALL BUSINESS MARKET OPPORTUNITIES

- Supply chain and procurement opportunities favor larger, more established businesses
- It is difficult for small businesses to navigate multiple and overlapping jurisdictions with varying regulatory and program qualification requirements

IMPROVE EVIDENCE-BASE FOR ACTION

- Lack of sufficient measurement and evaluation of minority small business and capital environments results in a limited understanding of the scope and magnitude of the barriers minorities face
- Limited visibility constrains opportunities to target and mobilize public and private resources

Technical Assistance (TA) and Lender Referral Best Practices: Support efforts to identify best practices and standardize TA and lender referral efforts focused on individual TA providers, lenders, and new and established small businesses.

Local steering committees then met to tailor local approaches for next steps. In Baltimore, steering committee members facilitated local policy, local TA, and local research discussions. In Los Angeles, steering committee members formed action groups to address priority topics. These groups met monthly for the remainder of 2017 to pinpoint specific opportunities for impact—a challenging process that required consideration of a host of factors including resources, political viability, relevance, and likelihood for success.

In February 2018, the Los Angeles action group chairs presented to the broader task force activities to date, lessons learned, solutions identified, and details around Phase III execution, which include short-term solutions and promotion of long-term opportunities. The Milken Institute will host a similar event in Baltimore to reiterate opportunities and present a path forward. Current action items include:

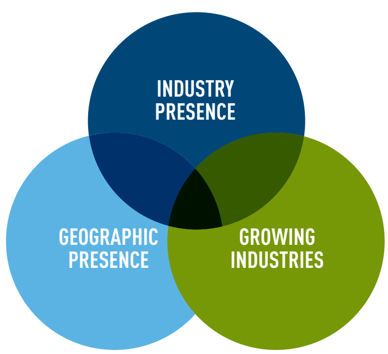
- A best practices report about culturally-competent technical assistance, which is critical to building the capacity of entrepreneurs and small business owners to access capital and start and grow businesses
- Matchmaking and networking events to expand local lender referral networks and facilitate inbound and outbound deal flow
- A series of local policy briefs for municipal, county, and statewide audiences about economic incentives to promote opportunities for Black and Hispanic businesses, addressing challenges in city and county contracting; coordination of federal resources to more effectively channel capital to local communities, and FinTech opportunities to automate several areas of the capital access ecosystem including government to business transfer, accounting, and marketing and delivery of technical assistance

In some cases, execution on these solutions began last year. And with the ultimate goal of increasing access to capital in mind, we have been and will continue to facilitate direct matchmaking between capital providers and minority small businesses. The PLUM pilots will conclude at the end of 2018, at which point we will document outcomes and lessons learned around execution and implementation.

LESSONS LEARNED FOR COLLABORATION

In addition to supporting local outcomes, the PLUM pilots are helping us to improve collaborative efforts in a given market and around specific capital access solutions. There have been many across-the-board lessons learned throughout Phase II, as well as through our national work. Some speak to approaches to partnership and coalition-building, while others are reflections and recommendations for existing capital and technical service providers.

Overcome Data Deficits to Identify Opportunity



Maximum opportunity for economic growth lies in the overlap among industries in which Blacks and Hispanics are strong (i.e., own businesses and are employed), in the industries that are growing regionally, and the communities in which Blacks and Hispanics live and work. The challenge is identifying and accessing the data to piece this information together.

Minority Small Business Landscape

There is no one source to tell us where minority businesses are located. The U.S. Census collects this information at the metropolitan statistical area (MSA) and county level including industry, number of employees, average sales, and average wages. Municipal-level data, however, are scarce or difficult to acquire. For example, the City of Los Angeles DBE/MBE/WBE Directory lists the company name, address, phone number, and NAICS (industry) code for City-certified Disadvantaged Business Enterprises, Minority Business Enterprises, and Women Business Enterprises. It does not break out businesses by the race, ethnicity, or gender of the business owner, nor is there sales, employee, or wage data. The data is not in a downloadable format, and ultimately it is not representative of the minority small business population at large because certification primarily helps businesses compete for contracting and procurement opportunities; businesses outside this scope likely will not register.

Efforts to address the data gap come in a variety of shapes and forms, and despite how important these efforts are, we still lack a consistent, standardized set of nationwide data on small businesses. There are databases to purchase, such as Dun & Bradstreet, Hoovers, and Resource USA, but they are costly, and it is often difficult to verify methodology and accuracy.

Information about regional clusters and growth industries can be more accessible via city, county, and state economic development agencies and quasi-agencies, but may not be to the level of detail to capture community nuances. Los Angeles County includes 88 cities and 11 unincorporated areas which do not align neatly with ethnic communities. Per the Los Angeles County Economic Development Corporation (LAEDC), Latinos in the county are more likely to be employed in manufacturing and construction firms than the average LA County worker,[9] and construction and selected

9 Los Angeles County Development Corporation, “An Economic Profile of the Latino Community in Los Angeles County.” February 2017. Retrieved from: https://laedc.org/2017/02/21/economic-profile-latino-community-l-county/.

The Stanford Latino Entrepreneurship Initiative (SLEI)

The Stanford Latino Entrepreneurship Initiative (SLEI) is a Stanford University research initiative housed within Stanford Graduate School of Business. SLEI explores and expands knowledge of the Latino entrepreneurship segment in the economy through research, knowledge dissemination, and facilitated collaboration. As of 2017, they have a database of more than 1.3 million U.S. Latino-owned companies and a survey panel of more than 5,000 independent companies. SLEI is digging deep into the Latino business experience, and yet they too do not have data localized at the city level.

manufacturing are growth industries in the county.[10] Major development projects including overhauling Los Angeles International Airport (LAX), building the new NFL stadium in Inglewood, and preparing the city for the 2028 Olympics point to procurement and logistics opportunities for Latino owners of construction firms. However, the airport is in the City of Los Angeles, Inglewood is its own city, and the Olympics will tap infrastructure and transportation agencies and firms across the county. Without more specific data around where Latinos live, work, and own businesses, it is difficult not only to tailor policy and programming, such as where and to whom to market and recruit for projects, but also to coordinate agencies and resources to help firms identify and navigate opportunities.

10 Los Angeles County Economic Development Corporation, “People, Industry and Jobs: 2016-2021.” June 2017. Retrieved from: https://laedc.org/2017/06/30/pij-2017/

Capital Landscape

Another information challenge is mapping the capital landscape. What lenders, investors, and technical assistance providers are in the market, including local and statewide, national, or online providers? Are there adequate providers in place to serve Black and Hispanic entrepreneurs and business owners? Are they accessible to businesses who need them? To examine credit product offerings and gauge their capacity to meet ethnic market needs, we need to understand who is in the market.

Several initiatives are underway to provide an accurate mapping of the capital landscape in the local economies of Los Angeles and Baltimore.

In Los Angeles, the task force initiated a manual process of mapping the capital and service landscape. The technical assistance groups surveyed TA providers, including incubators and accelerators and other public, private, and nonprofit programs. To support networking opportunities, the Lender Referral group plans to survey regulated financial institutions' programs and products. One local partner, Business Resource Group (BRG),

Johns Hopkins 21st Century Cities Initiative

To understand the Baltimore market, Johns Hopkins University's 21st Century Cities Initiative researched 40 public and private funding sources and programs from 2000 to 2016 and interviewed more than 50 stakeholders in government, banks, investment firms, community development financial institutions, incubators, nonprofits, and small businesses. Their final report cites 13 sources across the public and private sectors covering capital products ranging from guaranteed loans, bank loans, non-bank (CDFI) loans, equity investments, research grants, and others. It took researchers six months to map the ecosystem and determine that "given Baltimore's competitive advantages—our strong industries, great universities, and geography—the local financing system for startups and small businesses should be much stronger." The report states that while venture capital investment in Baltimore-based companies has increased markedly over the last decade, most of it originates outside the city. The report also found that the city needs revitalized lending programs to fill gaps left by banking consolidation, a national trend that has hit Baltimore especially hard.

While the Johns Hopkins report provides a foundation to understanding the small business financing landscape in Baltimore, it does not address the racial and ethnic financing landscape. Given national statistics around minority capital access, we can surmise that if all Baltimore businesses need revitalized lending programs, it is likely that the opportunity for minority businesses is even smaller.

leveraged its own proprietary data along with third party data to compile a pool of more than 700,000 African American and Latino businesses; they also surveyed 1,200 non-bank lenders and 100+ technical assistance providers serving the Los Angeles market. BRG is comparing their data to growth industries in the region and plans to develop Scalability Toolkits in key industry clusters. Toolkits would include a scalability scorecard, capacity assessments, capital and integrated technical assistance, opportunity paths, and industry referrals.

Encouraging data collection, whether through regulation (e.g., Dodd Frank 1071), or other industry-led efforts such as the Marketplace Lending Association's "Marketplace Lending Best Practices," will provide a much stronger evidence-base for developing capital access solutions and support-related marketing and outreach efforts. In the absence of standardized and accessible data, however, we have seen how to piece together the minority small business and capital landscape with existing resources, community insights, and local knowledge and expertise to identify both gaps and opportunities for minority business owners.

Engage Anchor Institutions and Local Stakeholders, and Recognize Competition

We cannot overstate the value of a committed local partner who knows the market and its players well in order to advance any capital access solution. In the absence of local level data, we can tap those who know their communities best for information. Yet local stakeholders are far more than information resources. In Los Angeles, the SBA district office has been a critical factor in legitimizing the LA PLUM pilot and creating trust among stakeholders. The district director, Victor Parker, and his staff have strong relationships in the community with CDFIs, banks, and other lenders. They have an intimate knowledge of the LA market and better insights than most about what is and is not working and why. In Baltimore, the steering committee was co-chaired by the Milken Institute, SBA, and Chairman, President, and CEO of the Harbor Bank of Maryland, Joseph Haskins, Jr. The bank, a minority depository institution (MDI), is an anchor in the city with close connections to and knowledge of the Black community in Baltimore.

Victor Parker, SBA Los Angeles District Director

Joseph Haskins, Jr., Chairman, President, and CEO of Harbor Bank of Maryland

Anchor institutions also provide local leadership and support buy-in from service providers and potential clients to new capital solutions. Local ownership matters because it empowers communities to be a part of long-term and sustainable impact. With local capital and technical assistance providers engaged, clients, borrowers, and small businesses are more likely to embrace new opportunities.

Challenges arise, however, when we cast the net widely. Competition for clients and resources can hinder collaboration. For example, lenders recognize that by working together they could pool their lending data (e.g., approvals, declinations, referrals) and gain a better understanding of the small business and capital landscapes. However, sharing data may not make good business sense by revealing proprietary information around business models, relationships, and outcomes. The conflict of interest points to where policy could help by establishing an objective third party (government agency or nonprofit organization) to collect and aggregate data and share high level conclusions.

Also inhibiting collaboration is a fear among some organizations and institutions that new solutions will disrupt the status quo. Most mission-driven lenders and TA providers already compete for the same resources (e.g., bank CRA dollars, government and foundation grants), and are cognizant that solutions outside the existing framework may limit or reduce their capacity. Moreover, some local organizations are hesitant to engage with national partners because they lack the on-the-ground knowledge and might impose standards or requirements that do not work locally.

A comprehensive minority capital access strategy should include existing players while making room for innovation. The value and necessity of engaging local stakeholders far outweighs the tensions, but it is helpful to recognize that these tensions exist with regard to outreach, expectations for participation, and buy-in for new ideas.

Furthermore, embedding a sustainable strategy requires a long lead time for both a diagnostic of the issues and potential solutions, as well as a runway for executing efforts with local ownership driving the way forward.

Build Wider and More Targeted Networks

The current networks among debt and equity providers are disparate, and shifting the discussion can result in an entirely different set of stakeholders. Often, capital and service providers have narrow channels of relationships or even awareness of the broader ecosystem of players. For example, banks and online lenders do not typically operate in the same space as crowdfunding organizations and angel investors, and lenders only know to refer declinations to a limited pool of organizations. Bridging the divide and bringing together those who do not traditionally interact will support new solutions and directly increase access to capital by growing the pool of options. One of the strongest outcomes of the PLUM pilots is the number of relationships facilitated through events and working groups.

At the same time, minority businesses benefit from targeted networks that prioritize their needs. Targeted matchmaking will support connections between capital providers to minority entrepreneurs and business owners. For example, the Milken Institute and SBA held Small Business Investment Company (SBIC) events in Baltimore and Los Angeles around minority businesses looking to scale up and included asset managers, service professionals (lawyers, accountants), and minority small businesses. The SBIC program provides an important avenue for qualified small businesses to raise debt or equity capital to grow their operations. Licensed and regulated by the SBA, SBIC's are privately owned and managed investment funds that, together with the SBA, committed $6 billion in financing to 1,200

Ryan McGovern, Managing Director, Star Mountain Capital, moderates a panel at a Milken Institute, SBA, Star Mountain Capital SBIC event in Los Angeles

small businesses in FY2016. Altogether, SBICs manage upwards of $28 billion in assets. That investment, however, is geographically concentrated in a few U.S. states, with five states (California, New York, Texas, Massachusetts, Illinois, and Florida) receiving more than half of all SBIC investment in 2014. Additionally, less than a quarter of SBIC investments were made to low- and middle-income areas in 2014. There is huge potential, if done right, to mobilize capital from SBICs to small business in underserved markets.

The Baltimore and Los Angeles events connected capital providers to small businesses and educated a broader audience about capital solutions. These events broadened the network of providers and businesses, and targeted minority businesses and their specific capital needs.

Use Technology as a Tool, Not a Solution

Technology offers tools to address many of the concepts we have been discussing—including data collection, networks, and collaboration, as well as operational efficiencies—yet there is much mistrust, apprehension, and doubt around its application.

CDFIs and other TA providers report that once a bank declines a potential borrower, that person is less likely to reapply for more financing or TA programs. Online platforms can reduce paperwork by carrying borrower information from one provider to the next, making the process less onerous for the borrower. New technology also may help disrupt the current service

UK Bank Referral Scheme

In 2015, the United Kingdom (UK) Treasury released a report which found that of the 26 percent of small businesses that were declined for a bank loan, only three percent turned to alternative providers to access the financing they needed to grow. Launched in November 2016, the Bank Referral Scheme requires nine designated banks (the 6 largest UK Small- and Medium-sized Enterprises (SME) lenders and the 3 largest Northern Irish SME lenders) to offer small businesses a referral to alternative lenders at the point of decline. If the referral is accepted, a small business' application is routed to three regulatory-approved finance platforms that seek to match the small business' funding needs to alternative finance providers on their lending panels.

The initiative was developed as a way to encourage SMEs who have been unable to secure the financing they need to seek out alternative sources of capital and address the information gap that exists between small businesses and alternative providers.

1. Your business approaches a participating bank for an eligible lending facility (see eligibility criteria).
2. If your business is unsuccessful, you will automatically be offered a referral to the designated online platforms, who may be able to help you find the finance you are looking for- if you agree to the referral, your details will be passed on by the end of the next working day.
3. The lenders on these platforms may be able to offer you funding, if a suitable match is found.

delivery system by increasing transparency and building accountability through improved data collection and a virtual paper trail. Organizations such as the Community Reinvestment Fund (CRF) and the Association for Enterprise Opportunity (AEO) are leveraging tech-driven solutions to derive greater efficiencies in the loan origination process (SPARK), and connecting small business providers with capital-starved businesses who are declined by traditional lenders and unaware of alternative options (Project Cue).[11]

11 Spark, "Product Features." April 23, 2018. Retrieved from: http://www.lendwithspark.com/features-loan-origination-tool/; AEO, "Project CUE: Connecting Underserved Entrepreneurs." February 2016. Retrieved from: https://aeoworks.org/item/project-cue-connects-underserved-entrpreneurs-with-funding.

In the U.S., several online marketplaces have surfaced over the past several years to connect small businesses with the right financing provider. Firms such as Fundera, Lendio, Intuit, and others connect borrowers with a range of both traditional and alternative financial providers and products. Separate from industry-driven solutions, at the federal level, the SBA unveiled Lender Match, an online referral tool connecting small business borrowers with participating SBA lenders.[12] Lender Match is the successor to the SBA's former matchmaking program, LINC, introduced in 2015.

12 Small Business Administration. Lender Match helps you find lenders. Retrieved from: https://www.sba.gov/lendermatch.

Despite the real potential of technology to deliver capital to those most in need, local stakeholders in Los Angeles and Baltimore were hesitant to engage with these types of platforms because they rely on algorithms versus human relationships to bridge the disconnect between provider and borrower. There is no substitute for a personal relationship, but some online lenders do strive for high-tech and high-touch relationships. Lendio, for example, partners borrowers with personal funding managers to support small business throughout the financing process. The funding manager will discuss loan options, help to calculate how much financing is needed, walk the customer through collecting all the necessary documents and forms, and ultimately stay in touch throughout the life of the business to help with loan renewals, term adjustments, and goal-setting for different kinds of financing as business needs change.[13]

Moreover, any online matchmaking should be routing small businesses to the most cost-efficient products and services available that are tailored to their needs. Predatory lending or routing to the highest cost products and services to gain a better commission are clearly activities to monitor and discourage. Yet, to realize the objective of increasing access to capital, we must embrace the opportunities technology, and technology partners, offer to save time and money and reach more people, particularly the unbanked and underbanked.

13 Lendio, "Small Business Loans." March 16, 2018. Retrieved from: https://www.lendio.com/small-business-loans/.

Develop Culturally-Competent Marketing, Outreach, Products, and Services

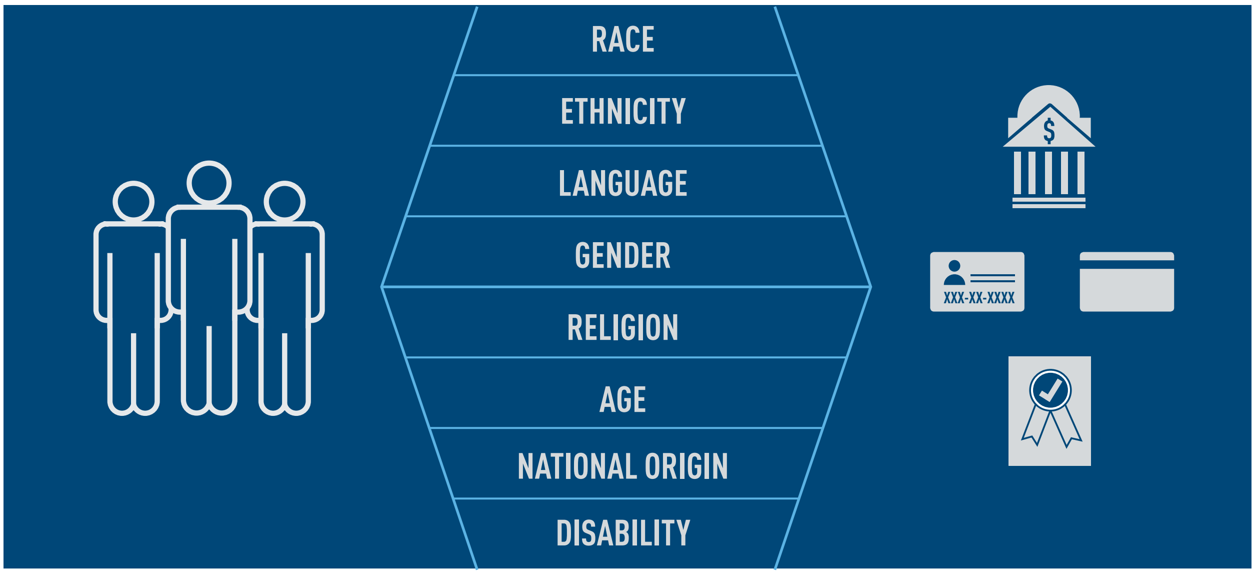
In the context of capital access, cultural competence refers to an institution or organization's ability to understand how race, ethnicity, gender, age, national origin, religion, language, disability, and other demographics shape a population's relationship to financial products and services. The lack of understanding and recognition of cultural factors is a major barrier to capital access for Black and Hispanic entrepreneurs and small business owners. For example, lack of generational wealth and experience-based human capital (professional and management experience), as well as poor or limited credit histories change what business readiness means to minority entrepreneurs and for which products they may qualify.

Among Black business owners, the trust gap and a double negative bias loom large. The trust gap refers to the wariness of Blacks to engage banks, other capital providers, and potential would-be mentors and consultants based on a history of discrimination, bias, and continued disappointment.[14] The double negative bias is the added pressure an entrepreneur of color, who also is female, bears to prove herself and the value of her work and ideas.[15]

For Hispanics, country of origin, immigration status, and language can act as barriers in obtaining capital. For

14 Association for Enterprise Opportunity. The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success. March 2017. Retrieved from: https://aeoworks.org/item/Report-Black-Business-Ownership-US.

15 Ewing Marion Kauffman Foundation. "Including People of Color in the Promise of Entrepreneurship." Entrepreneurship Policy Digest. December 2016. Retrieved from: https://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/including-people-of-color-in-the-promise-of-entrepreneurship.



instance, the Individual Taxpayer Identification Number (ITIN) is a tax-processing number issued by the Internal Revenue Service to help individuals who do not have, and are not eligible to obtain, a Social Security number (e.g. non-U.S. citizens) comply with U.S. tax laws. While some banks offer products and services to people who have ITINs, others do not.[16] Separately, marketing materials and technical assistance may only be provided in the English language, presenting problems to immigrants whose first language is not English.

Developing cultural competence is a dynamic and complex process requiring ongoing assessment and feedback. It is important to building trust between providers and clients, and increases the likelihood that products and services reach their target audience. In 2017, PLUM task forces spent considerable time discussing how to tailor marketing, outreach, products, and services to best serve these populations. The Institute is in the process of documenting best practices for culturally-competent technical assistance for Black and Hispanic entrepreneurs and business owners, and will release a follow-up report in the coming months.

Identify Champions to Promote Public Policy

In addition to programmatic efforts, there are policy solutions to minority barriers to capital access. Identifying policy champions, individuals with the influence, access, and credibility to promote solutions to legislators and other policymakers is paramount. Whether locally, statewide, or nationally, relationships and partnerships with policy champions can be the difference between good ideas and executed outcomes.

In 2016, the Baltimore task force prepared a series of recommendations for then incoming Baltimore Mayor Catherine Pugh. In 2017 she included several recommendations in the Mayor's Transition Report and requested follow-up next steps.

The task force then identified action items for the city, including to appoint and empower a Small Business Ombudsperson to advocate, navigate and troubleshoot for small businesses; establish a one-stop shop in the city

16 Kokodoko, M. "Hispanic entrepreneurship grows, but barriers persist." Community Dividend. April 2011. Retrieved March 7, 2018 from: https://www.minneapolisfed.org/publications/community-dividend/hispanic-entrepreneurship-grows-but-barriers-persist.

economic development department to coordinate and streamline business licensing and permitting requirements; empower and resource the Baltimore Resource Center to execute its mandate of providing customized technical assistance to support small businesses in minority communities; and, finally, leverage the City's HUD funding as equity injection for matching SBA loan guarantees for strategic community development investments.

In Los Angeles, lawmakers and city and county agencies have attended PLUM events and meetings, and are taking information back to their organizations to inform policies and programs. The aforementioned policy briefs are in process and task force members will then engage policymakers, including the Los Angeles Mayor's Office of Economic Development as well as California State Assemblymembers, to promote recommendations.

Baltimore Mayor Catherine Pugh speaking at a PLUM event in January 2017

In Los Angeles, California Assemblymember Autumn Burke (far left) participates on a capital access panel at the 2017 Milken Institute California Summit with Manny Fernandez, Co-founder and CEO DreamFunded.com, Carolyn Karo Schulman, Director of Strategic Initiatives Milken Institute Center for Regional Economics, and Chris Hameetman, Chairman Tech Coast Angels

CONCLUSION

Partnership for Lending in Underserved Markets stakeholders have had many healthy debates as to what approach best supports driving job creation, raising wages, and elevating better standards of living in minority communities in the first place. There are the sole proprietors (consultants, online craft sellers, gardeners) who generate income for themselves, but are less likely to make an economic impact in communities since they do not create jobs and therefore do not achieve the multiplier effects of associated additional economic activity. Some argued that the focus should be on the smallest of businesses where the most people work—the dry cleaners, health care provider facilities, and beauty salons. Others see the future in technology and want to explore how to create minority "unicorn" companies. Still others say focus on the top 2 percent, 5 percent, 10 percent... "a rising tide lifts all boats."

When confronted with the magnitude of capital access challenges and the scope of the ecosystem, narrowing the focus can be difficult. Yet there is no one right answer. Organizations will be most effective when leveraging their assets and strengths, and it will be the contributions of all types of organizations—think tanks, regulators, community groups, capital providers, and universities—that ultimately overcome the capital access barriers that constrain minority entrepreneurs from starting and growing businesses. As the PLUM initiative advances, the Milken Institute will apply the lessons learned to date and continue collaborative efforts to promote public policies that support Black and Hispanic economic growth, initiate research to grow the evidence-base to enhance capital access support and identify opportunities, and convene stakeholders who do not typically interact to generate and implement creative community development financing strategies.

ACKNOWLEDGMENTS

The author would like to thank the **Milken Institute PLUM team** for their leadership and support throughout this initiative:

Kevin Klowden, Executive Director, Center for Regional Economics and California Center

Aron Betru, Managing Director, Center for Financial Markets

Christopher Lee, Director, Center for Financial Markets

Jackson Mueller, Associate Director, Center for Financial Markets

Matthew Aleshire, Associate Director, Government Affairs

Sam Hanigan, Programming and Outreach Coordinator, Center for Regional Economics

Arpita Sharma, Researcher, Center for Regional Economics

Vanessa Taylor, Associate, Center for Financial Markets

We also would like to thank the **PLUM Baltimore and Los Angeles Steering Committees** and broader task forces for their time, dedication, and commitment to the PLUM pilots. This work would not be possible without their knowledge, insight, and effort.

Baltimore Steering Committee Co-Chairs

Aron Betru, Managing Director, Center for Financial Markets, Milken Institute

Eugene Cornelius, Jr., Deputy Associate Administrator, Field Operations, SBA

Joe Haskins, Jr., Chairman, President & CEO, The Harbor Bank of Maryland

Baltimore Steering Committee

Jorge Eduardo Castillo, Chairman, Board of Directors, Maryland Hispanic Chamber of Commerce

Gordon Cooley, Commissioner, Division of Financial Regulation, Maryland Department of Labor, Licensing and Regulation

Jayfus Doswell, President & CEO, The Juxtopia Group

Howard Henderson, President & CEO, Greater Baltimore Urban League

Sean McCabe, Administrative Vice President, Business and Professional Banking, M&T Bank

Diane McKoy, President & CEO, Associated Black Charities

Paul Taylor, Executive Director, Baltimore City Small Business Resource Center

Stanley Tucker, President & CEO, Meridian Management Group

Arnold Williams, Managing Director, Abrams, Foster, Nole & Williams, P. A.

Alicia Wilson, Vice President for Community Affairs and Legal Advisor, Sagamore Development

Los Angeles Steering Committee Co-Chairs

Kevin Klowden, Executive Director, Milken Institute Center for Regional Economics and California Center

Victor Parker, Los Angeles District Director, Small Business Administration

Mark Robertson, President & CEO, PCR Corp

Los Angeles Steering Committee

Iosefa Alofaituli, Regional Director, Opportunity Fund

Michael Banner, CEO, Los Angeles LDC

Sandy Cajas, President and CEO, Regional Hispanic Chamber

Lem Daniels, Vice President, Morgan Stanley

Sharon Evans, CEO, Business Resource Group

Carlton Jenkins, Partner, Yucaipa Companies

Richard Pallay, Director of Business Resource & Contract Compliance, L.A City Economic and Workforce Development Department

Sabra Purifoy, Acting Deputy Director of Economic Development, Los Angeles County Department of Business and Consumer Affairs

Quentin Strode, Partner, OmniWorks

Harvey Strode, President & CEO, UCBB Capital & Transition Solutions, LLC

Tunua Thrash-Ntuk, Executive Director, Local Initiatives Support Coalition

Kecia Washington, Director of Innovation and Strategic Partnerships, Los Angeles Department of Water and Power

ABOUT THE AUTHOR

Carolyn Karo Schulman is the director of strategic initiatives at the Milken Institute Center for Regional Economics. An experienced manager and strategist, Schulman develops and oversees programming related to small business growth, capital access, and economic development. Previously, she held positions in public affairs and strategic communications at Finsbury and Ichor Strategies. Earlier, she served as director of policy for the office of the New York City comptroller, addressing economic development, pension reform, and education. Schulman started her career in community development at Citi, where she served on the Community Reinvestment Act team, working with Citi's retail, credit card, and investment banks to satisfy their regulatory obligations. She holds a B.A. from Brandeis University and a master's degree in public policy from The George Washington University.

MILKEN INSTITUTE

SANTA MONICA | WASHINGTON | LONDON | SINGAPORE