An Economy For All

Updated Recommendations for How Philanthropy Can Improve Access to Capital for People of Color and Women Entrepreneurs

August 2021

Arabella Advisors

Introduction

In February 2019, we published *An Economy for All: How Philanthropy Can Unlock Capital for Women Entrepreneurs and Entrepreneurs of Color through Inclusive Investing* in partnership with the JPMorgan Chase Foundation and the New Venture Fund. The report presented a case for how philanthropy can better use its power to level the playing field of economic opportunity by increasing access to investment capital for people of color and women entrepreneurs—all while advancing broader goals of racial and gender equity. With input from experienced investors and racial equity experts, *An Economy for All* laid out recommendations for how the philanthropic sector could use investing, grant making, and coalition building to influence mainstream capital markets and facilitate the flow of capital to diverse entrepreneurs.

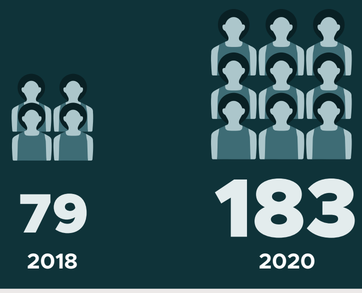
Fast-forward to 2021, and we find ourselves grappling with a global pandemic that has disproportionately impacted communities with low wealth and communities of color and has made historic social and racial injustice increasingly visible. Given this context, equal access to capital has become more important than ever, and so has the need to overcome the systemic obstacles keeping diverse entrepreneurs and communities from accessing that capital. In response to recent events, the public and private sectors have made unprecedented pledges of capital to diverse businesses and communities. Many of the foundations and philanthropists we work with are also making new or increased commitments to use their charitable and investment resources to advance priorities related to racial and gender equity.

With input from the field experts who informed the original report and practitioners working across the capital spectrum, we have revisited *An Economy for All*'s recommendations. Now, we lift up ways that philanthropy can quickly accelerate the progress made on inclusive investing and ensure that the momentum in the field truly leads to a more equitable capital system for all.

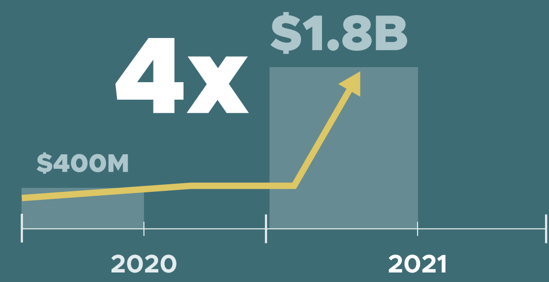
An Economy for All Revisited

Since our 2019 report, people of color and women entrepreneurs have seen greater access to capital. For example:

Number of Black and Latinx women founders who raised at least $1MM:

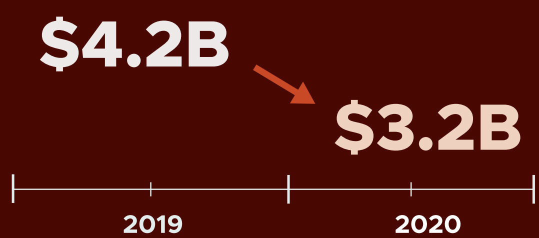


Increase in venture capital raised by Black founders in the first halves of 2020 and 2021:

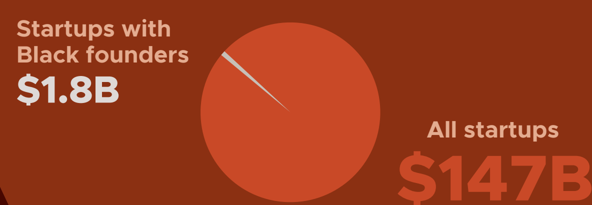


However, gains are inconsistent and investments in diverse entrepreneurs lag behind those in white- and male-led businesses. For example:

Venture capital raised by female founders:



Venture capital raised in the first half of 2021:



Recent events have encouraged the corporate and public sectors to commit significant resources to improve access to capital, including:

American Rescue Plan's commitment for small businesses and capital access programs:

$10B

US Treasury's COVID-19 commitment to historically disadvantaged communities:

$12B

Companies' financial support of racial equity since 2020:

With more capital promised to people of color and women entrepreneurs, philanthropy can help ensure that capital reaches those who need it most.

Access To Capital: Then and Now

The 2019 report explored the tension between the proven potential of businesses owned by women or people of color—that is, their potential to generate financial growth, create jobs, and foster economic activity—and the systemic barriers that keep these many entrepreneurs from accessing the capital they need to succeed.

Today, the latest data show that businesses led by women or people of color have been particularly vulnerable to COVID-19–related economic challenges and are still unable to access more than a meager level of investment compared to their male- and white-led business peers. In fact, while 2020 was a booming year for venture capital and saw investment gains for some entrepreneurs of color, the overall allocation of capital to Black entrepreneurs has hovered at around 1 percent since 2013. Further, female founders raised just 2 percent of all venture capital last year, which marked a $1 billion decrease from 2019.

It remains critical that we address the racial and gender inequities that persist in capital markets and increase the flow of resources to businesses led by women or people of color, which are the means to developing a more inclusive economy.

The good news is that calls for racial and social justice are being met with new and growing capital commitments from investors as well as the public and corporate sectors. The COVID-19 response and priorities of the Biden Administration have galvanized increased spending on economic recovery, with the US Department of the Treasury providing $10 billion in small-business support through the American Rescue Plan and $12 billion in funding to community development financial institutions (CDFIs) and minority depository institutions (MDIs) that serve communities that have historically been excluded from economic opportunity. Moreover, the *Washington Post* reports that major companies in the United States, including Apple, Google, and Amazon, have pledged nearly $50 billion to promote racial justice.

While many organizations have pledged billions of dollars to more diverse and inclusive investing, the amount of money actually deployed is likely a significantly smaller figure, and there are still many barriers—from pure logistics to ingrained, systemic barriers—that could limit the intended impact. "Ironically, as new entrants begin investing in more diverse entrepreneurs, many are building teams that lack the diversity, lived experience, and gender and racial equity expertise needed to inclusively and effectively deploy capital," says Daryn Dodson, managing director of Illumen Capital, a fund of funds addressing systemic inequity by reducing racial and gender bias in investing. "They are well intentioned but risk reinforcing the very biases they are out to overcome," adds Dodson. He points out that the quickly growing field of impact investing needs guidance to connect organizations that are newly committing capital with the right entrepreneurs and experienced fund managers who offer opportunities to truly advance equitable investing.

Philanthropy continues to play a critical role in helping break down barriers and ensuring capital flows to its intended recipients. Dodson and other leaders who informed the original report urge the philanthropy field to invest in the companies and funds committed to an inclusive economy, support equity-centered intermediaries, and collaborate with funders and investors to enable a more equitable flow of capital to underserved communities and diverse businesses. Organizations and individuals with capital can and should make the most of this rare moment when their resources match the field's needs. This update to our 2019 report highlights three timely opportunities for philanthropy to adopt inclusive investing practices and advance an equitable economy for all.

How Philanthropy Can Help Accelerate An Economy For All

1. Lift up the leaders

Invest in diverse fund managers and experienced equity-focused intermediaries to help them attract additional capital. Experts today find the field does not need to make the case for equitable investing as much as it needs to make more progress in showing investors how and where to invest more equitably. They point to the incubators, accelerators, funds, and investment intermediaries, some of whom the first *An Economy for All* report profiled, whose long-standing commitments to equitable and inclusive economies have not only bolstered businesses led by women or people of color, but have also proven to be effective investment strategies. From making charitable investments with more risk to investments that leverage endowments in pursuit of market-rate returns, philanthropy has a variety of tools available to invest in the funds and intermediaries with experience in deploying gender and racial equity strategies. Philanthropists can help diverse entrepreneurs and fund managers build track records and demonstrate traction—and that investment can in turn attract additional investment.

An example of one such organization is Impact America Fund, a venture fund created to bridge the financial and cultural divides that have prevented people of color from fully engaging in the American economy. A featured organization in the original report, Impact America Fund has since raised its second fund, Impact America Fund II. Founder and General Partner (GP) Kesha Cash credits portfolio companies' management teams and their commitment to their communities for their resilience and growth in the last year. She explains, "It's one thing to say you're conscious, but it's another thing to be it. During the pandemic, we saw our management teams make hard decisions and tradeoffs in order to protect and serve their people. As a result, their companies not only survived, but thrived." The fund itself is thriving as well: At $55 million, Impact America Fund II is more than five times the size of the original Impact America Fund and is likely the largest fund raised by a solo Black female GP.

The approaches that organizations like Impact America Fund take can serve as guides for new capital flows, helping public and private actors make good on their racial and gender equity commitments. "We want structural change so that it doesn't take a champion to invest in more diverse communities, it's just the way business is done," says Cash. "It will take a lot more capital to get there, and we're happy that we can help guide some of the money moving into this space. We have an opportunity to ensure that diverse founders access the capital they need in a way that is built on respect and a shared commitment to a better way of doing business."

Take action now: Search Mission Investors Exchange's racial equity library, including its list of investment intermediaries led by people of color, to identify new investment opportunities.

2. Build the pipeline

Provide different types of capital, including capacity-building grants and long-term investments, to intermediaries so they can more effectively serve diverse businesses and communities. Intermediaries like CDFIs and MDIs are committed to inclusive economic development, possess a deep knowledge of community needs and dynamics, and have a track record of deploying capital to diverse entrepreneurs and communities that mainstream financiers often overlook. These intermediaries have been essential in moving capital as part of the country's COVID-19 response and have had to ramp up their efforts to deploy emergency funds from state, federal, philanthropic, and investment partners. As public- and private-sector capital flows to these intermediaries for deployment in communities, philanthropists can provide grants and investments to support the intermediaries themselves so they are able to manage an increased volume of investments while providing investees with quality services that support their success.

For example, Allies for Community Business, a Chicago-based CDFI focused on equitable small-business lending and support, provided $4 million in loans and grants in 2019 and $400 million in 2020. And, as laid out in the 2019 report, these intermediaries not only provide capital but also offer specialized coaching in areas such as financial management, strategic planning, and marketing to those women entrepreneurs and entrepreneurs of color who may lack access to the networks, outside expertise, and mentors they need to effectively grow their businesses. "Providing business coaching is just as critical to ensuring the success of many early and emerging businesses as providing funding," says Allies for Community Business CEO Brad McConnell, adding that the CDFI "collapsed our coaching and capital teams into one team that provides comprehensive support to entrepreneurs because they need both to be successful."

It is critical to ensure that these on-the-ground intermediaries have the resources and staffing they need to both fund and develop diverse enterprises and communities. CDFIs rely on grants to fuel the coaching and capacity-building work they provide to local, diverse entrepreneurs, which equips them to effectively use investment capital. They also rely on patient, long-term investments to help them cover potential losses and manage their own risk as they increase their lending practices. "General operating support allows us the flexibility to be strategic with our impact," says McConnell. "When we have the ability to continuously revisit, rethink, and revamp our services, we can make sure we are effectively meeting the needs of the business owners in our community as markets evolve and grow."

Take action now: Search the Opportunity Finance Network's CDFI locator to find a community investment intermediary near you.

3. Bring others along

Use philanthropy's partnership power to work with public-sector stakeholders and other funders and investors to activate and coordinate capital. Our 2019 report looked ahead to long-term opportunities to cultivate public-private partnerships and influence mainstream investors, but different capital providers can collaborate today like never before. Philanthropy can use its social and financial capital to foster this collaboration and influence capital flows. Convening field stakeholders—particularly public-sector organizations and private funders, such as other philanthropists and investors—can help different capital providers better understand community needs and how their resources can support innovative solutions to address those needs.

For example, philanthropists, investors, and other local partners in Washington State are coming together to explore investment opportunities and different ways to support diverse entrepreneurs across the state. Through the Washington Opportunity Networks (WON) project, partners are catalyzing an equitable, inclusive, and sustainable small-business financial ecosystem that aims to harness and enhance existing infrastructure. Developed in partnership with the Washington State Department of Commerce and with US Economic Development Association (EDA) funding, WON will connect entrepreneurs to technical assistance providers and empower equitable access to the capital small businesses need to thrive. "More and more, we are taking innovative approaches to ensure that we are deploying resources and providing access to capital to better serve communities and small businesses," shares Sarah Lee, Washington State Department of Commerce Advanced Manufacturing project lead. "I'm thrilled with the pioneering approach we are taking in Washington through WON, bringing together government and the philanthropic and private sectors to pool capital and create a financial ecosystem that's rooted in opportunity, built for impact, and focused on helping our small businesses thrive."

Philanthropy has a major role to play in building the local investment ecosystem and activating capital within it. Specifically, philanthropy can seed new investment vehicles that develop and serve the growing pipeline of businesses led by women and people of color. Relatively small investments can fill the gaps to secure or bring in additional private capital for communities. In some instances, public funding will match these anchor investments to increase the pool of resources available to businesses. In other instances, philanthropic commitments will serve as guarantees or risk capital that attracts private and commercial capital. "We're seeing leaders in philanthropy enthusiastic that not only is their capital serving businesses and communities in need directly, but that it can also be a positive influence on the broader pool of public and private resources," says Melanie Audette, senior vice president at Mission Investors Exchange. "Philanthropy's participation is a powerful catalyst."

Take action now: Search the National Conference of State Legislatures' American Rescue Plan Act (ARPA) State Fiscal Recovery Fund Allocations database to find out how your state is using federal funds to promote economic relief and development.

Looking Ahead

While the rise of these new solutions demonstrates progress, it falls far short of guaranteeing the enduring systemic change needed to achieve true racial and gender economic equity. For this, philanthropy must lead with bold action to galvanize, direct, and sustain the unprecedented commitments to advancing racial and economic equity from foundations and nonprofits as well as governments and corporations.

The Future of the Social Sector

For a deeper look into how philanthropy can step up to the challenge, join us for Arabella Advisors' third virtual convening on the Future of the Social Sector, **"New Models for Investing in Financial Security – What 2020 Revealed."**

This session, featuring Camille Busette and Elena Chavez Quezada in discussion with Arabella CEO Sampriti Ganguli, will explore current opportunities that the COVID-19 pandemic and a national reckoning on race have created, as well as remaining barriers to fulfilling those opportunities.

RSVP to join us via Zoom on

Wednesday, September 8 from 2:00 to 3:15 p.m. ET.

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