



Access to Capital for Urban Innovators

Aspen Institute Center for Urban Innovation:

Report to the Bank of America Charitable Foundation

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EXECUTIVE SUMMARY

URBAN INNOVATORS share a commitment to using new approaches, and often new technologies, to tackle long-standing challenges that seem unsolvable to others and that affect a large number of cities. Despite many urban innovators' insightful ideas on new ways to solve metropolitan areas' most difficult challenges, many lack access to critical resources, tools, and funding. These access to capital hurdles most severely affect women entrepreneurs and entrepreneurs of color, who historically have lacked opportunities for creating their own ventures, building wealth, and achieving financial empowerment.

Throughout 2016 - 2017 the Aspen Institute Center for Urban Innovation worked with partner programs and organizations to demonstrate the sustainable impact urban innovators have when they have access to the capital necessary to start, grow, and stabilize their organizations and businesses. We learned from entrepreneurs, leaders of support organizations, government officials, and funders from capital-heavy places such as Silicon Valley, New York, and Boston, but also from places starting to garner more attention for their innovation-friendly cultures such as Buffalo, Cincinnati, and New Orleans. Our focus has been on women entrepreneurs and entrepreneurs of color, who continually face systemic discrimination in using entrepreneurship as a path to economic security, stability, and prosperity.

We Have Learned

- The need to be intentional concerning both diversity and inclusion in economic development strategies is well recognized, but the programs that are demonstrating impact have been slow to replicate and scale
- Leaders of entrepreneurial support organizations need better ways of quantitatively showing the impact urban innovators are having in their communities and to their local and regional economies
- Programs imported from other regions need to accommodate cities' unique networks and historical and political contexts
- State and local governments can play a critical convening role in creating startup friendly cultures and in rallying private sector investment
- Financial capital is imperative in running a business, but social and human capital are also crucial in successfully launching a venture
- Women innovators and innovators of color are starting successful businesses in greater and larger numbers, but much more work needs to be done to ensure they have the same prospects as white men

ORIGINAL CONCEPT AND PLAN

**Women innovators
and innovators of color
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In the Center for Urban Innovation's original grant proposal, we envisioned creating a working group to address the challenges urban innovators have in accessing critical capital. Looking at data showcasing the dramatic disparities in access to seed-stage funding between white entrepreneurs and entrepreneurs of color, we proposed hosting convenings focused on ways to create and test funding pipelines for innovators of color, startups, B corps and other small businesses working on serious urban challenges like poverty, workforce development, homelessness, health, and housing. We hoped our working

group would highlight the challenges urban innovators, specifically entrepreneurs of color, face in starting their organizations and businesses that would bring positive change to their communities and suggest innovative ways of mitigating the funding disparities. As we learned more about access to capital challenges, and about the wide range of organizations working on this issue, we decided to take a different approach, which would better fit with the Center for Urban Innovation's capacities, resources, and special skills. We focused on two cities, Washington, D.C. and Baltimore, and organized convenings in those cities that 1) highlighted local success stories; 2) identified remaining gaps and challenges for women and people of color who sought startup capital and; 3) connected actors in these cities with peers from other cities,

to share strategies and expand networks. We also used the Aspen Institute's communications platforms to share the stories of entrepreneurs of color, and how they overcame funding challenges.



"WHO ARE URBAN INNOVATORS?" BLOG SERIES

The "Who Are Urban Innovators?" blog series showed what's possible when urban innovators and people of color get the capital they need to advance their big ideas. The series highlighted the specific challenges entrepreneurs of color face, especially entrepreneurs leading ventures with a social impact mission. The innovators spoke openly about the trials and tribulations of bootstrapping, the importance of finding the right mentors, and the crucial role listening plays in crafting and prototyping their idea.

Entrepreneurs Featured:

- Brit Fitzpatrick, Mentor Me
- Mirta Desir, Smart Coos
- Jacob Allen, pilotedED
- Edrizio de la Cruz, Regalii

The interviews revealed the following:

Listen to the People You Aim to Serve

Ideas for solving complex challenges come from people who have experienced the specific hardship directly. Urban innovators should continuously listen and co-create with end users.

Diversify Your Mentors

Mentors have a powerful influence in supporting urban innovators in networking and growing their enterprises. Urban Innovators need both mentors who understand their unique situations, and also mentors from a wide spectrum of backgrounds and experiences who can provide different perspectives. Entrepreneurs should also seek out guides who are willing to advocate on their behalf to potential investors and funders.

REACH:

- **1,043 Total Views**
- **~80% new Aspen Institute audience**
- **Longer-than-average time on page (most viewers read the full article)**



FINANCIAL INSECURITY IN THE DISTRICT OF COLUMBIA: BIG IDEA NIGHT AND ROUNDTABLE

In partnership with the [Aspen Institute's Financial Security Program](#), the Center for Urban Innovation hosted a series of public and private conversations tackling financial insecurity in the District of Columbia. The convenings focused on both the barriers local households face in securing financial stability and the diverse actors working to help these households reach greater economic security. Despite its relative wealth, Washington, D.C. is one of the most unequal places in the country, with one Urban Institute [study](#) suggesting that white households hold 81 percent more wealth than their black counterparts.¹ These inequities can be traced to discriminatory policies such as redlining, eminent domain laws, and income inequality.

Despite these hardships, local entrepreneurs are creating innovative solutions to combat these pressing injustices. The Big Idea Night: Financial Insecurity brought four of these innovators together to describe and socialize their ideas:

- **Marla Bilonick - Executive Director, Latino Economic Development Center (LEDC): Lending Circles**

Lending circles are peer-to-peer programs that provide zero-interest loans to help participants establish or build credit, develop the habit of saving, and access affordable, small dollar loans. LEDC's model, developed by their partner the [Mission Asset Fund](#), works by automating the entire process, withdrawing and depositing funds directly from/to participant bank accounts based on the cycle. Since their launch of the initiative in 2015, LEDC's Lending Circles have included 150 clients with a total of \$133,365 in interest-free loans. There have only been 6 late payments throughout the 3-years LEDC has been operating the initiative.

- **Stacie Whisonant - Founder and Chief Executive Officer, Pay Your Tuition (PYT) Funds, Inc: A New Type of Student Loan**

PYT operates a platform that allows students to combine crowdfunding and student loans to pay for college. Using thousands of data points such as a student's past internships, academic record, and social media accounts, PYT enables students to develop credit scores that indicate their risk, allowing them to obtain the funds necessary to graduate and establish a healthy financial future.



L to R: Justin Howell, Stacie Whisonant, Marla Bilonick, Elizabeth Falcon, Jeremy Smith



Big Idea Night: Financial Insecurity

○ **Justin Howell - Co-Founder and Chief Executive Officer, Rize: Automated Savings**

Rize is a D.C.-based startup using behavioral science and technology to combat overspending by automating savings, allowing customers to effortlessly set money from each paycheck aside. The app provides an extra layer of discipline, “separating money earned today from money spent tomorrow.”

○ **Elizabeth Falcon - Executive Director, DC Jobs with Justice (DC JJJ): Predictable Scheduling**

DC JJJ advocates for workers’ rights, most notably for D.C. legislation that would guarantee local workers have advanced notice of their schedules. An unpredictable schedule prohibits workers from securing secondary employment to supplement their low income, and presents many other daily barriers, such as finding childcare and transportation.

Following the Big Idea Night, we brought together local stakeholders for a private discussion on the challenges organizations face in implementing solutions, how to breakdown siloes and create opportunities for collaboration, and best practices for measuring impact and success.

The roundtable discussion revealed the following:

Networks are Critical

Many products and services exist to empower low-income residents and workers to better build credit and save. However, the service providers lack the funds to market their tools at scale, so many rely on word of mouth. Ecosystem leaders and other actors can help small social enterprises reach more clients by supporting networks.

The District is Growing as a Socially-Conscious Tech and Startup Hub

Several people commented on the quality supply of affordable tech talent in the Greater Capital Region. Entrepreneurs building teams noted that D.C. tends to attract people interested in making a positive impact, and these talented people are willing to accept less monetary compensation in exchange for contributing to a larger societal goal. Innovators also commented on the access to regulators the D.C. region provides, which can be very helpful for those operating in the fintech and other highly regulated industries.

Representation Matters

One-hundred percent of the Latino Economic Development Center’s leadership team and board is part of an ethnic or racial minority, and 100% of its staff is bilingual. This strengthens their relationships to their clients, and provides more accessible avenues to their services. Enterprises and investors working with minorities should be intentional in employing people who have similar backgrounds to their constituents.

Scaling and Measuring Impact are Key Challenges

Non-profit and private sector organizations consistently cited an inability to scale and a lack of capacity to appropriately demonstrate impact as significant barriers to growing their impact and equipping more clients with the tools they need to achieve financial security and prosperity. Organizations that have successfully scaled within their own cities and across cities and enterprises that have “achieved success” need to recognize their accomplishments and share their stories and methodologies with burgeoning innovators.

INVESTING IN URBAN INNOVATORS: BALTIMORE, MD.



L to R: Rodney Foxworth, Ben Jealous, Jamie McDonald

The Investing in Urban Innovators event brought together diverse actors from the Baltimore non-profit, private, government, academia, and social enterprise sectors to assess the state of the city's present startup capital efforts and the strength of its funding ecosystem. The day-long forum explored Baltimore's existing pipelines for all types of capital necessary to create and cultivate impactful ventures, including traditional financial capital, grant dollars, human capital, CDFI-type funding, and venture capital. Baltimore leaders not only shared the strengths and opportunities for growth for its local ecosystem, but also heard about what's working well in cities across the country.

Participants offered the following steps toward removing barriers between talented and innovative individuals and the capital necessary to make their ideas flourish:

Baltimore Solutions Require Baltimore Brains

While some tools are easily translatable across cities, people on the ground are best equipped to identify strategies to address community needs. Baltimore's economy is a product of its unique historical, social, and political context, and its policies and programs must address its history, most notably its history of forced racial segregation and decades of systemic disinvestment in low-income and African American communities.² For example, [Baltimore Corps](#), which runs fellowships and

programs to build robust, equitable pipelines to enlist talent in advancing Baltimore's most promising social innovations, was founded by longtime Baltimore resident Fagan Harris, who knew that Baltimore's challenges could be solved by the residents of Baltimore and that a pipeline is needed to provide the right training and create impactful networks.

Rethink Assets and Job Creators

Funders and financial institutions need to see communities and neighborhoods differently. Grantees should not only be thought of as beneficiaries of philanthropic dollars, but also as assets. Philanthropy plays a vital experimental role, allowing enterprises to take risks in developing new tools and processes, and enabling non-profits to iterate solutions to market failures.

Build Trust

Financial institutions must take time to build trust and meaningful connections with the communities they serve. Nurturing relationships with local entrepreneurs will help assuage negative perceptions regarding access to small business loans, which studies suggest discourages black entrepreneurs from applying for capital.³ Trust helps develop social capital and information networks, which are necessary for success for urban entrepreneurs.



Investing in Urban Innovators

ACCESS TO CAPITAL FOR D.C. INNOVATORS

The Access to Capital for D.C. Innovators event illuminated the challenges faced by innovators launching and scaling businesses focused on serving their local communities and employing neighborhood residents, and companies interested in attracting venture capital investment that will in turn diversify the D.C. economy. Local entrepreneurs of colors and women entrepreneurs described the ways racism and sexism manifest in their efforts to obtain funding in the nation's capital region, and heard from influencers and leaders of support organizations

D.C. is the Capital of Non-Risk Capital

District entrepreneurs noted the government town's atmosphere of risk aversion, and the barriers that imposed on testing new ideas. As opposed to angel investors who themselves have entrepreneurship experience, many D.C. people with resources to lend or invest have backgrounds linked to government, a sector known for not taking risks.

Support Organizations Can Play an Integral Vetting Role

Utilizing alternative means of ascertaining a borrower's risk can bridge the racial gap in access to financial capital. Business support providers, such as local small business administrations, non-profits providing technical assistance, and incubators and accelerators can vouch for the character of an entrepreneur and her business model and assist her in obtaining funding.

Focus on Real Estate

The District is undergoing a real estate boom, with skyrocketing rents and expensive property prices. Philanthropy can invest more in real estate so that local businesses and communities do not get displaced. Similar to programs to support affordable housing, government down payment assistance



L to R: Melissa Bradley, Bernadette Harvey, Kia Weatherspoon, Monica Kang

from across the country about what's working in their cities and where there are opportunities for improvement. The dialogue surfaced ideas on what the District can borrow from other cities to build a more equitable region, and honed in on unique aspects of the District's economy that will require more tailored and nuanced approaches.

The themes that emerged consistently throughout the discussions include:

and office-space rental subsidies have the ability to dramatically support business growth and help entrepreneurs and communities build wealth.

Minority Ownership Has a Cascading Effect

Minority-owned firms are more likely to employ minorities and hard-to-employ individuals, such as returning citizens. Minority owned firms significantly contribute to lowering the employment gap. In Washington, D.C., blacks are 6 times as



L to R: Jennifer Bradley, Marla Bilonick, Brian Nagendra, Pam Lewis, Shawn Escoffery

likely as whites to be unemployed.⁴ These disparities also exist across geographic lines: In January 2018, Wards 1 – 6 had an average unemployment rate of 4.6%, whereas Wards 7 and 8, predominantly African American wards, had unemployment rates of 9.7% and 12.6% respectively.⁵ At least one panelist mentioned that she supports her community by hiring African Americans who live in Wards 7 and 8.

Government is also a Customer

In addition to its important funding, regulating, and convening responsibilities, government can also help spur inclusive economic development by procuring from minority-owned firms. The federal government requires that at least 23% of government contracting dollars goes to small businesses,

and has specific programs for supporting women-owned small businesses and small businesses located in historically underutilized business zones (HUBZones).⁶ Cities and local governments can supplement these programs with initiatives that aim to support new businesses owned by people of color.

Have a Reason for Everything

The word “strategy” kept popping up in our conversations with innovators: the need to be strategic in how to position one’s business and the importance of strategy in developing partnerships and collaborations. Participants emphasized the increased need for innovators of color and women innovators to be strategic in situating their companies in order to safeguard themselves from predatory practices.

WHAT WE LEARNED FROM OUR ACCESS TO CAPITAL WORK



Raising capital is hard, even more so for women entrepreneurs, entrepreneurs of color, and entrepreneurs starting mission-driven organizations. Despite these challenges, developing mechanisms to support these organizations is critically important in sustaining economically vibrant and equitable cities and communities, and unleashing unrealized economic growth. Below we've identified a few principles and ideas for reducing funding gaps, and ultimately alleviating financial insecurity and increasing opportunity in cities.

Test & Monitor the Success of Alternative Credit "Scores"

As the Minority Business Development Agency reports, "Capital access remains the most important factor limiting the establishment, expansion, and growth of minority-owned businesses."⁷ To fully realize the potential of innovators of color and women entrepreneurs, new metrics for determining risk should be established, piloted, and researched. Luckily, several organizations are already starting to experiment with alternatives to credit scores. For example, an important criteria in determining a [Kiva Zip](#) applicant's ability to borrow is the applicant's relationships to support organizations. Social capital is faster to build from scratch, and can be a good indicator of risk. Latino Economic Development Center and PYT Funds, which specifically factors in their clients' social media networks, are also testing different methods for calculating risk. These efforts should be more widely embraced by other lending institutions, and more information should be widely shared about which specific variables are shown to be effective in measuring risk.

Government is a Critical Player

Local governments have the responsibility to promote economic development and prosperity within their regions. They not only play a large facilitating, convening, purchasing, and catalyzing role, but they also play vital policy-making roles. Local governments need to pay more attention to the unbalanced treatment they provide to large corporations versus homegrown businesses. Instead of focusing on wooing the

next multinational with large tax subsidies, city economic development agencies need to create and expand incentives for locals to establish and grow their businesses, especially for businesses with a commitment to employ local minorities and women.

Be Deliberate about Diversity

Banks will not see increased lending to innovators of color and women unless those communities are represented at all levels of bank leadership. Lending organizations and other programs that work with startups need to commit to diversity in leadership and staff. Shawn Escoffery, who at the time led the Strong Local Economies program at the Surdna Foundation, said that he intentionally hired people of color so that his team aligned with and reflected the communities they served. Purposefully recruiting a representative workforce will not only mitigate perceived barriers to access, but it can also help lending organizations better understand the experiences of their clients.

Change the Narrative and Change Practices

Investors and institutions must operate differently to lead the charge for inclusion and diversity. This means investing in the ideas of women and entrepreneurs of color from the start and changing how we think of diversity, not simply as an add-on, but as critical to solve the important problems of today and questions of the future. This change in narrative also requires introspection into the processes that constrain under-represented entrepreneurs and limit the exchanges that offer fertile ground to generate new knowledge, create new encounters and develop innovative practices.

Women and people of color will need better access to the capital, tools and resources to mitigate persisting economic inequity and create solutions to their communities' most critical issues. More attention is needed on business ownership and growth as a long-term economic development and financial stability strategy. The thoughts outlined above highlight key ways different sectors can improve their cities' economy and become centers of inclusive prosperity. Progress will require creative local approaches and a deep commitment to equity and diversity.

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