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AN ECONOMY FOR ALL

How Philanthropy Can Unlock Capital for Women Entrepreneurs and Entrepreneurs of Color through Inclusive Investing

newventurefund

JPMorgan Chase & Co.

Arabella Advisors

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INTRODUCTION

DEEPLY EMBEDDED, SYSTEMIC BIASES currently restrict access to capital markets for people of color and women, who are drastically underrepresented in entrepreneurial activity in the United States. Increasing access to investment capital for these groups represents a tremendous economic opportunity for the nation, one with the potential to fuel innovation, build wealth, strengthen communities, drive economic growth, and create jobs, all while advancing broader goals of gender and racial equity. By taking a comprehensive, systemic, and bold approach—one that moves beyond siloed support programs and seeks instead to transform fundamental structures and practices in the capital markets—philanthropy can play a catalytic role in unlocking capital for underrepresented entrepreneurs. Such entrepreneurs can help build a more dynamic US economy and help fulfill the promise of equity and opportunity in our society.

Equitable access to capital is essential to fully realizing our economic potential as a nation. Women comprise more than half the nation's population, and within the next 30 years, people of color will become a majority in the United States.[1] The vitality of our economy and our future prosperity depends on our capacity to fully support and capitalize their creativity, ideas, and entrepreneurial drive.

In a free market society, the ability of women and people of color to access capital to start and grow businesses is also critical to reducing glaring gender and racial disparities in income and wealth. While philanthropists, advocates, and policymakers have focused attention on many of the drivers of race- and gender-based economic inequality—the gender pay gap, racial achievement gaps in education, lack of adequate child care and paid family and medical leave policies—they have devoted relatively less attention to addressing disparities in access to capital. This is a critical blind spot: ensuring that women and people of color are better represented in entrepreneurial activity and business ownership is essential for promoting economic equity more broadly. Business owners and entrepreneurs create wealth and make crucial decisions about the allocation of jobs and income in the United States. Any effort to advance economic equity for women and communities of color that disregards disparities in the capital markets is doomed to limited impact.

Creating equitable access to capital at scale will require much more than funding standalone programs that provide surrounding support for entrepreneurs who are women or people of color. Such programs, while important, are not sufficient to advance systemic change within the capital markets or to correct for its biases. Changing the system will require investors of all types to adopt "inclusive investing" practices—those that help ensure capital reaches the most promising startups and businesses regardless of the race, gender, or circumstances of their founders and owners.

Implementing inclusive investment practices will require systemic changes to the way that individual and institutional investors make their investment decisions to eliminate the implicit and structural biases that currently disadvantage women entrepreneurs and entrepreneurs of color. It will also require changing who is in charge of making investment decisions, bringing greater diversity to an investor class that is overwhelmingly white,

> **“We don’t think it’s about creating a diversity initiative. This is not about finding a binder full of brown people, a binder full of women. Addressing these disparities requires a complete institutional reframing. We need a bigger play that goes beyond offering training on bias and diversity and focuses on changing the systems within our institutions.”**
>
> FOUNDATION LEADER

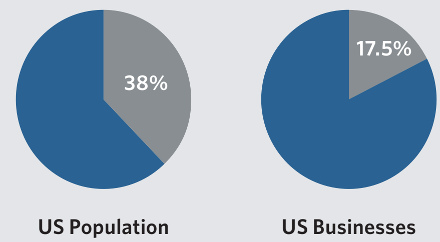
male, and elite-educated. Notably, the biases that currently restrict access to capital markets are not only inequitable; they also create inefficiencies in the allocation of capital and undermine potential investment returns.

To help drive the needed change, philanthropists will need to use multiple levers. They will need to adopt inclusive practices in their own investments and grant making, but they will also need to work to transform the practices and systems of the largest investors, which collectively control trillions in investment capital. In addition to deploying grant capital, they will need to put their own endowment capital to work. Foundation leaders and boards will readily see the risks inherent in taking such a multi-lever approach. They also need to see the extraordinary risks inherent in inaction—in leaving groups of people who have the potential to build the future of our communities, cities, states, and nation systemically excluded from the capital they need to put their entrepreneurial drive fully to work. We are living in a moment when philanthropy has the potential and power to catalyze transformative changes and improve our society. It must be bold enough to seize that moment.

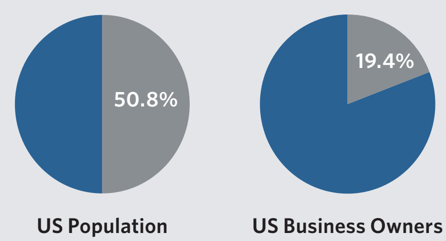
FIGURE 1.

WOMEN AND PEOPLE OF COLOR FACE SEVERE DISPARITIES IN ACCESS TO INVESTMENT CAPITAL

People of color represent **38%** of the US population, but just **17.5%** of businesses are owned by people of color.[2]



While women represent over half of the country’s population, they represent just **19.4%** of business owners.[3]



Only **2%** of venture capital funding goes to women entrepreneurs, and less than **5%** of entrepreneurs backed by venture capital firms are black or Latinx.[4]

FIGURE 2.

THE PERFORMANCE OF WOMEN ENTREPRENEURS AND ENTREPRENEURS OF COLOR

72.3

The percentage of new jobs in the United States that were created by non-white business owners between 2007 and 2012[11]

Companies with **more diverse leadership teams** generate more innovation revenue (revenue generated from products or services developed within the past three years) than less diverse companies.[12]

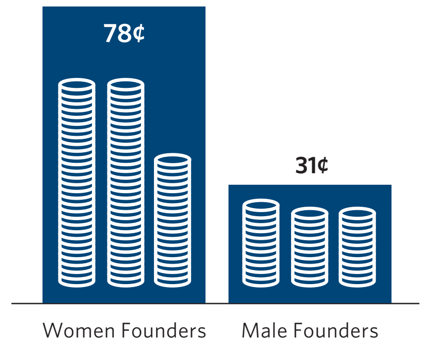
From 2007 to 2015, women-owned businesses created

1.24 million

more jobs than male-owned firms, despite the fact that there were significantly more of the latter.[7]

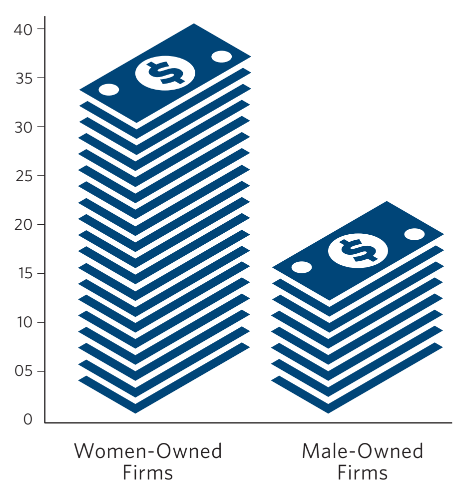
Total gross receipts (sales, etc.) at firms owned by people of color are growing faster than at white-owned firms, and total gross receipts at women-owned firms are also growing faster than at male-owned firms.[9]

Startup teams with women founders generate more revenue per dollar invested than those with all-male founders—on average 78 cents vs. 31 cents.[5]



Venture capital firms that focus on businesses owned by people of color perform in line with their counterparts.[10]

The payroll at women-led firms grew by over 36% compared to 16.5% at male-owned firms.[8]



Over 10 years of investing, companies with a female founder performed

63%

better than those with all-male founding teams.[6]

Methodology

This report maps the types of capital that women entrepreneurs and entrepreneurs of color are accessing and the intermediaries that are—or could be—supporting them. It also aims to assess the barriers these entrepreneurs face when accessing capital markets, and to identify ways that philanthropists can increase their access to capital.

Arabella Advisors conducted interviews with a diverse set of experts and stakeholders, including philanthropists, impact investors, community development financial institutions (CDFIs), accelerators, academics, incubators, venture capital (VC) firms, and entrepreneurs. (See the appendix for a full list of those we interviewed.) We also reviewed academic publications, articles, and market research.

We analyzed two types of businesses: high-growth startups, which are typically backed by angel investors, accelerators, and venture capital firms; and small and medium-sized businesses, which usually take out loans from banks and CDFIs to sustain their operations.

Women entrepreneurs and entrepreneurs of color who lead both types of businesses face various challenges in accessing sources of capital.

Women Entrepreneurs and Entrepreneurs of Color Are Systemically Blocked from Accessing and Absorbing Investment Capital

Traditional financing channels have been slow to open their doors to entrepreneurs from diverse backgrounds and experiences, and they have not adapted their practices to meet needs and seize opportunities in a rapidly changing US population.

Knocking down barriers requires both systemic change and near-term action

Women entrepreneurs and entrepreneurs of color face distinct obstacles in accessing traditional forms of capital, which are rooted in historical and intersectional inequities related to race, class, and gender. While long-term movements are necessary to address the structural nature of these challenges, it is possible to knock down many of these barriers in the near term.

BARRIER: The investor community's implicit biases and lack of diversity

The investor community is a homogeneous group: One survey estimates that 40 percent of venture capitalists attended Harvard or Stanford, while another finds that one-third of venture capitalists with MBAs graduated from one of those schools. Only four percent of venture capitalists are black or Latinx.[13] Ninety-two percent of partners at the top 100 VC firms are men, and more than half of those firms do not have a single female partner.[14]

This lack of diversity compounds the implicit biases that may influence investors' decision making. For example, research shows that venture capitalists tend to partner more often with people who share the same gender or ethnicity, and they are more likely to collaborate with people if they have the same educational background or have worked for the same employers.[15] Perhaps in part for this reason, women tend to encounter roadblocks when pitching their businesses to venture capitalists, who hold them to a different standard than they do men. Research shows that potential investors ask male founders about the potential gains of their investment, while they ask women founders about potential losses and downside scenarios.[16] That same research also shows that firms that field questions about losses and downsides raise seven times less capital than those that were able to focus on the gains, putting women founders at a distinct disadvantage.

Implicit biases adversely impact entrepreneurs of color in addition to women: businesses owned by people of color are denied credit at two to three times the rate of firms with comparable gross revenues that are not owned by people of color, even when controlling for individual wealth and credit history.[17] The effect persists when researchers adjust for these businesses' greater chance of being located in lower-income neighborhoods.[18]

Implicit bias is one factor contributing to wide racial and gender disparities in access to investment capital. According to ProjectDiane, a biennial study of black women founders, the equivalent of just 0.006% of total tech venture funding flowed to women of color founders between 2009 and 2017.

BARRIER: The investor community's lack of networks among women and communities of color

Due to their historic exclusion from the finance industry—as well as a host of social and academic institutions that are feeders for that industry—women and people of color have been denied the type of social capital and networks that are often critical for securing funding for their businesses. The people one knows from an alma mater, hometown, fraternity, vacation destination, or country club are often the gatekeepers to opportunity—and to other influential contacts. "Where we socialize determines where capital gets deployed, and currently investors, who are predominantly white and male, socialize with people who mostly look like themselves. They don't have the networks to reach women entrepreneurs and entrepreneurs of color," says a leading venture investor. There are some emerging efforts to build stronger networks between the investment community and underrepresented entrepreneurs. For example, Black Female Founders, or #BFF, is a nonprofit membership organization that works with black women tech founders to give them access to content experts and networks, and introduces founders to angel and venture investors. However, those emerging networks are still thin relative to the networks the finance industry has with white, male entrepreneurs.

> **"Investment decisions are made in very small rooms by a small group of people. They are also highly personal. Beyond bias and prejudice, it's very human of investors to make decisions based on people they trust. …Your network will get you access to individuals and institutions that can make those investment decisions, but historically they've been closed off to women entrepreneurs and entrepreneurs of color."**
>
> A FUNDER

BARRIER: The criteria that creditors and venture capitalists use are outdated and often discriminatory

Once in the door, women entrepreneurs and entrepreneurs of color are still often on unequal footing. Creditors often use standardized rubrics to assess borrowers. These rubrics can include questions about the borrower's assets, credit scores, business plans, and revenue projections—application criteria that can be challenging to prepare if the borrower hasn't done it before or doesn't have anyone to help guide them through the process. Some of the metrics creditors use, such as the credit score, disadvantage people of color. Credit scores punish individuals without long


Impact America Fund, featured on page 19, has invested in Camino Financial, which makes loans to businesses that have difficulties borrowing from traditional banks.

"More than three-quarters of startup investment goes to California, New York, and Boston. Geographically, we are missing everything in the middle. We are missing a lot of ideas and innovation that need attention and seeding."

FUNDER AT A BANK FOUNDATION

histories at mainstream financial institutions, as well as those with high debt burdens and a history of missing payments. People of color, who have historically been denied access to conventional lending and targeted for subprime loans with higher default risks, therefore tend to score poorly on these metrics. A history of timely repayment of loans from payday lenders or other sources common in communities of color is not, by contrast, often factored into a credit score.[19] Even when controlling for creditworthiness and wealth, blacks and Latinx borrowers pay higher interest rates on loans they obtain.[20]

Creditors also often require collateral, typically in the form of family assets and real estate. Because people of color have less wealth on average than their white counterparts—median white household wealth is 12 times that of black families and almost 10 times that of Latinx families—collateral requirements are often roadblocks for people of color.[21] Since 2001, black homeownership rates have dropped by almost five percentage points, and now stand at about 41 percent compared to 71 percent for whites.[22] Owing in part to lower availability of collateral, people of color-owned firms receive smaller loans than other firms, pay higher interest rates, and are more likely to avoid applying for loans altogether out of fear of rejection.[23]

BARRIER: The geographic concentration of venture investing

Dramatically high costs of living and low homeownership have driven black and Hispanic communities farther from capital centers such as San Francisco, New York, and Boston—where 80 percent of investment capital is concentrated.[24] This isolation makes developing strong networks and relationships with investors harder and requires a higher level of resources to travel to meet with funders and partners.

Collectively, these barriers can have reverberating effects on women entrepreneurs and entrepreneurs of color. For example, because they may have less experience pitching their business—and may have experienced more frustration when doing so—they may have a greater risk-aversion to soliciting capital. Taking this a step further, people of color are more likely to report that their decision to pursue financing or not is driven by their perceived ability to be approved. According to the Cleveland Federal Reserve Bank, 40 percent of black-owned firms did not apply for financing when they needed it because owners did not believe they would be approved—as opposed to 14 percent of white-owned businesses. There's a reason many of these black entrepreneurs had not pursued the capital: That same study showed that only 40 percent of businesses owned by people of color received the amount they requested for their loan, compared to

FOUNDERS IN ACTION

LYNZI ZIEGENHAGEN

Founder of Schoolzilla: Improving schools through data and analytics

Lynzi Ziegenhagen developed a data warehousing, analytics, and reporting solution for K-12 schools while working at Aspire Public Schools, a nonprofit network of community-based public charter schools serving low-income communities. In 2013, Ziegenhagen spun out the data platform her team from Aspire built and established Schoolzilla, an independent company that would continue building, managing, and scaling the platform.

Despite Schoolzilla having a strong product and growing revenues, Ziegenhagen had a challenging time fundraising for her company and believes that the three funds that ultimately provided her seed capital invested because in each case, a woman played a critical part in the decision-making process. (One of those investors was Kesha Cash, founder of Impact America Fund, who is profiled on page 19.) "I experienced a lot of condescension from male investors when fundraising," she says. "One investor told me that it was 'cute' that I thought we could create something better than the market could create. I don't know if it was being a woman or being over 40 or coming from a nonprofit background that led to that type of comment, but I definitely wondered if investors were giving the same treatment to the two young men with no track record who were starting a related ed tech company at the time."

However, the support of women investors helped her gain the confidence she needed to continue building her company. "My upbringing socialized me not to brag and instead to expect my successes would be observed," she says. One of her women investors pushed Ziegenhagen to feel comfortable with touting her accomplishments and even helped her to find a speech presentation coach to help her improve her pitching skills.

Without the backing of those first three investors, Schoolzilla would likely not have the impact or reach it has today. To date, Schoolzilla serves about one million students across 30 states. It is seeing a 97 percent renewal rate, a strong sign that customers are finding real value in its product, and the company recently achieved a positive EBITDA and is now financially sustainable.

“There is fatigue. [Women entrepreneurs and entrepreneurs of color] have to chip away at it for so much longer from the outside. They lose the passion. They end up accepting structures that aren’t the right ones.”

FOUNDER OF A VC FIRM FOCUSED ON INCLUSIVE INVESTING

68 percent of white-owned businesses.[25]

Women also can be dissuaded from pursuing capital. Research suggests women are significantly less likely to pursue outside capital because they anticipate their application will be declined.[26] Several women VC founders and partners have expressed their belief that women entrepreneurs will gain equitable access to funding only when more women become investors themselves, demonstrating the consensus industry view that male-dominated establishment firms cannot be counted on to fund women entrepreneurs.[27]

Accessible capital can come at a high cost

Due to the combined impact of the barriers we’ve outlined above, women entrepreneurs and entrepreneurs of color are often denied access to traditional forms of capital with lower costs or more favorable terms, such as small business loans, venture capital, or personal and family wealth. Instead, they are often heavily reliant on accessible but high-cost forms of capital, namely credit card debt and online lending. Black entrepreneurs are more likely to rely on credit cards than any other ethnic group, while women-owned firms are slightly more likely to apply for new credit cards than firms with male owners.[28] Credit cards, while easy to access, bring the risk of increased interest rates and a marred credit history should the entrepreneur not be able to pay on time. Online lenders can also be a double-edged sword: their convenience is paired with extremely high interest rates that can hinder a business’s sustainability and growth and potentially jeopardize an entrepreneur’s long-term credit health.

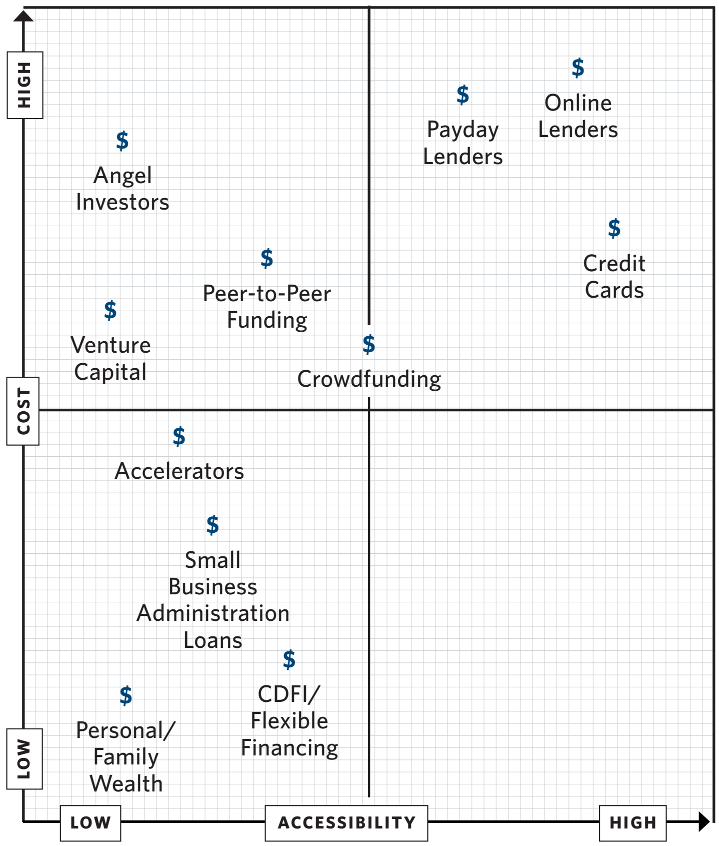
There are a variety of institutions and platforms outside of traditional financial institutions that can provide capital to entrepreneurs at lower costs and more favorable terms; however, these vehicles are less accessible to women entrepreneurs and entrepreneurs of color. For example, CDFIs develop tailored financial products to provide financing solutions for businesses that would otherwise not be serviced by a bank or turn to costlier or riskier forms of capital; they also provide ancillary services that help new entrepreneurs establish and grow their businesses. Yet few CDFIs have been able to scale their practice to reach a significant number of underrepresented entrepreneurs: Their success often depends on having deep roots in local communities, a feature that is difficult to replicate and scale. Most CDFIs also still depend on grant support to fully fund the ancillary programs that are necessary for their success.

Increasingly, entrepreneurs are turning to new fundraising platforms to eliminate the extra fees and structural biases of traditional financing channels, including crowdfunding and peer-to-peer lending platforms.[29] Crowdfunding connects entrepreneurs directly with funders or potential consumers at both the seed and equity stages; however, successful crowdfunding requires broad networks, which many underrepresented entrepreneurs lack, for the reasons outlined above.[30] Similarly, peer-to-peer lending platforms connect entrepreneurs to an individual source of funding, yet they depend highly on some of the same metrics, such as credit scores, that banks use to determine the rate at which the entrepreneur will borrow—which, as we mentioned above, can put entrepreneurs of color at a disadvantage.

Figure 3 below plots the most common forms of capital according to the ease of access and cost for women entrepreneurs and entrepreneurs of color.

FIGURE 3.

THE COST AND ACCESSIBILITY OF DIFFERENT FORMS OF CAPITAL FOR UNDERREPRESENTED ENTREPRENEURS



Absorbing capital can be challenging for women entrepreneurs and entrepreneurs of color

In addition to the challenges they face in accessing capital markets, underrepresented entrepreneurs face additional challenges in absorbing financing they have raised—that is, using investment capital to increase cash flow, service the loan, and have more operating capital to continue to grow the business. Successful absorption of capital often depends on entrepreneurs' business experience and/or access to outside expertise, networks, and mentors. This experience or guidance can help a less experienced entrepreneur navigate the business decisions and challenges necessary to turn capital into growing revenue and profits. The deep systemic biases discussed above often leave women entrepreneurs and entrepreneurs of color without the networks that can help them fill the gap in experience that would allow them to make the most of the capital.

> "Mentors are important to ensure capital is absorbed. Most entrepreneurs lack experience and do not have mentors to advise them after they have received capital, so they end up spending capital on things that may not be needed."
>
> INCLUSIVE INVESTING FUNDER

MODEL INITIATIVE:
BLACK & BROWN FOUNDERS

Black & Brown Founders provides mentorship, support, and access for entrepreneurs of color who are building new tech businesses. One way to overcome the experience gap that can impede new entrepreneurs from absorbing capital is to have a mentor who has taken a similar path to the one the entrepreneur is pursuing and can relay strategies, perspectives, advice, and best practices that are grounded in experience. Mentors can help new entrepreneurs navigate the pricing process, marketing strategies, growth strategy, or revenue projections—all things that can help them absorb capital more effectively. It is also vital for new entrepreneurs to have networks from which to draw for legal, accounting, human resources, and other types of business expertise. Black & Brown Founders helps entrepreneurs of color in the tech industry build community and access resources, mentors, and support through convenings, educational events, and networking activities.

Intermediaries Can Connect Entrepreneurs to Capital, but They Often Lack Scale or a Commitment to Inclusive Investing

The universe of intermediaries that support women entrepreneurs and entrepreneurs of color is growing, but it still cannot meet the market demand. Below, we explore the various intermediaries and what they need to better serve women entrepreneurs and entrepreneurs of color.

CDFIs: Patient debt capital that needs to be scaled

MARKETS SERVED: Small business owners, local communities, construction and building finance
SERVICES PROVIDED: Nontraditional loans, technical assistance, network development, patient capital, flexible terms
SECTOR NEEDS: Unrestricted net assets, access to broader markets, deeper relationships with larger financing institutions

CDFIs play a critical role in providing loans and technical assistance to businesses that the commercial market is not serving. Their deep local roots allow CDFIs to construct a suite of services and financial products tailored to the communities they serve. There are approximately 1,000 CDFIs operating across every state in the country. The 433 CDFIs that have lending programs made over 450,000 individual loans with investments totaling over $34 billion from 2003 to 2015.[31]

Despite being supported by a diverse set of funders, including philanthropists and a dedicated fund at the US Treasury Department, CDFIs lack the capital to fully meet the demand for their services, according to multiple leaders at CDFIs we interviewed. Some CDFIs are not equipped to finance newly formed businesses, and in some cases the deal size is either too small (for larger CDFIs) or too big (for smaller CDFIs). In general, CDFIs also tend to be confined to local markets or sectors: in 2016, only 22 of those approximately

1,000 certified CDFIs had assets above $1 billion, and the vast majority were below $100 million.[32] Moreover, CDFI certification criteria require that CDFIs primarily serve certain target markets and provide these communities with representation on the CDFI board, or provide another accountability mechanism—a fact that can discourage national expansion. In view of these limitations, CDFIs would benefit from greater collaboration with and support from larger financing institutions to gain access to broader markets. The CDFI leaders we interviewed also cited a common need for unrestricted grant support, which would give them greater flexibility to react to markets and be proactive in product development, without being tethered to a rigid set of deliverables and outcomes that can come with a restricted program grant.

MODEL INITIATIVE: DETROIT DEVELOPMENT FUND

Through its Entrepreneurs of Color Fund (EOCF), the Detroit Development Fund (DDF) supports small businesses owned by people of color that are unable to access bank capital. Since the program's inception in 2015, the EOCF has made 74 loans that have helped create nearly 600 jobs for Detroit residents—with more than half of its loans going to businesses owned by women of color. DDF receives a mixture of grants, loans, and loss guarantees from funders like JPMorgan Chase (a sponsor of this report), the Ralph C. Wilson Jr. Foundation, the W. K. Kellogg Foundation, and the Kresge Foundation. This support enables DDF to provide entrepreneurs with below-market-rate capital. It also provides training and technical assistance. If it denies an applicant financing, it invites the entrepreneur to join a coaching and mentorship program that helps develop the business to a fundable level. This program is a critical pillar of its work, but it is not one that DDF can fully support with its own earned income. Unrestricted grants can give DDF the flexibility to fund these technical assistance programs.

Incubators and Accelerators: Opportunities for inclusive investing

MARKET SERVED: High-growth startups (with a few exceptions)
SERVICES PROVIDED: Equity capital, network connections, technical assistance, mentorship, business resources (facilities, tech, etc.)
SECTOR NEEDS: DEI training, stronger internal diversity-focused policies, subsidies to support higher-need and higher-cost markets

Accelerators and incubators invest in high-growth startups to spur their expansion. Along with providing capital, accelerators and incubators also serve as advisors, providing technical assistance and mentorship and opening doors and networks. According to the experts we interviewed, however, out of hundreds of accelerators and incubators, only a handful have an explicit focus on underrepresented entrepreneurs, and most are subject to the same biases as traditional financial institutions that can exclude women entrepreneurs and entrepreneurs of color. These firms need to embed a practice of diversity, equity, and inclusion (DEI) into their operations, specifically with their investment or diligence teams, to encourage them to fund a broader set of businesses and engage a more diverse set of participants in their programs.[33] And while a few accelerators and incubators with a commitment to underrepresented entrepreneurs have emerged, they face higher costs as this group of entrepreneurs tends to need more support than their counterparts due to the structural biases they face in capital markets. One academic expert we spoke with said her research suggested that it can cost entrepreneurs of color up to $250,000 more to start a business than their white peers.

Accelerators and incubators face similar cost disparities in supporting this population of entrepreneurs. Grant subsidies can help offset these costs, enabling incubators and accelerators to provide more intensive technical assistance to higher-need populations of entrepreneurs, such as training and support for business plan development, branding, accounting, and go-to-market strategies.

Venture Capital Firms: A critical source of financing and support for high-growth companies

MARKET SERVED: High-growth startups
SERVICES PROVIDED: Early-stage capital, technical assistance, strategic partnership
SECTOR NEEDS: Increased knowledge of the connection between diversity and financial returns, grant support to serve higher-need entrepreneurs, DEI inclusion training, focus on more diverse asset managers and investment portfolios

VC firms that focus specifically on companies founded by women or people of color are emerging with more frequency lately, with firms like Backstage Capital, VamosVentures, Impact America Fund, and Female Founders Fund grabbing headlines for having explicit policies to invest in women entrepreneurs or entrepreneurs of color. These funds are breaking important new ground and demonstrating that inclusive investing practices can deliver strong financial returns and value to investors. However, the overall VC community continues to lack diversity and deploys a disproportionate share of capital to a narrow set of geographies and entrepreneurs, often disregarding startups owned by women or people of color.[34]

Social Impact Funds: An effective approach that needs to be scaled

MARKETS SERVED: Impact-focused businesses (e.g., schools, health care facilities, affordable housing) and CDFIs
SERVICES PROVIDED: Intermediary capital, occasional direct investments, patient capital, technical assistance
SECTOR NEEDS: Grant support to provide below-market-rate capital, long-term capital

MODEL INITIATIVE: DIGITALUNDIVIDED

Digitalundivided is a social enterprise that supports black and Latinx women entrepreneurs as they build their businesses. One pillar of its work is BIG, a nine-month incubator bootcamp. Inspired by founder Kathryn Finney's own experience with incubators and venture capitalists, its model is predicated on the idea that traditional financing decision makers are overlooking quality businesses founded by women of color and are thus missing out on smart, successful investments. Digitalundivided has cooperated with major financial institutions and charitable foundations that are interested in promoting entrepreneurship to produce cutting-edge research on the national landscape of black women founders and to help build networks of successful black and Latinx entrepreneurs. More than 50 companies have graduated from its BIG incubator, operating in sectors such as music production, beauty, and digital media.

Social impact funds curate portfolios of investment opportunities and conduct relevant due diligence that philanthropists, social investors, and institutional investors may lack capacity and expertise to conduct on their own. These funds focus their investments on geographic and impact-focused businesses (e.g., schools, health care facilities, affordable housing) and CDFIs. These organizations often require grant support to subsidize their operations. Currently, few social impact funds are focused exclusively on women entrepreneurs or entrepreneurs of color.

Philanthropic Fiscal Sponsorship Intermediaries: An innovative structure with high potential

MARKETS SERVED: Small businesses, high-growth startups, CDFIs, VC firms, and other intermediaries (e.g., accelerators and incubators, community foundations, banks)
SERVICES PROVIDED: Loans, grants (including recoverable grants), equity, creative solutions and services for donors to deploy capital
SECTOR NEEDS: Additional capital to scale, research, and pilots to test models

Philanthropic fiscal sponsorship vehicles* can help philanthropists increase the amount and types of capital they provide to women entrepreneurs and entrepreneurs of color and the intermediaries that serve them. These vehicles can help funders navigate complicated compliance issues and the many due diligence requirements that can be an impediment to making certain types of investments on their own—such as program-related investments (PRIs) and mission-related investments (MRIs) that require expert vetting of investment opportunities or the deployment of charitable capital to for-profit entities.

In addition, fiscal sponsorship intermediaries can provide pooled funding platforms to facilitate collaboration among groups of donors and can pilot new initiatives and programs.

MODEL INITIATIVE: BACKSTAGE CAPITAL

Backstage Capital focuses exclusively on underrepresented founders. It recognizes that the majority of VC capital flows to firms founded by white men and that there is therefore an opportunity to invest in entrepreneurs overlooked by the traditional VC sector. Backstage Capital has invested in more than 100 companies across a wide range of sectors. In addition to its own investments in underrepresented entrepreneurs, Backstage Capital has partnered with Microsoft and MailChimp to launch an accelerator geared toward women, people of color, and LGBTQ founders. It engages a deep bench of mentors from across the tech, banking, human resources, and other fields to support its portfolio companies and ensure they are receiving guidance to succeed.

Fiscal sponsors have the ability to serve many areas of capital demand. Given the bespoke nature of each fiscal sponsorship program, these structures can provide capital to small businesses, high-growth startups, or other intermediaries like CDFIs and VC firms.

However, the use of fiscal sponsorship intermediaries to provide flexible capital to entrepreneurs is nascent, with few existing examples and more need for experimentation and testing to determine what models can be successfully scaled so that they are cost-effective platforms for philanthropists.

* In the interest of full disclosure, note that the New Venture Fund, a funder of this research, is itself a philanthropic fiscal sponsorship intermediary.

FOUNDERS IN ACTION

MARCOS GONZALEZ

VamosVentures: Empowering Latinx entrepreneurs in the tech industry

Marcos Gonzalez's career included positions at the Boston Consulting Group and the co-founding of a tech company. While in private equity, Gonzalez realized that he was mostly creating wealth for those who already had it—often by helping them buy companies, lower wages, and cut jobs for working-class people. A son of immigrant parents from Mexico, Gonzalez says he eventually decided this was not what he was in it for.

With two colleagues, Xavier Del Rosario and Alejandro Estrada, he launched VamosVentures, a venture capital firm that invests in early-stage tech companies with Latinx founders and other diverse founders. Gonzalez was driven by a vision of empowering extraordinary Latinx and other diverse entrepreneurs to play a greater role in shaping and benefiting from the tech industry.

"We are not present in the tech ecosystem—the one area that is creating so much wealth and shaping people's lives," says Gonzalez. "The consequences of not being included in the tech sector are profound for diverse and vulnerable communities, for the tech companies hoping to serve an increasingly diverse consumer base, and ultimately for the country."

VamosVentures seeks to generate market-rate returns for its limited partners while advancing three broader impact objectives: creating wealth in the form of new and diverse angel investors and philanthropists; enabling economic security by generating tech-related jobs, skills, and careers; and seeding tech-driven solutions to persistent challenges in diverse and vulnerable communities. "We have a vision of creating 100 new millionaires—Latinos and Latinas who are new to the scene, creating new wealth, and who will become philanthropists, angel investors, and repeat entrepreneurs," he says.

At the same time, the firm is investing in companies that are generating social impact in vulnerable communities. For example, it provided early-stage capital to Paladin, a company founded by two women lawyers that improves the efficiency and scale of pro bono legal work by matching attorneys with low-income individuals and families in need of legal services. VamosVentures has also invested in Food for All, a company founded by three immigrants that created an online marketplace for people to obtain discounted, healthy food from restaurants. Through the platform, families and individuals who may otherwise have gone to a fast-food restaurant are able to order nutritious meals from local restaurants at discounts of up to 50 percent. The restaurants, in turn, reduce food waste by selling meals at affordable prices that they would otherwise have paid to dispose of. VamosVentures' investments in Food for All have helped the company more than double its monthly revenue in several months.

Gonzalez is proud of what he and his co-founders have accomplished. "Three years later, we see that the talent is there, the pipeline is there—and we have a great approach for how we can nurture and leverage that talent for returns and impact."

MODEL INITIATIVE: TEDCO'S BUILDER FUND

TEDCO provides funding, mentorship, and networks for early-stage technology and life science companies in Maryland. The organization is funded by the Maryland General Assembly, but also earns income through its own investments, events, and outside grants. TEDCO recognized that entrepreneurs of color, on average, do not have the same household income or wealth levels as their white counterparts, which means they also do not have the same access to friends-and-family capital to start businesses. To fill this capital access gap, in 2017 TEDCO launched a pilot pre-seed fund in partnership with the Harbor Bank of Maryland Community Development Corporation, dedicated to supporting entrepreneurs of color who are seeking initial capital to start or accelerate the early growth in their businesses.

During its first year, TEDCO invested $200,000 across nine entrepreneurs of color, five of whom were women. With TEDCO's financial support, the pilot companies collectively generated over $300,000 in revenue and created 25 new jobs. Two of the nine companies were also able to raise a total of $1 million in additional funding.

After its successful pilot, in 2018 TEDCO decided to create the Builder Fund, a permanent pre-seed fund for early-stage entrepreneurs from economically disadvantaged backgrounds. In addition to investing $50,000 in each company, the fund covers the salaries of part-time C-suite executives who can temporarily fill important expertise gaps (such as operations, finance, or marketing) on an as-needed basis, helping grow the business to a critical inflection point. So far, the Builder Fund has invested $350,000 across five entrepreneurs (four of whom are people of color and three of whom are women) and planned to deploy another $350,000 by the end of 2018.

TEDCO's Builder Fund team attributes several factors to its success. First, because its investment team is composed of people of color and a woman, the fund has been able to more easily establish trust and a strong rapport with its investees. Second, to attract more applicants of color, the team has made a big effort to network with and market the fund in communities of color where the average investor may not go, such as local charities, black-owned restaurants, and NAACP chapters. Finally, the team believes its part-time C-suite executive model, compared to a mentor/advisor matching model, has been critical in helping investees absorb the capital and execute on their immediate milestones that position them for future growth.

Public-Private Partnerships: A capital source that can focus on underrepresented entrepreneurs

MARKET SERVED: Local small businesses
SERVICES PROVIDED: Early-stage capital, technical assistance
SECTOR NEEDS: Additional capital to scale, improved marketing to underrepresented communities, local partners to co-invest

Public-private partnerships serve local small businesses and often focus on entrepreneurs of color in low-income communities. By bringing both public and private sources of capital, these structures can drive significant flows of capital to underrepresented entrepreneurs. Moreover, public-sector actors, be they federal, state, or local governments, can structure funding as the type of patient capital entrepreneurs need to grow their businesses. In addition to providing early-stage financing, public-private partnerships often provide technical assistance and other services typical of accelerators and incubators, recognizing that capital infusions alone will not meet all of the needs of every entrepreneur.

Philanthropy Has a Catalytic Role to Play in Advancing Inclusive Investment Practices, but Is Currently Punching Below its Weight

While there is a small set of foundations committed to supporting underrepresented entrepreneurs, philanthropy has mobilized only a fraction of the resources and strategies it could deploy to support women entrepreneurs and entrepreneurs of color and to promote systemic changes to advance inclusive investment practices. Our research identified just 19 institutional and corporate donors with significant investments and programs aimed at supporting underrepresented entrepreneurs—though many funders working on capital access issues cite growth in foundation interest in recent years.

Moreover, while there are some notable examples of innovative approaches and models, most foundations have tended to confine their philanthropy to traditional grant making to nonprofit entities, with a major focus on providing restricted grants to CDFIs or grants to support research on inequities in the funding landscape for underrepresented entrepreneurs and possible solutions to them.*

Many funders have shied away from other types of investments that would enable them to use additional capital to support the field and expand the range of entities they support, including:

- **Unrestricted grants:** According to leaders at CDFIs and other intermediaries, foundations have been reluctant to provide unrestricted operating support, preferring instead to earmark grants for specific programmatic objectives. Yet unrestricted support is incredibly valuable. As one CDFI leader noted, "Unrestricted net asset grants to CDFIs strengthen their balance sheets so they are in a better position to receive more loans and raise more capital at better rates."

- **Impact investments:** Few funders are using PRIs or MRIs to support inclusive entrepreneurship, and those that do tend to take a limited approach that focuses on relatively small loan portfolios to CDFIs. The relative lack of PRIs and MRIs targeting underrepresented entrepreneurs is limiting: the endowment assets of foundations represent a much larger pool of capital than their grant-making portfolios, which are typically five percent of a foundation's corpus annually. Foundations could be putting their endowment capital to use in much more expansive and creative ways, providing equity investments to the growing crop of VC firms, incubators, and accelerators that target underrepresented entrepreneurs or make direct investments in companies owned by women and people of color.

- **Expenditure responsibility grants:** Donors can use expenditure responsibility grants** to support the purely charitable activities of VC firms and other for-profit entities that are raising and deploying capital for underrepresented entrepreneurs, yet few foundations use their grant-making capital in this way.

*For an example, see this link.

** Expenditure responsibility grants allow foundations to make tax-exempt grants to non-501(c)(3) organizations, provided that the grantee uses the grant solely for agreed-upon charitable purposes and regularly reports to the foundation how the grant is used.

> "Providing financial capital starts to blur the lines between what a foundation's investment side is doing and what program officers are doing. Are we a grants organization? Are we also making program-related investments? Most foundations want to say, let's just start with grants. So let's find the nonprofits that are serving diverse entrepreneurs and let's go there."
>
> FUNDER AT A BANK FOUNDATION

- **Support for advocacy to influence mainstream investors:** While some donors are deploying their own capital to support women entrepreneurs and entrepreneurs of color, philanthropists have focused less attention on influencing the practices of mainstream investors and asset managers. Yet, mainstream investors control assets that are, collectively, an order of magnitude greater than the assets in the philanthropic sector: compared to approximately $400 billion in charitable contributions in 2017, gross private domestic investment topped $3 trillion.[35] Philanthropists can use grant dollars to support efforts to educate investors about the value and financial returns of inclusive investing and to help them expand their networks with underrepresented entrepreneurs.

FIGURE 4.

PHILANTHROPIC ACTORS WITH A SIGNIFICANT FOCUS ON INCLUSIVE ENTREPRENEURSHIP*

- Annie E. Casey Foundation
- Bader Philanthropies
- Bank of America
- Blackstone Charitable Foundation
- Case Foundation
- Emerson Collective
- Ewing Marion Kauffman Foundation
- Ford Foundation
- Goldman Sachs
- Google.org
- Heron Foundation
- JPMorgan Chase
- Kapor Capital
- The Kresge Foundation
- Meyer Memorial Trust
- Rockefeller Foundation
- Surdna Foundation
- US Bank
- W. K. Kellogg Foundation

Several barriers contribute to funders' reluctance to expand the nature and range of their investments in support of underrepresented entrepreneurs, including:

- **The demand for measurable impact results:** Across the sector, foundation program officers are

*Based on our research and informant interviews, we identified this list of funders with significant investments in inclusive entrepreneurship. It is not necessarily an exhaustive list of all funders that have made investments in support of women entrepreneurs or entrepreneurs of color.

under pressure to make investments that can deliver measurable outcomes to ensure greater accountability and a return on investment. While a focus on measurable results can be valuable for helping funders understand their impact, learn, and adjust and optimize grant-making strategies, an exclusive and overly rigid focus on metrics can be counterproductive. For example, it can deter funders from making general operating support grants, such as those that are needed to strengthen the reach and impact of CDFIs. Similarly, the focus on metrics can discourage funders from making investments in advocacy initiatives to influence mainstream investors, the outcomes of which are more complex and may be harder to measure in the short and medium term.

As one funder observed, "The philanthropic capital that we deploy should be more flexible for these service providers and intermediaries. Very often, many of the foundations feel strongly that they should be funding a specific program and get branding for that program, and tie specific metrics and [key performance indicators] to that program. I've learned to make our capital much more flexible. So, a part of our funding should support organizational capacity at the organizations that are delivering these services…rather than carving out a specific program and tying their hands. Very often, these organizations know how to spend that capital best."

- **A lack of capacity to conduct due diligence for impact investments:** Underwriting a direct investment requires a highly technical set of skills that many foundations—particularly smaller foundations—do not have in-house, limiting the ability of funders to deploy PRIs and MRIs that support underrepresented entrepreneurs.[36]

- **Compliance concerns:** Impact investments and expenditure responsibility grants carry a different set of compliance considerations and reporting requirements, which many foundation staff members may have less experience with or knowledge about. For instance, for expenditure responsibility grants, the funder must ensure that the grantee maintains grant funding in a separate account and reports, in writing, specifically how it is using the grant funds. This process ensures that the foundation documents how it is deploying the grants only for charitable purposes and in accordance with the grant agreement. Lacking knowledge of these issues or being averse to the potential risks, foundation program teams often focus on the familiar approach of making traditional grants to nonprofits.

- **Outdated investment policy statements:** Many foundations' investment policy statements do not provide guidelines for PRIs or MRIs. Leading impact investing asset managers told us that without explicit guidelines, few foundations are likely to make impact investments.

- **A lack of proven scalable models:** There are few examples of successful and scaled interventions to support underrepresented entrepreneurs, which has inhibited widespread foundation investment in the field. Most interventions to support women entrepreneurs and entrepreneurs of color are still in a proof-of-concept phase or are hyper-local programs. While there are emerging financing models and intermediaries that are seeking to achieve greater reach and scale of impact, to date the solutions are disparate and have not been applied on a national or even regional scale.

Addressing these limitations and obstacles is critical to fully realizing the potential for philanthropy to advance inclusive investing. To do so will require foundations to make some internal changes: for example, embracing greater risk tolerance in making investments that may not yield clear, measurable, near-term results. External partnerships with fiscal sponsorship and other intermediaries can also help philanthropists manage the compliance and due diligence issues that are currently impeding them from making a greater range of investments in the field.

FOUNDERS IN ACTION

KESHA CASH

Founder of Impact America Fund: Creating wealth, jobs, and financial security in marginalized communities

At an early age, Kesha Cash was keenly aware of the economic divide in America. Originally from South Carolina, she grew up in Orange County, California, where she attended high-quality public schools and had friends from upper-middle-class and affluent households. Meanwhile, Cash's own family was working class: they lived in a one-bedroom apartment subsidized by a Section 8 public housing voucher and relied on public benefits to supplement her mother's income. These early experiences nurtured a desire to bridge the privileged, affluent world with economically disadvantaged communities—a desire that inspired her to found Impact America Fund, a venture capital firm that invests in entrepreneurs who are building tech-enabled businesses that create a more just and equitable future for low- and moderate-income people in America.

While attending UC Berkeley, Cash participated in internship programs at Goldman Sachs and Merrill Lynch through the Sponsors for Educational Opportunity Career program—a national program that has helped over 7,000 talented black, Latinx, and Native American college students secure jobs in the financial services industry and at Fortune 500 companies. After graduating, Cash worked as an analyst in mergers and acquisitions for Merrill Lynch. She remembers one particular moment when a company executive was upset that the merger they were working on would require him to shutter factories and lay off workers. "That hit me hard because my mother and father worked at factories in South Carolina," she says.

After Wall Street, Cash became a consultant to businesses in inner-city Los Angeles, which taught her what it takes to build a business, but she wanted to make a broader impact. While getting her MBA at Columbia Business School, she worked with a family office and created a venture capital vehicle that invested in early-stage entrepreneurs of color, and in 2013 she founded Impact America Fund. To date, it has invested in nine companies that have raised an additional $60 million in capital, generated a combined revenue of nearly $100 million, and employed 175 people. Sixty percent of these companies' founders are people of color and 40 percent are women.

For example, the fund was an early-stage investor in Mayvenn, an online marketplace where stylists sell hair extensions directly to consumers, bypassing an inefficient supply chain. Mayvenn has paid $20 million in commissions to its stylists, which amounts to an extra $200 to $300 a week for stylists who otherwise make an average of $24,000 a year.

For Cash, the fund is the result of "a long journey, combining the world of Wall Street and the world of my working-class parents to create a model that advances opportunity for overlooked communities," she says. "The worlds of finance and technology are undervaluing amazing talent and potential. We are investing in entrepreneurs who understand and value their communities and are capable of building big businesses that generate financial returns while creating impact at scale."

How to Mobilize Philanthropic Capital, Networks, and Influence to Create Better Investment Conditions for Underrepresented Entrepreneurs

There are several strategies that philanthropists and social impact investors can implement to increase access to investment capital for women and people of color and to advance systemic changes to the structural barriers and biases they face in the capital markets. In the near term, philanthropists can make better use of their own capital to provide a greater amount and range of investments to support women entrepreneurs and entrepreneurs of color. Over the medium term, they can help establish promising new financing models and intermediary vehicles that will amplify the reach and impact of their investments and attract new capital to the field by engaging new donor partners. And over the long term, they can work to transform the investment practices of mainstream investors and asset managers, which collectively oversee trillions of dollars in investment capital.

We discuss the specific strategies for advancing inclusive investing in more detail below. Taken independently, each strategy and approach is insufficient for advancing the type of systemic changes that are needed; they are, however, constructive and practical first steps that philanthropists can take to promote greater equity in access to investment capital. Implemented collectively, with the philanthropic sector taking action as a whole, these strategies have great potential to transform systemic inequities in the capital markets.

Short-Term Opportunities: Expand the range of grant making and strengthen internal foundation practices

There are several steps that funders and investors can take to enhance their own grant making and investments that will yield near-term benefits for underrepresented entrepreneurs.

1/ **Increase unrestricted grants to CDFIs.** While many funders focus on providing loans or restricted grants to CDFIs, unrestricted grants are the most valuable resources philanthropists can provide to these entities. Such grants strengthen CDFIs' balance sheets and enable them to secure more favorable terms for their loans—benefits they pass through to the small businesses they serve. For example, the Detroit Development Fund initially received a $3.5 million loan from a foundation. When it repaid the loan, the foundation converted it into an unrestricted net asset grant, which significantly strengthened the Detroit Development Fund's balance sheet, allowing it to more effectively raise outside capital for its loan portfolio and ultimately deploy more funding to underrepresented entrepreneurs.

MOST ALIGNED WITH: All philanthropists
DIRECT INVESTMENT OR SYSTEMS CHANGE: Direct investment
POTENTIAL FOR IMPACT AND SCALE: Low: Individual grants will not have far-reaching impact, but if funders more widely adopt the practice, it could have potential for scale.
GEOGRAPHIC SCOPE: Local
IMPLEMENTATION DIFFICULTY: Low: Funders would only need to adjust their grant-making practices.
EXTERNAL PARTNERSHIP REQUIRED: No

2 / **Deploy charitable capital to VC firms or other for-profit entities focused on inclusive investing.** In addition to using their grant capital to support nonprofit intermediaries like CDFIs, philanthropists can use expenditure grants or partner with nonprofit intermediaries to deploy charitable capital to VC firms and other for-profit entities engaged in broader education efforts aimed at reducing gender and racial disparities in investing. For example, JPMorgan Chase partnered with the New Venture Fund (both are funders of this report) to support the iNTENT Manifesto, a charitable program housed at iNTENT Ventures, a for-profit LLC. The program addresses inequities for women of color entrepreneurs through an education campaign,

TAKING SMART RISKS TO ACHIEVE GREATER IMPACT:

Tips for Philanthropists

To achieve significant impact in advancing inclusive investing, philanthropists will need to get out of their comfort zone and take some calculated risks. This could include making new types of investments that bring with them a new set of compliance issues and financial risks that funders must navigate, or investing in long-term, systems change efforts that, by their nature, have uncertain and sometimes difficult-to-measure outcomes.

Calculated risk taking is essential to the success of philanthropy, and fear of risk should not stop a funder from implementing new, less-tested strategies or making big bets. Instead, smartly exploring those risks can, in many circumstances, lead to innovation, unexpected benefits, and outsized impact.

The Open Road Alliance has developed a Risk Management for Philanthropy Toolkit that funders can use to determine their appetite for risk and to align their risk management policies and practices accordingly. There are at least three keys to being smart about taking risks:

Clearly define your overarching goal. Gaining clarity about what you are trying to achieve helps you determine whether the potential rewards are big enough to justify the risks. It also allows you to consider the different paths you could take to achieve this goal and which strategies can mitigate the risks. It may also help you uncover an innovation that may not otherwise have surfaced.

Cultivate open information flow. Encouraging transparent conversations both within your organization and with grantees, intermediaries, and partners will allow you to better understand the potential risks, how likely they are to occur, and how you can partner to mitigate them.

Obtain the right expertise. None of us has all the knowledge needed to identify and manage all the different types of risks that could arise, so it makes sense to tap experts to help you recognize and characterize potential challenges, the likelihood of them occurring, and options for mitigating them. Doing so will position you to take carefully calculated risks for innovative philanthropy.

A smart approach to risk taking allows funders to proactively address and manage risks, find new solutions and ensure their sustainability, and ultimately achieve the greatest impact with their philanthropic dollars.

video storytelling, and convenings and capacity-building workshops to raise the visibility of women of color founders. Through its creative partnership with a nonprofit fiscal sponsorship intermediary, JPMorgan Chase is able to use its grant capital to support the purely charitable activities of a for-profit entity that is promoting inclusive investing.

MOST ALIGNED WITH: All philanthropists

DIRECT INVESTMENT OR SYSTEMS CHANGE:
Systems change: Restricted grants typically enable VC or recipient firms to promote awareness of the benefits of inclusive investing practices among the broader investment community.

POTENTIAL FOR IMPACT AND SCALE:
Low: An individual grant will likely not impact more than a small set of entrepreneurs, but if the

industry were to more broadly adopt the practice, its impact would be more significant.
GEOGRAPHIC SCOPE: National
IMPLEMENTATION DIFFICULTY: Low: Expenditure responsibility grants are not difficult to manage, though they do require additional oversight to ensure compliance. Funders can also partner with a fiscal sponsorship intermediary to deploy charitable capital to for-profit entities without directly assuming oversight of an expenditure responsibility grant.
EXTERNAL PARTNERSHIP REQUIRED: No

3 / Complement traditional grants with program- and mission-related investments to provide integrated capital support to companies and organizations. Funders can increase the amount and type of capital they deploy to the field by making PRIs and MRIs in support of inclusive entrepreneurship. In a similar vein, banks can complement grant making from their foundations with low-cost capital from their commercial lending programs. By integrating grants and return-seeking investments, funders can support an endeavor throughout its lifespan, from seeding it to becoming its long-term, strategic partner. This type of coordination requires in-depth conversations between program teams and endowment managers (or, for banks, between foundation and commercial lending arms) to identify opportunities to move an investee from one form of capital to another, and a willingness to move beyond grants to other forms of investment (e.g., subordinated debt, first-loss guarantees, zero-interest loans, and outcomes-based financing). The Surdna Foundation has used grants and PRIs (with the goal of ultimately expanding to MRIs, as well) to provide integrated financing to Impact America Fund. And JPMorgan Chase has complemented its philanthropic investments with a $250 million commitment of low-cost capital to support underrepresented entrepreneurs through its AdvancingCities initiative. This type of coordination can extract the maximum potential support for underrepresented entrepreneurs.

MOST ALIGNED WITH: All philanthropists
DIRECT INVESTMENT OR SYSTEMS CHANGE: Direct investment: Funders typically provide integrated capital support for individual companies or for financial intermediaries making investments in a portfolio of companies (e.g., VC firms, CDFIs).
POTENTIAL FOR IMPACT AND SCALE: Moderate: Many foundations have a substantial amount of assets that will allow them to coordinate significant capital flows to women entrepreneurs and entrepreneurs of color.
GEOGRAPHIC SCOPE: Local or national
IMPLEMENTATION DIFFICULTY: Moderate: Integrated capital strategies may require foundations to acquire new expertise or to make internal structural changes.
EXTERNAL PARTNERSHIP REQUIRED: No. While philanthropists can implement integrated capital strategies without external partners, they may benefit from working with a fiscal sponsorship intermediary to assist with diligence requirements.

Medium-Term Opportunities: Create new intermediary structures and financing programs, and attract new donors and investors to the field

In addition to taking steps internally to more fully realize the potential of their own capital, philanthropists committed to inclusive investing can build external partnerships and initiatives that will help them reach a greater number of underrepresented entrepreneurs and achieve greater scale and impact.

1 / Provide risk capital to test and establish innovative financing models. As discussed above, traditional loan and investment products often do not serve women entrepreneurs and entrepreneurs of color well. As such, developing financing models and products that better meet the needs of underrepresented entrepreneurs is critical to increasing their access to capital. While financial

Stacie Whisonant (left) is the founder of Pay Your Tuition, a platform that helps students fund their school-related fees. The organization received funding from TEDCO, featured on page 15.

pressures may constrain commercial lenders and mainstream investors in their ability to experiment with new products and approaches, philanthropists can provide the risk capital to CDFIs or other intermediaries so they can pilot new models targeting women entrepreneurs and entrepreneurs of color. For example, the Telluride Venture Accelerator is experimenting with a revenue-based financing model for entrepreneurs who may not qualify for traditional bank loans or equity investments. Village Capital, a VC firm, has established a peer-selected financing model that can help mitigate investor biases. By supporting these types of innovations, philanthropists can establish proof of concept for effective inclusive investing programs that commercial lenders and mainstream investors can later replicate and scale.

MOST ALIGNED WITH: All philanthropists
DIRECT INVESTMENT OR SYSTEMS CHANGE: Direct investment
POTENTIAL FOR IMPACT AND SCALE: Low: Individual grants will not have far-reaching impact, but if funders more widely adopt the practice, it could have potential for scale.
GEOGRAPHIC SCOPE: Local
IMPLEMENTATION DIFFICULTY: Low: Funders would only need to adjust their grant-making practices.
EXTERNAL PARTNERSHIP REQUIRED: No

2 / Support programs to expand CDFI markets and capacity. Philanthropists can help CDFIs expand their markets, which have traditionally been constrained within local geographies. Recently, CDFI networks and large philanthropic funders have worked together to connect CDFIs with banks to identify ways to coordinate their lending models, expand the market reach of CDFIs, and better support underrepresented entrepreneurs. For example, Community Reinvestment Fund USA, in partnership with corporate and national foundations, community foundations, and global financial institutions, is helping develop a marketplace,

FOUNDERS IN ACTION

ADRIENNE BENNETT

Founder of Benkari: Creating jobs and apprenticeship opportunities in Detroit

Adrienne Bennett was at a get-out-the-vote rally for Jimmy Carter in 1976 when a recruiter for the Mechanical Contractors Association in Detroit approached her to see if she was interested in a federally funded plumbing apprenticeship. "He told me, 'I'm looking for a woman who can get something done,' and asked me if I would like to make $50,000 per year in the plumbing trade," says Bennett.

Bennett entered the apprenticeship program and rose through the ranks. More than 40 years later, she is the first and only woman of color master plumber, plumbing contractor, plumbing inspector, and certified medical gas inspector and installer in North America. She was the master plumber and construction manager for Henry Ford Hospital in Detroit, overseeing an $80 million, 285,000-square-foot addition to the hospital. In 2008, she decided to draw on her vast expertise and experience to start her own plumbing company, Benkari, which she founded with her two sons, A.K. Bennett and Ibn-Hashim Bakari.

"When I started Benkari, I invested everything I had in the business—the equity in my home, all of my stocks. I went two and a half years before I got paid, but I made sure everybody else was."

The business was successful and grew, and Bennett continued to self-finance the company until she had the opportunity to bid for the plumbing contract for Detroit's new hockey arena, a $1 billion development that was the largest in the city at that time. The job would require her company to work for 100 days before receiving any payment, and it would need financing to cover compensation, insurance, taxes, and other expenses during that time. With solid credit and a successful business, Bennett and Benkari were able to obtain a $200,000 loan from Detroit Development Fund's EOCF.

Benkari won the bid and successfully completed the arena project in seven months, and it has since won an even larger contract at Wayne State University. Her business continues to expand: "We've got 12 people on our payroll. We are hiring young people, young women, Detroiters," says Bennett. "One young lady stalked me for two years for an apprenticeship, and she's the best apprentice I've ever seen."

Bennett thinks her company will continue to grow and that the plumbing trade offers significant economic opportunities for young people. After all, she says, "every building has water in it."

Connect2Capital, where banks and CDFIs can use one another as referral partners for their small business customers. And, the Association for Enterprise Opportunity has created an online marketplace, myWay to Credit, that enables banks to refer small business customers who do not qualify for their loan products to community lenders.

MOST ALIGNED WITH: Bank foundations: Bank foundations can work with their commercial lending arms to develop relationships with CDFI lenders. This work can support local communities while also developing a pipeline of future borrowers for the bank.
DIRECT INVESTMENT OR SYSTEMS CHANGE: Both: Supporting a scalable solution for CDFIs will deploy capital directly to businesses and entrepreneurs while building new infrastructure and systems for supporting underrepresented entrepreneurs.
POTENTIAL FOR IMPACT AND SCALE: High: These programs are generally designed with the express purpose of scale.
GEOGRAPHIC SCOPE: National: These programs are specifically designed to develop partnerships between large national financial institutions and local CDFIs.
IMPLEMENTATION DIFFICULTY: High: Developing a platform, designing a program, and forging relationships and networks among all stakeholders will require time and resources.
EXTERNAL PARTNERSHIP REQUIRED: Yes: Implementing this type of program will require active working partnerships with commercial banks and CDFIs.

3 / Use fiscal sponsorship vehicles to deploy a greater range of capital to the field and boost impact investments. Fiscal sponsorship intermediaries can help philanthropists make investments that they lack the capacity to make or that are too risky to make on their own. Philanthropists can make traditional grants to a 501(c)(3) fiscal sponsorship intermediary, which can redeploy the capital in the form of loans or restricted grants to for-profits. Fiscal sponsorship intermediaries can also make it easier for funders to make impact investments by assuming the due diligence responsibilities for such investments. For example, JPMorgan Chase and the Bill & Melinda Gates Foundation support the Catalyst Fund, which provides proof-of-concept grants and technical assistance to 20 fintech startups in emerging markets. Rockefeller Philanthropy Advisors hosts the fund and serves on the steering committee. BFA, a global consulting firm, manages the fund and sources investments alongside an expert investment advisory committee, while providing technical support tailored to each company. Through this arrangement, the philanthropic partners are able to develop a pipeline of investible opportunities without taking on the burden of due diligence for each individual investment.

MOST ALIGNED WITH: All philanthropists
DIRECT INVESTMENT OR SYSTEMS CHANGE: Both: Fiscal sponsorship structures enable philanthropists to increase the amount and range of capital they deploy to companies or the intermediaries that serve them. The development and expansion of relevant fiscal sponsorship models also help create new systems and infrastructure to support inclusive investing.
POTENTIAL FOR IMPACT AND SCALE: High: Fiscal sponsorship structures can help expand the pool of philanthropic capital for inclusive entrepreneurship by facilitating new types of donor investments and providing turnkey vehicles that can attract new donor capital.
GEOGRAPHIC SCOPE: Local or national
IMPLEMENTATION DIFFICULTY: Moderate: Most fiscal sponsorship structures focused on inclusive entrepreneurship are nascent and will require resources and attention to develop and mature.
EXTERNAL PARTNERSHIP REQUIRED: Yes: By its nature, this strategy requires partnerships with outside fiscal sponsors.

4 / Develop public-private partnerships that bring together private, public, and nonprofit resources to support underrepresented entrepreneurs. Philanthropists can amplify the impact of their own capital by developing public-private partnerships that secure matching investments from governmental agencies and/or commercial banks or other private-sector investors. In particular, there are opportunities to match philanthropic capital with the Small Business Administration (SBA) programs that have substantial capital dedicated to small business development. Philanthropists could partner with the SBA to provide loan guarantees that attract private capital to support underrepresented entrepreneurs, with commercial banks underwriting the loans. Philanthropic and SBA funds could also be pooled to support technical assistance programs for those applying for or receiving loans.

MOST ALIGNED WITH: Institutional donors with significant staff capacity and local foundations with strong regional networks
DIRECT INVESTMENT OR SYSTEMS CHANGE: Direct investment
POTENTIAL FOR IMPACT AND SCALE: High: Leveraging public dollars creates opportunity for significant scale and impact.
GEOGRAPHIC SCOPE: Local: Most public-private partnerships will focus on specific states, cities, or regions. However, there are federal programs to support entrepreneurs, and with sufficient political will, they could be expanded to support businesses owned by women or people of color.
IMPLEMENTATION DIFFICULTY: High: Developing public-private partnerships requires a high level of investment of time and organization to establish the necessary partnerships.
EXTERNAL PARTNERSHIP REQUIRED: Yes: This model requires coordination with public-sector actors.

5 / Engage high-net-worth individual donors and impact investors and their donor-advised funds (DAFs) to attract additional capital to the field. Philanthropy's support of inclusive entrepreneurship is currently confined to a relatively small number of institutional donors, but there is significant, untapped philanthropic capital that existing players could attract to the field, particularly from high-net-worth individual (HNWI) donors. In the aggregate, individual donors deploy four times more philanthropic capital than institutional donors.[37] Individual donors whose philanthropy focuses on gender or racial equity may be interested in coupling their philanthropic grant making with impact investments in businesses owned by women and people of color. One expert we spoke with who specializes in philanthropy on issues of women and girls noted that there is significant interest in gender-lens investing among HNWI women donors. Foundations with existing programs focused on underrepresented entrepreneurs could partner with philanthropic intermediaries to organize new donor collaboratives and pooled funds to aggregate capital from HNWI donors and their DAFs.

Many individual donors have committed substantial philanthropic capital to DAFs, which are more flexible vehicles than traditional foundations and can invest directly in companies, funds, or intermediaries that support women entrepreneurs and entrepreneurs of color. In 2016, DAFs held $85 billion in assets nationwide, and made $16 billion in grants.[39] A large number of funders who decide to use their DAFs for inclusive investing practices could make a significant difference.

MOST ALIGNED WITH: Individuals, families, and their DAFs. However, institutional donors could play a role in catalyzing and driving new philanthropic outreach strategies and donor collaboratives to engage HNWI donors.
DIRECT INVESTMENT OR SYSTEMS CHANGE: Both: Engaging new donors could generate increased capital for direct investments in companies and their financial intermediaries, as well as support for systems change efforts.

In 2017, individual donors were responsible for more than $280 billion in philanthropic contributions—70 percent of the national total—while foundations contributed only $66 billion.[38]

POTENTIAL FOR IMPACT AND SCALE: High: HNWI donors and investors control substantial amounts of capital. Effective structures could contribute substantial capital flows to women entrepreneurs and entrepreneurs of color.
GEOGRAPHIC SCOPE: Local and national
IMPLEMENTATION DIFFICULTY: High: Outreach to new donors and development of pooled funding structures and donor collaboratives require significant time, labor, and resources. Fiscal sponsorship intermediaries could play a supporting role.
EXTERNAL PARTNERSHIP REQUIRED: Yes: By its nature, engaging HNWI donors and investors requires work with external partners.

Long-Term Opportunities: Transform the practices of mainstream asset managers

Philanthropists can achieve the greatest impact over the long term by promoting inclusive investing among mainstream investors, who control a far greater amount of investment capital than the philanthropic field does. There are a few different approaches they can take to do so.

1 / Use the power of endowment assets to influence the practices of asset managers.
Philanthropists and large asset owners possess unused influence over the asset managers they hire to invest their endowments or capital corpuses. Foundations and large philanthropic investors can push their asset managers to focus on how issues of race and gender affect access to capital markets.

For example, philanthropists can establish mandatory bias trainings for asset managers or mentorship programs that allow asset managers to share their skills with and provide traditional finance exposure to underrepresented entrepreneurs. Beyond trainings, philanthropists can also encourage or require their asset managers to expand their networks to include underrepresented entrepreneurs—for example, by attending convenings like Blackstone's Inclusive Entrepreneurship Summit, which brings together funders, nonprofit intermediaries, and entrepreneurs to discuss inclusive entrepreneurship and investing.

This type of work is based on the understanding that investing—be it traditional or for impact—will continue to exclude populations that have not historically been a part of its networks unless an active effort is made to address implicit bias and to push investors to expand their networks.

MOST ALIGNED WITH: Large, institutional foundations that have sufficient influence with asset managers to drive change
DIRECT INVESTMENT OR SYSTEMS CHANGE: Systems change
POTENTIAL FOR IMPACT AND SCALE: High: HNWI donors and investors control substantial amounts of capital. Effective structures could contribute substantial capital flows to women entrepreneurs and entrepreneurs of color.
GEOGRAPHIC SCOPE: National
IMPLEMENTATION DIFFICULTY: Moderate: Executing this type of initiative will require some careful thought and framing, but no additional staff or strategic resources.
EXTERNAL PARTNERSHIP REQUIRED: No

2 / Use philanthropy's convening power to increase understanding among investors and entrepreneurs of one another's needs. Too many asset owners remain unaware of the structural biases that prevent women entrepreneurs and entrepreneurs of color from accessing capital markets. Philanthropists have the resources, credibility, and networks to bring together funders, entrepreneurs, academics, CDFIs, and public-sector actors to increase awareness of these biases and inequities, which can increase their understanding of one another's needs and improve entrepreneurs' ability to effectively access capital for their businesses. For example, the Ewing Marion Kauffman Foundation hosts an annual entrepreneurship summit that brings together funders, entrepreneurs, intermediaries, and others. Part of the conference involves discussing how to best help underrepresented communities access the capital they need to grow their businesses. With input from attendees, the summit produced a set of seven goals for investors, entrepreneurs, and other relevant stakeholders to guide the advancement of a more inclusive entrepreneurial landscape.

MOST ALIGNED WITH: Large institutional donors and especially bank foundations, which have the resources, networks, and credibility to most effectively implement this approach
DIRECT INVESTMENT OR SYSTEMS CHANGE: Systems change
POTENTIAL FOR IMPACT AND SCALE: High: Addressing systemic challenges that women entrepreneurs and entrepreneurs of color face will require a comprehensive, long-term effort, but has potential for significant scale and impact.
GEOGRAPHIC SCOPE: National
IMPLEMENTATION DIFFICULTY: Moderate to high: Organizing convenings and conferences is resource-intensive. In addition to hosting their own events, philanthropists can also attend and present at established events that focus on increasing diversity, equity, and inclusion in the finance industry.
EXTERNAL PARTNERSHIP REQUIRED: Yes: This strategy requires engaging and convening a variety of external partners and stakeholders.

Opportunity Zones

The Opportunity Zones program, enacted by Congress in 2017, allows investors to defer tax on capital gains if those gains are invested in a Qualified Opportunity Fund that invests in economically distressed areas certified as opportunity zones by the Department of the Treasury. These tax incentives can encourage individual investors, asset managers, and mainstream financial institutions to invest in underrepresented entrepreneurs. These vehicles could attract significant capital from asset managers who are drawn to the tax benefits of such investments—while serving as proof points for mainstream investors of the value of inclusive investing practices. Similarly, such investment vehicles could attract capital from high-net-worth individuals who are interested in making impact investments in communities of color while reaping the tax benefits.

3 / Support research and advocacy to transform the practices of mainstream financial institutions. Funders can use their grant dollars to support research, convenings, and advocacy to educate mainstream financial institutions about the ways investor biases can hinder investment in women entrepreneurs and entrepreneurs of color and about the potential returns of such investments. For example, several foundations have invested in the New Economy Initiative in Detroit and Southeast Michigan, which has convened investors to discuss the challenges of

Benkari won the contract for Detriot's $1 billion hockey arena.

underrepresented entrepreneurs and the role of unconscious bias among the investor community.[40] Funders can also support research into implicit bias: Stanford SPARQ (Social Psychological Answers to Real-world Questions) is partnering with Illumen Capital to research the role of implicit bias in driving racial and gender disparities in investing and the most effective ways to reduce bias among investors.[41] Research that demonstrates the business value of inclusive investing—which can generate greater return on investment by ensuring that financial considerations rather than implicit biases drive decision making—is another tool for influencing the practices of mainstream investors. Finally, funders can support advocacy efforts to bring the research and data directly to the leadership of mainstream financial institutions and press for change.

MOST ALIGNED WITH: Large, institutional foundations with the influence, resources, and networks to drive this strategy successfully. However, all donor types can support this approach, and it will likely require many donors working collectively to achieve the desired outcomes.

DIRECT INVESTMENT OR SYSTEMS CHANGE: Systems change

POTENTIAL FOR IMPACT AND SCALE: High: Mainstream asset managers control capital markets and often dictate the business practices of the industry.

GEOGRAPHIC SCOPE: National

IMPLEMENTATION DIFFICULTY: High: Implementing this strategy effectively will likely require more than grant making. Philanthropists will need to engage in advocacy and thought leadership and build stakeholder coalitions with influence in the finance industry.

EXTERNAL PARTNERSHIP REQUIRED: Yes: This strategy requires engaging stakeholders in the finance industry, as well as advocates, thought leaders, and other influencers.

FIGURE 5.

HOW PHILANTHROPISTS CAN TAKE ACTION

Large Private Foundations	Bank Foundations	HNWI Donors and Family Foundations
Expand the range of capital you are deploying to the field. ● Provide greater amounts of unrestricted grant support for nonprofits such as CDFIs. ● Support the charitable activities of for-profits that support underrepresented entrepreneurs, such as VC firms, through expenditure responsibility grants or by channeling funds to nonprofit fiscal sponsorship intermediaries. ● Use MRIs and PRIs to provide equity or loans to CDFIs, VC firms, and other intermediaries.	Use your convening power and networks to increase understanding among the suppliers and users of capital. ● Host or sponsor convenings to facilitate dialogue among white/male investors and women entrepreneurs/entrepreneurs of color about their respective challenges. ● Send your asset managers to events focused on inclusive entrepreneurship. ● Encourage staff members to build broader networks by building relationships with the emerging cadre of incubators, accelerators, and VC firms targeting underrepresented entrepreneurs.	Complement your existing philanthropic commitments to racial justice and/or gender equity with investments in inclusive entrepreneurship. ● Provide grants to accelerator and incubator programs that prioritize and support underrepresented entrepreneurs. ● Make impact investments in companies led by underrepresented entrepreneurs, or in venture capital or private equity funds with a focus on inclusive entrepreneurship.
Use the power of your endowment assets to influence the practices of asset managers. ● Require asset managers to complete diversity training. ● Audit investment processes and frameworks to identify and eliminate gender/racial biases. ● Set concrete diversity target goals for asset managers, e.g., X% of the portfolio to be women-led and Y% to be people of color-led.	Explore the potential to coordinate lending models with CDFIs to help expand their market reach. ● Develop and expand mutual referral platforms in which your bank can refer customers to CDFIs and vice versa.	Create an inclusive investment mandate for your DAF assets. ● Establish explicit benchmarks for your DAFs for investing with women and people of color portfolio managers or in direct investments with organizations led by women or people of color.
Fund advocacy and education initiatives aimed at transforming the practices of mainstream financial institutions. ● Support initiatives to promote gender/race-blind investment processes and frameworks that eliminate bias and encourage a more diverse portfolio. ● Fund research and advocacy aimed at demonstrating the business value of inclusive investing to the leaders of mainstream financial institutions.	Use the power of your brand to showcase the business case for inclusive investing. ● Host or sponsor accelerators/incubators or pitch competitions that focus on supporting underrepresented entrepreneurs. ● Lead by example and invest in funds or companies with women or people of color leadership teams, and publicize those investments. ● Promote the business case for inclusive investing and raise the visibility of successful examples of underrepresented entrepreneurs through publications, presentations at industry events, and conversations with peers.	Engage your peers to attract additional capital to support underrepresented entrepreneurs. ● Organize peer dinners or lunches to discuss the need and opportunity for increasing capital access for women and people of color. ● Work with fiscal sponsorship intermediaries to set up pooled funds and investment clubs that can aggregate funds and provide a turn-key vehicle for supporting a curated and vetted portfolio of investments.

All donors

Support innovative financing models that better serve women entrepreneurs and entrepreneurs of color.

● Provide seed funding to test new financing models, such as revenue-based financing or place-based initiatives that provide short-term cash advances and lines of credit.

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Page 29: Benkari

APPENDIX

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Sarah Koch	Case Foundation
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Nathan Kurtz	Kauffman Foundation (formerly)
Claire Leopold	Arabella Advisors
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