

CITY OF MINNEAPOLIS

Addressing Capital Gaps for Entrepreneurs of Color in Minneapolis

Innovation Team Ideation Workshop

March 21, 2017

Who we are

Mission

- > The i-team's mission is to reduce disparities by transforming how the City of Minneapolis operates.

Our Current Focus

- > Partnering with Community Planning and Economic Development, the i-team is focused on increasing minority and immigrant business ownership and success in Minneapolis.

How We Work



Research



Collaboration



Results

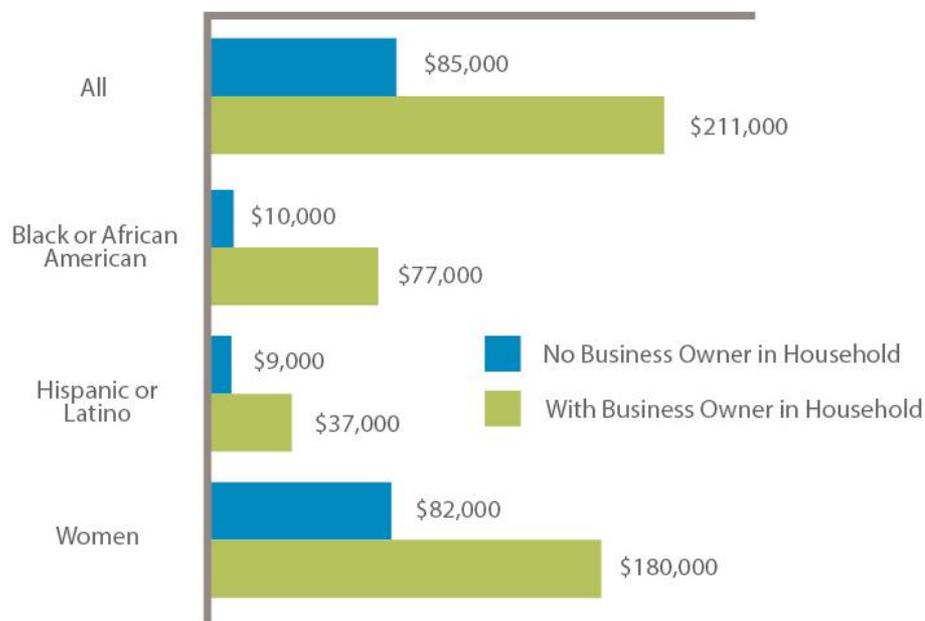
The promise of entrepreneurship in closing the racial wealth divide

Change in Average Household Wealth, 1983-2013

	Black	Latino	White
1983	\$67,000	\$58,000	\$355,000
2013	\$85,000	\$98,000	\$656,000

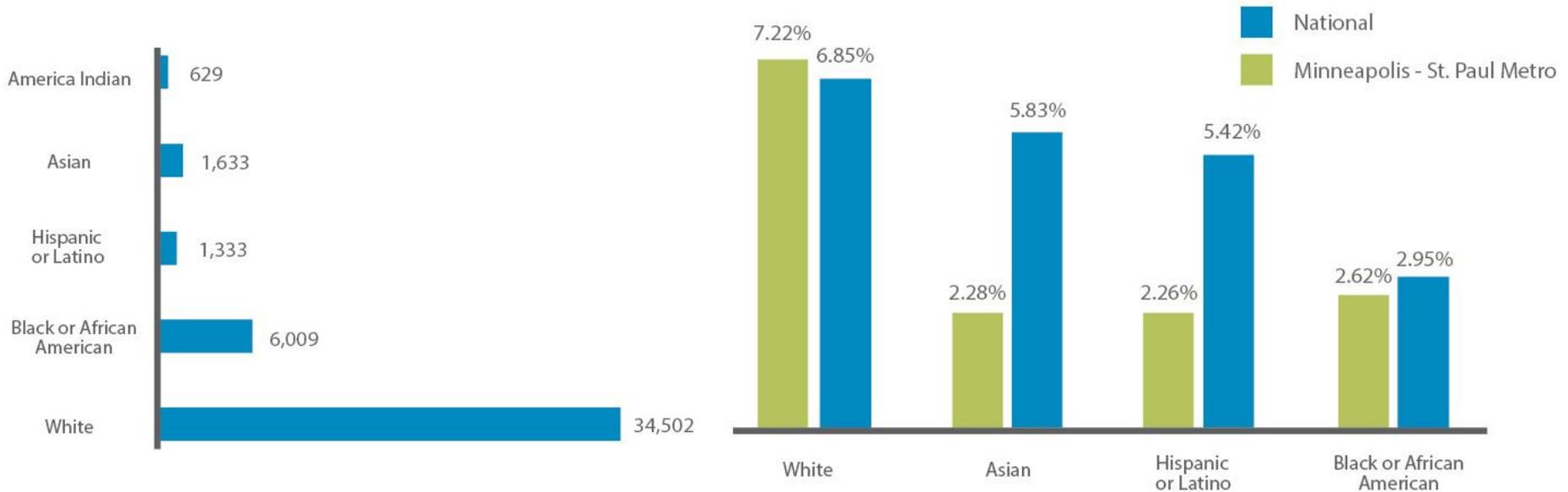
Over the past 30 years, the wealth gap has increased significantly between white households and households of color. Additionally, while one in ten American workers are “self-employed”, they hold 37 percent of all wealth in the United States.

Median Net Worth of U.S. Households



Entrepreneurship is a key wealth-building strategy for communities facing racial and economic inequality.

Entrepreneurs of color in Minneapolis are underrepresented in business ownership

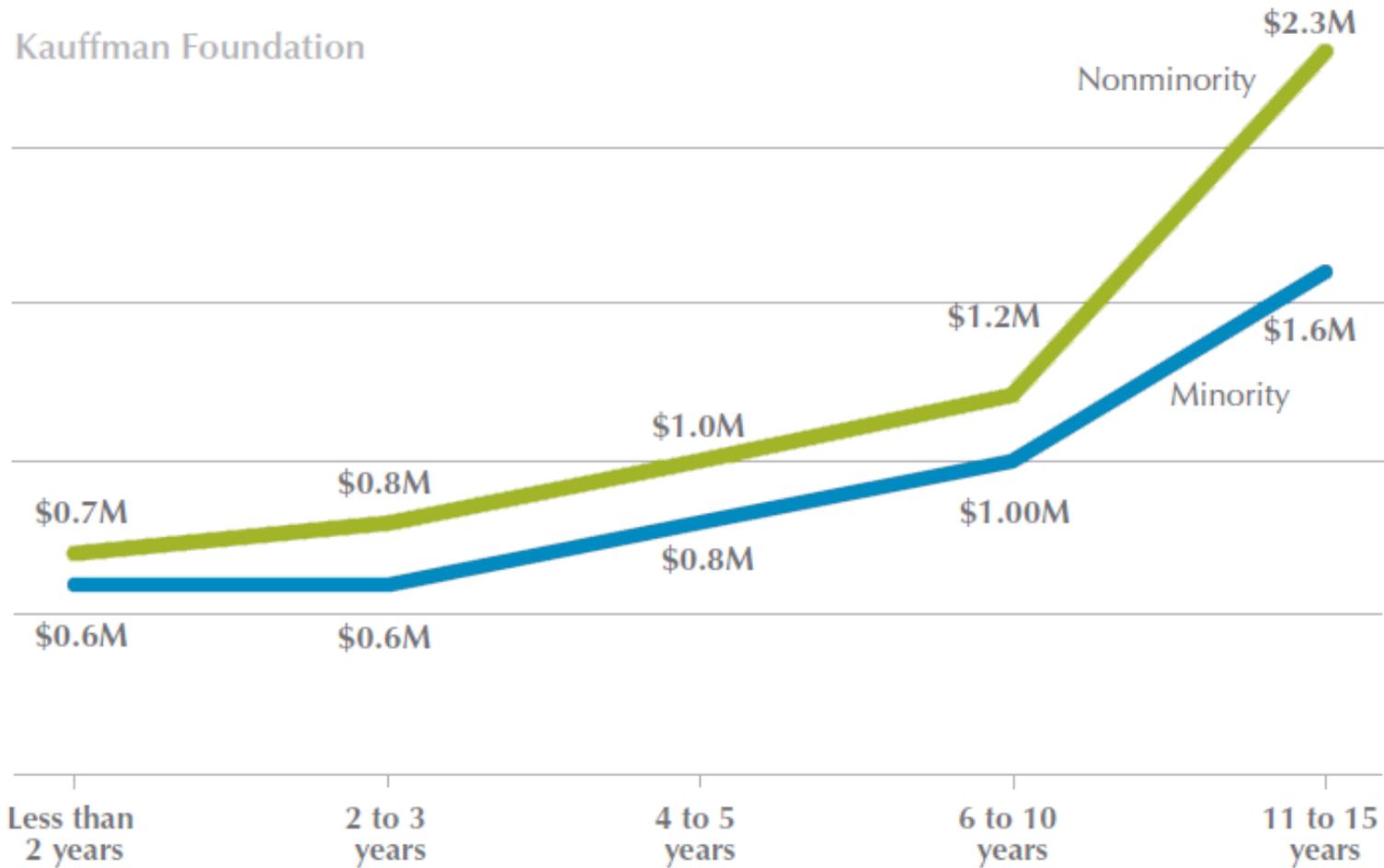


Demographics of Minneapolis Business owners

Rate of Business ownership, by race

People of color represent **42%** of Minneapolis residents, but only **23%** of businesses in Minneapolis are owned by people of color.

Minority-owned businesses start smaller & stay smaller



Entrepreneurs of color have lower net wealth and start with less initial capital, leading to a greater chance of business failure



\$30K

Average start-up cost for a new business venture.



2 in 3

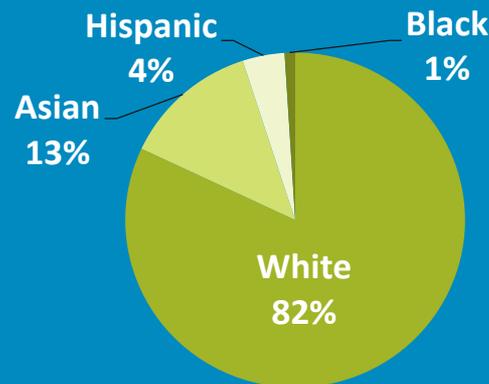
Entrepreneurs use personal savings, and 1 in 5 use family, as a source of funding.



20x

White households median net wealth is 20x larger than Black households, and 18x larger than Hispanic households.

Percent of firms that start with at least \$100K



↓ 23%

Firms that start with at least \$100K in capital are 23 percent less likely to fail than firms with \$5K or less in startup capital.

Minority-Owned Firms vs Non-Minority Firms

MBEs rely more heavily on financial institutions for capital, yet face significant challenges in accessing debt products



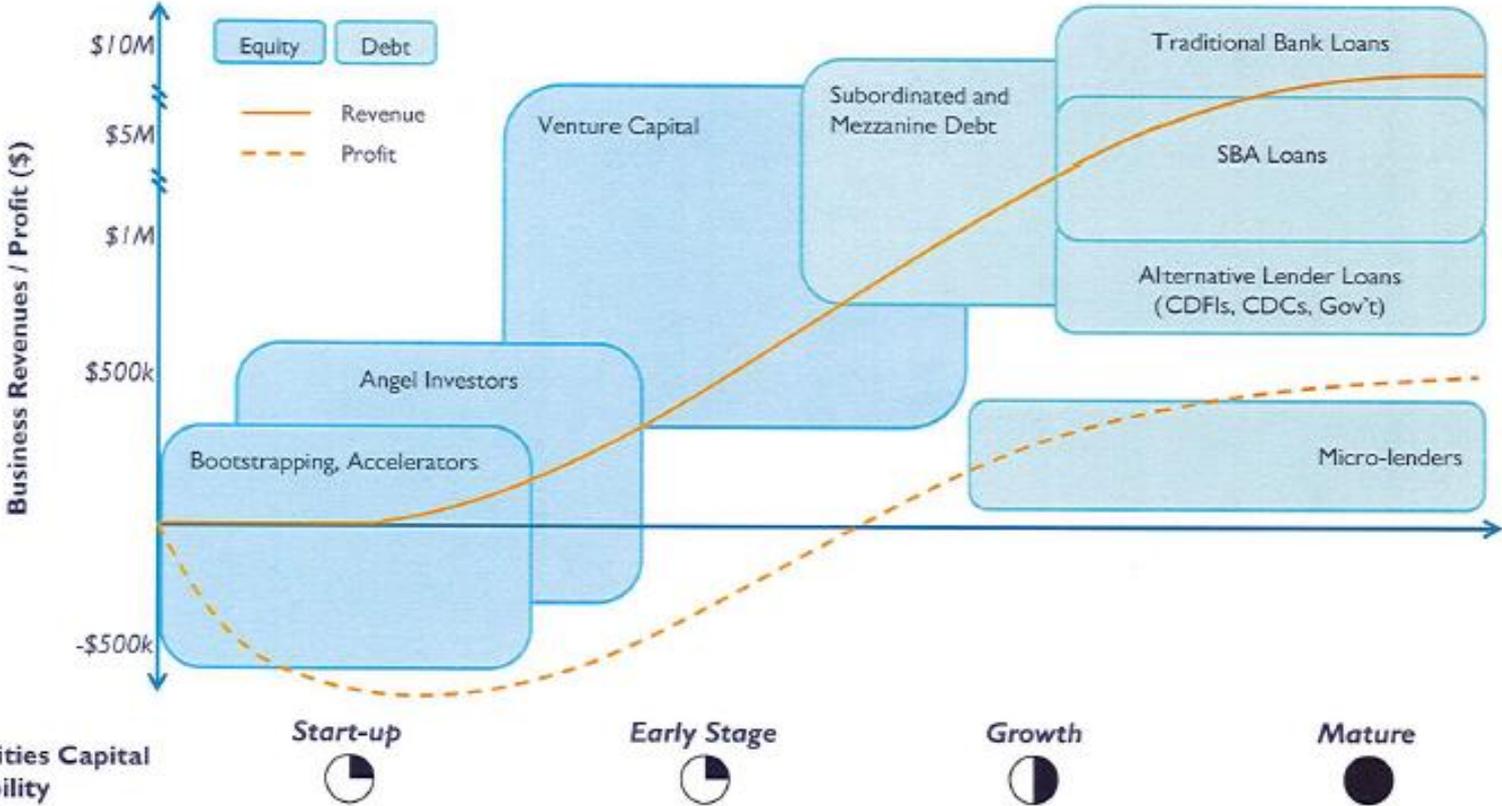
...and have very few opportunities for equity investment



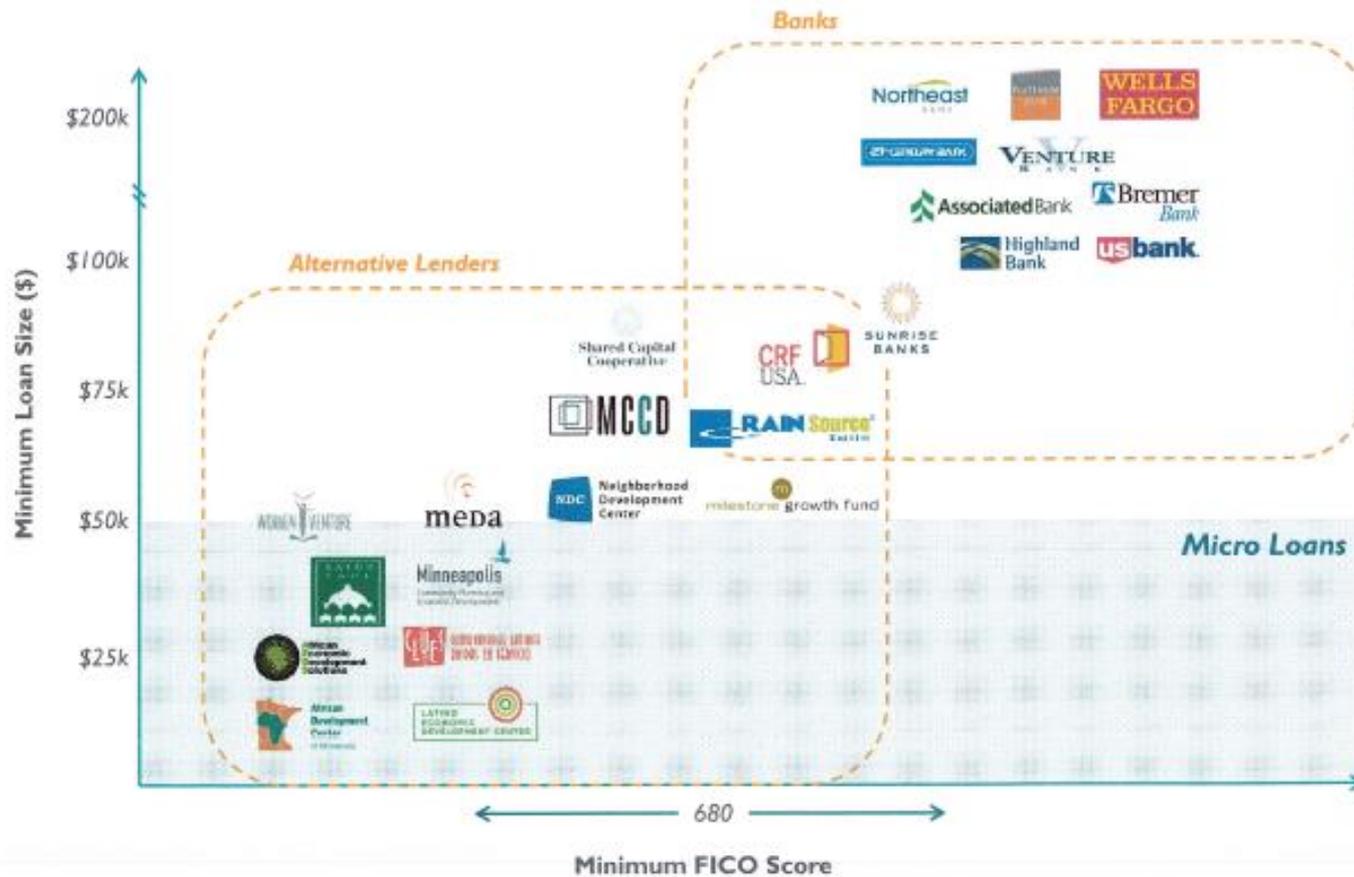
Twin Cities Capital Provider Landscape



ILLUSTRATIVE



Twin Cities small business lender ecosystem, by credit requirement and loan size

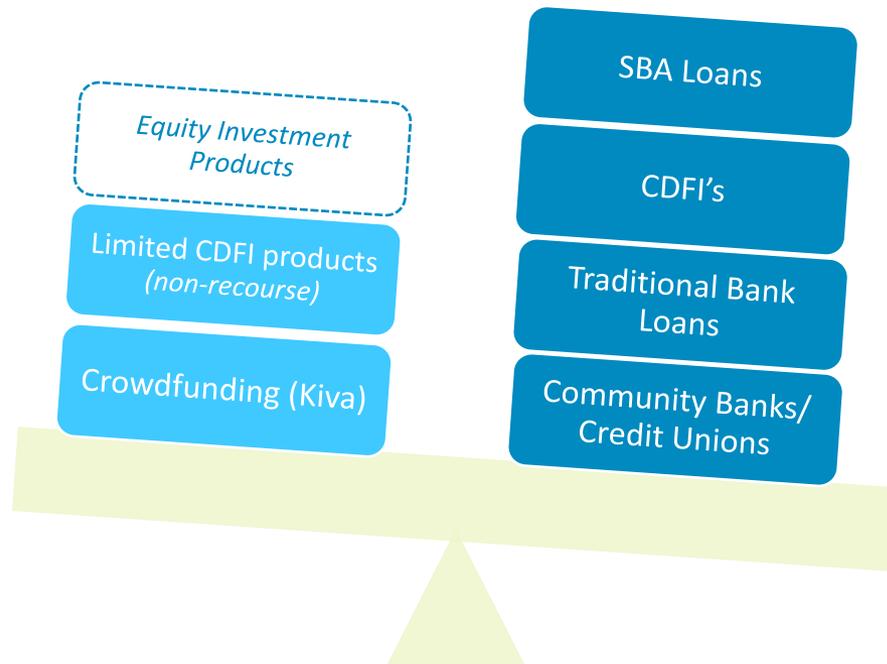


The Twin Cities capital ecosystem is robust for a narrow segment of businesses

Financing options for businesses at various stages of growth

Startup & Early Stage

Growth & Mature Stage



Due to funding sources, available debt products are restricted to using **credit, collateral,** and **cash flow** as their primary underwriting criteria for lending decisions.

What it feels like to experience gaps in the capital market in Minneapolis

“ There are 999,000 hurdles to apply for loan programs, and then you still get denied. I don't even like to bother with it anymore. Even the organizations who are supposed to deal with people with poor credit still tell me no because of my credit.”

“ The loan application they sent me was so long that I kind of just quit after the first 39, 40 pages. It was just so much and they go so in-depth into your personal life. And all I'm asking for is \$1000. And then, at the end of the day, I know they're not going to give it to me because I won't qualify.”

“ I tell new entrepreneurs all the time that if you don't have the money, you apply for credit cards and credit cards help you cash flow your business. No one is going to give you a line of credit or small enough loan when you're first starting out.”

“ You need to have a lot of paper trails to prove your business is sustainable before you can even get a loan, but if you're just starting out, you don't have that history build up. And the resources to start a business without a loan just doesn't exist for most people.”

Key Gaps in Capital Ecosystem

1. The **size of loans** available through traditional and alternative lenders don't meet the needs of entrepreneurs of color who are often seeking \$5K - \$35K in capital.
2. The **underwriting criteria for debt products** used by both traditional and alternative lenders – based largely on credit and collateral – doesn't serve entrepreneurs of color who have low amounts of net wealth and few fixed assets.
3. Entrepreneurs of color don't have access to the **informal sources of financial, knowledge, and social capital** that are crucial in the start-up and early-stages of the business lifecycle.

Based on insights from entrepreneurs and small business owners of color, these criteria should guide the design of new programs or services

Self-sufficiency

- Entrepreneurs are used to going at it alone. This creates a strong sense of independence, but can also increase feelings of isolation and pressure to do everything themselves. Our product or service has to enhance entrepreneurs' ability to be self-sufficient, while also providing real, immediate value to their business.

Connections

- Entrepreneurs of color don't have access to the networks that can be essential to business success. It feels like there's a "secret handshake" you have to know, and no one is sharing it. Our product or service should unlock networks and build connections between entrepreneurs and people who can provide critical advice, social support, and resources.

Clear audience

- Entrepreneurs of color believe that they will not get the help they need from mainstream lenders, business organizations, or government programs. This belief is rooted in personal experience and community history with discrimination and disinvestment. Given this context, entrepreneurs of color often avoid going to traditional institutions for support or financing. Our product or service has to clearly, explicitly communicate that it is designed for entrepreneurs of color.

Market Appeal

- Expensive alternative financial products are frequently marketed to entrepreneurs of color. Even though entrepreneurs are aware of the cost and risk, these products are appealing because of their speed, accessibility, and because they seem like the only option. Our product or service should be able to compete with the alternative financing products in the marketplace.

Models used in other cities to increase deployment of capital to entrepreneurs of color



Crowdfunding



Mini Venture Capital Fund



Targeted Revolving Loan Fund



Business Accelerators for Entrepreneurs of Color



Cooperative Capital Investments

For more information, contact:

Nick Campbell

Innovation Team Planner Analyst

City of Minneapolis – Innovation Team

Office: 612-673-2870

nicholas.campbell@minneapolismn.gov

Zoe Thiel

Innovation Team Program Manager

City of Minneapolis – Innovation Team

Office: 612-673-2847

zoe.thiel@minneapolismn.gov

Getting started

- Find a group of 4-5 people to work with, and make sure you have a mix of roles within your group

Remember, we're "solving for" ...

1. Low dollar loans
2. Underwriting criteria for debt products
3. Access to informal financial, knowledge, and social capital

While keeping in mind...

- Enhancing self-sufficiency
- Building connections
- Communicating a clear Audience
- Creating Market Appeal

Prompt #1

What ideas do you have for solutions that you walked in the door with?

- *These could be projects that are already in progress or just something you've always been interested in seeing happen*
- *Start by writing out your ideas independently, then take a minute to share at your table*
- *One idea per post it, please!*

5 Minutes

