



GroundBreak
Coalition

BIPOC ENTREPRENEURSHIP

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WORKING GROUP MEMBERS: See appendix

What are the
problems
that these
prototypes
are trying to
solve?

- » Statistically, many BIPOC-owned companies have fewer access points to necessary seed capital from “friends and family” than white-owned companies, due in part to historical and current systems of exclusion that have resulted in a racial wealth gap.
- » There is an uneven pool of resources and government support for BIPOC-owned companies (as evidenced by the Paycheck Protection Program distributions).
- » BIPOC-owned businesses suffer lower home ownership rates and under-valued real estate to provide collateral for business credit, which may be borne of appraisal racial discrimination.
- » Access to bank lending and uncertainty of approval for BIPOC entrepreneurs. Federal Reserve research that shows that 80.2% of white business owners receive at least a percentage of funding requested from a bank, compared to 66.4% of BIPOC business owners;
- » Address collateral barriers by tying entrepreneurs’ requirements solely to business assets and/or enables unsecured lending;
- » Eliminate higher rates/less favorable terms often faced by BIPOC-owned businesses; and
- » Address dilution required for equity investments.

BACKGROUND & METHODS

The following written reports served as the foundation for the work and the initial definition of the problem:

- » **The Demand for Capital for Minority and Immigrant Owned Businesses**, *Northside Economic Opportunity Network & New Impact Fund (2017)*
- » **2021 Minnesota Small Business Profile**, *US Small Business Administration*
- » **Small Business Success, Chet Bodin**, *State of Minnesota DEED (2017)*
- » **The Kauffman Indicators of Entrepreneurship**, *Minnesota (2020)*
- » **Access to Capital for Entrepreneurs: Removing Barriers**, *Kauffman Foundation, October 2021*
- » **Despite recent gains, Minnesota's entrepreneurs of color face persistent barriers**, *Federal Reserve Bank of Minneapolis (May 2021)*
- » **Minority Owned Firms in Minnesota**, *Rachel Vilsack, Minnesota DEED (2015)*

With that foundation, a broad array of data was collected through five months of intensive Working Group meetings (June-October) and associated research and support by subject matter experts. Data included, but was not limited to, a comprehensive assessment of the current conditions, barriers to achieving desired outcomes, existing solutions, and interviews with current actors across sectors. Useful summaries of data raised and considered especially as to obstacles to be overcome through solutions can be found in [Working Group meeting summaries](#).

The Working Group was comprised of 30+ participants, recommended by Steering Committee members, reflecting financial institutions, government, philanthropy, corporations, nonprofits and community members long working in this field. While the Working Group is committed to supporting entrepreneurs throughout the entire life cycle of their business. The proposed solutions in this phase focus on start-up and growth phases of the business life cycle. We defer developing prototypes to attract equity/angel capital for 'high growth' enterprises to a later GBC phase.

At Working Group "design sessions" in October, members engaged in a user-centered process to rapidly develop proposed prototypes that addressed the Working Group problem statement. Following that session, subject matter experts synthesized Working Group members' ideas into a comprehensive suite of proposed prototypes.

In November, detailed feedback on the proposed prototypes was provided by Working Group members from all participating sectors. These included: Bella Lam (Coconut Whisk), Phuong O'Neill (Knight Foundation & Mosaic Event Space), Andy O'Leary (MEDA), Dorothy Bridges (MEDA), Mary Rick (City of St. Paul), AJ Austermann (Huntington Bank), Erik

Hansen (City of Minneapolis), Katie Mattis Sarver (Bell Bank), & Tawanna Black (Center for Economic Inclusion). Working Group co-chairs also provided feedback.

Finally, all Working Group members provided a final round of feedback in December 2022, and subject matter experts incorporated that feedback into final recommendations.

CAPITAL PROTOTYPES: BIPOC ENTREPRENEURSHIP

What is the underlying context for this work?

The BIPOC Entrepreneurship Working Group is tasked with recommending a set of capital solutions that will enable GroundBreak Coalition (GBC) to achieve its goal of creating parity between BIPOC-owned and white-owned businesses, with 20% of those businesses hiring 5 or more people.

The measurable result will be the creation of at least 11,000 BIPOC-owned businesses and 24,000 new jobs. For Black entrepreneurs specifically, the initial focus of GBC, that equates to an additional 5,000 entrepreneurs creating more than 8,000 jobs within the next five years

Ultimately, the solutions will:

- » Address the fact that Black entrepreneurs have very little equity or access to inter-generational wealth;
- » Support these entrepreneurs through the whole life cycle of their business; and
- » Create regional, universal financial products available at all participating GBC partners with a 'common application'.

The proposed solutions in this phase focus on start-up and growth phases of the business life cycle. We defer developing prototypes to attract equity/angel capital for 'high growth' enterprises to a later GBC phase.

What capital prototypes are being proposed now?

We are proposed this suite of three capital prototypes:

1. Start-up grants/forgivable loans;
2. Early-stage Special Purpose Credit Program loan up to \$250,000 (with guarantee); and
3. Growth stage Special Purpose Credit Program loan from \$250,000-\$1 million (with guarantee)

Capital Prototype #1: Start-up Grants/Forgivable Loan

What are the key elements that must be part of the prototype ?

- » Flexible capital (along the order of magnitude of \$5,000 to \$50,000) shortly after business formation to make inventory purchases, institute marketing and e-commerce platforms or pay for staff and other start-up costs.
- » Obtain on an unsecured basis and without three or more years of successful operating history.
- » “Nimble and non-restricted” financing that does not require personal guarantees/collateral or credit checks.
- » Avoid what can be prohibitive interest rates and burdensome fees early in their business’s operating history as they grow their respective client base and revenue.

How would capital solution work?

Grant/forgivable loan would provide up to \$50,000 grants to entrepreneurs who:

- » completes any TA program offered by a local business services provider in the ecosystem;
- » submits a GBC ‘Common Application’; and
- » obtains a letter of recommendation from the ecosystem-based TA provider stating that their organization has reviewed the plan outlined in the GBC Common Application and believes the plan and revenue projections are reasonable.

What else needs to be considered?

- » We need to track the success/failure of those receiving funds and agree on success metrics.
- » Applicants will have to have some letter of validation of their business approach in order to be considered; defining ‘validation’ remains to be done.

Capital Prototype #2: Early-Stage Special Purpose Credit Program Loan for Business Stabilization

What is the goal for this prototype?

Ready access to a \$50-\$250,000, early-stage business loan product for Black entrepreneurs from all GBC participating lenders.

How would capital solution work?

GBC participating lenders would provide the business loan, as set out below, and part of a Special Purpose Credit Program with an accompanying loan guarantee.

Loan from participating lender	Guarantee/credit enhancement
<ul style="list-style-type: none"> » \$50,000-\$250,000 loan to begin to build business; » 7 years term; prime rate of interest; interest only for 36 months; » Collateral is business-owned product or property, if exists; and » 1 year of experience with cash flow and shows realistically will have cash flow for debt (with tax returns) » Personal collateral not required for loans 	<ul style="list-style-type: none"> » Each loan would be secured with credit enhancement/guarantee equal to 50% of outstanding funds » Credit enhancement would be removed upon achievement of key performance indicators (KPIs) that had been agreed to upon inception of program. » Product would be offered without guarantee once KPIs met as critical part of regional systems change.

What types of capital would each source be expected to provide to this solution?

- » Lenders (financial institutions and CDFIs) would be expected to provide business loans; and
- » Guarantees would be issued by GBC based on a guarantee mechanism likely created with government and philanthropic resources.

Capital Prototype #3: Special Purpose Credit Program Loan for Later Stage Growth

What is the goal for this prototype?

Ready access to a \$250,000-\$1,000,000 later-stage business loan product for Black entrepreneurs from all GBC participating lenders.

How would capital solution work?

GBC participating lenders would provide the business loan, as set out below, as part of a Single Purpose Credit Program with an accompanying loan guarantee.

Loan from participating lender	Guarantee/credit enhancement
<ul style="list-style-type: none"> » \$250,000-\$1,000,000 loan » 7–10-year term; prime rate with option of revenue-based repayment » 2 years of business experience required; and » Collateral is product or property, if exists. 	<ul style="list-style-type: none"> » Each loan would be secured with credit enhancement/guarantee equal to 25% of outstanding funds » Credit enhancement would be removed upon achievement of key performance indicators (KPIs) that had been agreed to upon inception of program. » Product would be offered without guarantee once KPIs met as critical part of regional systems change.

What types of capital would each source be expected to provide to this solution?

- » Lenders (financial institutions and CDFIs) would be expected to provide business loans; and
- » Guarantees would be issued by GBC based on guarantee mechanism likely created with government and philanthropic resources.

What Other Elements Should be Addressed/Coordinated with this Prototype to increase its effectiveness?

- » Technical assistance (TA) providers to support emerging entrepreneurs
- » Sustainable network of lenders, TA providers for early-stage grants/forgivable loans, early and late-stage loans