April 15, 2022

California State Legislature
Assembly Committee on Jobs, Economic Development and the Economy

RE: SSBCI and Inclusive Economic Growth

Dear Assembly Members Wendy Carrillo and Sabrina Cervantes,

Thank you for the opportunity to provide further comment on the State's upcoming deployment of $1.18 billion in federal funding under the State Small Business Credit Initiative and the role this funding can have in creating more inclusive economic growth. And thank you for including ICA in the March 29th panel on this topic.

In my role as Chief Executive Officer of ICA, a venture capital-certified non-profit CDFI in Oakland, California, I am deeply committed to fighting for economic equality through innovative financial products, creative strategies, and responsive, founder-centric programming. ICA provides coaching, connections, and capital to grow Bay Area businesses and close the gender and racial wealth gap. Over 25 years of supporting small businesses, ICA has served more than 800 businesses, 81% owned by people of color and/or women. These local companies have provided more than 18,000 jobs and paid out more than $560 million in employee wages in low-income communities.

In the March 29th Joint Hearing on SSBCI and Inclusive Economic Growth, we discussed small business credit initiatives and inclusive economic growth. Today I'd like to provide further comment on the incredible opportunity SSBCI funding can have on wealth creation for those most impacted by systemic inequities throughout our state.

As this Committee is well aware, the racial wealth gap is a persistent issue in our country that has been getting worse, not better. The gap between Black and white families grew from a median of about $100,000 in 1992 to $154,000 in 2016. Latino families hold just 21 cents for every dollar of White wealth in 2019 (1). Breaking barriers in access to financial products must be a central strategy in creating more inclusive economic growth. According to the U.S. Department of Commerce, minority-owned businesses are less likely to apply for loans out of fear of rejection, less likely to receive them when they do apply, and more likely to pay higher interest rates on business loans compared to non-minority counterparts. (2)

Organizations like ICA are combatting this inequity by delivering high-impact, low default rate financial products to women and people of color. We deploy loans and convertible note equity products that don't require traditional collateral like credit scores, banking history, and personal guarantees, and instead rely on community relationships and networked trust to identify promising, high-growth small businesses. Further, we significantly de-risk by pairing all our financial products with extensive coaching, mentorship, and technical services for founders. Delivering high-impact, low default rate financial products plays a critical role in creating a more equitable economy, however programs that deliver these types of financial products are not qualified for many government funding options. At ICA none of our products currently fit state programs such as The California Rebuilding Fund, Loan Guarantee Program, Disaster Relief Loan Guarantee Program, and the California Capital Access Program.

These financial products work. They unlock further capital for underserved entrepreneurs. Since ICA began making convertible note equity investments—totalling $6.5M to date—our portfolio companies have gone on to raise over $100M of outside capital after our catalyzing investment. And our loan products get to communities who need them most. In 2020, ICA deployed $1.4M in emergency loans to 30 ICA entrepreneurs, with an average loan size of $47K through our emergent Rapid Response Liquidity Fund. 86% of recipients indicated that funding met their emergency capital needs. Initiated just 2 weeks after shelter-in-place orders took place, companies were able to receive emergency loans within 14 days of completing an application. 90% of recipients were women and/or people of color.

To stimulate inclusive economic growth, SSBCI funding must go to programs delivering high-impact, low default rate financial products to women and people of color. There are many CDFIs and other types of organizations in California pushing forward this critical work, ICA among them. The following are the primary considerations I encourage the Assembly Committee on Jobs, Economic Development, and the Economy and the Assembly Budget Subcommittee 4 on State Administration to consider in assessing where and how SSBCI funding should be deployed for the most impact in stimulating inclusive economic growth in California.

1. **Reassessing Risk:** To be truly inclusive, SSBCI funding must go to organizations that challenge existing assumptions about which investments are defined as risky. We must be sure SSBCI funding goes to communities historically excluded from investment capital–a population which is disportionately composed of Black founders, women, and people of color. At ICA that looks like investing in businesses that have otherwise been unable to receive financing—either for lack of banking history, lack of access, or lack of assets—that we see great value and potential in for both social and financial returns. By using alternative measures of risk assessment, relying on long-standing community relationships, and providing ongoing technical assistance to companies, we're able to de-risk investments that other institutions might pass by. Most importantly, in reassessing risk, we must consider the risk of not investing in these promising, innovative businesses, who are in the best position to provide local jobs and create enduring value in their communities. Helping entrepreneurs grow the value of their businesses is a proven way to build wealth for them and their communities. By investing in these historically excluded communities, we're able to catalyze more living wage jobs, generate more economic mobility, and help alleviate poverty.

2. **Creativity and Innovation in Programs:** CDFIs have delivered incredible value in communities across America since their inception in the early 90s. To continue providing critical services, the CDFI industry must address needs and gaps in existing programs, and continue to use creativity and innovation to serve more people, better. The SSBCI should support programs emphasizing flexibility in capital deployment—including ensuring that equity capital is part of the mix—and investment in capacity-building for the entrepreneur-supporting organizations, as well as the entrepreneurs themselves. When we invest in entrepreneurs—and build flexible, responsive programs that meet them where they are—we're creating living wage jobs, community wealth, and ultimately closing the racial and gender wealth gaps. Contrary to some perspectives, equity capital does not necessitate a 90% failure rate. In fact, that is a skewed view of venture capital as a tool. If we look at venture capitalists such as Altos Ventures, we see that taking a long-term view of investing to create quality, sustainable companies without a high failure rate, is not only a non-profit mission-based approach: it's just good business.

3. **Community Design:** To be truly inclusive SSBCI funding must support programs that are led and designed by people who have lived experience of systemic economic exclusion. No single individual or group can have all of the answers, but we can collectively lead community design that creates stronger programs that more directly address the outcomes we all want to see as a result of this large investment.

4. **Investing for Structural Inequities:** More capital must be deployed in communities who have been excluded from economic growth opportunities, and we must center leaders from these communities in defining how and where this capital is deployed. To create inclusive growth, SSBCI should be deploying capital to correct for structural inequities, and broaden our collective definition of what investment returns look like. At ICA, and other CDFIs, financial returns are part of our model—it is how we ensure stability of our programs for the future. But we also must keep in focus the social returns: CDFIs are leveraging economic empowerment to build stronger, self-reliant communities by creating good local jobs and creating distributed wealth.

5. **Networked Trust:** For SSBCI funding to be deployed at scale effectively, we must also invest in tools, systems, and organizations that keep our industry human-scale. We must be able to deploy increased capital while staying community-based and focused on relationships. CDFIs that have strong, connected relationships are best positioned to identify great companies with the highest potential for creating enduring social impact in their communities. At ICA, we've been at this work for a long time, partnering with entrepreneurs along their journey to business success and staying focused on creating long-term value in our communities one individualized deal at a time. These long-lasting connections put us, and other CDFIs, in an important position for making a real

difference in underserved communities (for example, CDFIs played a critical role in distributing PPP funds more equitably). Lending as a tool is insufficient to overcome the systemic, structural racism and sexism that exists in our economy. We need additional models that directly address the asset gaps, wealth gaps, and insufficient credit scores that are the traditional, and deeply flawed, mainstays for assessing risk. We need models built on community-based relationships that establish genuine trust in founder-focused finance.

In summary, ICA's central recommendation for SSBCI funding is to support programs delivering high-impact, low default rate financial products to women and people of color and bridge a critical gap in current government funding priorities. Organizations with flexible, innovative programs and products, deep community relationships, and clear tactics for correcting existing structural inequities, are a key partner in stimulating inclusive economic growth in California. I applaud the Assembly Committee on emphasizing the importance of inclusive economic growth in the strategic allocation of SSBCI funding and we thank you for the opportunity to share the learnings ICA, as a front-line, innovative CDFI, has to offer.

Sincerely,

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BIBLIOGRAPHY

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(2) “Breaking Barriers to Credit and Capital Access for Black, Latinx, and Women-Owned Businesses.” *The Rockefeller Foundation*, 16 Dec. 2020, Retrieved April 13, 2022, from https://www.rockefellerfoundation.org/blog/breaking-barriers-to-credit-and-capital-access-for-black-latinx-and-women-owned-businesses/