

Access to Capital Strategy

2023
—
2025

INCLUSIVE
ACTION
FOR THE CITY

Key Terms

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Business Coaching

Technical assistance provided to borrowers to support their businesses. Coaching is provided in one-on-one and group sessions. Topics include, but are not limited to, marketing, accounting, pricing, credit, and digital payments.

Healthy Capital

Debt capital that is at or below 20% annual percentage rate (APR).

Immigrant Entrepreneur

An entrepreneur who has operates in the country they've immigrated to.

Loan Origination

The loan application and processing process, including the steps from application to underwriting to disbursal of funds.

Street Vendor

An entrepreneur who operates their business on the sidewalk and in the 'open air'.

Open Air Business

A business that operates in the informal economy and outdoors, including, but not limited to, businesses that are on the street, sidewalk, pop-ups, mobile, or other outdoor markets.

Traditional Financial Institutions

Banking institutions that often have requirements that make products and services inaccessible to individuals and businesses at the margins.

Unbanked Individuals

Individuals who are considered ineligible for banking services, for example due to a lack of or low credit, lack of an individual taxpayer identification number (ITIN), US identification, or access to a bank in their community.

Wraparound Services

Support services that address intersecting issues of well-being, including related to health, housing, food insecurity, and climate.

Our Story

Inclusive Action for the City's (IAC) access to capital work is a direct result of expressed needs of the communities we serve, including low-to-moderate income, BIPOC and immigrant entrepreneurs and small businesses in Los Angeles County. The origins of IAC's access to capital work is with **street vendors**. We worked with street vendors for over a decade to fight for the recognition and legalization of their businesses. During that time, IAC repeatedly heard street vendors struggle to access affordable capital to purchase equipment and inventory for their vending operations. Their options were largely limited to predatory lenders. Recognizing the lack of options to access **healthy capital**, IAC designed a microloan program - Semi'a Fund - for entrepreneurs who remain **unbanked** by traditional financial institutions. We paired our loans with a uniquely tailored **business coaching** model to foster longevity for small businesses. In 2016, IAC rolled out its microlending program and, with the support and encouragement of borrowers, has continued to expand programming to meet the tremendous need for healthy and accessible capital in Los Angeles County.

After three years of successfully operating and growing the Semi'a Fund, Inclusive Action applied for a Community Development Financial Institution (CDFI) designation and by early 2020, received

certification from the US Treasury. CDFI certification has enabled Inclusive Action to leverage Federal resources toward expanding staff, diversifying loan products, increasing loan deployment, developing strategic partnerships for **wraparound services**, expanding specialized business coaching, and creating tailored cohort models for target borrowers.

In early 2020, the COVID-19 pandemic struck the globe and deeply affected the small businesses IAC serves. It became crystal clear that IAC's holistic microfinance programming - lending, grants, business coaching, and referrals and partnerships for wraparound services - is key to supporting underserved entrepreneurs who depend on their businesses to support themselves and their families. A key demonstration of this was IAC's "Street Vendor Emergency Fund", through which nearly 2,500 street vendors received a total of 1 million dollars in grants.

In the midst of the pandemic, IAC also began to see that BIPOC brick-and-mortar businesses, beyond street vendors, were in need of similar capital and support to prevent their displacement. This resulted in broadening the loan portfolio to brick-and-mortar businesses, and building a complementary community-owned real estate (CORE) project to test the concept

of commercial property acquisition, business coaching for tenants, and early conceptualizing of a down payment assistance loan product for future tenant-to-owner conversion.

As the world turned toward economic recovery, IAC saw some businesses recovering with speed and returned to an experiment tested a few years before that offered businesses poised to grow, an opportunity for equity capital. This became IAC's next venture into moving stable microbusinesses into investor-backed small-to-medium size businesses.

The success of the IAC's access to capital work is driven by our staff's field and lived experience, listening to and integrating client feedback, making products and services accessible, and designing with and for cultural relevance. We recognize that our current financial institutions and systems are not designed for our communities. There is a tremendous need for alternative financial products that center the experiences of low-income, BIPOC, immigrant communities and entrepreneurs. IAC centers our communities by making programs and products linguistically and culturally accessible. We also have a culture of adaptability and continue to iterate on our programming to meet the ever changing needs of our community and improve on efficiencies as identified by staff.

"CDFI certification has enabled Inclusive Action to leverage Federal resources toward expanding staff, diversifying loan products, increasing loan deployment, developing strategic partnerships for wraparound services, expanding specialized business coaching, and creating tailored cohort models for target borrowers."

Post Pandemic: Taking Access to Capital to the Next Level

IAC's access to capital work has three program areas, all with uniquely tailored products and services to reach the goals that each has:

Small Business Lending

IAC's flagship program is the Semi'a Fund (Seed Fund), a micro-loan portfolio that provides low-interest loans to entrepreneurs. A Semi'a Fund loan is designed to support business owners who cannot secure capital from traditional lenders and yet still require support to grow or formalize their business. The fund was inspired by our advocacy work for street vendors.

Equity Investing

IAC offers equity capital to current IAC borrowers and other entrepreneurs who are in the growth stage of their business and who seek larger future investments. Restore is a community impact fund that invests in 'micro-entrepreneurs at the margins' - BIPOC, immigrant, and low-to-moderate income entrepreneurs - through a debt-to-equity investment of up to \$100,000, a network of expert advisors, and a R&D Lab business owners can use to innovate and collaborate.

Anti-Displacement Support

IAC focuses on land and real estate (REAL) acquisition, management and community stewardship to keep small businesses in their communities and ensure that entrepreneurs at the margins have access to commercial property. This work includes lending and technical assistance to BIPOC, immigrant and low-income owned and serving small business brick-and-mortars.



Small Business Lending

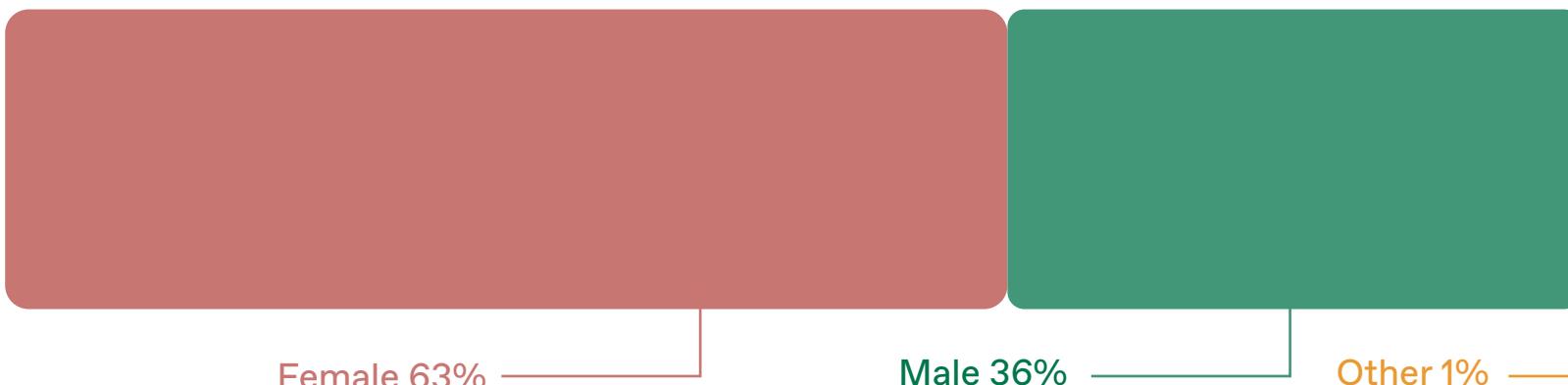
40 active borrowers in 2019

+122

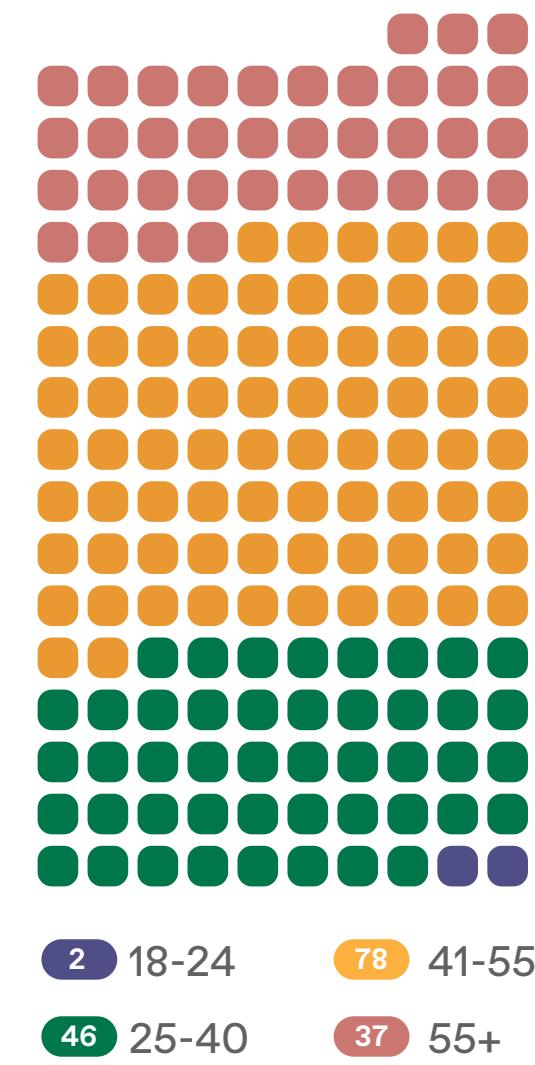
163 active borrowers in 2023

In 2022, the Semi'a Fund deployed \$904,850, bringing IAC's historical deployment to \$2.3 million.

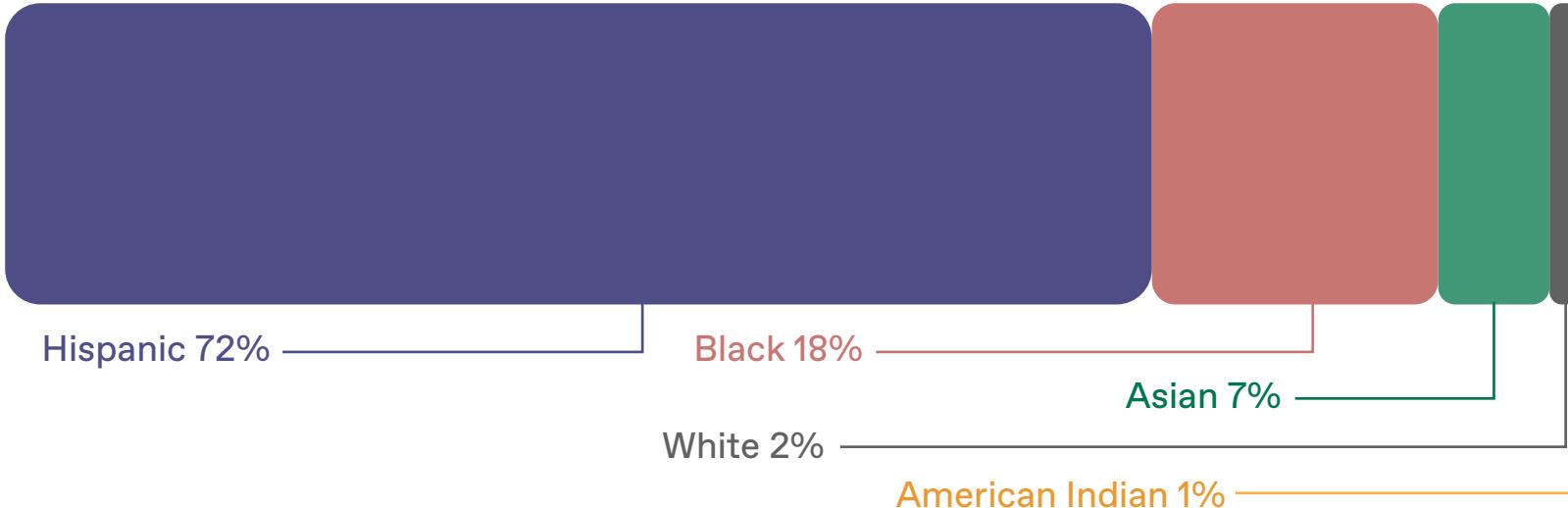
Gender



Age



Race / Ethnicity

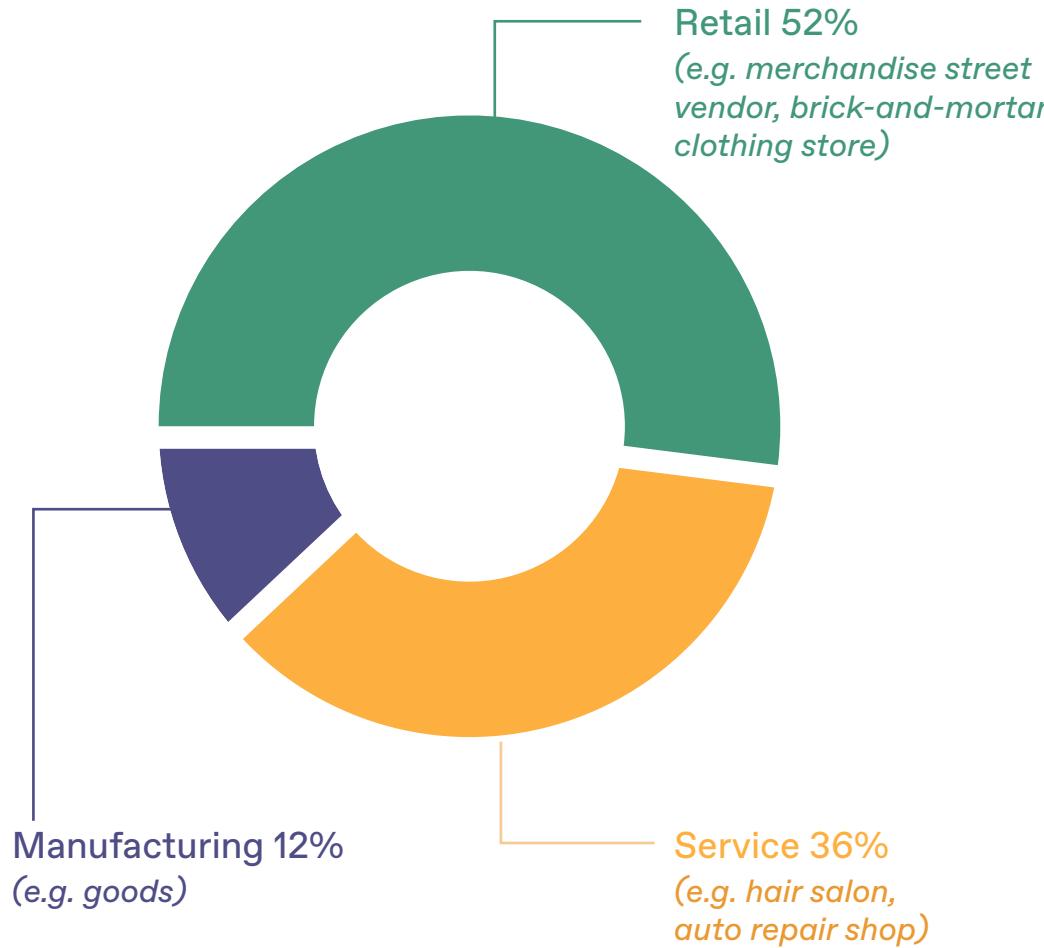


Our borrowers are:

62%
Immigrant
Entrepreneurs

30%
Street
Vendors

Industry Type



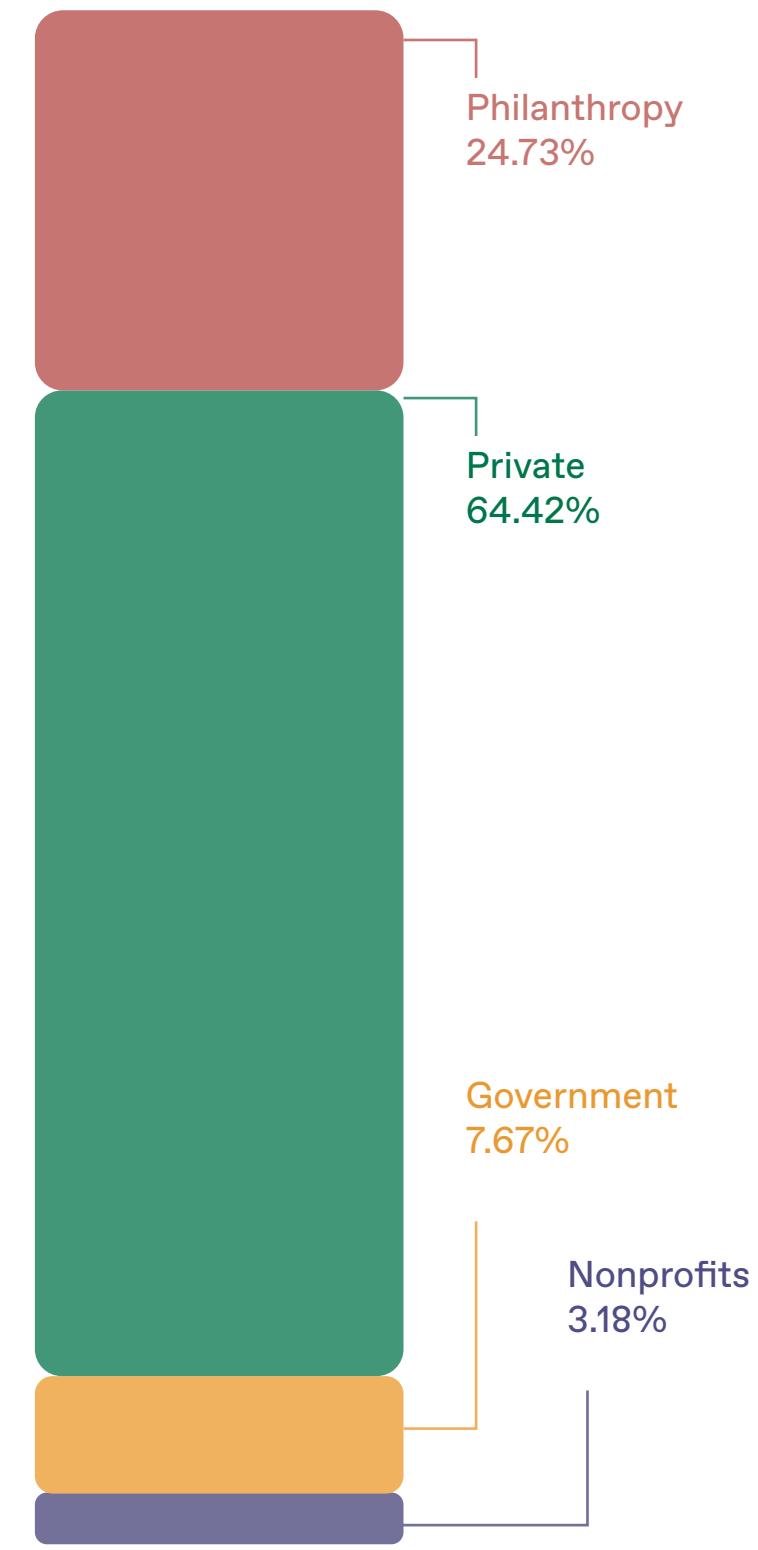
Capital Investment Source Composition

Total awarded in 2022: \$2,735,000



Program Funding Source Composition

Total awarded in 2022: \$2,281,436



Team Structure and Staff Composition

IAC's Access to Capital team has two major programmatic divisions and is comprised of 10 people.

The underwriting division supports the review and processing of completed applications.

The business coaching division supports applicants with loan readiness, loan applications, post-loan support and marketplace opportunities.

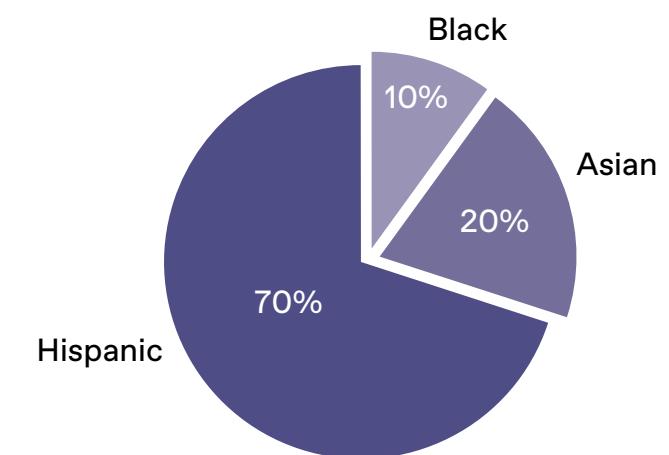
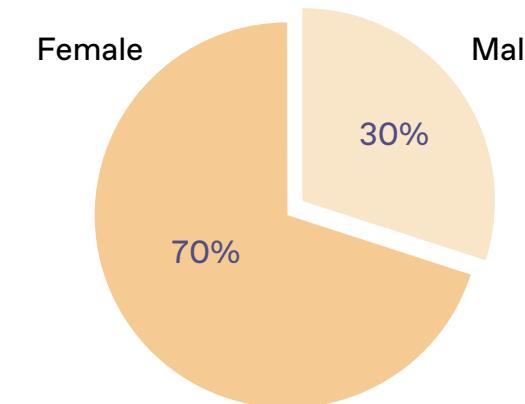
Leadership and a data lead provide oversight, quality assurance, analytics and reporting for the portfolio.

IAC has prioritized cultural and linguistic accessibility by ensuring that staff operating the Semi'a Fund program reflect the communities being served.

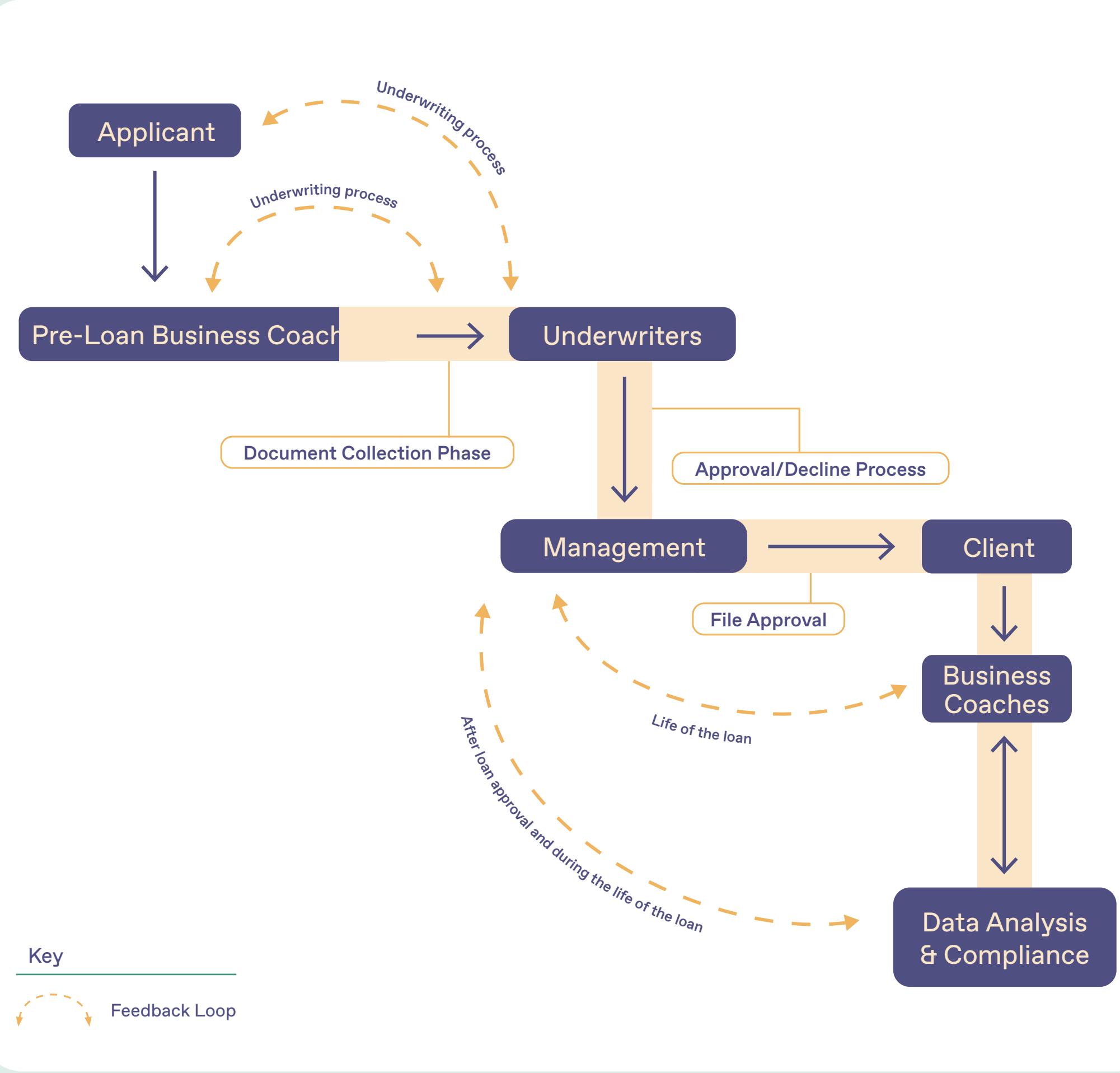
The team speaks six languages:

Hello	-----	English
Hola	-----	Spanish
નમસ્તે	-----	Gujarati
Kamusta	-----	Tagalog
Kamusta	-----	Visayan
ՍԱՐ	-----	Amharic

Our team is:



Life Cycle of Small Business Lending and Business Coaching at IAC



Our Strategy

Where We Headed

IAC's Access to Capital work aims to achieve economic justice by meeting the needs of community members through helping to sustain, nurture and grow their microbusinesses. Our strong reputation within the communities we serve and the recent popularity of the CDFI industry has heightened demand for our services and our capacity to meet them. Over the next three years, we will expand and deepen our impact by:

- Growing small business lending, including increasing Semi'a Fund loan production (total loans deployed) 10-15% annually
- Testing and growing a micro-equity investing model
- Creating products and services for commercial property ownership and prevention of microbusiness displacement
- Sharing our learnings to increase the business coaching and/or lending capacity of other community-based organizations



In order to expand and deepen our impact, we have six priority areas over the next 3 years

1. Scale Impact of Lending

2. Optimizing Business Coaching

3. Build Financial Sustainability

4. Invest in Team and Programmatic Capacity

5. Build Robust Data Infrastructure

6. Innovate for the CDFI and Financial Inclusion Ecosystem

1. Scale Impact of Lending

IAC will deepen the impact of our lending by expanding and diversifying the geography and composition of its loan portfolio. In order to achieve this, we will increase our outreach to street vendors and other immigrant entrepreneurs and share learnings and information with local, regional, and national partners.

► **IAC will expand our geographic and demographic reach to target areas most in need by conducting door-to-door outreach, participating in events, and creating and managing community advisory boards with community members who act as ambassadors of our access to capital programs. Our current loan portfolio supports entrepreneurs located predominantly in South and East Los Angeles, but we recognize that there are areas throughout Los Angeles County that lack resources. Data and community needs will drive our outreach efforts.**

► **IAC is committed to a lending portfolio that serves up to 70% immigrants. We recognize that street vendors and other immigrant entrepreneurs continue to face acute and unique barriers to accessing financial resources and products.**

► **IAC will develop service partnerships to create an ecosystem of support to entrepreneurs in need of healthy capital and business coaching. We believe that working in collaboration with other community development organizations will enable seamless service referrals between partners and holistic support services for clients. The expansion of an ecosystem of providers will also enhance the quality of services by encouraging information sharing and iteration on existing programming.**

Our Current State

- ▶ Loan portfolio supports entrepreneurs that are predominantly in South Los Angeles and East Los Angeles.
- ▶ Immigrant entrepreneurs face unique barriers to accessing healthy forms of capital as many lenders require a social security number. Our loan portfolio currently consists of 62% immigrant entrepreneurs.
- ▶ IAC currently partners with a number of organizations to support clients beyond access to capital. Partnerships include, but are not limited to, United Way (rent relief), Public Counsel (legal), CSUN (tax assistance), and AltaMed (health).

Our Future State

- ▶ Over the next three years, IAC will increase lending to a diversified population in high-need, low-income areas throughout Los Angeles County.
- ▶ IAC commits to a lending portfolio of up to 70% immigrant entrepreneurs. IAC will share these tailored lending models with partners for adoption and replication.
- ▶ IAC will expand and strengthen partnerships with local-serving organizations to address the holistic needs of entrepreneurs. We will prioritize partnerships with organizations that can support clients with their critical needs including housing, food security, and health.

2. Optimize Business Coaching

IAC borrowers will grow steadily over the next three years, with a goal of reaching an average of 500 new borrowers, and as we do, IAC will provide substantial pre- and post-loan business coaching. We have identified four different methods to optimize our technical assistance. The first is standardizing our internal and external business coaching curriculum. By standardizing content, we will have readily available resources to train staff and clients. The second method is to incorporate workshop and cohort models into our business coaching delivery. IAC will be hosting regular, monthly workshops with the goal of providing clients with the information they have pre-identified as a need while also offering them an opportunity to learn from one another. Workshops will aim to give participants information in the form of written material, videos, and in-person lessons, to accommodate all learning styles.

IAC will also host quarterly workshops for staff to learn new skill sets and tools that will increase their capacity to help entrepreneurs. Lastly, IAC will expand its practice of creating cohort models designed to be spaces where the unique needs of specific entrepreneurs are met. Currently, IAC runs a cohort program - Cultivate - for young entrepreneurs aged 18 to 30 including LGBTQ+ youth, transition foster and incarcerated youth. A community impact fund and micro-equity investment vehicle created for businesses in an expansion stage - Restore - is also envisioned to be a cohort model.

Our Current State

- ▶ The majority of business coaching is conducted in one-on-one coaching settings. This takes a significant amount of staff time.
- ▶ IAC has compiled resources and built tools for popular topics such as vendor permitting, marketing, tracking expenses, and formalizing businesses.
- ▶ IAC experiments with cohort programs including for street vendor well-being and young entrepreneurs.

Our Future State

- ▶ IAC will reduce one-on-one coaching sessions by 20% and increase group workshops.
- ▶ IAC will expand its standardized resources and tools. This curriculum will be used internally and shared with external partners to strengthen the CDFI ecosystem.
- ▶ IAC will have multiple cohorts of entrepreneurs with participants who share similar demographics, industry experience, or other lived experiences.

3. Build Financial Sustainability

IAC aims to build the financial stability of our lending program. To achieve this, we are taking a short-term and long-term approach. The short-term approach focuses on keeping delinquency and charge-off rates at 6% and 3%, respectively, ensuring a steady income stream. The long-term approach aims to diversify our investment sources to include more grants that, upon repayment, can fund a recyclable pot of funding available for lending. Due to high demand, we have deployed approximately \$425,000 in recyclable funds over the last two years, which is the maximum available and makes up close to 20% of our total lending. At current deployment rates, repayment of approximately \$215,000-\$350,000 can be expected per year over the next 2-3 years.



Our Current State

- ▶ As of December 31, 2022, IAC delinquency and charge-offs rates are 10% and 2%, respectively. Low delinquency and charge-off rates have helped IAC maintain a steady income stream.
- ▶ IAC maintains in-house servicing, which keeps trust between borrowers and IAC high. IAC borrowers are prone to face economic hardship, and servicing by our staff enables payment flexibility as needed.
- ▶ As of December 31, 2022, recycled funds made up close to 20% of total lending.

Our Future State

- ▶ IAC will keep delinquency and charge-off rates at or below 6% and 3%, respectively, to ensure a steady income stream.
- ▶ IAC will continue to service loans in-house and adopt systems and technologies to minimize redundancies in client communication. IAC will offer servicing as a “fee-for-service” to partners who need it.
- ▶ IAC will increase the availability of recycled funds and aim to fund 30% of total deployment using these funds.

4. Optimizing Business Coaching

IAC will invest in the capacity of its Access to Capital team and programs. To increase staff capacity, IAC will identify training and certification programs that will enhance the ability of our staff to deliver high-caliber services. To enhance programmatic capacity, we will strengthen cross-cutting workflows and increase synergies between business coaching, underwriting, servicing, and data and evaluation functions.



Our Current State

- ▶ As of December 31, 2022, the Access to Capital team has 10 full-time staff members and 2 part-time staff members.
- ▶ The Access to Capital team has quarterly reflection days. These reflection periods allow the team to reflect on active and closed projects, share learnings and make adjustments as needed.
- ▶ The Access to Capital team participates in the IAC Learning Program, which consists of monthly learning sessions on topics including project management, prototyping, partnerships, and problem-solving. The team also participates in professional development through travel to conferences, events, and training.

Our Future State

- ▶ We project to end 2023 with a total of 11 full-time staff members and 2 to 3 part-time staff members.
- ▶ The Access to Capital team will continue quarterly reflection sessions. Team leadership will participate in quarterly leadership impact sessions. This will enable learning at both the operational and strategy levels and lead to tighter links between Access to Capital, Policy, and Community Innovation programming at IAC.
- ▶ Leadership will proactively identify and map out professional development opportunities quarterly.

5. Build Robust Data Infrastructure

IAC collects comprehensive and detailed client information. We aim to create a strong and secure information architecture and data analysis capacity to forecast trends and identify patterns to help us design and implement effective services. We currently invest time and resources toward timely data entry, data cleaning and maintenance, data reporting and compliance, and data analysis and evaluation. Additionally, by streamlining data processes, we are prioritizing compliance with State and Federal regulations and improving our capacity to take on more government contracts.

Our Current State

- ▶ As of December 31, 2022, IAC has 2 dedicated full-time staff members and 1 part-time staff member dedicated to data analysis and infrastructure.
- ▶ IAC has provided robust training to staff members dedicated to data entry and analysis.
- ▶ IAC has invested in technology to better collect and host client data.

Our Future State

- ▶ IAC will have 2-3 staff members dedicated to data analysis and infrastructure
- ▶ IAC will provide robust training to all Access to Capital staff to ensure that they understand best practices regarding data entry, maintenance, and analysis.
- ▶ IAC is centralizing client data on its organization-wide CRM to ensure triangulation of this data with other elements of the business such as funding, programmatic partnerships, and policy outcomes. This will lead to enhanced organizational vision and strategy.

6. Innovate for the CDFI and Financial Inclusion Ecosystem

IAC recognizes that the CDFI and broader financial inclusion ecosystem is in need of innovative players who are able to forecast, adapt, adjust, and move with courage; IAC's Access to Capital work aims to be rooted in this ethos. We understand that the needs of our communities are both diverse and continuously evolving. Hence, designing products, services, and programs that meet the ever-changing conditions of the communities we serve is critical. We began microlending with one loan product and one-on-one business coaching, and we've expanded to multiple loan products and group coaching. We've also introduced equity capital and expanded to serve brick-and-mortar businesses alongside street vendors. We're committed to continuing to support immigrant entrepreneurs via culturally sensitive practices. To drive these improvements, we are active in the CDFI ecosystem and seek to influence the macro structures that regulate and guide how CDFIs operate, partner and serve.

Our Current State

- ▶ IAC innovates within the lending space and beyond. We have expanded loan products, built grant programs, enhanced servicing, and strengthened data systems.
- ▶ IAC participates in CDFI fellowships, convenings, and coalitions to exchange ideas on what is working and what is not.
- ▶ IAC mapped the CDFI ecosystem in Los Angeles and continues to identify referral opportunities and be a good partner to the ecosystem.

Our Future State

- ▶ IAC will identify priority CDFI and financial inclusion coalitions and convenings to take up leadership roles in them. We will continue to sit on the Racial Equity Committee of the US Treasury and its Access to Capital subcommittee to influence Federal programs based on the community needs we identify.
- ▶ IAC will build out the capital stack of micro-entrepreneurs who are dependent on debt, with an option for micro-equity. We will act as mission-driven angel investors and advance this missing part of the industry.
- ▶ IAC will use our CDFI designation to continue accessing resources for reimagining financial inclusion. We will further integrate our access to capital programming with our policy advocacy and community innovation work.

