“The Backbone of Chicago’s Economy”:
the Chicago Microlending Institute and the Road to Financial Inclusion for Entrepreneurs of Color

by

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Submitted to the Department of Urban Studies and Planning
in partial fulfillment of the requirements for the degree of

Master in City Planning

at the

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

May 2020

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Abstract

Amidst persistent and widening racial wealth divides in their communities, local and state governments across the United States have deployed non-traditional tools to support underserved entrepreneurs of color and build wealth in communities of color. While few funding efforts have yielded systemic change to-date, programs like the Chicago Microlending Institute (CMI), an effort led by the City of Chicago and Accion Chicago to meet the capital demands of the city’s small businesses by building a scale-advantaged network of microlenders, suggest new pathways for municipalities to challenge the legacy and persistence of racialized economic segregation in their communities. This thesis serves to document CMI as a case study of a municipal access to capital program by exploring its origins, program structure, outcomes for borrowers and lenders, and insights from insiders involved in designing and implementing the program. Situating the program within the context of Chicago’s racialized lending landscape and historical attempts to build wealth within a segregated economy, this thesis draws on semi-structured interviews with participating lenders, analysis of lending data, and internal program documents to answer the following questions: to what extent did microloans and related services offered through CMI reach entrepreneurs of color and neighborhoods least served by traditional financial institutions in Chicago? What aspects of the program did lenders consider most effective, and where did they experience pain points? The study concludes with policy and programmatic recommendations for the City of Chicago to build upon the precedent of CMI and for other municipalities exploring policy interventions to extend access to capital to underserved borrowers to learn from the program’s successes and shortcomings.

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Acknowledgements

To the insiders I spoke with at Accion Chicago, Chicago Neighborhood Initiatives, and the Women's Business Development Center: thank you for generously sharing your time and insights and for all that you do to advance economic opportunity throughout Chicago.

To the Department of Urban Studies and Planning: thank you for enabling my field work in Chicago in January 2020 through the William Emerson Travel Fund and for providing invaluable spaces and opportunities to refine my personal theory of practice these past two years.

To the Harry S. Truman Foundation: thank you for supporting my graduate studies and for believing in the aspirations of a first-generation college graduate. I remain incredibly humbled by the access to education and the opportunity to serve you have provided me.

To my reader, Katrin Kaeufer: thank you for introducing me to values-based banking and for sharing your expertise and thoughtful feedback.

To my advisor, Karilyn Crockett: thank you for being my champion, for your generous and insightful feedback throughout this process, and for challenging me to think bigger and bolder and to never lose sight of what is at stake.

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Introduction

1.1. Scope

A core component of the Emanuel administration's small business development strategy, the Chicago Microlending Institute (CMI) has received acclaim as a model City-backed access to capital program.[1] Amidst a persistent and widening racial wealth divide in Chicago and across the United States, the program demonstrates a commitment by the City of Chicago to deploy non-traditional tools to support underserved entrepreneurs of color and redefine the boundaries of public policy intervention. Within its first four years, the program approved over 250 loans averaging $10,000 per loan, which offered $2.6 million in financing to businesses that helped create or preserve over 1,000 jobs.[2] Moreover, the City reports that while the program reached nearly every ward throughout the city, the participating mission-driven lenders directed over 60 percent of their loans to low-income communities and over 90 percent of loans to women or minority business borrowers.[3]

However, the City of Chicago has provided few updates on the long-term success of this initiative since 2016. Without a formal evaluation of the program, critical knowledge gaps remain regarding how well the program met its stated objectives and to what extent it improved access to capital for entrepreneurs of color in Chicago. Among these types of funding efforts implemented across the United States few have "created systemic change."[4] Yet, CMI represents a potential crack where the prevailing system shows signs of giving and a case study for reimagining the types of strategies and investments cities can pursue to challenge the legacy and persistence of racialized economic segregation.

This thesis seeks to document CMI as a case study of a municipal access to capital program by exploring its origins, program structure, outcomes for borrowers and lenders, and insights from insiders involved in designing and implementing the program. Situating the program within the context of Chicago's racialized lending landscape and historical attempts to build wealth within a segregated economy, this thesis draws on semi-structured interviews with participating lenders, analysis of lending data, and internal program documents to answer the following questions: to what extent did microloans and

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1 Forward Cities. *Access to Capital.*

2 City of Chicago. *Four Years of Progress.*

3 Ibid.

4 Kauffman Foundation. *Capital Access Lab.*

related services offered through CMI reach entrepreneurs of color and neighborhoods least served by traditional financial institutions in Chicago? What aspects of the program did lenders consider most effective, and where did they experience pain points? This case study concludes with policy and programmatic recommendations for the City of Chicago to build upon the precedent of CMI and for other municipalities exploring policy interventions to extend access to capital to underserved borrowers to learn from the program's successes and shortcomings.

1.2. Methods

Primary research for this case study included a series of semi-structured interviews with representatives from the three core organizations that participated in CMI: Accion Chicago, Chicago Neighborhood Initiatives, and the Women's Business Development Center. Most interviewees were involved in either the design of program structure and curriculum or received training and administered loans funded by the program. Half of the interviews were conducted in-person at the organizations' offices in Chicago and lasted approximately one hour each. The remaining interviews were conducted over the phone and ranged from thirty to forty-five minutes. Out of respect for their privacy, I have kept the identities of the interviewees anonymous and refer to them as "insiders" throughout this document, only identifying their organizational affiliation when essential to a finding.

Through these interviews, I sought to better understand the origins of the program and each organization's involvement; to learn about each organization's experiences with the program, including what worked well and what pain points emerged through the process; to assess how well the program met its dual mission of building a microlending infrastructure in Chicago and reaching underserved borrowers; and to hear reflections from lenders on how the program shaped their portfolios and what they would have done differently. Based on the initial round of in-person interviewees, I conducted several follow-up conversations to clarify information shared during the interviews. My initial contacts also referred additional personnel who were involved in the design and implementation of the program.

Secondary research included: academic literature; publicly available reports from local and national research institutions; demographic and business data published by the U.S. Census Bureau; publicly available lending data on the Chicago Microlending Institute published by the City of Chicago; and internal presentations, reports, and other documents shared by Accion Chicago.

1.3. Personal Positionality

In addition to the methodology outlined above, this study also stems from the personal and professional experiences I bring as a researcher. Having grown up in South Dakota and attended college in Minnesota, I consider the Midwest home. Prior to enrolling in graduate school, I managed neighborhood planning and economic development projects for the City of New York, and while at MIT, I have explored how local policymakers can wield economic development levers to advance racial equity and build community wealth. This case study of CMI emerges out of independent research conducted in the fall of 2019 surveying three dozen cases of innovative efforts to extend access to capital to entrepreneurs of color. In focusing on Chicago, I hope the lessons learned from CMI not only inform future mayoral administrations and lending programs locally but also provide a roadmap toward more inclusive local economies for other Midwestern communities like Sioux Falls and Minneapolis-St. Paul, which continue to struggle with racial equity despite regional economic prosperity.

At the outset of this research, I intended to center the perspectives of entrepreneurs of color by interviewing borrowers who had received loans affiliated with CMI to understand their experiences with the program and what opportunities the loans unlocked for their businesses. However, due to complications stemming from the COVID-19 pandemic, these conversations proved impractical. In assessing the implications of CMI for entrepreneurs of color, this study captures one part of the story, one shaped by my position as a White-identifying planner who has neither lived nor worked in Chicago. As such, I hope this case study contributes to and continues the conversation around building wealth in Chicago's communities of color on the South and West Sides, by more fully documenting CMI as an access to capital program, highlighting its successes and shortcomings as measured by reported lending data and insider perspectives, and encouraging the City of Chicago, the lenders I interviewed, and other mission-driven lenders in the region to center their policies, programs, and practices around the qualitative experiences of the borrowers who use their services.

1.4. Why Access to Capital?

Throughout my interviews with lenders who participated in CMI, the insiders I spoke with consistently asked, "why access to capital?" Most practitioners explained that accessing capital was only one part of the equation for underserved entrepreneurs, often citing the suite of wraparound services their organizations provide to help entrepreneurs write a business plan, navigate a lease, or compete for city contracts. Echoing the ethos and structure of CMI itself, they reiterated that the success of an entrepreneur depends on their ability to maximize the potential of a loan, not simply to obtain one. The technical assistance these organizations offer certainly helps business owners deploy capital, plan for business growth, and even feel more confident as borrowers and entrepreneurs. That said, this study focuses on access to capital for three reasons: its viability as a local policy lever, its connection to the racial wealth gap, and its ripple effects in disinvested neighborhoods.

First, advancing an anti-racist policy agenda will require a comprehensive, multipronged, and systemic approach from the local to federal level, yet local access to capital programs like CMI can offer proof-of-concept for other communities and other scales of government. Addressing the root causes of racial wealth divides in Chicago and across the United States demands comprehensive structural reforms that "reckon with our compounding moral debt"[5] of centuries of slavery and decades of Jim Crow, separate but equal, and racist housing policy. These reforms demand significant federal support and intervention, which despite more recent momentum has historically proven inadequate and immovable.[6] In the absence of or in conjunction with federal reparations, local leaders in government, nonprofit, philanthropy, and business must continue to advance multipronged strategies to remove barriers to access while also challenging the structures and systems that reproduce disparate outcomes and opportunities for communities of color in their regions. These efforts require long-term, sustained, and cross-sector commitment by local leaders; however, local governments retain the tools to act decisively on racial equity agendas, and their suite of strategies can inspire action in other communities and build momentum for more significant intervention at other levels of government.

Next, entrepreneurship alone will not eliminate racial wealth disparities, but the ability to start, grow, or expand a business contributes to wealth building in communities of color. Wealth not only functions as a financial safety net during personal shocks and crises it also creates opportunities and provides options for current and future generations, from financing higher education, covering a down payment for a first home, or providing startup capital for a new business. Entrepreneurship serves as an important wealth building tool, particularly for low-income households; among low-income households able to own a business, business equity makes up a large share of their wealth.[7] Intergenerational wealth often acts a prohibitive barrier to entrepreneurship for people of color, as gaps in relative assets represent the single largest factor explaining lower rates of business creation for Black entrepreneurs compared to their White counterparts.[8] While Black and Latinx-owned businesses in Chicago grew between 2007 and 2012, these entrepreneurs depend heavily on personal funds, are less likely to secure financing from a bank, and are two times more likely to seek funding from friends and family.[9] Capital infusion symbolizes

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5 Coates, "The case for reparations."

6 H.R. 40, 116th Session of Congress, 2019. https://www.congress.gov/bill/116th-congress/house-bill/40.; Ray, "Reparations for Slavery."

7 Bahn et al, "A progressive agenda," 53.

8 Ibid, 60.

9 Next Street and CRF, USA, *Small Business Ecosystem.*

a material investment in the needs and aspirations of these entrepreneurs that business coaching or other support services cannot achieve. Despite a "robust spectrum of capital and services available to business owners," the small business lending ecosystem in Chicago continues to disadvantage entrepreneurs of color with "different access to key networks" and "more expensive capital that compounds the challenge of scaling their businesses."[10] Developing and scaling effective, affordable, and inclusive access to capital strategies offers one potential policy lever to directly invest in entrepreneurs of color and move the needle on local and regional racial wealth disparities.

Similarly, entrepreneurship alone cannot disassemble the structural racism and the systemic financial exclusion and exploitation that produce racial inequity in Chicago, yet investments in neighborhood businesses create important ripple effects in communities of color. Access to capital enables businesses to start up, grow their operations, or even hire new employees, thereby expanding the goods, services, and economic opportunities available in their neighborhoods. This is particularly true for entrepreneurs of color operating in communities of color; literature indicates that these business owners are more likely to hire from their communities, while White-owned businesses are less likely to hire people of color, even when operating in communities of color.[11] In addition to the benefits it provides like local jobs and payroll, access to capital can also safeguard borrowers and communities from the harmful effects of predatory lending. Often entrepreneurs in underserved neighborhoods rely on credit cards to finance their businesses[12] or turn to alternative lenders with high-interest loans who fill the vacuum left by mainstream financial institutions.[13] These high-cost alternatives often function like payday loans, draining capital from businesses, reducing their growth, and fueling a cycle of debt.[14] Access to capital programs disrupt these predatory markets by offering underserved communities a bridge toward financial inclusion.

10 Ibid.

11 Bates, "Utilization of minority employees."

12 Chatterji and Seamans, "Entrepreneurial finance."

13 Nolan and Adams, *Patterns of Disparity.*

14 Ibid.

1.5. Organization

Chapter Two offers a snapshot of the racialized lending landscape in Chicago and its implications for entrepreneurs of color in the city. It also situates the case study within a broader context of efforts to build wealth amidst a segregated economy, including the history of Black banking in Chicago, the rise of Black capitalism, and the story of microfinance in the United States.

Chapter Three details the Chicago Microlending Institute (CMI) as a case study of municipal access to capital program by exploring its origins, program structure, and outcomes for borrowers and lenders.

Drawing from the analysis in the preceding chapter, **Chapter Five** discusses insights from insiders involved in designing and implementing CMI and provides an assessment of the program eight years after it launched.

Building on the lessons of the case study, **Chapter Five** offers recommendations for the City of Chicago and its partners to build upon the precedent of CMI and for other municipalities exploring policy interventions to extend access to capital to underserved borrowers in their communities.

Chapter Six concludes with reflections on healing Chicago's small business community in the wake of the COVID-19 pandemic, what is at stake for entrepreneurs of color in in the city, and the opportunity for microlending as a policy lever in moments of economic shock and crisis.

Chapter Two

Redlining Redux: Chicago's Racialized Lending Landscape

> *"In Chicago, sexism, racism, and ageism define business here—so much so that I didn't even want to open my first business here. And when I did, I wanted to create a new, different narrative for my city."* – Chicago Small Business Owner[15]

Evaluating the effectiveness of the Chicago Microlending Institute (CMI) requires situating it within the racialized lending landscape in Chicago and the "legacy of policies and practices intentionally designed to protect white families while denying opportunities to Black and Latinx families."[16] Chicago remains one of the most racially and economically segregated cities in the United States, ranking among the top five nationally since 1990.[17] One study notes that reducing Black-White segregation and economic segregation in Chicago to the median level among peer cities would increase Black per capita income by nearly $3,000 and add $4.4B overall.[18] Moreover, while Black and Latinx-owned businesses in Chicago grew between 2007 and 2012, these entrepreneurs remain under-resourced and underserved, and their South and West Side communities left out of booming investment downtown.[19] Studies consistently demonstrate higher loan denials for Black and Latinx entrepreneurs compared to their White counterparts,[20] and this unequal access to capital limits the growth of Black- and Latinx-owned businesses and inhibits their ability to draw wealth from business ownership and leverage it for future borrowing.[21] This lending disparity holds the entire region behind as well, preventing would-be entrepreneurs from "becoming resilient, investing in their futures, and contributing to the local economy and tax base."[22] [23]

In responding to longstanding racist lending patterns that leave business owned by people in color in Chicago underrepresented, undervalued, and underserved, CMI follows a long tradition of public and private efforts to build wealth among people of color within segregated economies, from Black banking

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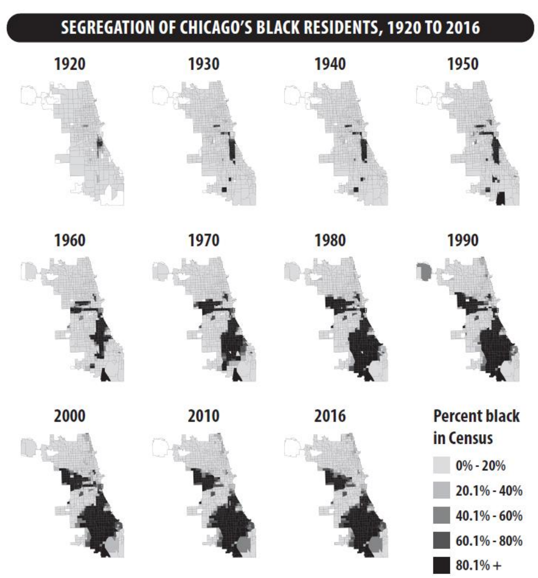
15 Next Street and CRF, USA, *Small Business Ecosystem,* 12.
16 Brown et al, *State and Local Approaches,* 45.
17 Acs et al, *Cost of segregation,* 85.
18 Ibid, 86.
19 Brown et al, *State and Local Approaches,* 54.
20 Bates et al, "Are minority businesses underserved?", 449.
21 Brown et al, *State and Local Approaches,* 51.
22 Ibid, 54; Noel et al, *Economic Impact*; Poethig et al, *Inclusive Recovery.*
23 Bates et al, "Are minority businesses underserved?", 450.

to Black capitalism. This chapter briefly charts the legacy of redlining on contemporary business lending in Chicago, offers a snapshot of the state of small businesses in the city, and then situates the CMI program within a tradition of economic responses to racial segregation.

2.1. Redlining Redux

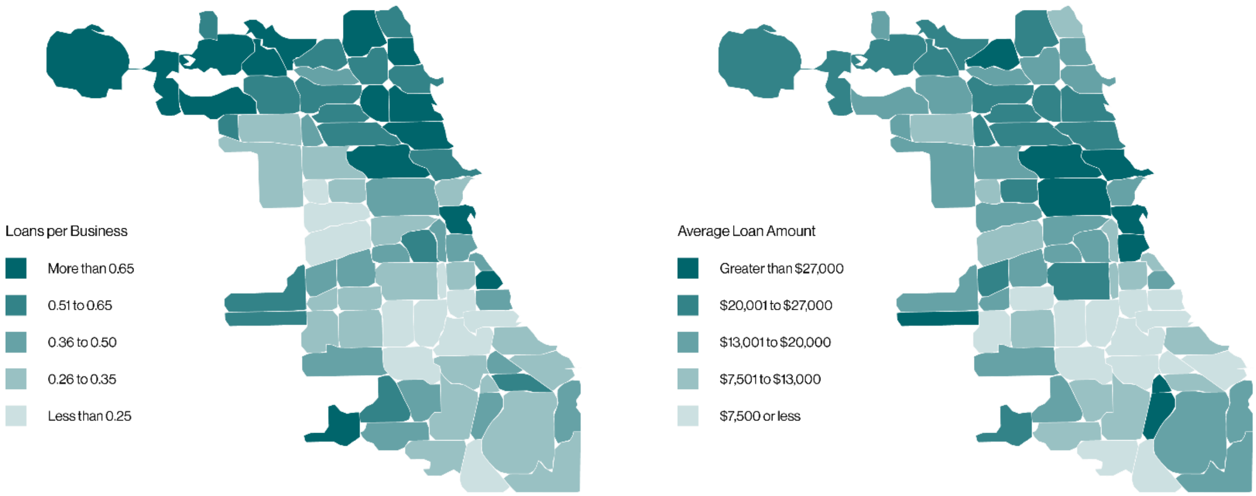
The legacy of redlining in Chicago has produced a sharply segregated city over the past century, with Black residents overwhelmingly concentrated to the South and West Sides *(Figure I)*. Despite the prohibition of redlining more than fifty years ago, this deeply entrenched racial and economic segregation profoundly affects small business lending in the city today. As 2014 analysis by the Chicago-based Woodstock Institute documents, business lending patterns in Chicago closely trace the contours of historic redlining maps, effectively severing the city into a well-financed North Side and Loop and leaving large swaths of the predominantly Black and Latinx South and West Sides with fewer and smaller loans *(Figure VIII)*. Although 60 percent of Chicago neighborhoods average fewer than 0.5 loans per business, forty-three of these forty-six neighborhoods are on the South or West Sides, and all ten neighborhoods that average less than 0.25 loans per business are on the South or West Sides. Moreover, roughly one in three neighborhoods in Chicago average less than $10,000 per business loan, yet all twenty-four of these neighborhoods are located on the South or West Sides.

Figure I: Racial segregation of Black Chicagoans on the South and West Sides has remained intense and persistent over the past century



Source: Institute for Research on Race and Public Policy (2020)

Figure II. Contemporary business lending traces historic redlining patterns, resulting in fewer and smaller loans on Chicago's South and West Sides



Source: Woodstock Institute analysis, using HUD/USPS vacancy datasets for 2008-2012 and FFIEC CRA Reports for 2008-2012

Yet, these maps not only reflect historic policies and programs but portray a persistent aversion by financial institutions to finance small businesses located in low-income neighborhoods and communities of color.[24] The geographic distribution of small business lending in Chicago follows a "clear pattern of disparity with respect to both the number of and volume of loans by the racial characteristics" of a neighborhood. Building on Woodstock Institute analysis of lending disparities across Chicago between 2008 and 2012, *Figure III* highlights the significant positive correlation between the average loans per business, an indicator of loan volume, and the share of White residents in a neighborhood. Eighteen of the nineteen majority White neighborhoods in Chicago average at least one loan for every two businesses, whereas only thirteen of the fifty-eight majority non-White neighborhoods across the city pass this threshold. Instead, neighborhoods where Asian, Black, and Latinx people make up a greater share than their citywide level *(bold dots in each respective chart)* saw fewer loans as their respective share of the population increased, significantly so in Black and Latinx neighborhoods.

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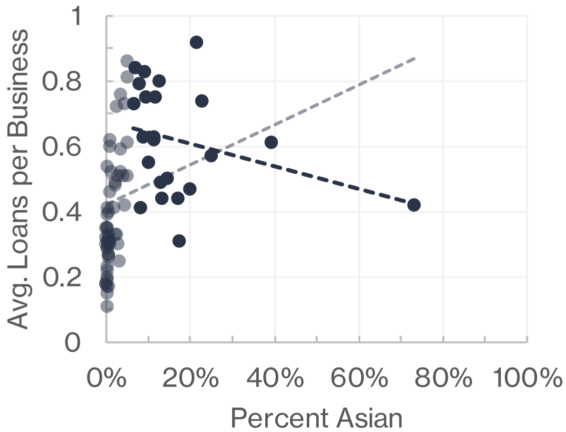
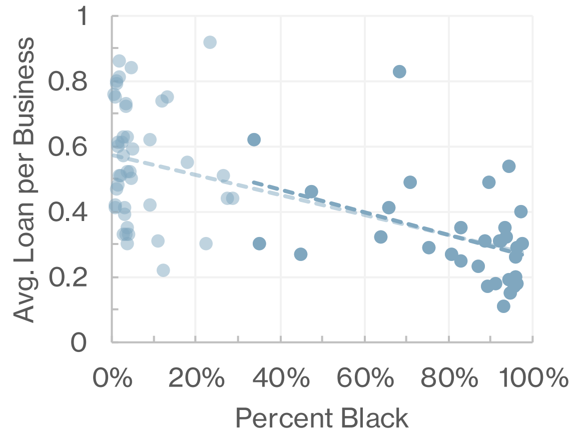
24 Bates and Robb, "Increased loan availability," 1705; Immergluck, "Credit to the Community"; Bostic and Lampani, "Racial Difference," 269-270

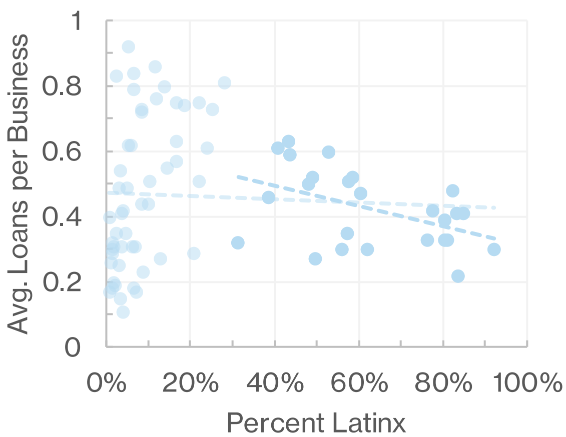
Figure III. Business lending between 2008 and 2012 was negatively correlated to the percentage of non-White residents in a neighborhood



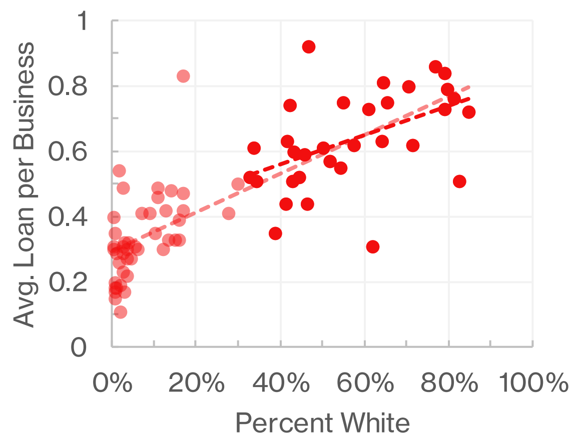
Negative correlation in above average neighborhoods, but not statistically significant



Significant negative correlation overall (p=0.001) and in above average neighborhoods (p=0.05)



Negative correlation; statistically significant in above average neighborhoods (p= 0.05)



Significant positive correlation overall (p=0.001) and in above average neighborhoods (p=0.01)

Sources: Woodstock Institute analysis, using HUD/USPS vacancy datasets for 2008-2012 and FFIEC CRA Reports for 2008-2012; Chicago Metropolitan Planning Agency

These patterns reflect the racist housing policies that produced and cemented racial segregation in Chicago and perpetuate a vicious cycle in which financial exclusion begets exploitation. In the four years prior to the launch of CMI, racialized lending disparities resulted in an over $2.6B credit gap and nearly 62,000 fewer business loans in communities of color.[25] Reflecting a redlining redux, predominately White neighborhoods in Chicago have a higher average credit score *(732)* than the city's communities of

25 Cowan, *Dis-credited.*

color *(586)*, granting financial institutions a new legal means for lending discrimination.[26] Racist lending patterns prevent the "fastest-growing segment of start-ups and early-stage businesses" from expanding, retaining their existing workforce, or hiring new employees, which stunts the services and economic opportunity available in these neighborhoods.[27] Furthermore, lack of access to credit in underserved neighborhoods leads entrepreneurs without significant equity in household assets to rely on credit cards to finance their businesses[28] or resort to alternative lenders with high-interest loans who fill the vacuum left by larger financial institutions.[29] These high-cost alternatives often function like payday loans, draining capital from businesses, reducing their growth, and fueling a cycle of debt that ripples across communities.[30]

26 Brown et al, *State and Local Approaches,* 45

27 Cowan, *Dis-credited,* 10.

28 Chatterji and Seamans, "Entrepreneurial finance."

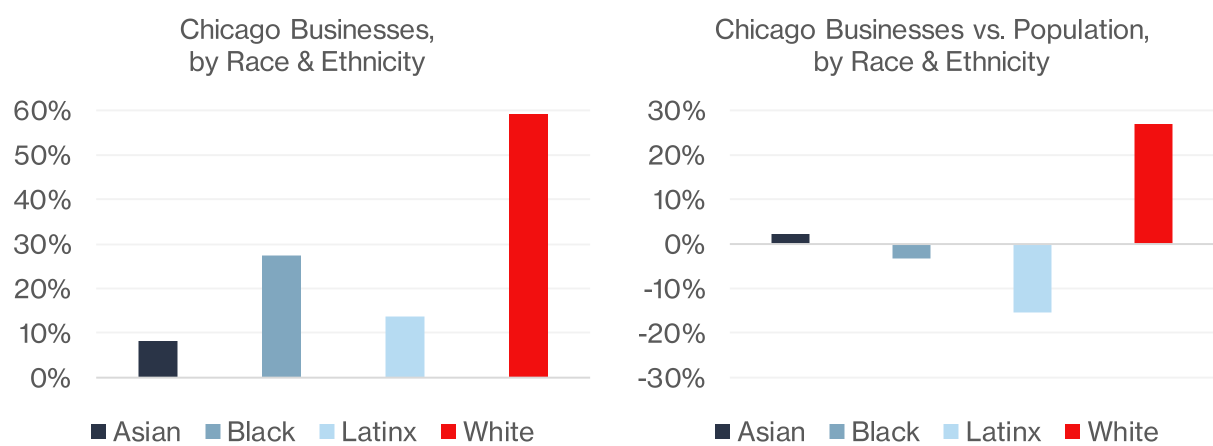
29 Nolan and Adams, *Patterns of Disparity.*

30 Ibid.

2.2. Chicago's Entrepreneurs of Color

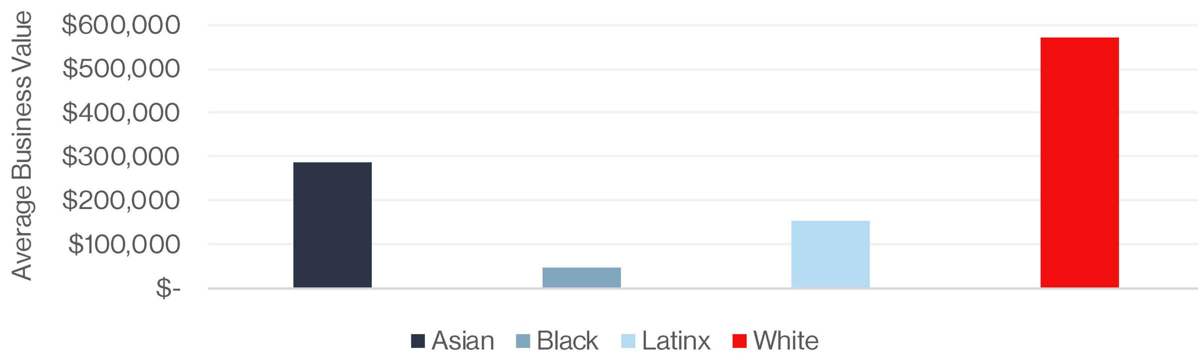
Lending disparities in Chicago continue to limit the fortunes of the city's entrepreneurs of color, shaping a small business environment in which they are underrepresented, and their businesses undervalued. Though Chicago is only one-third White, White entrepreneurs own nearly 60 percent of all privately held businesses in the city. As *Figure IV* illustrates, Black and Latinx entrepreneurs are underrepresented among the city's small businesses, with Latinx entrepreneurs owning less than half of their proportional share of businesses. In addition to their underrepresentation, businesses owned by people of color in Chicago earn substantially less than their White-owned counterparts. As of 2012, the year that CMI launched, Asian-, Latinx-, and Black-owned businesses made two to twelve times less than those owned by their White counterparts *(Figure V)*. Black-owned businesses in the city are particularly undervalued. As of 2012, the average Black-owned business in the city earned less than $50,000, compared to more than $570,000 for the average White-owned business.

Figure IV. White Chicagoans own nearly 60 percent of small businesses, while Black and Latinx entrepreneurs are underrepresented



Source: U.S. Census Bureau, 2012 Survey of Business Owners and American Community Survey

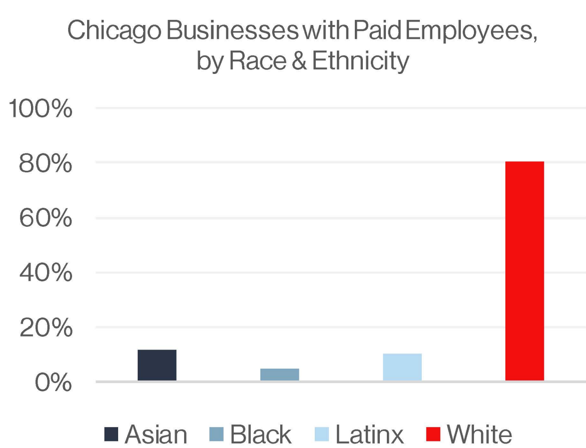
Figure V. The average White-owned business in Chicago earns twelve times as much as the average Black-owned business



Source: U.S. Census Bureau, 2012 Survey of Business Owners

Furthermore, lack of capital and relatively low sales limit the ability of entrepreneurs of color to start up, grow their operations, and hire employees. Few businesses owned by Black and Latinx entrepreneurs in the city employ workers *(Figure VI)*. In fact, Black-owned businesses, which represent more than one in four businesses in Chicago, make up just 5 percent of businesses with paid employees. Instead, Black and Latinx entrepreneurs are disproportionately more likely to own one of the 85 percent of privately held businesses without paid employees in the city *(Figure VI)*. Nearly 90 percent of Latinx-owned businesses and over 97 percent of Black-owned businesses do not have paid employees, and of the fraction that do, they employ an average of three to five fewer employees than the average White-owned businesses.

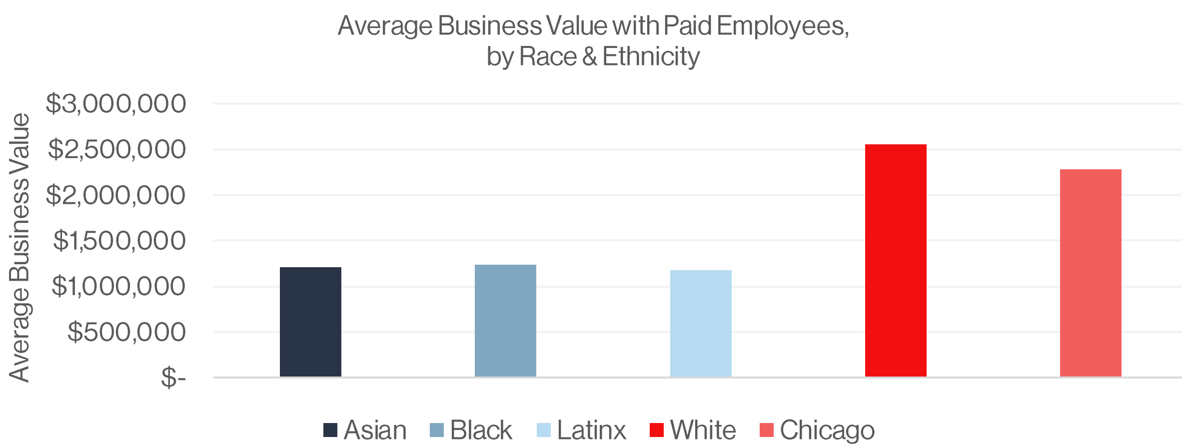
Figure VI. Four out of five Chicago businesses with paid employees are White-owned, while businesses owned by people of color are more likely to be sole proprietorships



Source: U.S. Census Bureau, 2012 Survey of Business Owners

For most entrepreneurs, but particularly for entrepreneurs of color, the difference between sole proprietorship and a small business with employees translates to a dramatic leap in earnings and business value. The average Black-owned business with paid employees, for instance, made eighty-two times more than their sole proprietor counterparts in 2012. Among businesses with paid employees, the gap in business value between Black-owned and White-owned businesses narrows from a factor of twelve down to two. That entrepreneurs of color consistently employ fewer employees and generate less revenue than their White counterparts suggests capital gaps contribute to the inability of entrepreneurs of color to grow and expand their businesses.[31]

Figure VII. Among businesses with paid employees, Black, Latinx, and Asian-owned businesses remain undervalued but begin to close the gap with White businesses

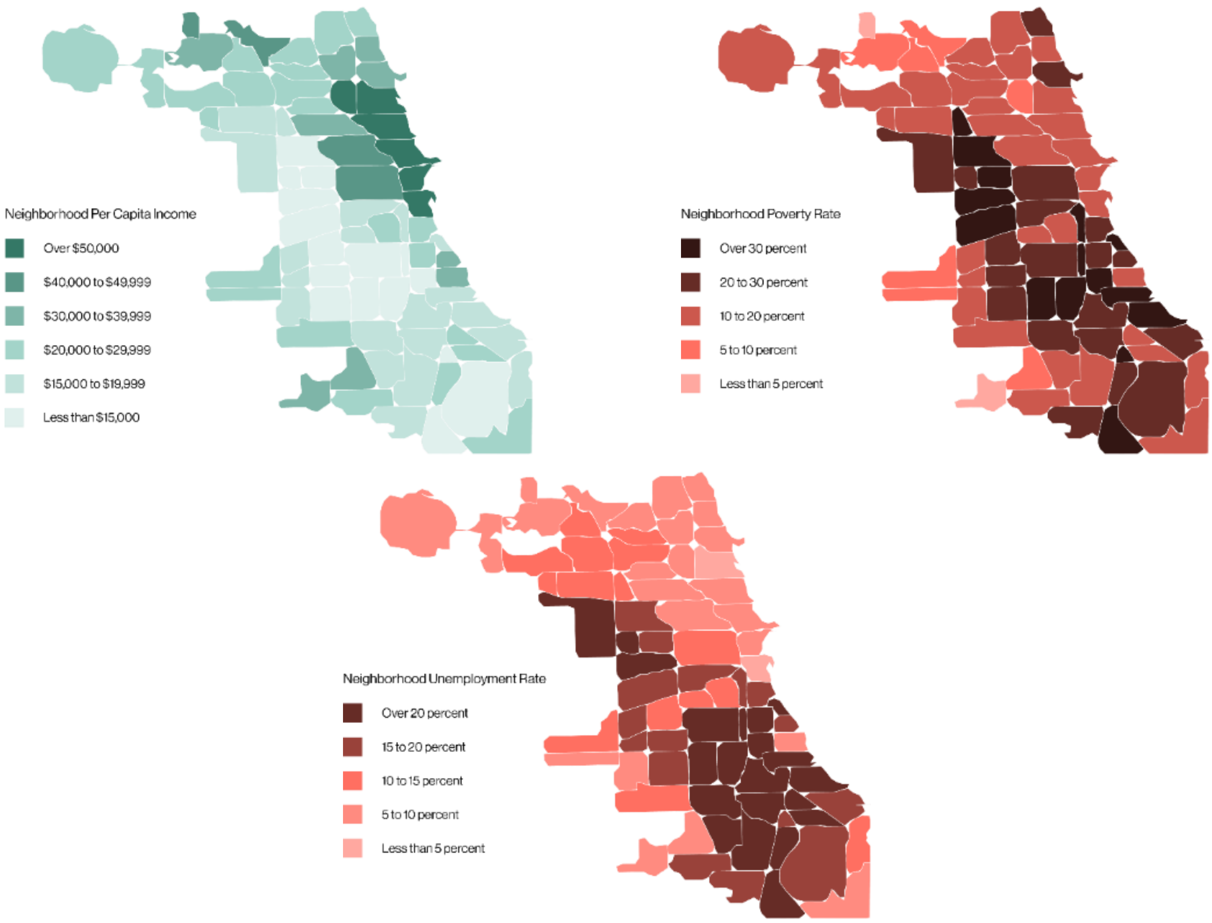


Source: U.S. Census Bureau, 2012 Survey of Business Owners

That said, while access to capital remains vital to business viability for entrepreneurs in neighborhoods redlined by large financial institutions, these efforts cannot tackle racial wealth disparities in isolation but instead require broader community wealth strategies to reach their potential. For entrepreneurs of color on Chicago's South and West Sides, the city's segregated economy not only limits their access to affordable loans, it also undermines the purchasing power of consumers in their communities. As *Figure VIII* highlights, economic opportunity closely mirrors historical redlining patterns, with the lowest per capita income *(lightest shades of green)*, highest poverty rates *(darkest shades of red)*, and highest unemployment rates *(darkest shades of red)* heavily concentrated in Chicago's predominantly Black and Latinx neighborhoods.

31 Next Street and CRF, USA, *Small Business Ecosystem.*

Figure VIII. The South and West Sides are home to lower per capita income, higher poverty rates, and higher unemployment rates



Source: City of Chicago – Selected socioeconomic indicators in Chicago, 2007 – 2011

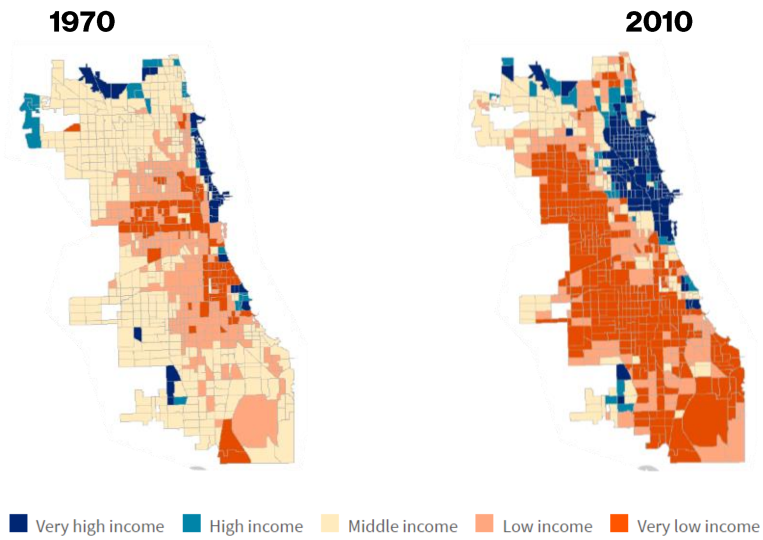
Moreover, this stark spatialized racial inequality has dramatically intensified over the past several decades. According to the Voorhees Center for Neighborhood and Community Improvement at the University of Illinois-Chicago, Chicago lost most of the middle-class households that once made up nearly half of the city between 1970 and 2010, transforming into a highly polarized city with wealth overwhelmingly concentrated on the North Side *(Figure IX)*.[32] These patterns reflect white flight to the suburbs, the growth and geographic expansion of Black and Latinx populations in the city over this period, and the subsequent influx of highly-educated residents to North Side neighborhoods.[33] Yet, the patterns also reinforce the reality that economic exclusion extends well beyond small businesses and would-be entrepreneurs. Though neighborhood entrepreneurs often provide essential goods and services, the lower purchasing power in communities with concentrated racialized poverty limits the

32 Nolan, *A Deepening Divide.*

33 Lutton, "Middle Class."

ability of these businesses to grow their sales and payrolls. Ending redlining once and for all will require public and private institutions to redeploy capital to underserved borrowers in economically excluded neighborhoods, but it will also demand multipronged action by local, state, and federal actors to expand access to living wages, career opportunities, and affordable goods and services in these communities.

Figure IX. Chicago has lost much of its middle class since 1970, with concentrated wealth on the North Side and economic exclusion on the South and West Sides



Source: Voorhees Center, University of Illinois at Chicago

As a community development strategy, microlending has typically functioned within this market context and served a variety of entrepreneurs underserved or excluded by traditional lending ecosystems. Those looking to try out a new idea, those struggling to secure financing from a bank, those with relatively low earnings, those with fewer than five employees, if any at all, and those who may be looking to grow their microenterprise but need a little support. Microlenders often bill their value proposition as helping entrepreneurs start, grow, and expand their businesses to the point at which they can hire employees or add a few more to their payroll. Accion Chicago, the preeminent microlender in Chicago, estimates that it helped create or maintain 2.7 jobs and over $57,000 in local wages for every microloan it funded in 2018.[34] Given the persistence of Chicago's segregated economy, the promise of access to capital for entrepreneurs of color and the resulting local jobs and wages goes even further in South and West Side communities historically and presently underserved by the city's racialized lending ecosystem.

34 Accion Chicago, *2018 Annual Report*.

2.3. Building Wealth in a Segregated Economy

In responding to present-day lending disparities and racial wealth divides, CMI and other access to capital program evoke a long tradition of strategies to grow wealth among Black residents and other people of color within a segregated economy. From Booker T. Washington and W.E.B. DuBois through the present, there has been a tense debate over how best to generate wealth in a segregated economy – separation or integration. That is, should Black residents systematically excluded from wealth building opportunities construct their own separate economic institutions out of necessity and survival, from businesses to banks? Or, should policy makers advance policies, programs, and structures that integrate communities of color into predominantly White financial institutions and systems?

Though it does not fully capture the rich and nuanced history of Chicago as a "Black Metropolis" and the legacy of community development programs and efforts to extend investment to the South and West Sides, this case study situates CMI within the context of three particular responses to build wealth amidst economic segregation: the emergence of Black banking in Chicago, the rise of Black capitalism, and the story of American microfinance. Black banks emerged in the nineteenth and twentieth centuries to serve the needs of a separate and parallel economy in American cities, yet from Reconstruction to the Great Recession, Black banks struggled to balance their ability to serve their communities with maintaining financially viable. Microfinance, which emerged alongside the Nixon administration's Black capitalism efforts, carries this separatist mantle, by targeting a similar pool of underserved borrowers and communities historically excluded by large financial institutions. However, the American microfinance project remains a work-in-progress, as microlenders fail to meet the overwhelming demand for their services and continue to fall into the mission versus profit trap that undid their Black banking predecessors.

2.3.1. Black Banking in Chicago

Chicago provides a particularly useful context for this case study of an access to capital program not only because of the city's racialized lending landscape but also for the rich tradition of Black entrepreneurship and banking that blossomed despite it. After the Great Migration, Bronzeville came to embody the "Black Metropolis"; as the "foremost center of black entrepreneurship" in the country, the South Side neighborhood and its "robust commercial district" were home to some of the country's largest Black-owned life insurance companies, Black banks, and its best-known Black newspaper, the Chicago Defender.[35] Amidst the backdrop of the American apartheid embodied by racial segregation,[36]

35 Boyd, "Black Metropolis,"131.

36 Massey and Denton, *American Apartheid.*

Bronzeville was framed by elites as a "city within a city" in which Blacks could "find economic gain, social autonomy, and political freedom."[37] In fact, Black enterprise in Chicago expanded from around 500 entrepreneurs citywide in 1900 to roughly 2,500 Black-owned businesses on the South Side alone by 1937.[38]

The tremendous growth of Black-owned businesses in Chicago amidst the Great Migration helped establish the city as the center of Black banking in the North. In fact, the Black Belt of Chicago was "so densely populated and so thoroughly segregated that its financial needs supported" the two "titans of Black finance." Considered "models for successful commercial banking in the Black economy" before they shuttered amidst the Great Depression, the Binga State Bank and the Douglass National Bank controlled nearly a third of the combined resources of all Black banks in the United States at their peak in 1928.[39]

Black banking rose to prominence between World War I and the Great Depression, emerging out of the separate and parallel economy produced by the "racial animosity and housing segregation" triggered by "the surge of migrants entering cities of the north."[40] However, the "segregated economy held the seeds to its own destruction," as Black banks were continually undone by the same forces that led to their creation and struggled to balance community service with profitability. Even at their peak in 1926, Black banks collectively held just $13M – or 0.2 percent of all bank assets in the country. Assessments of Black banking from the nineteenth through twenty-first centuries notes the segregated economy, which results in disproportionately "small and volatile deposits" and "smaller and riskier loans," fundamentally breaks the money multiplier for Black banks preventing them from creating money through lending. Black banks and other mission-based lenders confront the conditions of and challenges posed by racialized poverty and segregation, yet as the legacy of Black banking in Chicago demonstrates "self-help microfinance cannot overcome macro inequality and systemic racism" on its one.[41]

2.3.2. The Rise of Black Capitalism

In addition to the lessons of Black banking in Chicago, the rise of Black capitalism as crafted and deployed by the Nixon administration presents further context for the growth of microlending to entrepreneurs of color in traditionally underserved neighborhoods. In the wake of the Civil Rights

37 Boyd, "Black Metropolis,"131; August and Rudwick, "From Plantation"; Massey and Denton, *American Apartheid.*

38 Boyd, "Urban locations," 2066; Drake and Cayton, *Black metropolis,* 434.

39 Baradaran, *The color of money.*

40 Ibid, 70.

41 Ibid, 279.

movement and the riots that followed the assassination of Dr. Martin Luther King, Jr. in 1968, including widespread destruction on Chicago's West Side, the Nixon administration adopted an "economic self-determination" agenda to "push for a segregated Black economy," as a counter to the War on Poverty initiatives. [42] Billed as "Black capitalism," this strategy "opposed all forms of legal race discrimination" yet rejected any integration efforts. Intended to "completely replace Johnson's anti-poverty programs," the Black capitalism agenda instead attempted to quell calls for integration or reparations by "link(ing) black poverty to welfare dependency" and embracing "voluntary segregation, self-reliance, and private enterprise" in lieu of government intervention.[43]

Movements for Black economic self-determination trace from the Freedmen's Bureau of the Reconstruction Era to Booker T. Washington's agenda for a segregated Black business economy through the Black nationalism of the 1960s.[44] However, the Nixon administration "co-opted the black power movement's rhetoric of economic self-determination" to divert policy attention and resources toward Black banking and enterprise, away from social welfare programs and other structural reforms promoting economic integration and a transfer of wealth and land. That is, if only "Black consumers would invest in their own communities, turning inward for solutions for their economic woes, rather than asking the state for a handout," they would achieve economic self-sufficiency and prosperity.[45] This approach effectively "delegated the responsibility to solve the racial wealth gap to the black community," while withholding the "power and the purse strings" held by the White political and economic establishment.[46] Unfortunately, this framing of denouncing discrimination and lauding Black business yet avoiding "systematic race-based economic reform" and pushing integration has proven incredibly durable.[47] Subsequent administrations have reinforced and adapted this "Black capitalist" logic over the coming decades, rebranding it as "minority enterprise" (Ford) or "community capitalism" (Clinton), and it continues to inform policy action toward Black poverty and wealth-building via entrepreneurship.

2.3.3. A Brief History of American Microfinance

Much like the history of Black banking, Chicago plays a pivotal role in the story of American microfinance, as the home to one of the earliest microlenders in the country, Shorebank Corporation. Shorebank, founded on the South Side in 1973 to combat white flight and urban decline, earned a reputation as an

42 Ibid 164

43 Baradaran, "Jim Crow Credit," 918.

44 Baradaran, *The color of money.*

45 Darity Jr. et al, "Closing the Racial Wealth Gap."

46 Baradaran, *The color of money,* 165.

47 Ibid.

"exemplar of community capitalism," that pursued a "triple bottom line: profitability, community development impact, and an environmental return."[48] Investing over $4B in inner-city Chicago at its peak, the bank helped "prove that disadvantaged communities and small businesses are credit worthy."[49] [50] Nevertheless, the bank grappled with the "same profitability trap that had ensnared Black banks for nearly a century," losing money from risky loans, small deposits, and high operation costs during its first decade.[51] Echoing the struggles of its Black banking predecessors and foreshadowing the pitfalls of its microlending successors, Shorebank, which ultimately shuttered its doors in 2010, demonstrated the challenge of "operating a profitable bank in…poor and segregated" communities.[52]

At the federal level, the passage of the Community Reinvestment Act (CRA) in 1977 opened the door for more widespread adoption of microfinance in the United States. Rooted in the "original affirmative action model," the CRA sought to remedy the legacy of explicit racial discrimination via redlining by requiring financial institutions to lend to low-income communities they long excluded.[53] Yet, as bankers and their regulators note, the color-blind approach to dealing with credit access in low- and moderate-income neighborhoods has left the CRA ill-equipped to address racial differences in loan access.[54] Nevertheless, for microlending institutions, the CRA offered mission alignment with their lending approach and new sources of funding; today, many banks comply with the regulation by outsourcing these loans to microfinance institutions, rather than making loans to these small businesses themselves.[55] Beginning in the 1980s, microenterprise development programs sprouted up across the United States, as nonprofits tested various access to capital models initially deployed overseas and then incorporated business training and technical assistance into their approach.[56] Much like the Black banks that came before them, however, no microlender "broke even, not even meeting operational costs" in the two decades after the passage of the CRA, leaving industry functioning as a "charity."[57]

The 1990s marked a turning point for federal level investment in microfinance. After recognizing microenterprises as a distinct business category in 1991, the Small Business Administration launched the Microloan Demonstration Project to "provide direct loans to nonprofit intermediaries who, in turn,

48 Baradaran, *The color of money*, 229.
49 Ibid.
50 Raheb, "Future of Microfinance," 42
51 Baradaran, *The color of money,* 229.
52 Ibid.
53 Ibid, 232.
54 Immergluck, "Credit to the Community."
55 Opportunity Fund, *Microlending in the United States.*
56 Raheb, "Future of Microfinance," 43.
57 Ibid, 43.

provide "microloans" of up to $50,000 to small business owners, entrepreneurs, and nonprofit child care centers."[58] Then in 1994, purportedly inspired by Shorebank in Chicago that "put the theory of community capitalism into practice,"[59] Congress passed the Community Development Banking and Financial Institutions Act to "facilitate the establishment of community development financial institutions" (CDFIs) dedicated to providing underserved borrowers and communities with responsible and affordable loans.[60] The act also seeded the Community Development Financial Institutions (CDFI) Fund to provide resources to these mission-based lenders. However, the most significant federal intervention came five years later in 1999 with the passage of the Program for Investment in Microentrepreneurs (PRIME) Act, which increased federal funding for microlending programs to CDFIs.[61] More recently, the American Recovery and Reinvestment Act (ACCRA) of 2009 injected an $50M into the Small Business Administration (SBA) microloan program and set aside another $24M for technical assistance. A year after ACCRA's passage, microlenders helped an estimated 347,000 entrepreneurs access more than $164M in loans.[62]

The Neoliberal Underpinnings of American Microfinance

Much like Black capitalism, however, microfinance promotes a market-based approach to racial wealth disparities, placing responsibility on entrepreneurs rather than compelling public and private financial institutions to redeploy capital and redistribute wealth. Bill Burrus, President and CEO of Accion USA, cites a series of converging forces that fueled the rise of American microfinance in the late 1980s and throughout the 1990s: the "debate over the effectiveness of government entitlement programs to help the disadvantaged escape poverty," rising income disparity from loss of blue-collar jobs, and demographic changes encouraging more a growing segment of the population to turn to self-employment.[63] Burrus noticeably adopts Black capitalist and neoliberal language centered in "upholding personal responsibility narratives" and "entrepreneurial liberation" to describe the systemic gutting of the welfare state by neoliberal economic policies and subsequent bootstrapping by those left in its wake.[64] Yet, this perspective operates to "intentionally ignore structural factors" and instead shifts the "responsibility of a solution to marginalized communities themselves."[65] These socioeconomic trends

58 Ibid, 41.

59 Baradaran, *The color of money,* 229.

60 Community Development Banking and Financial Institutions Act Of 1994, S.1275 – 103rd Congress (1994).

61 Raheb, "Future of Microfinance," 44.

62 Ibid.

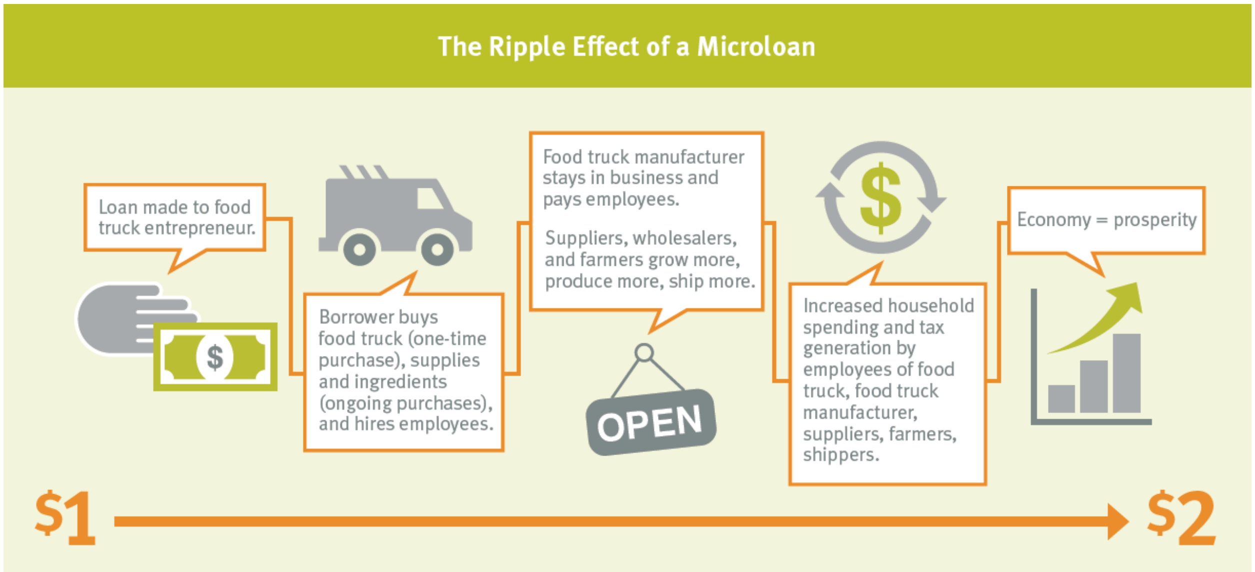
63 Burrus, "Lesson and trends."

64 Price, *Racial Wealth Gap,* 51.

65 Ibid, 51-52.

may have facilitated the growth of American entrepreneurship and in turn microlending; however, focusing the legislative and financial fix to "separate and unequal credit markets" on "small community banking, minority-owned banking, and mission-oriented institutions" like microlenders bypasses the structural forces that bred and reproduce racial credit inequality.

Figure X. According to the Opportunity Fund, loans to microenterprises provide a 2:1 return on investment to their local economies



Source: Opportunity Fund. Ripple Effect: The Macroeconomic Impact of Small Business Lending.

The Impact and Shortcomings Microfinance

Because they operate in underserved markets, microlenders typically take on clients that banks consider high risk, based on "credit score, collateral levels, cash flow, time-in-business, and other factors considered during a bank underwriting process."[66] Most of these borrowers are women, people of color, and low-to-moderate income clients, and for many of these entrepreneurs, microlenders provide the only "affordable, appropriate credit options." [67] Prominent mission-based lenders often describe the "ripple effect" their microloans provide entrepreneurs and their local communities *(Figure X)*, and in 2015, the two organizations conducted a longitudinal impact study of a nationwide cohort of their borrowers.[68] Among study participants, more than half saw increased profits, nearly 40 percent added employees, and many of those with workers increased employee benefits as a result of the microloans they

66 Newberger and Longworth, "Small business."
67 Accion and Opportunity Fund, *Support Entrepreneurs,* 84.
68 Ibid, 76.

received.[69] Moreover, entrepreneurs shared that their loans helped them achieve personal goals to improve credit and grow confidence.[70] They also reported a greater sense of financial stability, feeling “less worried about finances” and “more in control of their financial situation.”[71] The added financial stability of microloans helps entrepreneurs avoid “borrowing money from family and friends, relying on high-interest credit card debt, or falling prey to predatory lenders.”[72]

Nevertheless, several challenges threaten the viability of microlending in the United States, including: a failure to meet the needs of underserved borrowers, a lack of coordination and consistency between lenders, dependence on external sources to achieve financial viability, and a commodification of risk.[73][74] First and foremost, microlenders fall well short of meeting the overwhelming demand for microloans across the country, with an estimated market reach “far below 1 percent.”[75] Microlenders deserve some credit for responding to the systematic exclusion of entrepreneurs by traditional financial institutions, yet their collective inability to meet demand, particularly for businesses owned by women and Black, Indigenous, and people of color, greatly undermines the promise of microfinance as a economic development to advance racial equity. Despite this monumental task, the lack of a “uniform system for measuring…outcome and impact” among microlenders in the United States has contributed to an often-uncoordinated patchwork of lenders operating across the country with a variety of objectives and definitions of success. Most importantly, microlenders struggle to make the endeavor “self-sufficient,” often relying on deep subsidies to balance mission and financial viability.[76] Even for well-established microlenders like Accion, the “goal of creating programs that are financially self-sufficient” remains aspirational; after a decade over lending in the United States, Accion had only achieved 25 to 63 percent self-sufficiency across its network of affiliates.[77] At the same time, a growing body of research has questioned whether microlending is “losing its social mission in its quest for financial sustainability.”[78] This relates to a more pernicious criticism of microfinance: that microloans push debt as a solution,

69 Ibid, 79.

70 Ibid, 88.

71 Ibid, 92.

72 Ibid, 91.

73 Raheb, “Future of Microfinance,” 35.

74 Roy, “Subjects of risk,” 143.

75 Burrus, “Lesson and trends,” 6.

76 Raheb, “Future of Microfinance,” 48.

77 Burrus, “Lesson and trends,” 1-2.

78 Assadi et al, “Three musketeers,” 20; Brière and Szafarz, “Commercial microfinance”; D'espallier et al., “Unsubsidized microfinance”; Labie et al., “Discrimination”; Saab, “Micro Financing”; Serrano-Cinca and Gutiérrez-Nieto, “Microfinance.”

rather than addressing underlying structures producing racialized poverty.[79] Peddled as financial inclusion, microloans serve to monetize risk and perpetuate a situation in which the "poor always pay more." While the shortcomings of microfinance in the United States to-date suggest a still maturing movement, they also point to the larger challenges faced by Black banks and others attempting to generate wealth in communities excluded by traditional lending ecosystems and a thin line between inclusion and exploitation.

2.4. Closing the Gap

As this chapter highlights, CMI responds to longstanding racist lending patterns that leave business owned by people in color in Chicago underrepresented, undervalued, and underserved. It also follows a long tradition of public and private efforts to build wealth in a segregated economy, including but certainly not limited to the legacy of Black banking in Chicago, the persistence of Black capitalist strategies to promote entrepreneurship among people of color, and the emergence of microfinance in the United States as a community reinvestment strategy. As a single municipal access to capital program, CMI cannot hope to stem the adverse effects engrained in the city's lending landscape alone. However, as the following chapter details, the program provides a promising model for reaching entrepreneurs of color left behind by the traditional lending ecosystem and neighborhoods on the South and West Sides still grappling with a redlining redux as part of a broader racial equity toolkit.

79 Roy, "Subjects of risk," 143.

Chapter Three
Case Study: the Chicago Microlending Institute

> *"Small businesses are the backbone of our city's economy. This program will build upon proven models and bring more top-tier microlenders into the market next year. By using the $1 million loan pool being made available by the City, the new lenders will provide capital to more than 250 small businesses, helping them expand and fuel our economy."*
>
> *– Mayor Rahm Emanuel*[80]

In December 2011, Mayor Rahm Emanuel announced the formation of the Chicago Microlending Institute (CMI), a "first-in-the-nation" institute to train new lenders to make targeted loans to microenterprises in Chicago. Celebrated as a groundbreaking model in microlending, CMI sought to "create a scale-advantaged network of well-trained non-profit microlenders to more fully meet the credit needs of Chicago's smaller business,"[81] by seeding what would become a $2M revolving loan fund and tripling the number of local microlenders in the city. This case study evaluates the program on these stated objectives, analyzing to what extent affiliated microloans reached entrepreneurs of color and neighborhoods least served by traditional financial institutions and exploring how well the program operated for participating lenders.

To do so, the following chapter details its origins as a both a response to persistent racialized lending disparities in Chicago and a component of the Emanuel administration's small business agenda; its structural components, including mission, financing, participants, and curriculum; and its outcomes for borrowers, communities, and lenders. Over the course of four years, the program filled critical gaps in the city's small business lending landscape, directing much needed loan capital to entrepreneurs of color across Chicago, with a concentrated impact on the South and West Sides. However, though it successfully introduced two new microlenders to the region, these efforts produced mixed results throughout the duration of the program and after it concluded.

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80 City of Chicago, "Mayor Emanuel Announces Formation."

81 City of Chicago, "Request for Qualifications."

3.1. Origins

3.1.1. Unmet Demand and a $2.6B Credit Gap

From the outset, CMI was pitched to meet the needs of underserved entrepreneurs and to spur job growth in low-to-moderate income neighborhoods. The program was designed to support businesses with less than five employees, who employ over 20 percent of Chicago residents and "have the potential to create thousands of jobs in the neighborhoods they serve but lack the financial resources to expand and create more jobs."[82] Unable to access capital from traditional lenders, these entrepreneurs either close shop or "never grow to create jobs and reach their full potential."[83] Despite leading the region in microlending activities and enjoying year-over-year growth in loans disbursed, Accion Chicago conceded that it could not keep up with the demand for microloans on its own. Notably, at the launch of the program, the organization estimated that the needs of nine out of every ten small businesses and entrepreneurs in Chicago went unmet – a figure the City ballparked at $28M in microloans annually.[84] The solution: "a citywide network of non-profit business lenders to jump-start economic revitalization and job growth."[85]

Though CMI was formally announced by the Emanuel administration in late 2011, the impetus for the program emerged at the twilight of the Daly administration in 2009. According to those involved in the creation of the program, city officials approached Accion Chicago to help design a solution to support struggling entrepreneurs, after mounting small business closures on the city's South and West Sides and calls from local elected officials and stakeholders for municipal intervention. While Accion Chicago dominated the microlending space in the city at the time, the organization estimated that it only reached five percent of the demand for small business microloans in the Chicago market.[86] The City asked Accion Chicago to play a key role in the solution and designated financial support, with the understanding that the nonprofit would need to bring others to the table. According to those involved, a potential solution needed to "be broader than just one nonprofit" to ensure the City was not overly dependent on one lender, as well as provide geographic and demographic coverage to expand the reach of microlending services across the city. This framework ultimately became the guiding principles of an effort in which Accion Chicago would train a cohort of peer lenders to incorporate microlending into their services.

82 Accion Chicago.
83 Ibid.
84 City of Chicago, "Mayor Emanuel Announces Formation."
85 Accion Chicago.
86 Newberger and Longworth, "Small business."

Beyond this immediate need and political moment, CMI responded to the persistent lending disparities that exclude low-income neighborhoods and communities of color in Chicago from access to capital. As discussed in Chapter Two, business lending in Chicago follows a "clear pattern of disparity with respect to both the number of and volume of loans by the racial characteristics" of a neighborhood. In the four years prior to the launch of CMI, lack of access to credit contributed to a credit gap of over $2.6B in Chicago's communities of color, withholding more than 61,800 loans to businesses in predominantly non-white neighborhoods.[87] Part of the solution to this credit gap, according to the Woodstock Institute, involves increasing funding for and building capacity among Community Development Financial Institutions like Accion Chicago to expand the investment they can bring to low-income neighborhoods and communities of color.[88]

3.1.2. Mayor Emanuel's Small Business Agenda

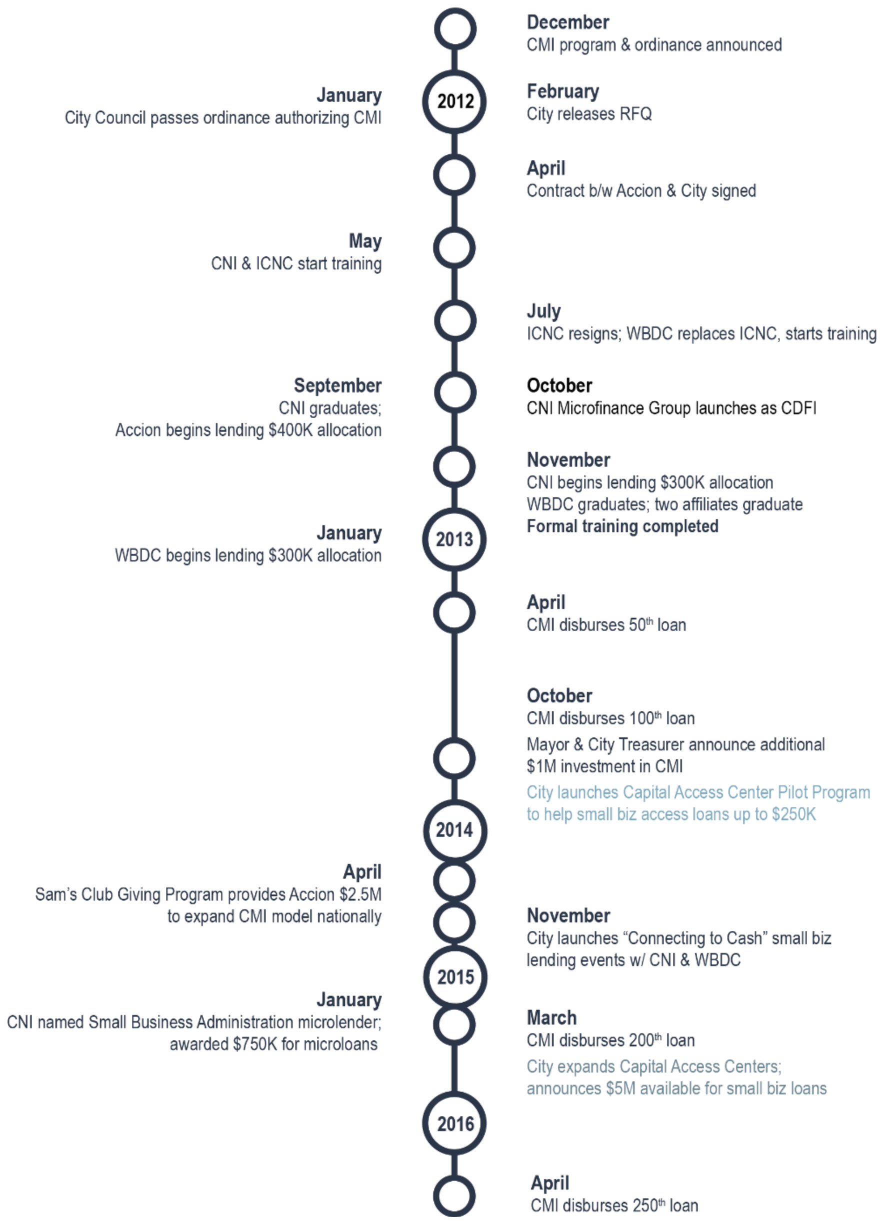
Although Accion Chicago drafted plans for CMI at the tail end of the Daly administration, Mayor Emanuel incorporated the program as a core component of his administration's small business agenda. Launching the program required significant effort to bridge the political divide between the two administrations and explain to the incoming mayor the value and potential impact of a citywide microlending network, according to an insider involved in the development of the program.[89] Ultimately, however, the mayor and his staff played a critical role helping to marshal public, private, and nonprofit resources to get the program off the ground.

As part of a larger effort to promote innovation and entrepreneurship, reduce red tape, increase support resources, and expand access to capital for small businesses, the Emanuel administration eventually framed CMI as the first stage of a more inclusive and equitable lending pipeline that "provides more resources to all types of capital seekers."[90] Two years after launching CMI, the Emanuel administration rolled out Capital Access Centers (CACs), a six-month pilot of three community-based service centers dedicated support small businesses seeking loans between $25,000 and $250,000. Designed to "help banks, microlenders, and other financial institutions fill their lending pipelines," the program targeted small businesses at the next stage in their growth beyond the amount of capital offered through CMI microloans.[91] After a successful pilot, the City rebranded the program as the Small Business Opportunity Center (SBOC) Program, expanded the program to eight and then eleven centers, and announced a

87 Ibid, 10
88 Ibid.
89 Interview by author, phone call, Feb 2020.
90 Emanuel, *Chicago Business Brief,* 16.
91 City of Chicago, "Capital Access."

$5M fund for small business loans.[92] According to the City, the program helped nearly 400 businesses secure a combined $3.7M in capital within two years of launching. By the end of his second term, the Emanuel administration championed both CMI and SBOC as hallmark small business initiatives and the on-ramp of a capital continuum for underserved borrowers seeking to start, grow, and expand their businesses in the city.

Figure XI. Timeline of the Chicago Microlending Institute, 2011 to 2016



Sources: Accion Chicago; City of Chicago

92 City of Chicago, "$5 Million."

3.2. Program Structure

3.2.1. Mission and Objectives

> *"CMI's mission is to become a highly effective means for Chicago to create a scale-advantaged network of well-trained non-profit microlenders to more fully meet the credit needs of Chicago's small businesses than is possible now."*
>
> – *Accion Chicago*[93]

While other municipalities have established revolving loan funds for small businesses, CMI offers an innovative model for pairing financial investment with capacity building and infrastructure support. From the outset, CMI was intended to not only disburse a greater volume of microloans to underserved entrepreneurs across the city but to also build a network of microlenders in the process by building the capacity of existing local nonprofits to incorporate microlending into their portfolio of activities. With "too few microlenders" operating in the city and available capital falling "far short of the need" among small businesses, both Accion Chicago and the City had bold ambitions to increase the number, size, and effectiveness of nonprofit microloan funds in Chicago by adding two new microlenders equipped to make more than one hundred loans a year.[94][95]

3.2.2. Financing the Program

Though the revolving loan fund administered through CMI reflected a drop in the City's $8.2B budget 2012, the creative financing of the program offers a compelling model for repurposing existing funding sources and assembling public-private investment to support entrepreneurs of color. As *Table A* shows, CMI launched with an initial $1.3M budget, with $1M reserved for the revolving loan fund shared amongst the three lenders and the remaining $345,000 allocated to training costs for Accion Chicago.

A significant advantage of the program was that it had not only a well-established partner in Accion Chicago willing to steer the training program but also an untapped funding source dedicated to small business waiting to be deployed. As part of a December 2008 agreement to sell city-owned parking meters to Morgan Stanley via a $1.15B, 75-year lease, the City Council allocated $100M of proceeds to a newly established Human Infrastructure Fund to support social service programs.[96] In November 2010,

93 Accion Chicago, *Microfinance Training Curriculum*.

94 Robbins, *Big Ideas,* 53.

95 According to a presentation by Accion Chicago in July 2013, only twelve microlenders in the United States at the time made more than one hundred loans per year. CMI intended to add two new lenders at that scale.

96 Chicago City Clerk, *Journal of Proceedings of the Chicago City Council*, December 2008.

the City Council then re-appropriated $1M from the Human Infrastructure Fund to the Department of Business Affairs and Consumer Protection (BACP) for a "Small Business Loan Fund."[97] Ultimately, this yet to be developed fund was granted to Accion Chicago to seed and administer the revolving loan fund associated with CMI. Within the first year of the program, Accion Chicago and the newly trained microlenders quickly disbursed the initial loan capital. In October 2013, Mayor Emanuel announced a partnership with the City Treasurer to invest an additional $1M to expand the loan fund.[98]

To effectively develop and implement the program, Accion Chicago needed an infusion of working capital to build the program curriculum and hire additional staff. According to an informant, however, the City did not want to cover operating expenses, explicitly prohibiting City funds for any administrative costs related to the program. Instead, the City partnered with Citibank and the Chicago Community Trust to fund a $345,000 operating budget for Accion Chicago and required participating lenders to build out their organizational microlending infrastructure using their own funds.

Table A. CMI Budget and Sources of Funds, 2012 and 2013

Revenue	Source	Amount	Recipient	Amount
Loan Capital	City of Chicago	$ 1,000,000	Accion Chicago	$ 400,000
			Chicago Neighborhood Initiatives	$ 300,000
			Women's Business Development Center	$ 300,000
Training Funds	Chicago Community Trust	$ 195,000	Accion Chicago	$ 345,000
	Citibank	$ 150,000		
Total		**$ 1,345,000**		**$ 1,345,000**

Source: Accion Chicago

97 Chicago City Clerk, *Journal of Proceedings of the Chicago City Council,* November 2010.

98 City of Chicago, "Expand Microlending Initiative."

3.2.3. Program Participants

At the outset of the CMI program, Accion Chicago aimed to recruit up to six high potential organizations interested in becoming microlenders and provide them with best practice consulting and general training, ultimately selecting two of these organizations for intensive training and grant funding. These two trainees included Chicago Neighborhood Initiatives, a community development corporation (CDC) and certified community development financial institution (CDFI) established in 2010 on Chicago's South Side, and the Women's Business Development Center, a Chicago-based nonprofit serving women and other underserved entrepreneurs in a nine-state region of the Midwest. The Industrial Council of Nearwest Chicago (ICNC) was originally one of the two participating lenders, but the organization dropped out of the program within months of starting the training process. Insiders note that this led to a two-step training process, which allowed Accion Chicago to enhance the curriculum between training Chicago Neighborhood Initiatives and the Women's Business Development Center.

Insiders involved in designing and administering the program shared a series of eight criteria they used to select participants, as described in *Table B*. According to these insiders, Accion Chicago and the City of Chicago prioritized established and financially sound organizations in which senior leadership demonstrated an interest in and commitment to making microlending a strategic priority. Insiders admitted they wanted participants who were drawn to the program not only because of the promise of loan capital but also because they saw mission alignment between their existing services and microlending to underserved borrowers. Additionally, program architects were looking for applicants with experienced staff and close relationships with the communities they served.

In addition to attending trainings and other program-related events, CMI expected program participants to dedicate their own financial and staff resources to building out their microlending services. These expectations included contributing approximately $65,000 in unrestricted capital for start-up funding to execute a successful launch and up to two full time employees to staff microlending operations in Year One. The program also set loan terms for the trainees, including an average loan size of $8,000 to $10,000, average term of eighteen months, 13 percent annual interest rate, and 3.5 percent annual fees. Trainees were expected to originate approximately twenty-five loans in the first year and substantially increase their loan volume in subsequent years. Once principal was repaid lenders were required to recycle these payments into new loans and into growing the loan portfolio.

Table B. Criteria for CMI Trainee Candidates

Trainee Qualification Criteria (Ranked in Order of Importance)
1. Board of Directors, executive mgmt., and staff committed to entering the microlending business and seeking to achieve a reasonable scale of activity – i.e., prepared to establish the necessary governance for this activity to make it a strategic priority.
2. In sound and sustainable financial condition to absorb the risks of microlending and be able to access incremental loan and grant capital as required.
3. History of consistent and ongoing executive leadership.
4. Strong diverse, board with a record of sound, successful decision making.
5. History of successfully launching and implementing new products and services; prior lending experience not required.
6. Minimum two-year track record demonstrating increased, diversified levels of fundraising.
7. Possess (or have access to) a level of infrastructure upon which to build a robust microlending operation – e.g., trainable and interested staff and managerial, analytical, operational, technical, and administrative capacities and capabilities.
8. Currently offer products complementary to microlending to a moderate-income urban population, deliver products to a substantial portion of the City, and have strong community presence.

Source: Accion Chicago. "Developing a Microfinance Curriculum." Oct 2013.

3.2.4. Microlender Training: the CMI Curriculum

In addition to distributing a portion of the loan pool to Chicago Neighborhood Initiatives and the Women's Business Development Center as seed capital for small business loans, CMI also provided these organizations with training and best practice consulting to "establish [the organizations] as stable microlenders." Leveraging their microlending experience and expertise, Accion Chicago staff ran the "institute" and administered training to each organization in staggered sessions between May and November 2012. As *Table C* outlines, this training includes a series of nine sessions intended to teach trainees the "soup to nuts on how to do the entire process."[99] The institute began with a feasibility assessment to help organizations identify their existing gaps and to allow Accion Chicago to customize the curriculum to meet specific organizational needs, including governance, structural competency, and capacity gaps. The remaining curriculum walked personnel through fundamentals related to sales and marketing, credit process and analysis, operations management and back office process, and risk

99 Interview by author, phone call, Feb 2020.

management. Building on these basics, the process concluded with sessions dedicated to developing governance structures and a budget and business plan for the during of the program.

When asked about the curriculum, insiders provided a variety of feedback on what they found most helpful. One insider at Accion Chicago involved in the design and implementation of the program curriculum warned that "training should not be overemphasized:" instead, the objective was to "create a structure."[100] That said, insiders at participating organizations found the cases particularly useful and described the personalized training their staff received as more effective than classroom teaching. Others wish a greater emphasis had been placed on peer network support and on building out back office operations for new microlenders.

Table C. Chicago Microlending Institute Curriculum - Overview

Session	Objectives	Outcome
Feasibility Assessment	Teach process and help orgs complete situation and feasibility assessments Identify gaps as well as process and accountability to close gaps	Identify all personnel to be trained Customize curriculum to meet specific needs, including governance, structural, competency, and capacity gaps
Marketing and Customer Satisfaction	Teach sales, marketing, and origination Develop a sales and marketing game plan Implement marketing and selling process to develop sales leads	Train all personnel in fundamentals of sales and marketing Develop a sales and marketing game plan Prepared to take applications and review live deals under supervision
Credit Training	Teach loan process, basic credit analysis, and credit portfolio monitoring from initial lead through loan repayment	Train all personnel in fundamentals of credit process and analysis Prepared to start taking applications and reviewing live deals under supervision
Credit Transactions: Case Studies and Live Deals	Teach up to eight credit cases of actual completed deals Assign multiple live deals to analyze	Train all personnel in fundamentals of credit process and analysis Prepared to start taking applications and reviewing live deals under supervision

100 Interview by author, phone call, Feb 2020.

Technology and Infrastructure	Teach back office options and select operating infrastructure Develop game plan for implementation	Train all personnel in fundamentals of operations mgmt. and back office process Develop a game plan for creating back office structure Prepared to process applications and book live deals under supervision
Risk Management	Teach risk mgmt. and collections policies Implement risk review, approval, and collection process	Train all personnel in the fundamentals of risk mgmt. Develop game plan for risk mgmt. Prepared to review own live deals under supervision
Governance, Approval, Attestation, Audit, and Compliance	Teach and establish governance, approval, attestation, audit, and compliance	Identify key personnel to assess and choose mgmt., compliance, and control Prepare and implement game plan for creating the governance structure
Resource Development	Teach fundraising techniques specific for microlending	Identify incremental resource development options Set accountability and goals for fundraising
Financial Management	Teach financial management processes Set objectives for a four-year draft microlending budget and business plan	Produce a four-year business, financial, and mission plan for microlending and means to report performance versus objectives

Source: Accion Chicago. "Developing a Microfinance Curriculum." Oct 2013.

3.3. Program Outcomes

Based on the benchmarks set by Accion Chicago and the City of Chicago, the success of CMI can be evaluated on whether it met targets for serving small businesses in need and to what extent it developed the city's microlending infrastructure. The program achieved early success and exceeded its stated performance metrics. More importantly, CMI lenders invested heavily in Black and Latinx entrepreneurs on the South and West Sides of Chicago. Yet, while the program expanded lending coverage to historically underserved neighborhoods, CMI achieve mixed results in building a network of top tier microlenders. Instead, eight years after the program launched the three participating organizations have achieved varying levels of success as microlenders.

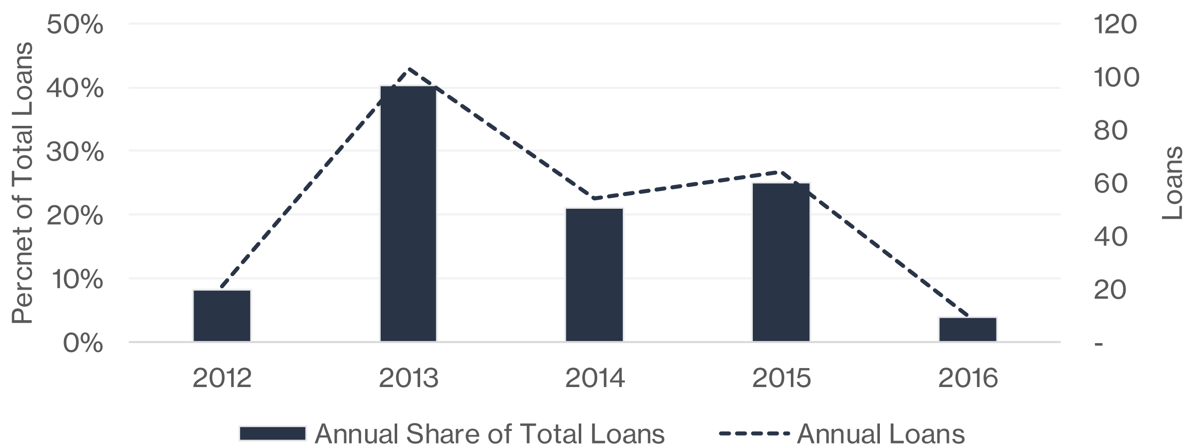
3.3.1. Borrower Outcomes

Within its first year of lending, CMI validated the tremendous need for capital infusion in underserved borrowers, and over the course of four years, the program successfully shepherded loans to Black and Latinx entrepreneurs on the South and West Sides of Chicago. Quantitative analysis of CMI lending activity shows the program primarily served entrepreneurs of color and disinvested neighborhoods across the city. However, as discussed in Chapter One, this case study was unable to incorporate the qualitative perspectives of these entrepreneurs to understand how well the performance metrics match the on-the-ground experience of borrowers. Nevertheless, the program provides a model for reaching borrowers and neighborhoods long excluded by traditional financial institutions.

Year One: One Hundred Loans and an Additional Capital Infusion

While internal and external projections from the nascent stages of the program offer a range of potential benchmarks, the City estimated that the program would ultimately serve over 250 businesses. Within four years, the program achieved the lending targets set by Accion Chicago and the City. By 2016, the three lenders disbursed a combined 255 microloans that invested nearly $2.6M in small businesses and created or maintained 1,008 jobs.[101] As *Figure XII* highlights, however, the first year of lending was the most active for the program, with nearly half of all CMI-funded loans disbursed by the end of 2013.

Figure XII. Roughly 40 percent of CMI loans came within the program's first year of lending



Source: Chicago Dept. of Business Affairs and Consumer Protection

101 An April 2018 report published by the City of Chicago cites that the revolving loan fund seeded through Chicago Microlending Institute had lent $3.4M to 286 businesses to date. While these figures exceed the 2016 statistics used in this study, data made publicly available by the City only includes data through February 2016. For consistency and analysis purposes, data included in this study reflects totals reported in the City's four-year update.

Within its first full year of lending, CMI comfortably exceeded lending goals and received crucial external validation. According to the Request for Qualifications (RFQ) released in February 2012, the City projected at least one hundred new loans, 200 to 300 jobs created or maintained, $3M to $5M in payroll, and $10M to $15M in annual business revenue within the first year of the program. Seven months later, Accion Chicago began lending its $400,000 allocation, and by the following January, both Chicago Neighborhood Initiatives and the Women's Business Development Center had graduated from training and transitioned to lending their respective allocations. Within the inaugural year of lending, CMI lenders disbursed 44 percent of all microloans and 39 percent of the total amount lent between 2012 and 2016. These loans invested a combined $1M in 111 small businesses, creating or maintaining nearly 470 jobs, and generating a combined $19.3M in revenue and $7.7M in annual payroll. By October 2013, the program celebrated its one-hundredth loan, and its early results helped the program secure an additional $1M investment from the Mayor and City Treasurer to replenish the loan fund.

Table D. CMI loans reached 111 businesses and created or maintained 468 jobs within the first year of lending

Lender	Loans	Jobs Created	Jobs Maintained	Total Jobs	Share of Jobs
Accion Chicago	64	125	132	257	55 percent
CNI	25	48	59	107	25 percent
WBDC	22	42	62	104	23 percent
Total	**111 loans**	**215 jobs**	**253 jobs**	**468 jobs**	

Table E. CMI loans invested over $1M in small businesses within its first year of lending, generating a combined $19.3M in revenue and $7.7M in annual payroll

Lender	Loans	Amount Lent	Avg. Loan Size	Revenue Generated*	Annual Payroll†
Accion Chicago	64	$ 400,533	$ 6,258	$ 11,236,000	$ 4,240,500
CNI	25	$ 308,585	$ 12,343	$ 4,350,000	$ 1,765,500
WBDC	22	$ 297,500	$ 13,523	$ 3,828,000	$ 1,716,000
Total	**111 loans**	**$ 1,006,618**	**$ 9,069**	**$ 19,314,000**	**$ 7,722,000**

Source: Accion Chicago

**Based on Accion Chicago 2012 average of $174,000 per business.*

†Assumes hourly minimum wage of $8.25.

Moreover, the inaugural year of CMI set the tone for the program's ability to reach borrowers from historically underserved communities. Of the first 111 loans administered through the program, three out of every four went to an entrepreneur of color, three out of every five went to a women-owned business, and nearly two out of every three went to low-to-moderate income borrower. For the eighty-four entrepreneurs of color who received loans within the first year of the program this investment collectively created or maintained over 350 jobs, spurred an estimated $14.6M in revenue, and added $5.9M in annual payroll.[102]

Table F. Most loans in the first year of CMI went to women, people of color, and low-to-moderate income borrowers

Lender	MBE Loans	Percent MBE	WBE Loans	Percent WBE	LMI	Percent LMI
Accion Chicago	43	67 percent	32	50 percent	37	58 percent
CNI	24	96 percent	16	64 percent	21	84 percent
WBDC	17	77 percent	16	73 percent	12	55 percent
Total	**84 loans**	**76 percent**	**64 loans**	**58 percent**	**70 loans**	**63 percent**

Source: Accion Chicago

Serving Entrepreneurs of Color

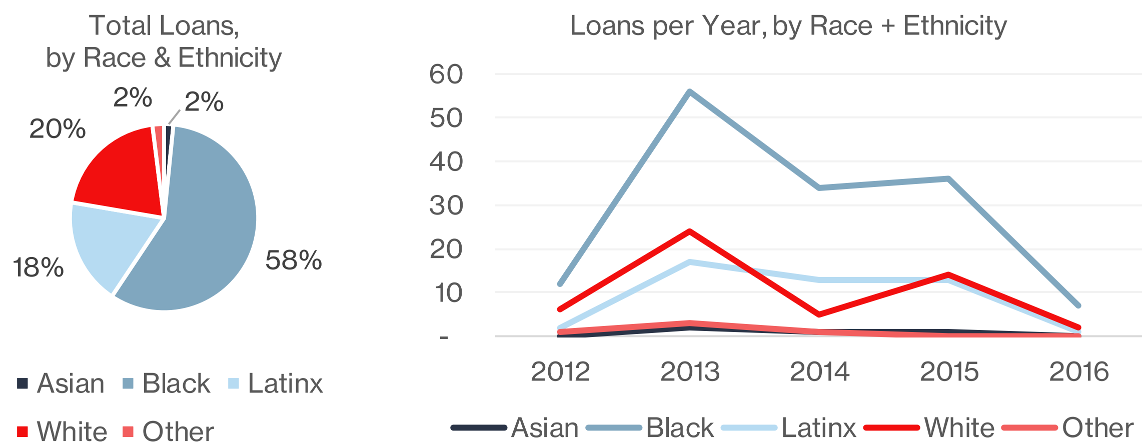
Building on the impact of the first year of lending, CMI loans continued to disproportionately support minority-owned businesses over the lifespan of the program, particularly those owned by Black and Latinx entrepreneurs. Of the more than 250 microloans administered through CMI roughly 80 percent went to non-White borrowers, with roughly three out of every four loans funding a Black or Latinx borrower.[103] More importantly, as *Figure XIII* highlights, the annual share of loans to non-White borrowers steadily rose as the program matured. Whereas nearly one-third of loans in 2012 when to White borrowers, this share dropped to under 10 percent by 2014. At the same time, while most loans went to

102 The City did not release detailed information for individual loans to minority-owned businesses, including loan size, job creation, payroll, or revenues. These estimates were calculated using the average loan size, jobs per loan, and number of loans to MBEs for each lender, as well as Accion Chicago's assumptions for revenues ($174,000 per business) and payroll ($8.25 minimum wage).

103 Data on race and ethnicity come from a dataset published by the City of Chicago. Certain data elements could not be included on a per-loan basis for privacy reasons, but the dataset summarizes loans per year by race, ethnicity, and gender. The dataset includes "Hispanic" as its own category, and it also includes an "Other" category which have been included as non-White for the purposes of this analysis.

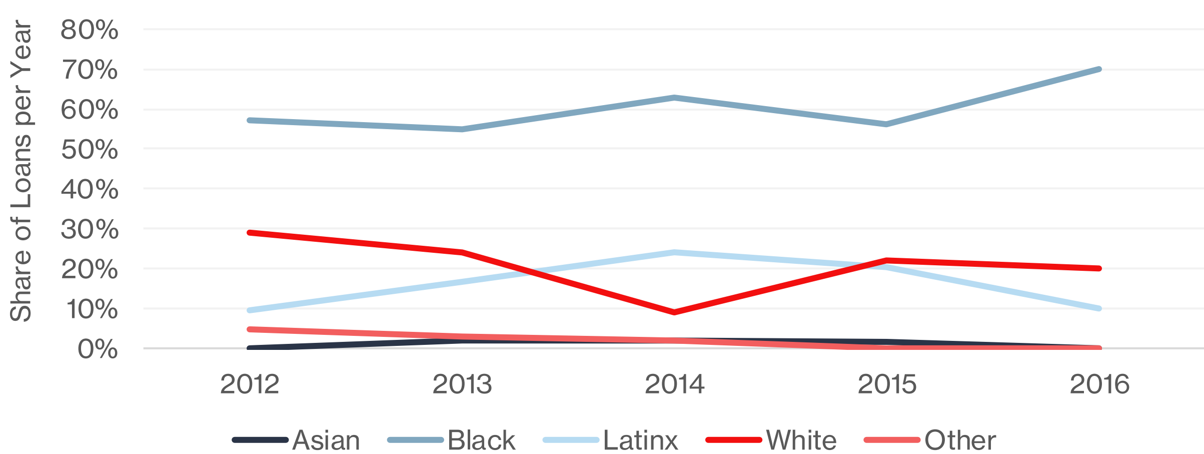
Black borrowers each year of the program, the share of loans to Black-owned businesses eventually eclipsed 70 percent by 2016.

Figure XIII. Over 75 percent of CMI loans went to Black and Latinx business owners



Source: Chicago Dept. of Business Affairs and Consumer Protection

Figure XIV. Loans to Black and Latinx entrepreneurs grew over the lifespan of the CMI program

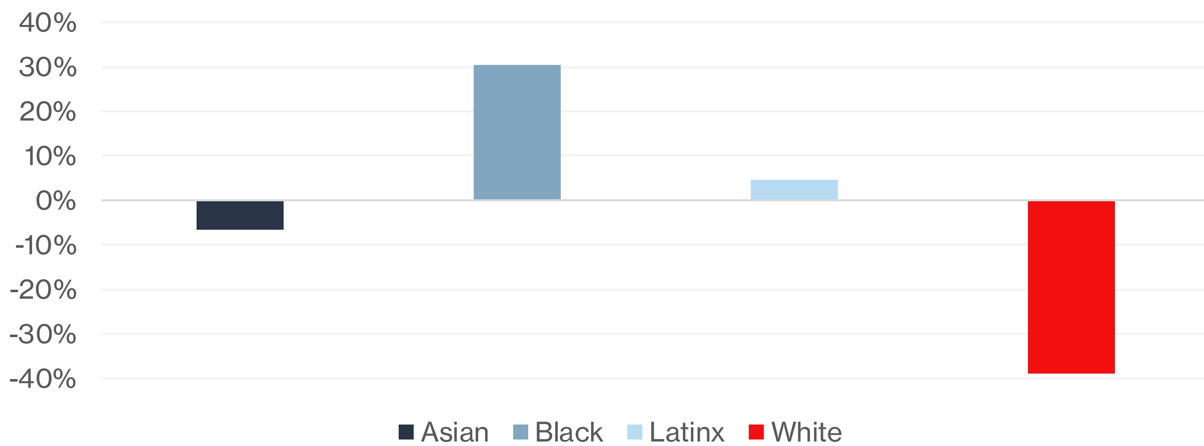


Source: Chicago Dept. of Business Affairs and Consumer Protection

Compared to their share of privately held businesses in the city, Black and Latinx entrepreneurs are disproportionately represented among CMI borrowers *(Figure XIV)*. When the program launched in 2012, Latinx-owned businesses made up around 14 percent of Chicago businesses, yet they received over 18 percent of CMI loans. Black business owners saw an even more dramatic increase in their share; despite making up 27 percent of Chicago's small businesses in 2012, Black-owned businesses received nearly 58 percent of program loans. However, while CMI provided Black and Latinx entrepreneurs 111 and 33 percent more loans than their proportional allotment, the program underserved Asian borrowers.

Over 8 percent of Chicago businesses are owned by Asian entrepreneurs, yet fewer than 2 percent of CMI loans went to Asian borrowers. In fact, Asian borrowers only received about one-fifth of the estimated loans based on their share of Chicago's small business community. This disparity likely stems in part from the place-based lending activity of Accion Chicago and Chicago Neighborhood Initiatives within their respective communities on the West and South Sides, preferencing Latinx and Black entrepreneurs in these neighborhoods over Asian borrowers elsewhere in the city.

Figure XV. CMI lent to Black and Latinx-owned businesses at a higher rate than their citywide share



Source: Chicago Dept. of Business Affairs and Consumer Protection

More importantly, the distribution of these loans among entrepreneurs of color holds significant implications for investing in underserved borrowers. If this type of program were replicated citywide, each $1M invested in loan capital would extend an estimated $800,000 to around eighty entrepreneurs of color, allowing them to create or maintain over 350 jobs in their communities. Moreover, if a revolving loan fund were expanded to meet the estimated $28M in demand for microloans in the city, it would be expected to provide 2,200 entrepreneurs of color over $22.3M, allowing them to create or maintain over 8,700 jobs.[104] By providing entrepreneurs of color, who are more likely to hire other people of color in their community, an opportunity to start, grow, or expand, these microloans not only build wealth for underserved borrowers but also help spur job creation and investment in communities of color.

104 Based on data provided by the City of Chicago, the average loan size for all loans administered through CMI was $10,119. Although the City did not report the total amount lent to minority-owned businesses, the average loan size to these firms within the inaugural year of the program was roughly $6,250 (Accion Chicago), nearly $12,350 (CNI), and over $13,500 (WBDC), according to Accion Chicago. These loans created or maintained an average of 4 to 4.7 jobs per loan, depending on the lender. Using lender-specific performance metrics, each additional $1M would provide an estimated 84 entrepreneurs of color with around $795,000 and create or maintain 356 jobs for these businesses.

Investing in the South and West Sides

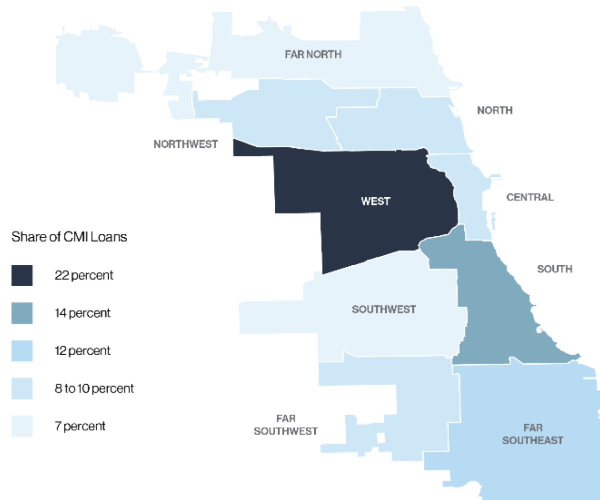
Loans from CMI not only funded entrepreneurs of color but also reached portions of the city historically excluded and underserved by the traditional lending ecosystem. Although CMI microlenders served borrowers in every corner of the city, loans were concentrated in neighborhoods on the South and West Sides *(Figure XVI)*. Nearly two out of every three loans and dollars disbursed through the program went to entrepreneurs in these community areas, which have endured historic structural and systemic underinvestment. These loans invested nearly $1.7M in 162 small businesses and created or maintained nearly 600 jobs in these communities.

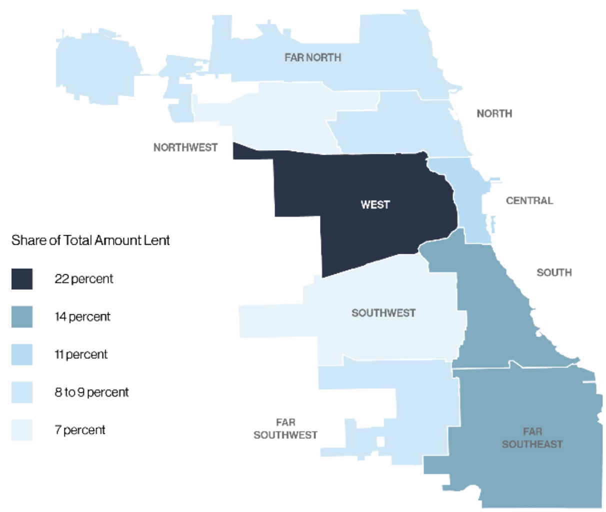
While these results represent a fraction of the capital needs in the city, they do suggest a proof-of-concept for the economic impacts of investing in historically excluded and underserved communities. If this type of program were replicated citywide, each $1M invested in loan capital would serve around one hundred small businesses and create or maintain over 390 jobs across the city, including over sixty small businesses and nearly 230 jobs on the South and West Side combined. Furthermore, if a revolving loan fund were established to meet the unfulfilled demand for microloans in the city, pegged at $28M when CMI launched in 2011 though likely higher a decade later, the resulting microloans would reach up to 2,770 businesses and add or preserve nearly 10,950 jobs. This level of investment would undoubtedly require an equally ambitious and herculean effort to scale the microlending infrastructure in the city to effectively mobilize these funds. However, it would also have a profound effect on these neighborhoods, marshalling nearly $6.2M to businesses on the West Side and over $12M to those operating across the South Side and creating or maintaining nearly 6,400 jobs across communities historically excluded from Chicago's economic prosperity.

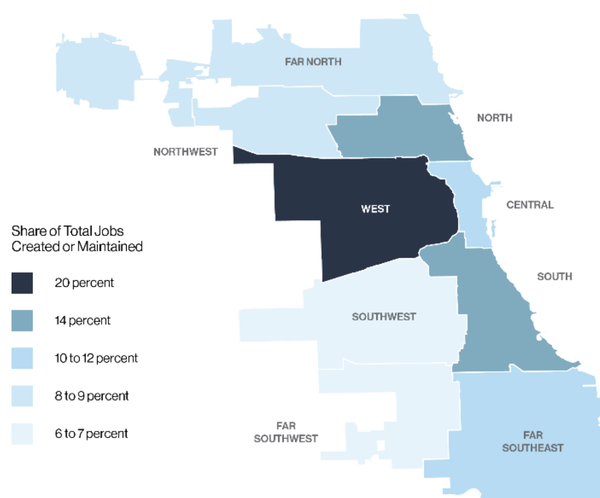
A revolving loan fund targeting entrepreneurs based on the South and West Side would have an even more profound effect on these neighborhoods. Assuming a CMI-based return on investment, each $1M invested into a revolving loan fund for microenterprises in these communities would help nearly one hundred entrepreneurs start, grow, or expand their business and create or maintain roughly 350 jobs in these neighborhoods.[105] Further investments in neighborhood businesses help build and strengthen local economies by increasing revenue and local hiring, particularly in neighborhoods with the highest levels of unemployment and economic hardship in Chicago.

105 Based on data provided by the City of Chicago, the average loan size for all loans administered through CMI was $10,119. The average loan size for all loans on the South and West Sides was $10,372. These loans totaled over $1.68M and created or maintained 589.5 jobs, translating to roughly $2,850 per job. Using these figures, an additional $1M targeted in these neighborhoods would yield an estimated 351 jobs.

Figure XVI. CMI loans disproportionately served entrepreneurs and communities on Chicago's South and West Sides







Source: Chicago Dept. of Business Affairs and Consumer Protection

Table G. CMI Lending and Job Creation, by Community Area

City Region	Total Loans	Share of Loans	Amount Lent	Share of Amount Lent	Total Jobs	Share of Jobs
Central	25	10 percent	$ 273,724	11 percent	104.5	10 percent
Far North Side	19	7 percent	$ 209,090	8 percent	78	8 percent
Far Southeast Side	31	12 percent	$ 364,091	14 percent	121	12 percent
Far Southwest Side	20	8 percent	$ 225,450	9 percent	70	7 percent
North Side	24	9 percent	$ 197,416	8 percent	140.5	14 percent
Northwest Side	21	8 percent	$ 181,508	7 percent	89	9 percent
South Side	36	14 percent	$ 352,400	14 percent	142.5	14 percent
Southwest Side	19	7 percent	$ 168,135	7 percent	57	6 percent
West Side	56	22 percent	$ 570,121	22 percent	199	20 percent
Total	**2,228 loans**		**$ 2,580,448**		**1,008.5**	

Source: Chicago Dept. of Business Affairs and Consumer Protection

Table H. Nearly two-thirds of CMI loans and funds went to the South and West Sides

City Region	Total Loans	Share of Loans	Amount Lent	Share of Amount Lent	Total Jobs	Share of Jobs
South Side	106	42 percent	$ 1,110,076	43 percent	390.5	39 percent
West Side	56	22 percent	$ 570,121	22 percent	199	20 percent
Total	**162 loans**	**64 percent**	**$ 1,680,197**	**65 percent**	**589.5**	**58 percent**

Source: Chicago Dept. of Business Affairs and Consumer Protection

3.3.2. Lender Outcomes

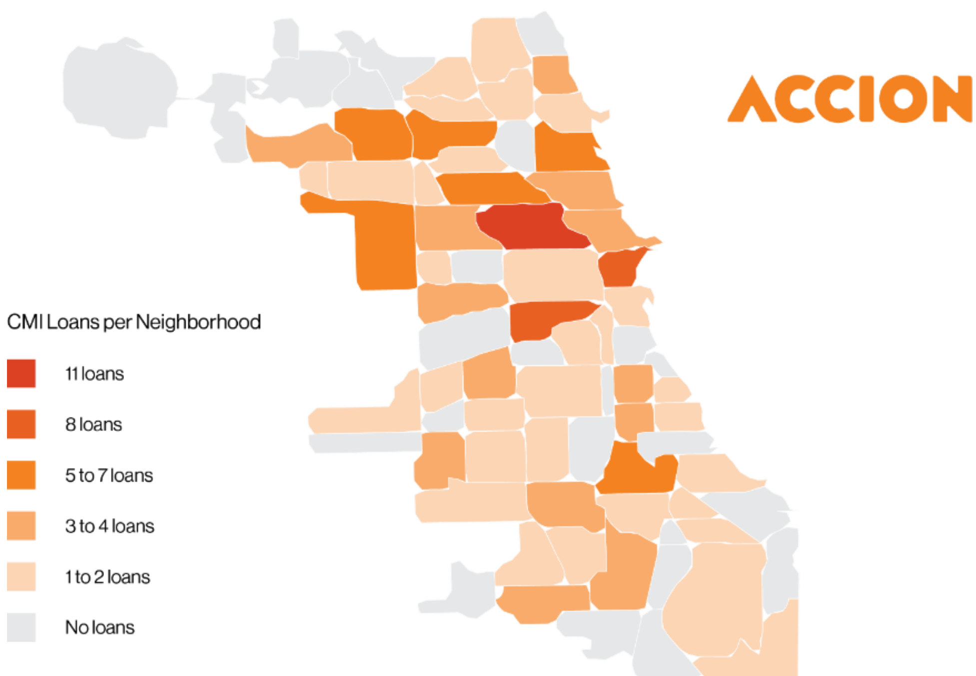
Based on the demographic and geographic distribution of microloans, CMI successfully directed investment to underserved borrowers and communities, funding nearly 200 Black and Latinx entrepreneurs and investing over $1.6M in Chicago's South and West Sides. However, data on CMI lending activities and conversations with insiders involved in the design and implementation of the program indicate mixed results regarding efforts to develop and scale the microlending infrastructure in Chicago. While the program successfully expanding lending coverage across the city, particularly on the South Side, CMI failed to achieve its ambitions of a scale-advantaged microlending network. Instead, eight years after launching, the program's legacy includes a regional small business ecosystem builder, an innovative community lender on the South Side, and a third microlender missing in action.

Success Story: Expanding Lending Coverage

CMI demonstrated a promising ability to reach entrepreneurs located outside of traditionally well-served neighborhoods, at least in part due to the diversity of its lenders and their respective markets. Most of the entrepreneurs funded by the program operated on the South or West Side of the city, yet the spatial distribution of the loans reflects the distinct market capture of each lender. Most of the loans on the West Side, for instance, were originated by Accion Chicago, which operates out of the West Side's Garfield Park neighborhood. Given its experience and existing infrastructure, however, Accion Chicago distributed dozens of loans to each corner of the city, sending 37 percent of its loans to South Side entrepreneurs and the remaining 41 percent to North Side borrowers *(Figure XVII)*. Women's Business Development Center, which serves entrepreneurs across nine Midwestern states, sent most of its loans to entrepreneurs based on the North and West Sides *(Figure XVIII)*. On the other hand, Chicago Neighborhood Initiatives, a smaller, more localized organization located in the South Side's Pullman neighborhood, disbursed 70 percent of its loans to South Side entrepreneurs *(Figure XIX)*.

Accion Chicago and the City of Chicago organized CMI to not only reach more underserved entrepreneurs but to also expand the coverage of microlending services. Insiders involved in the design of the program suggest the infrastructure approach stemmed from the existing limits to Accion Chicago's capacity, as well as the organization's ability to tap into the various networks of neighborhood businesses across the city. In an industry that relies on strong community relationships and referrals from banks, technical assistant partners, and other clients, the insiders I spoke with explained that it was key to develop microlenders who could help reach borrowers who may have never heard of Accion Chicago or were not on the organization's radar. If CMI had simply been an infusion of loan capital to strengthen Accion Chicago's lending capacity, program data and the organization's track record indicate that loans and the accompanying investment and job creation would have flowed to every corner of the city. However, the inclusion of Chicago Neighborhood Initiatives and the Women's Business Development Center to the program helped to ensure new networks of entrepreneurs were integrated into the city's microlending ecosystem and allowed each organization to leverage existing relationships and on-the-ground knowledge to better serve the needs of borrowers. According to Erica King, President of the Chicago Neighborhood Initiatives Microfinance Group, the organization's place-based approach not only provided staff with intimate knowledge of the needs of Black-owned businesses in Pullman and other South Side neighborhoods but also encouraged the organization to adapt its services to better suit these entrepreneurs as it developed its portfolio, including lowering interest rates and introducing new products such as loans for returning citizens.[106]

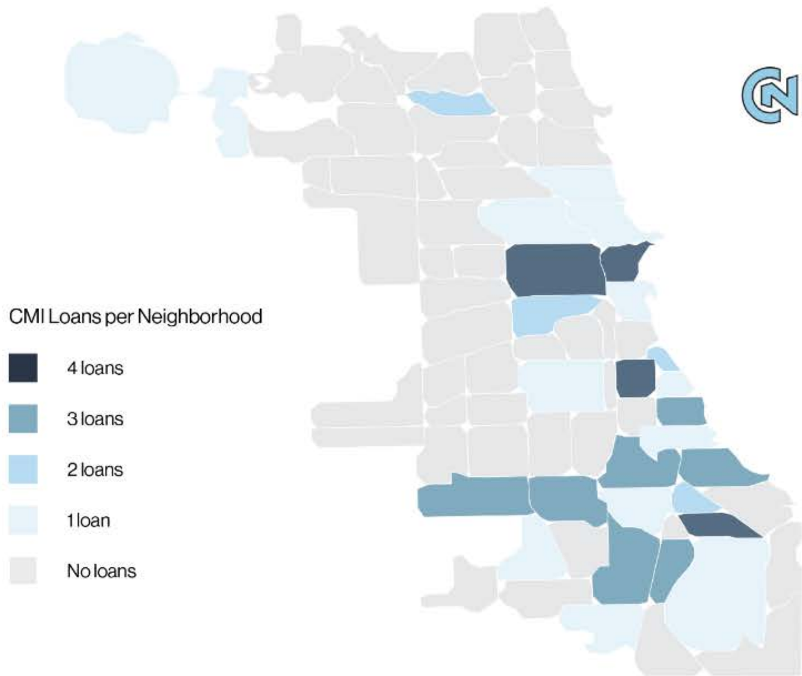
Figure XVII. Accion Chicago loans reached all corners of Chicago, with a large concentration on the West Side



Sources: Chicago Dept. of Business Affairs and Consumer Protection; Accion Chicago

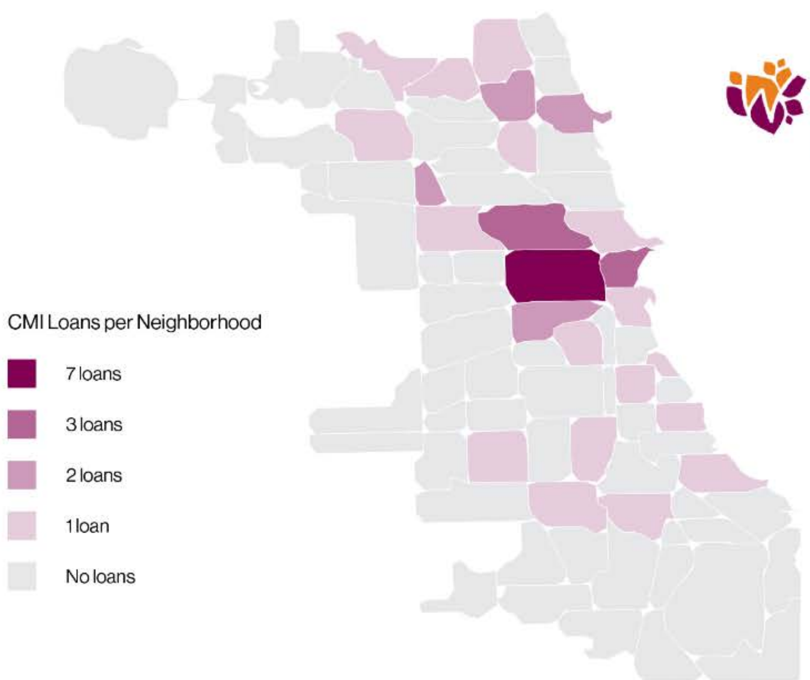
106 Erica King, CNI Microfinance Group, interview by author, phone call, Feb 2020.

Figure XVIII. CMI loans originated by Chicago Neighborhood Initiatives were heavily concentrated on the city's South Side



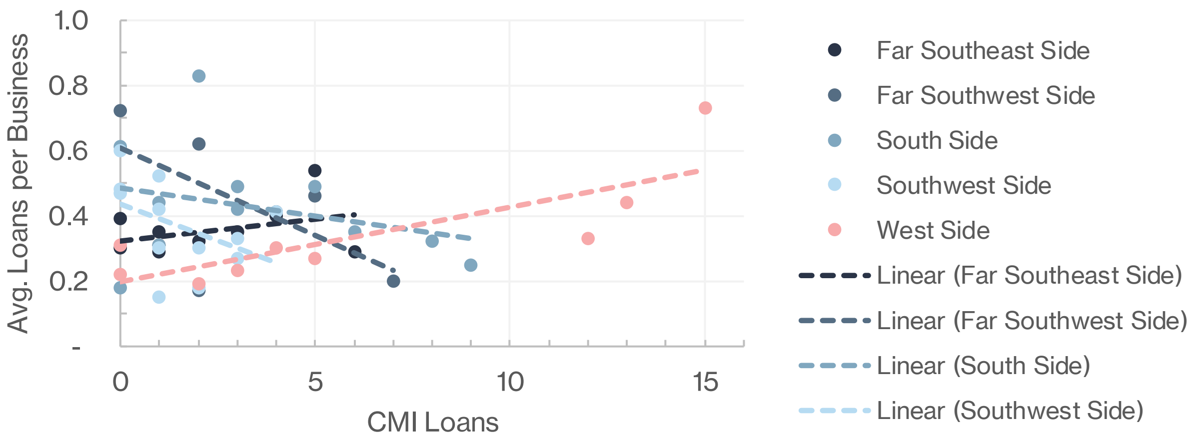
Sources: Chicago Dept. of Business Affairs and Consumer Protection; Chicago Neighborhood Initiatives

Figure XIX. Women's Business Development Center lent to entrepreneurs across the city, with roughly one-third going to businesses on the West Side



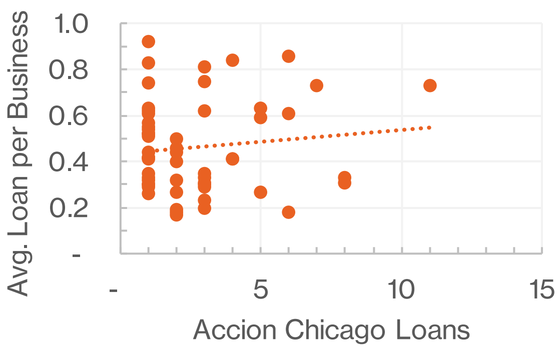
Sources: Chicago Dept. of Business Affairs and Consumer Protection; Women's Business Development Center

Figure XX. CMI loans reached South and West Side neighborhoods with low access to traditional business loans

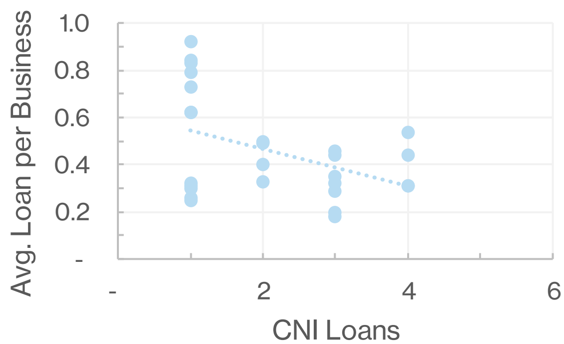


Sources: Woodstock Institute analysis, using HUD/USPS vacancy datasets for 2008-2012 and FFIEC CRA Reports for 2008-2012; Chicago Dept. of Business Affairs and Consumer Protection

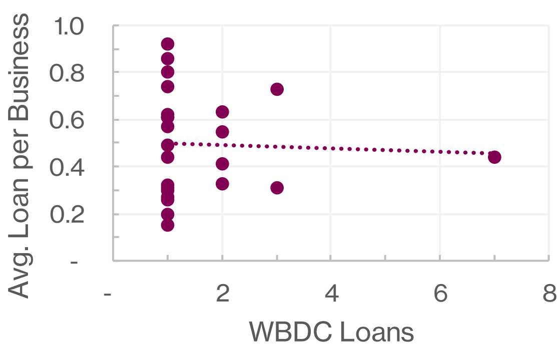
Figure XXI. Chicago Neighborhood Initiatives loans reached borrowers in some of the most underserved neighborhoods in the city



Positive correlation, but not statistically significant



Significant negative correlation (p=0.025)



Negative correlation, but not statistically significant

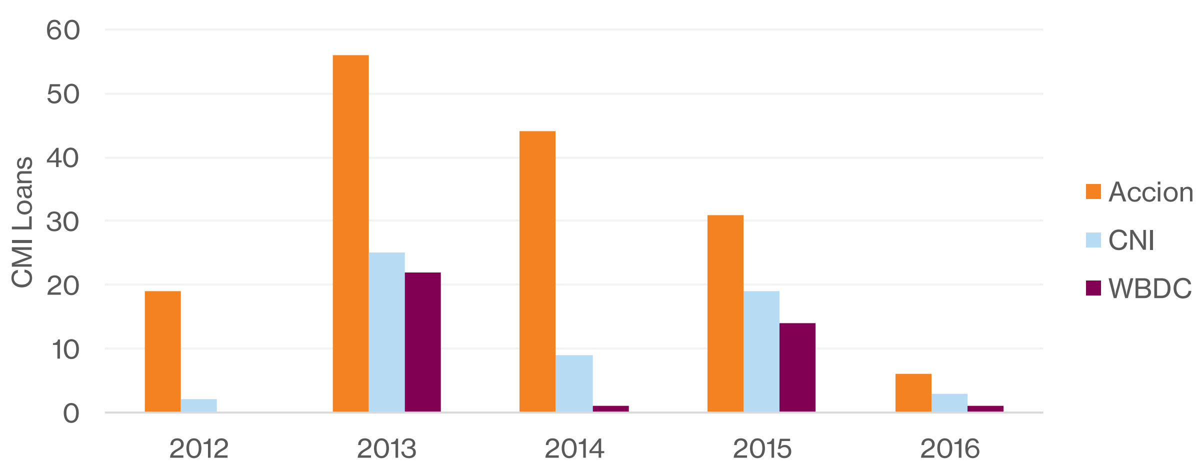
Sources: Woodstock Institute analysis, using HUD/USPS vacancy datasets for 2008-2012 and FFIEC CRA Reports for 2008-2012; Chicago Dept. of Business Affairs and Consumer Protection

Moreover, the lenders who participated in CMI filled critical gaps in the preexisting lending landscape, serving neighborhoods on the South and West Sides with the least access to traditional business loans. Nearly two-thirds of all CMI loans went to South and West Side neighborhoods. Of these loans, over 80 percent went to neighborhoods averaging fewer than 0.5 loans per business and 15 percent went to those with fewer than 0.25 loans per business. While most of the loans disbursed by each lender reached neighborhoods averaging fewer than 0.5 loans per business, three out of every four loans originated by Chicago Neighborhood Initiatives went to these communities, and over 10 percent of its loans went to neighborhoods averaging fewer than 0.25 loans per business. Of the three lenders, Chicago Neighborhood Initiatives was significantly more likely to lend to borrowers in neighborhoods with poor lending access before CMI, due to its focus on traditionally underserved neighborhoods on the South Side. Although Accion Chicago has responded to underlying disparities in the traditional lending ecosystem for decades, these patterns suggest that its partnership with a community-based service provider enabled CMI to extend this coverage to other financially excluded parts of the city.

Mixed Results: Growing a Microlending Ecosystem

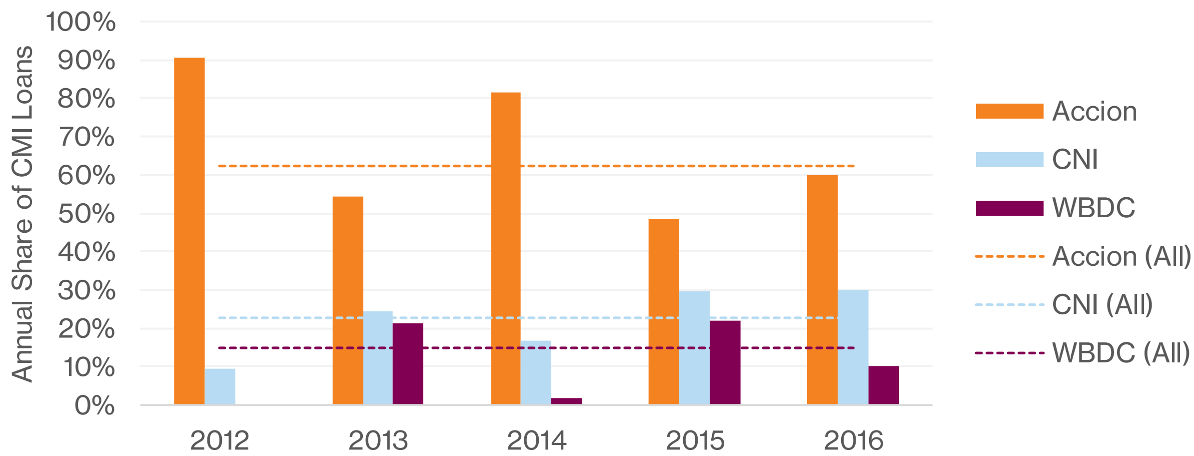
Although CMI showcased the potential for an expanded network of microlenders in Chicago, the microlending infrastructure that emerged from the program has seen a mix of successes and setbacks. The program introduced two new organizations to city's cadre of microlenders, and the three participating organizations deployed funds in an equitable and inclusive manner that achieved program metrics. However, lending data and first-hand accounts from insiders who administered the program indicate that the hallmark infrastructure the program set out to develop has struggled to remain intact.

Figure XXII. Accion Chicago lent the most CMI loans each year, though the lender played a diminishing role as the program matured



Source: Chicago Dept. of Business Affairs and Consumer Protection

Figure XXIII. The share of Chicago Neighborhood Initiatives loans steadily grew as the program progressed



Source: Chicago Dept. of Business Affairs and Consumer Protection

Accion Chicago: the "Ecosystem Builder"

Already the primary microlender in Chicago before CMI, Accion Chicago has solidified its role and leadership among small business lenders and emerged as a small business "ecosystem builder" in Chicago.[107] As *Table I* shows, more than 60 percent of loans originated from Accion Chicago, which lent roughly half of the program funds over this period. Compared to the initial allocation of 40 percent of loan capital to Accion Chicago, these figures suggest that the organization played a more outsized role than initially anticipated, which insiders attribute to its experience with microlending, existing infrastructure, and relatively small loan sizes. Whereas Chicago Neighborhood Initiatives and the Women's Business Development Center extended fewer loans at higher amounts, the average loan disbursed by Accion Chicago was just under $8,000. For reference, the average microloan from Accion Chicago the preceding year was just under $6,800. According to internal benchmarks, the program targeted an average loan size under $10,000, which it nearly achieved over its four years of operations largely due to Accion Chicago's portfolio. Insiders at Accion Chicago attributed the relatively higher size of the loans at Chicago Neighborhood Initiatives and WBDC during this period in part to credit staff, credit committees, and organizational risk tolerances adjusting to the expectations of microlending.[108]

107 Next Street and CRF, USA, *Small Business Ecosystem,* 23.

108 Accion Chicago.

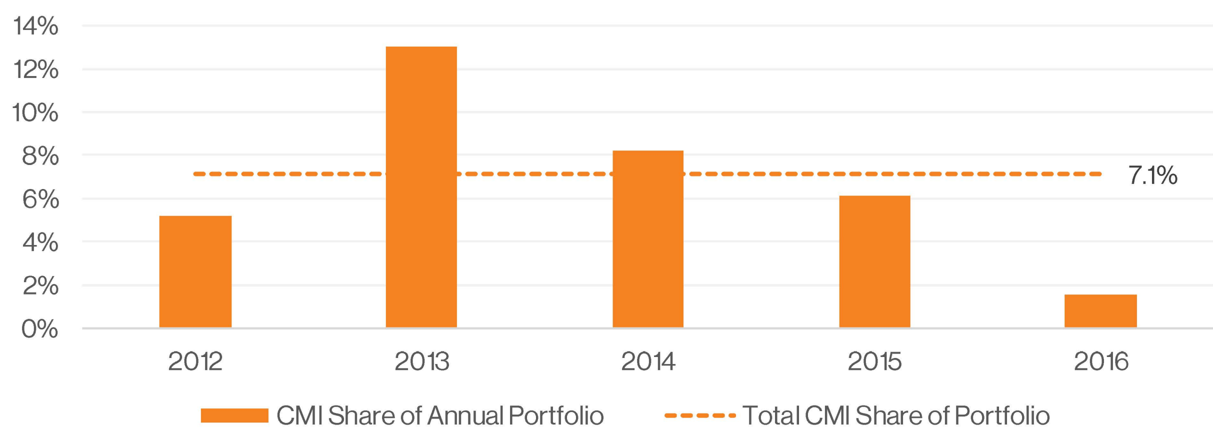
Table I. Accion Chicago originated over 60 percent of all CMI loans

Lender	Loans	Share of Loans	Amount Lent	Share of Amount Lent	Avg. Loan Size
Accion	159	62.4 percent	$ 1,269,117	49.2 percent	$ 7,982
CNI	58	22.7 percent	$ 787,585	30.5 percent	$ 13,579
WBDC	38	14.9 percent	$ 523,746	20.3 percent	$ 13,783
Total	**255 loans**		**$ 2,580,448**		**$ 10,119**

Sources: Accion Chicago

Despite Accion Chicago's central role in developing and administering CMI curriculum and loans, the program represented a small segment of the organization's lending activities at the time. However, Accion Chicago disbursed 2,228 loans across its portfolio between 2012 and 2016 – or nearly nine times the total amount of loans disbursed by the three lenders participating in the CMI program *(Figure XXIV)*. In fact, CMI-associated loans represent only 7 percent of all loans the organization disbursed between 2012 and 2016, and these loans only made up more 10 percent of Accion Chicago's portfolio in 2013, when 40 percent of all CMI loans were disbursed.

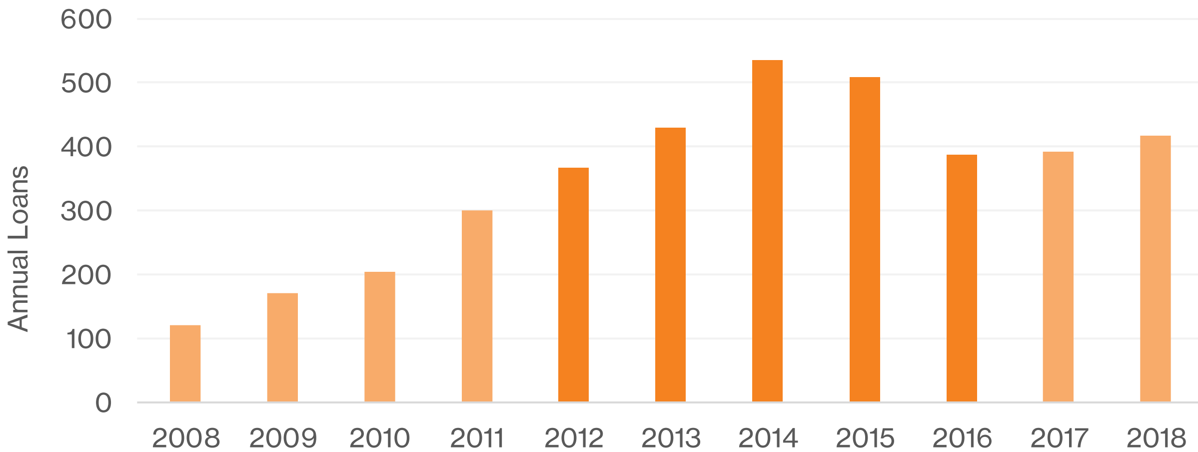
Figure XXIV. CMI loans represent a small fraction of Accion Chicago's lending activity between 2012 and 2016



Sources: Chicago Dept. of Business Affairs and Consumer Protection; Accion Chicago

These figures obscure the tremendous growth Accion Chicago enjoyed over the past decade. In the wake of the Great Recession, the organization lent 205 loans and roughly $1.43M to clients in 2010. For perspective, the 159 loans and $1.3M that Accion Chicago disbursed through the CMI program represent roughly 78 percent of 2010 loans and 89 percent of 2010 amount lent, respectively. Yet over the next four years, Accion Chicago set annual records in the number of loans it disbursed and the amount of money it lent to its clients, exceeding 500 loans and $5M lent annually. During the five-year period of the CMI program, the organization lent over $21M, or over 16.5 times the amount it lent using CMI funds. This rapid growth reflects a dramatic turnaround for an organization which was in dire condition less than a decade before the CMI program launched. After a 2003 audit exposed serious financial problems, insiders told me that the Board intervened to keep the organization afloat, resulting in nearly full staff turnover.[109]

Figure XXV: CMI capped a period of rapid growth in lending activity for Accion Chicago



Source: Accion Chicago

Furthermore, the growth Accion Chicago experienced and the relationships it developed during this period positioned the organization for future success and cemented its leadership role among small business lenders locally and regionally. Within two years of the CMI launch, the Sam's Club Giving Program provided Accion Chicago $2.5M in May 2014 to expand the CMI model to other markets and train a cohort of Women's Business Centers.[110] In 2018, Accion Chicago teamed up with the Industrial Council of Nearwest Chicago (ICNC) and others to open a food and beverage incubator on the West Side called The Hatchery, which provides access to capital, coaching, and networking opportunities to food businesses at every stage of development.[111] An insider at Accion Chicago explained that after their CMI partnership Mayor Emanuel became a significant proponent of the microlender, helping push the Hatchery project forward in his second term. Three years later, following a comprehensive market

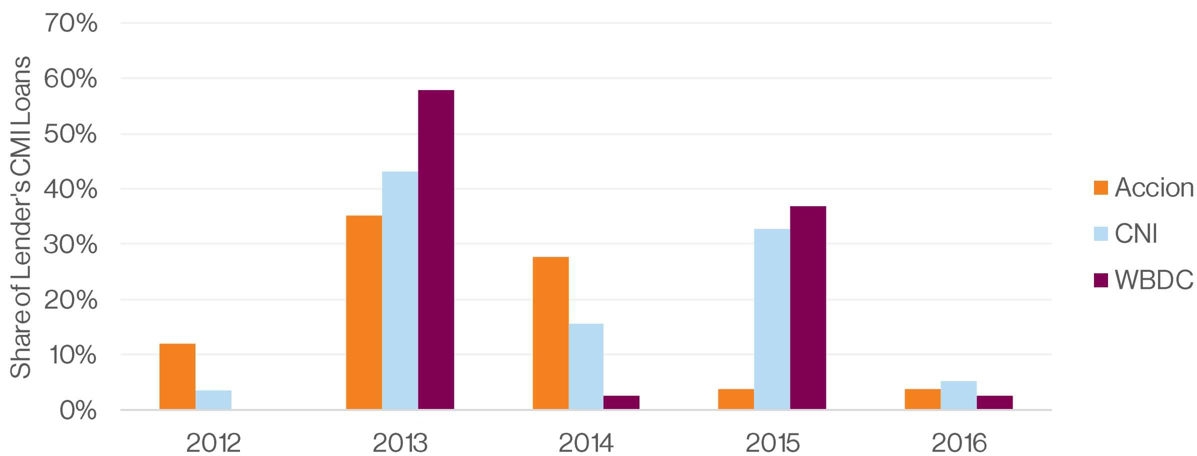
109 Interview by author, Chicago, IL, Jan 2020.

110 City of Chicago, "Mayor Emanuel Highlights Success."

111 Accion Chicago.

assessment on businesses owned by women and people of color in Chicago conducted by the Chicago Community Trust, JPMorgan Chase, and Polk Bros. Foundation in 2019, Accion Chicago was designated a "Ecosystem Builder" tasked with "taking a long-term and system-wide approach to fostering innovation and entrepreneurship" in the region and "coordinating potential working groups, managing relationships with new and existing aligned initiatives, marshalling resources, and managing mutually determined objectives." Four years after the conclusion of the CMI program, Accion Chicago remains the preeminent microlender in Chicago and successfully transitioned into a role as a peer mentor and steward of mission-based lending in the region.

Figure XXVI. Most of the loans disbursed by Chicago Neighborhood Initiatives and Women's Business Development Center came in 2013 or 2015



Chicago Neighborhood Initiatives: the "Community Lender and Champion"

Over the course of the four-year program, Chicago Neighborhood Initiatives distributed the second largest volume of loans among participating lenders, and in the years since the program concluded, the organization has cemented its status as the second strongest microlender in the Chicagoland region. Chicago Neighborhood Initiatives disbursed over one in five loans funded by the CMI revolving loan fund, investing nearly $800,000 in around 60 entrepreneurs. Like Accion Chicago and the Women's Business Development Center, a significant share of these loans was disbursed within the first year of the program and amidst outreach efforts in 2015. Yet, as the program progressed, the lender originated an increasingly larger share of loans, exceeding its average share in both 2015 and 2016 *(Figure XXIII)*.

Insiders suggest that the relative success of Chicago Neighborhood Initiatives stems from the resources it dedicated to microlending in the early stages of the program;[112] unlike the Women's

112 Interviews by author, Chicago, IL and phone call, Jan and Feb 2020.

Business Development Center, Chicago Neighborhood Initiatives formed a separate 501(c)(3) to administer microloans – CNI Micro Finance Group (CNIMFG) – upon graduating from the CMI training program. This structure has provided Chicago Neighborhood Initiatives the ability to parlay the initial investment in its microlending infrastructure into additional funding. Its participation in CMI helped establish the organization as a Small Business Administration microlender in 2015, which netted Chicago Neighborhood Initiatives an additional $750,000 in capital. In 2015, Local Initiatives Support Corporation (LISC) Chicago celebrated Chicago Neighborhood Initiatives as its "Community Strategy of the Year" for its efforts to revitalize the Pullman neighborhood, specifically citing the success of Chicago Neighborhood Initiative's microlending efforts and the organization's "community engagement that leads to community and economic impact."[113] Since the CMI program ended in 2016, the CDFI Fund has extended Chicago Neighborhood Initiatives increasingly larger financial assistance awards. Between 2017 and 2019, the CNI Microfinance Group received $1.2M from the CDFI Fund, over $400,000 more than its share of CMI funding and one-and-a-half times the amount it lent through 2016.[114] This investment has allowed Chicago Neighborhood Initiatives to deploy over $2.7M to nearly 140 entrepreneurs, creating or retaining over 660 jobs.

Given its place-based focus on the South Side and predominantly Black clientele, Chicago Neighborhood Initiatives resembles the Black banks that came before it, and its experience with CMI highlights similar tensions that its predecessors faced regarding profitability and community service. Over the course of the program, Chicago Neighborhood Initiatives emerged as the second strongest microlender in the city, yet architects of the program suggest the organization settled into its current scale of operations rather than continue to expand across the city. While by no means a failure, these insiders argue the more limited geographic coverage of Chicago Neighborhood Initiatives lending contributed to a less transformative effect on the microlending infrastructure than initially envisioned.

That said, this place-based approach established Chicago Neighborhood Initiatives as a community lender and champion for entrepreneurs of color, particularly on the South Side. Since its founding in 2012, over 90 percent of the organization's microloans have supported entrepreneurs of color in communities historically underserved by larger financial institutions.[115] In fact, its proximity to its borrowers has allowed Chicago Neighborhood Initiatives to adapt its products and develop new programs, from a partnership to help returning citizens pursue entrepreneurship to a loan program

113 Business Wire, "Community Strategy."

114 CDFI Fund.

115 King, "More Inclusive Chicago."

designed to help minority-owned businesses on City contracts.[116] Each of these programs stem from "needing to be intentional about who we are serving."[117] In the case of the Pathway to Enterprise for Returning Citizens program, Chicago Neighborhood Initiatives began studying recidivism rates in the surrounding community after borrowers told staff that had they not received capital from the lender they would have gone back to prison. This approach is part mission, part survival. As the insider at Chicago Neighborhood Initiatives I spoke with described it, their organization "can't look like a bank" or else they would fail. Instead, they make up for their relative lack of resources and reach by "thinking differently" and "underwriting differently" to better understand and serve their community members. To CNI Microfinance Group President Erica King, this means empowering communities of color to "be self-sufficient" and supporting borrowers who "simply needed a small infusion of capital, a little guidance, and a lot of encouragement along the way."[118] Staying "close to the ground" allows Chicago Neighborhood Initiatives staff to "see the issues up close," properly diagnose their clients' needs, and design tailor-made solutions. Opting for a community-informed rather than scale-advantaged approach, the lender showcases the potential for microfinance to adapt to borrowers who need the services most.[119]

Women's Business Development Center: the "Missing Microlender"

Among the three CMI-affiliated microlenders, the Women's Business Development Center disbursed the fewest loans during the program and has not evolved into the citywide microlender the program envisioned. The organization applied for the program to broaden its existing lending portfolio, and although it was not selected for the first round, the Women's Business Development Center managed to distribute nearly 40 loans totaling nearly $525,000. Yet, nearly three-fourths of these loans came in 2013 and 2015, indicating inconsistent lending activity and inability to maintain momentum *(Figure XXVI)*.

An insider involved with designing the program explained that the Women's Business Development Center "used to do microloans," but since the program concluded in 2016, the organization has been "not nearly as active."[120] Other insiders offered cost and outreach as potential culprits. While the organization still provides loans up to $25,000 to new and existing small businesses, it does not provide loans under $10,000. Microlending still costs as much as traditional lending, and for these "missing microloans" under $10,000, the organization encourages prospective borrowers to use crowdsourcing platform Kiva. Additionally, of the lenders involved in the program, the Women's Business Development Center

116 Interview by author, phone call, Feb 2020.

117 Ibid.

118 King, "More Inclusive Chicago."

119 Interview by author, phone call, Feb 2020.

120 Interview by author, Chicago, IL, Jan 2020.

had the largest geographic coverage, supporting underserved entrepreneurs across nine states and operating out of eight satellite offices, compared to Accion Chicago which lends in Illinois and Indiana and Chicago Neighborhood Initiatives which lends across Chicago with a focus on the South Side. Upon completing the training program in 2012, leadership at the Women's Business Development Center noted that reaching new borrowers would require "much more of a grassroots effort" and "spending more time in the communities and with community partners." As the results during the program and subsequent lending activity suggest, Accion Chicago and Chicago Neighborhood Initiatives entered CMI better equipped to leverage existing relationships with community partners and the neighborhoods in which they operated to reach new borrowers and to sustain momentum disbursing microloans.

Chapter Four
Looking Back on the Chicago Microlending Institute

As I spoke with insiders involved in designing and implementing the Chicago Microlending Institute (CMI) as well as those who participated as lenders, several themes emerged related to what worked well and what these practitioners would have changed about the experience. These reflections touched on lessons learned from the program itself and the ways in which their organizations and the City can better serve underserved borrowers, particularly women and people of color. According to these insiders, CMI demonstrated that when effectively deployed microloans can help borrowers once left behind by traditional lenders "graduate up" to larger loans. Insiders emphasized the need to sustain mission alignment and senior level buy-in, and their reflections on the program's distributive model revealed a larger tension between a standardized versus adaptive approach to scaling impact. The insiders also described their organizations as capital entrepreneurs who face similar resource constraints as their clients and need significant backup to keep up with demand. Lastly, lenders lobbied for a realignment in values among public and private partners to marshal the resources need to reach more underserved entrepreneurs.

This chapter documents the perspectives of insiders at the three participating lenders as they relate to lessons learned from the program and thoughts strengthening the local microlending network and reaching more entrepreneurs of color. Building on these insider perspectives and the previously detailed program outcomes, it concludes with a brief assessment of the program and its implications for policymakers and lenders in Chicago.

4.1. Insider Perspectives

4.1.1. On the Chicago Microlending Institute

"Graduating Up": A Key Indicator of Success

Each of the insiders I spoke with described the critical and explicit role their organizations play in helping their clients build credit and access larger loans, which many referred to as "graduating up." Microlenders typically work with entrepreneurs unable to secure financing from traditional lenders for a variety of reasons, from lack of sales history or poor credit scores. These insiders recognize that beyond providing a capital infusion to borrowers trying out a new idea or needing to cover payroll they are helping entrepreneurs build their credit and get to a point in which they can apply for a $25,000 or $50,000 loan to grow or expand their business. One insider compared their organization to a minor league sports team, developing entrepreneurs and readying them for their callup to a larger financial institution. Although organizations like Accion Chicago maintain relationships with borrowers and may provide clients with multiple loans as their business develops, the ability to "recommend their 'matured' clients to join formal institutions, in order to benefit from larger loan amounts" remains a key indicator of success.[121]

These insiders are acutely aware of the stakes of their credit-building efforts, with one insider lamenting how "predatory lenders have been eating [their] lunch." The mission-driven lenders that participated in CMI serve businesses in parts of Chicago where financial exploitation through predatory lending practices has filled the vacuum left by decades of racial segregation and systematic exclusion from economic opportunity. Beyond offering a small, short-term loan to bolster a microenterprise, the insiders I spoke conveyed a sense of responsibility to help borrowers extract themselves from these webs of predatory financing. Though microfinance evolved from separatist approaches to serving segregated economies, these microloans adopt a more integrationist mantle as a potential vehicle for financial inclusion for entrepreneurs of color, by opening doors to financial institutions that have historically turned their back on these borrowers.

Ensuring Mission Alignment and Buy-In

Insiders warned that doing microfinance well requires a dedication to the mission and a passion for the work. At the outset of my interviews with insiders, I inquired about potential pain points the lenders might have experienced helping borrowers navigate the lending process; however, insiders revealed that borrowers were often "not the issue." Reflecting on their experience training peer lenders in Chicago and in other markets, insiders at Accion Chicago who oversaw the training programs found that mission alignment and senior level buy-in set the tone for whether their efforts would succeed. For the insiders I spoke to, this meant having leadership not simply committed to graduating from the program or receiving loan capital to distribute but also to integrating microlending into their organization's work and making it a strategic priority over the long-term. In a "messy," "hard," and "risky" field in which few nonprofits "do it and do it well," one insider admitted underestimating the importance of recruiting organizations with staff and boards who are "laser-focused," "passionate," and aligned with the mission of microlending. Despite City messaging extolling participants "committed to excellence in microlending,"[122] insiders acknowledged a limited ability to "ensure that we were training people who

121 Adjei, *Role of microfinance.*

122 Robbins, *Big Ideas,* 53.

wanted to be trained" at the staff level and that this half-hearted commitment to the program led to inconsistent execution.[123]

Reconciling Standardized versus Adaptive Approaches

Similarly, the failure of CMI to produce the scale-advantaged microlending network its architects envisioned and the divergent paths of its most effective lenders reveal an inherent tension between a standardized and adaptive approach to scaling mission-driven lending. CMI utilized a "Leveraged Intellectual Capital Franchise" model, in which Accion Chicago created a "distributed model with core capacity building," the City channeled funds through Accion Chicago, and each participating lender served its respective segment of the market.[124] This model prioritizes capacity building and infrastructure support, which increases the potential for scaling, maximizes opportunities to reach diverse populations of borrowers, and enables smaller, more localized organizations to deliver services. However, it also required Accion Chicago to not only develop and administer training curriculum but also design plug-and-play systems that were readily usable and accessible to its partner organizations and their borrowers.[125]

Although Chicago Neighborhood Initiatives opted for a more limited scale and adaptive approach, the evolution of its microlending portfolio demonstrates the potential to reconcile the competing priorities of the CMI model when given the proper resources. Perhaps the most innovative aspect of the distributed model is its commitment to building capacity for community-based service providers. By investing in existing community partners and tapping into the strong relationships they had already developed, this distributed approach expanded the demographic and geographic coverage of the microlending services, reaching greater numbers of Black and Latinx entrepreneurs on the South and West Sides. Yet, while the model was built to reach new groups of underserved borrowers, it was not necessarily designed to meet their needs, as the need for standardized processes and systems limited the ability of partner organizations to tailor the loan products to their respective constituencies. Insiders echoed this sentiment and emphasized the importance of investing in community-based service providers, forming strategic partnerships with those closest to the ground, and using this intimate knowledge of community assets and barriers to inform planning, policymaking, and program design. These insights suggest that building a strong network of microlenders requires a distributed approach that affords the necessary time, financial support, and flexibility for lenders to adapt to the needs of the hardest-to-reach borrowers.

123 Interview by author, phone call, Feb 2020.

124 CDFI Fund, *Scaling up Microfinance.*

125 Ibid.

4.1.2. On Supporting Chicago's Microlenders

Supporting Regional Capital Entrepreneurs

Despite mixed success in developing the city's microlending infrastructure, CMI offers a useful model for local and state governments to support their regional "capital entrepreneurs." Eying system change in helping entrepreneurs access capital, the Kauffman Foundation argues for investing in capital markets infrastructure – and "capital entrepreneurs," specifically.[126] These individuals and organizations "form new and innovative capital vehicles" to reduce barriers to access, transform existing tools like venture capital and microlending, and deploy capital. However, these capital entrepreneurs often lack community and best practices and face their own business challenges. Likewise, while most interventions target entrepreneurs, few efforts "support new and innovative capital entrepreneurs."[127] That said, the Kauffman Foundation notes the potential of infrastructure efforts, particularly communities of practice in which practitioners can "share knowledge more effectively, reduce transaction costs of doing business, and organize and clarify goals and objectives related to increasing access to capital."[128] In aspiring to build a citywide microlending network and develop a cohort of peer lenders, CMI represents an commendable attempt to establish this type of community of practice in Chicago.

Moreover, CMI effectively functioned as an accelerator program for microlenders, and insiders shared not only the growing pains of starting up but also how they learned from the process in real-time and adapted their approach. For Accion Chicago, this meant retooling its curriculum in the months between training Chicago Neighborhood Initiatives and the Women's Business Development Center and later applying the lessons it learned training microlenders in Chicago to partnering with aspiring lenders in other markets.[129] At Chicago Neighborhood Initiatives, experiences serving borrowers in the early years of CMI helped staff identify lingering barriers and pain points for their clients and craft new policies and programs to better meet the needs of their community.

Even as they direct resources to support underserved borrowers, each of these organizations act as "capital entrepreneurs" themselves, constantly experimenting with new ways of doing business that marry mission, impact, and organizational viability. Most insiders I spoke with during this research mentioned that successfully serving their clients requires a holistic approach that not only extends capital to underserved borrowers but also includes technical assistance that helps entrepreneurs best

126 Hwang et al, "Removing Barriers."
127 Ibid.
128 Ibid.
129 Interviews by author, Chicago, IL and phone calls, Jan and Feb 2020.

deploy this capital. From their experience administering and participating in the program, this approach also applies to the capital providers themselves. Each of the lenders participating in the program were vetted to ensure they were financially sound enough to administer microloans, and each participated with the understanding that City funds could not be used toward their operations. Even Accion Chicago, the only one of the three lenders who received operating funds through the program, relied on Citibank and the Chicago Community Trust to underwrite the costs associated with developing and administering the program curriculum. While this approach required each organization to demonstrate their commitment to the program by investing their own resources, it also limited the ability of these organizations to scale operations. Insiders readily admitted that microlending requires subsidy to remain mission driven and financially viable.[130] Being allocated funds to lend and then trained on how to lend these fund does not ensure that an organization can afford to hire enough staff to truly scale this approach or incentivize an organization to fully integrate a less cost-effective product into its portfolio. In fact, the Federal Reserve Bank of Chicago concluded as much in a 2012 assessment of non-bank small business intermediaries, noting that the number of deals an organization like Accion Chicago can process is "based entirely on how many loan officers it has, and its ability to either hire or develop skilled workers depends on securing sufficient operating subsidy."[131] These insights from insiders indicate that mission-driven lenders also require external support to effectively serve their clients and successfully test out, retool, and expand their products and portfolios.

Aggregating Capital to Meet the Demand

Despite their role in shepherding borrowers into the traditional lending ecosystem and the partnerships they have developed through this lending pipeline, insiders I spoke with felt like they were waging an almost Sisyphean battle without more resources and a stronger commitment from financial institutions. Microlending exists in large part because banks do not find these small amounts of capital profitable, in addition to the legacy and persistence of discrimination against borrowers and communities of color. One insider suggested this would require a regulatory fix well above their pay grade, arguing that "if we're serious, banks should be forced to make more of these loans."[132]

To its credit, the City of Chicago has stepped up its financial commitment to underserved borrowers over the past decade, developing a suite of programs to provide access capital to business through all stages of growth, including CMI and a companion program for borrowers seeking capital at the next stage up. These programs typically leverage public, private, and foundation sources to fund loan funds or

130 Interviews by author, Chicago, IL and phone calls, Jan and Feb 2020.

131 Newberger and Longworth, "Small business."

132 Interview by author, phone call, Feb 2020.

technical assistance, yet one insider candidly suggested that City officials should approach the biggest banks in Chicago and ask what it would take for them, both financially and operationally, to provide microloans themselves. Several financial institutions have piloted their own efforts to support entrepreneurs of color. JPMorgan Chase, for instance, expanded its Entrepreneurs of Color Fund model to Chicago, partnering with Accion Chicago and LISC Chicago to deploy capital, technical assistance, and coaching services to 1,000 minority-owned businesses on the South and West Side and collaborating with other financial and philanthropic organizations to dedicate a combined $9M to the effort. While this program will increase access to capital and provide technical assistance to underserved borrowers, JPMorgan Chase's investment represents 0.01 percent of its record-breaking $36.4B profits in 2019, and the bank could deploy just 0.1 percent of its 2019 profit and cover the estimated $28M in microloan demand in Chicago.[133]

Accion Chicago has experimented with a work around to bridge this financial gap between large financial institutions and small businesses. As an insider explained, the organization plays the role of an investment originator selling its loans to larger lenders.[134] This relationship preserves the community banking nature of microlending, while providing microlenders liquidity and greater amounts of capital and helping larger lenders meet Community Reinvestment Act (CRA) requirements. Inspired by Accion Chicago, the Kansas City-based Kauffman Foundation has funded a pilot to help local microlenders sell their loans to larger commercial banks. While this approach raises concerns regarding larger financial institutions continuing to opt out of directly serving underserved borrowers and leaving already resource-constrained nonprofits to should the higher relative cost of administering these loans, it also fails to properly build a pipeline of mission-driven lenders who can serve entrepreneurs of color across their spectrum of growth and at scale. To adapt the baseball analogy, these larger banks should consider microlenders and their clients "minor league affiliates": when microlenders are equipped to succeed, their clients can start, grow, or expand businesses, build credit, and ultimately graduate to a loan at a larger bank, creating a pipeline of financial inclusion.

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133 JPMorgan Chase CEO Jamie Dimon could cover the estimated $28M demand for microloans in Chicago with his 2019 compensation package and still have $3.5m left over.

134 Interview by author, Chicago, IL, Jan 2020.

4.1.2. On Reaching More Entrepreneurs of Color

Innovating from the Margins

During the process of studying the CMI program, the maturation of the CNI Microfinance Group, its emergence as the second largest microlender in Chicago within years of launching, and its commitment and ability to serve entrepreneurs of color on the South Side stood out as an outcome worth celebrating and elevating. Despite its success and growth over the past decade, as an insider at the organization explained, funding remains a perennial challenge, particularly working capital, which forces the team to "operate lean and look for innovative ways to collaborate with other organizations."[135] The various programs and partnerships spearheaded by Chicago Neighborhood Initiatives, such as the Pathway to Enterprise for Returning Citizens, demonstrate how the organization has leveraged its intimate knowledge of its borrowers to center them in program design. Serving borrowers underserved or outright discriminated against by traditional lenders, Chicago Neighborhood Initiatives operates at the frontlines of systems and institutional failure in communities shaped by decades of structural racism and disinvestment by designing programs best suited to their "unique needs and entrepreneurial ecosystem."[136]

Local policymakers and officials must do more than celebrate these programs, however. They must fund them. As the Chicago Community Trust and other have recognized, achieving economic equity for entrepreneurs of color depends on "improving the organizations, services, products, and cooperative relationships that facilitate fair opportunities" and allow these businesses to generate income, assets, and wealth for owners and their communities.[137] That is, entrepreneurship will work as racial equity tool only when the small business ecosystem has the teeth to effectively and equitably deploy resources to people of color.

Investing in the "Most Cost-Effective Job Creation Tool"

As city officials discovered within months of launching the CMI revolving loan fund, demand for microloans and other forms of financing far exceeds the amount of resources allocated to serving small businesses. Even after doubling the loan capital in the program, the $2M investment made by the City of Chicago represented a small fraction of both the City's annual budget and estimated demand for microloans across the city. Although gracious for the loan capital, insiders I spoke with admit that these funds were a one-time infusion, and that while a step in the right direction, it will take "a lot more than four

135 Interview by author, phone call, Feb 2020.

136 Bahn et al, "A progressive agenda," 65.

137 Next Street and CRF, USA, *Small Business Ecosystem.*

years and $2M to figure this out."[138] Yet, with many projects, programs, and departments demanding resources and only so many funds in City coffers to go around, why should the City pick microfinance as one of its winner? According to one insider I spoke with put it, microloans facilitate entrepreneurship in low-income communities of color and are "the most cost-effective job creation tool we have in our arsenal."[139]

"Stop Chasing Gazelles," or Invest in Neighborhood Businesses Like You Mean It

Insiders I spoke to also lament the fixation by venture capitalists and other potential funders with finding the next fast-growing startup and the related fetishization of "scaling" enterprises to maximize investments. As one insider framed it, venture capital is "like jet fuel, yet how do you use it if you're not building a jet?" This sentiment also applies to luring large corporations with tax subsidies and other incentives to bring jobs to the city.

Instead, these practitioners underscored the need to invest in neighborhood businesses: the small businesses that may not be equity investible or scalable for venture capital yet create jobs, provide assets for households, and drive local economies.[140] As one insider described it, if Chicago wants to be a world-class city, it needs to build a world-class small business environment.[141] Local entrepreneurship, particularly smaller neighborhood businesses, matters for local economic health by contributing to local incomes and employment. It matters for low-income households who manage to start and run a business, providing them a critical tool for wealth building.[142] As CMI and the affiliated microlenders still operating in Chicago demonstrate, investing even $10,000 in these neighborhood entrepreneurs goes a long way toward creating jobs, wealth, and much needed services in their communities.

4.2. Program Assessment

The lessons derived from the Chicago Microlending Institute (CMI), an impactful yet imperfect municipal access to capital program, offer policymakers in Chicago and elsewhere a potential blueprint for how to chart a more equitable and inclusive path forward. The program successfully steered capital to Black and Latinx entrepreneurs on the South and West Sides and expanded microlending coverage across the city. It helped to fill critical gaps in the city's racialized lending landscape, directing significant investment and helping to create or maintain hundreds of jobs in communities long afflicted by racist

138 Interview by author, phone call, Feb 2020.
139 Interview by author, phone call, Feb 2020.
140 Bahn et al, "A progressive agenda," 53.
141 Interview by author, Chicago, IL, Feb 2020.
142 Bahn et al, "A progressive agenda," 53.

lending practices and systemic disinvestment. These outcomes point to a compelling proof-of-concept for serving the hardest-to-reach communities that merits strong attention from local decision makers in Chicago and elsewhere eager to redeploy capital to communities of color.

While the program delivered on its mission to reach underserved borrowers, CMI failed to produce the scale-advantaged microlending network envisioned by its architects. The divergent paths of Accion Chicago and Chicago Neighborhood Initiatives reveal an inherent tension between a standardized and adaptive approach to mission-driven lending. Eight years after the program launched, Accion Chicago has evolved into a small business ecosystem builder and a peer mentor for mission-driven lenders across the Midwest, continuing to pass along the experience and expertise it gained from CMI and other microlending efforts. Chicago Neighborhood Initiatives, on the other hand, has emerged as the second strongest microlender in the city, albeit with a much more limited scale and a more community-based focus. Though the program did not live up to its architects' aspirations, the experience of these two lenders demonstrates that a one size fits all approach is ill-suited to building a citywide microlending network. Most mission-driven lenders, including each of the CMI participants, respond to a specific unmet need, and the pain points that emerged from the program suggest a need to accommodate these varied calls to action through a hybrid approach that borrows the advantages of the distributive model engineered by Accion Chicago while retaining a measure of pliability to shape products and services to client needs in the mold of Chicago Neighborhood Initiatives.

Eight years after launching, CMI symbolizes a promising yet partially realized piece of the City of Chicago's economic development toolkit. The program may have fallen short of its goal to build out a scale-advantage network of microlenders, yet the impressive borrower and lender outcomes it achieved deserve a second look from policymakers hoping to advance racial equity in Chicago and elsewhere. Learning from this innovative access to capital program, the City and its partners should build on the foundation it laid to strengthen the mission-driven lending ecosystem in the city and to better serve its entrepreneurs of color.

Chapter Five
Recommendations

Entrepreneurship and access to capital programs comprise only one part of a much larger task to build wealth among communities of color in Chicago that will require a "long-term and sustained commitment to a multifaceted strategy" that includes "comprehensive structural reforms that address the root causes and consequences of this widening gap."[143] Moreover, an honest reckoning with the racialized lending landscape in Chicago and the disparate outcomes it perpetuates will demand major federal support and intervention. Yet, in the absence of federal reparations to "reckon with our compounding moral debt"[144] of centuries of slavery and decades of Jim Crow, separate but equal, and racist housing policy or even serious reforms to inadequate federal regulations like the Community Reinvestment Act, local leaders in government, nonprofit, philanthropy, and business must continue to advance multipronged strategies to remove barriers to access while also challenging the structures and systems that reproduce disparate outcomes and opportunities for communities of color in their regions. The Chicago Microlending Institute (CMI) embodies a local attempt to respond to lending disparities and expand access to capital, by forming a citywide network of mission-driven lenders to deploy microloans to underserved borrower across the city.

As this case study details, CMI delivered on its mission to reach entrepreneurs of color and neighborhoods underserved by larger financial institutions, yet its efforts expand the city's microlending network produced an "ecosystem builder" and a "community lender," rather than three scale-advantaged lenders. However, the program offers a proof-of-concept for serving the hardest-to-reach communities that policymakers and lenders in Chicago should build on. The experiences of lenders involved in this "first-of-its kind" program point to opportunities to capitalize on its successes and learn from its shortcomings to advance policies, practices, and programs that enable mission-driven lenders to reach even more entrepreneurs of color in the city. The following recommendations, drawing on the outcomes of the programs and insider appraisals, provide a roadmap for local policymakers to improve upon the CMI model and to amplify the impact of access to capital programs in Chicago.

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143 Brown et al, *State and Local Approaches,* 54.

144 Coates, "The case for reparations."

Recommendation #1

Conduct a formal independent evaluation of the Chicago Microlending Institute

Chicago Inspector General; microlenders

The Office of the Inspector General (IGO) should commission a formal evaluation of the Chicago Microlending Institute that includes interviews with borrowers and centers their experience during and after their loan period. While the IGO at one point recommended an audit of how program funds were spent, the need for a formal evaluation goes well beyond transparency and accountability. This type of assessment would enable the City to better understand the impact its investment made on the small business ecosystem in Chicago and provide lessons on whether and in what form it should replicate or scale the program. It would also offer a blueprint for other cities to learn from and contribute to a national conversation around access to capital strategies.

Recommendation #2

Center underserved borrowers in policymaking and program design to improve equity and effectiveness

City of Chicago; microlenders

Centering the experiences of borrowers in a City-commissioned evaluation would improve the ability of local officials to serve entrepreneurs of color in Chicago. The lack of a clarity around what worked well for borrowers who used microloans to start up, grow, or expand as well as what pain points emerged for those who struggled to stay afloat inhibits the City's ability to effectively support borrowers underserved by the traditional lending ecosystem. CMI achieved its stated goals, but before the program can be considered a success, the City and participating lenders must have a clear understanding of how their target users experienced the program. Moving forward, incorporating these perspectives would help measure the quantitative *and* qualitative impacts of City-funded programs, ensure programs remain responsive to the needs of their users, and reorient the values of economic development strategies toward equity and inclusion.

Recommendation #3

Empower community-based partners operating at the frontlines by funding innovative programs and service providers

City of Chicago; private and philanthropic partners

The innovations Chicago Neighborhood Initiatives has developed by adapting financial levers to meet the needs of its borrowers have the potential to inform and improve local, state, and federal policy and programs, yet this community-based knowledge will be lost without financial and operational support. As community-based service providers who partner with borrowers acutely aware of the cracks in the traditional lending ecosystem now test their own innovations, the City and its partners should invest in these organizations and their programs to ensure the next "first-of-its-kind" access to capital fix gets off the ground. These could take the form of annual grants or competitive awards that not only supply loan capital but also underwrite the cost of building out program staff and related infrastructure costs.

Recommendation #4

Provide more substantial and sustained investment in access to capital programs

City of Chicago

As city officials discovered within months of launching the CMI revolving loan fund, demand for microloans and other forms of financing far exceeds the amount of resources allocated to serving small businesses. Even after doubling the loan capital in the program, the $2M investment made by the City of Chicago represented a small fraction of both the City's annual budget and estimated demand for microloans across the city. Every $1M invested in a revolving microloan fund helps an estimated one hundred entrepreneurs start, grow, or expand their neighborhood businesses and create or maintain roughly 350 jobs, with an outsized impact on entrepreneurs of color and communities on the South and West Sides of Chicago. If a four-year program committing $2M to extend capital to underserved borrowers can generate this type of return on investment, imagine what a more generous, long-term commitment to investing in these microenterprises by the City and its partners could mean to Black and Latinx entrepreneurs on the South and West Side, to the commercial corridors they call home, and to the community members they could employ or retain. While revolving loan funds benefit from recycling repaid principal into new loans, the City of Chicago and other municipalities should commit to more substantial and sustained contributions to these types of access to capital programs to properly meet demand and maximize their impact.

Recommendation #5

Strengthen mission-driven lending infrastructure by subsidizing the operating costs of lenders

City of Chicago; private and philanthropic partners

Moving forward, programs aimed at building organizational competency in an alternative financial product should invest at least some level of operating capital in participating organizations to acknowledge the resource constraints these nonprofits face and to facilitate the necessarily reallocation of resources needed to successfully incorporate new services. Ultimately, microloan capital can only go as far as the capacity of a lender allows. Local governments maximize their investments in innovative access to capital programs by providing financial support to those who deploy these resources, as the strength and durability of any infrastructure depends on the strength of the organizations comprising it. Much like its approach to financing CMI, the City should collaborate with private and philanthropic partners to increase the level of unrestricted funding to local service providers like Chicago Neighborhood Initiative to help build their organizational capacity.

Recommendation #6

Fund marketing and outreach plans for access to capital programs and participating lenders

City of Chicago; private and philanthropic partners

To maximize the reach and sustainability of microlending services, City officials and third-party partners should dedicate funds to marketing for both the program and for participating organizations. Insiders who participated in CMI shared that organizations operating on lean budgets do not always have the resources for widespread marketing. As such, even after years of lending and serving hundreds of businesses, they struggle to get word out about their services and find many potential clients have never heard of their organizations. Lack of marketing resources and a "word-of-mouth" culture not only rewards organizations with established reputations, but it also undermines the mission of access to capital programs by reinforcing existing channels to financing and inhibits resources from reaching as many underserved borrowers and communities as possible.[145] As part of existing and future access to capital programs, the City should either allocate discretionary budget or leverage private and philanthropic partnerships to developing and funding marketing and outreach plans for their programs and nonprofit partners to ensure resources reach the hardest-to-serve borrowers.

Recommendation #7

Explore mechanisms for local and state governments to assume greater risk on loans and enable lower interest rates for borrowers

City of Chicago; private and philanthropic partners

To ensure uniformity across the program, the microloans adhered to standard terms, fees, and rates matching those used by Accion Chicago. However, according to some insiders who participated in the program, the average interest rate of 13.4 percent was "an additional barrier" for borrowers and undermined their ability to "build wealth and opportunity."[146] As one insider put it, "our community always

145 Next Street and CRF, USA, *Small Business Ecosystem.*

146 Interview by author, phone call, Feb 2020.

has to pay more," and that instead of adopting relatively high interest rates, the City should have "made a bold statement about fighting predatory lending" by capping interest rates and making these loans more accessible to underserved borrowers. Local and state officials should explore mechanisms by which they can shoulder more of the risk associated with microloans and enable lenders to provide lower interest capital, such as purchasing portions of bank term loans as the state-affiliated Advantage Illinois does. Otherwise, well-intentioned policymakers may perpetuate a situation in which "the poor pay more" and undermine policy objectives around equity and inclusion for underserved borrowers.[147]

Recommendation #8

Invest in a spectrum of mission-drive lenders to support entrepreneurs of color who "graduate up" from microloans

City of Chicago; large financial institutions

CMI demonstrated the critical function microlenders play in building a more financially inclusive lending ecosystem, by helping marginalized borrowers build credit and "graduate up" to larger financial institutions. Moreover, since its launch in 2012, CMI has since been framed as the first step along a spectrum of access to capital programs designed to serve entrepreneurs along each stage of business growth. While its commitment to building out this pipeline of programs through the Small Business Opportunity Center (SBOC) Program appears promising, the City should invest much more substantially to support entrepreneurs entering or returning to a lending ecosystem which had previously left them behind to ensure long-term success and reduce return rates among borrowers. This means both building a network of mission-driven lenders along the spectrum of capital needs and engaging traditional banks to help aggregate a level of capital that matches demand and reorient their lending to serve the needs of "graduated" borrowers.

147 Jafri, "Poor pay more."

Chapter Six
On Healing the Backbone of Chicago's Economy

In the process of conducting research for this study, the COVID-19 pandemic shook Chicago and the rest of the world to its core. At the time of writing, Chicago and the rest of Illinois remain under stay-at-home orders, and the City has begun to roll out an unprecedented package of emergency relief funds to small businesses in desperate need for a lifeline. The necessary public health measures implemented to encourage physical distancing and slow the spread of the virus have wrought economic devastation, particularly for small businesses already operating under tight margins before transforming their operations or closing their doors overnight. Much remains unknown about how the pandemic and related economic shocks will shape the futures and fortunes of small businesses in the United States, and much will undoubtedly and deservedly be written about this crisis for months and years to come.

Yet, the present pandemic offers an opportunity to dramatically change course out of survival and intention. The structural racism and systemic segregation, underinvestment, and exploitation that excluded people of color from shared prosperity and produced Chicago's deep and persistent racial disparities existed long before the pandemic. Rather, the pandemic has followed the contours of and exacerbated the severity of these preexisting conditions, reinforcing the urgency of what is at stake for Black, Indigenous, and people of color in the city. As local officials and their partners craft and implement strategies for recovery, they must reimagine and rebuild a city that works for all Chicagoans.

The case study of the Chicago Microlending Institute (CMI) provides policymakers in Chicago and elsewhere useful lessons as they design a more equitable and inclusive recovery: to center borrowers and other those most affected by policies and programs in the policymaking process; to empower community-based partners working at the frontlines of systems and institutional failure to innovate from the margins; to develop strong infrastructure and a pipeline of mission-based lenders through significant and sustained investment; to fund and build capacity for community-based organizations; and to reorient the guiding principles of economic development by prioritizing the entrepreneurs and communities of color long excluded by the city's racialized lending landscape.

With these lessons in mind, I conclude with a brief update on the emergency measures Chicago and peer cities across the country have deployed to save local small businesses in their communities, as well as reflections on what it means for Chicago to not simply restore the city it left behind but to heal the "backbone of its economy" and rebuild a more just, equitable, and inclusive city in the pandemic's wake.

Chicago's Response to COVID-19

On March 19, 2020, Mayor Lori Lightfoot announced the Chicago Small Business Resiliency Loan Fund (the Resiliency Fund), a new $100M economic relief package to support local small businesses experiencing a temporary loss of revenue as a result of the COVID-19 pandemic.[148] The Resiliency Fund, a partnership between the City, the Chicago Community Catalyst Fund, and other private sponsors, represents one of the largest and most generous financial commitments by local governments to keep small businesses in their communities afloat.

As part of this effort, the City has partnered with Accion Chicago and Community Reinvestment Fund USA (CRF) to disperse no- and low-interest loans to severely impacted small businesses, particularly those in historically under-resourced communities. Although the City and its CDFI partners will dole out loans on a rolling first-come, first-served basis, the City outlined a "equity reserve" strategy to ensure loans reach businesses from "every industry, background, and community area in the City."[149] The City plans to set aside a portion of the loan pool that targets all of Chicago's communities, small businesses serving low- and moderate-income residents, and all industry areas impact by the pandemic.

At the time of writing, the City had launched the Resiliency Fund; however, the $100M response effort had already stumbled in its nascent stages. Within a week of opening the fund, the City received over 7,000 applications yet approved only 10 applications, admitting it did not have the capacity to handle the overwhelming demand for small business relief. Within the first two weeks, the City had processed 124 loans totaling roughly $5M.

A Patchwork of Local Responses

By early April, local and state governments and their private and nonprofit partners around the country mobilized to address the economic fallout of the COVID-19 pandemic. Counterparts across the United States have introduced or repurposed small business support funds to respond to the acute operational needs of small businesses in their communities. Municipalities from New York City and Atlanta to San Francisco and Salt Lake City have extended hundreds of thousands, in some cases millions, of dollars in zero-interest loans as a lifeline to businesses in need.[150] Many of these first-come, first-served programs

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148 City of Chicago, *Resiliency Fund.*

149 Ibid.

150 City of New York, "COVID-19 Response;" Invest Atlanta, "Business Continuity Loan Fund," https://www.investatlanta.com/business-continuity-loan-fund; City and County of San Francisco, "For Businesses Impacted by COVID-19," https://oewd.org/businesses-impacted-covid-19; Salt Lake City, "Salt Lake City's Emergency Loan Program," https://www.slc.gov/ed/elploan/.

have been overwhelmed by demand, closing their applications within days as the need quickly depleted available funds.

Several communities have deployed microloan programs to reach struggling entrepreneurs. In mid-March, the City of Los Angeles rolled out an $11M emergency microloan program and a commercial eviction moratorium as part of its package of small business support.[151] Kiva, a global crowdlending platform that provides zero-interest loans, announced that it would expand eligibility to more businesses in the United States, increase the maximum loan on its platform from $10,000 to $15,000, and provide a six-month grace period on repayment.[152] Cities with formal partnerships with Kiva, including Long Beach, CA[153] and Rochester, NY[154], have steered distressed entrepreneurs toward these resources, and the Wisconsin Economic Development Corporation (WEDC) has offered a 50 percent match on Kiva loans up to $5,000 to women-, minority-, and veteran-owned businesses across the state.[155]

Other cities have opted for microgrants to supplement state and federal relief, tapping into traditional economic development tools to free up funds. In Seattle, the City has committed $2.5M in Community Development Block Grant (CDBG) funds to a readapted Small Business Stabilization Fund to provide up to $10,000 in working capital grants to impacted businesses.[156] In Detroit, TechTown, a local tech incubator and accelerator, launched a $250,000 stabilization fund in partnership with public and private partners and will administer up to $5,000 working capital grants to local small businesses.[157] Philadelphia has adopted a hybrid approach, launching a tiered relief fund to support small businesses, help maintain payroll obligations, and preserve jobs, through a mix of grants and zero-interest loans.[158] The District of Columbia launched perhaps the most robust microgrant program, as Mayor Muriel Bowser committed

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151 City of Los Angeles, "Microloan Program," https://ewddlacity.com/index.php/microloan-program.

152 Kiva, "Support local businesses during the Coronavirus pandemic," kiva.org/blog/support-local-businesses-during-the-coronavirus-pandemic.

153 City of Long Beach, "COVID-19 Business Support," http://www.longbeach.gov/economicdevelopment/covid-19-business-support.

154 City of Rochester, "Kiva Rochester Crowdfunded Loans," https://www.cityofrochester.gov/Kiva/.

155 Wisconsin Economic Development Corporation, *Navigating through COVID-19 in Wisconsin*, https://city.milwaukee.gov/imagelibrary/groups/citydcd/business/images/wedc_resourcesforcovid-19.pdf.

156 City of Seattle, "2020 Small Business Stabilization Fund for Businesses Impacted by COVID-19," http://www.seattle.gov/office-of-economic-development/small-business/small-business-programs-/stabilization-fund-

157 Techtown Detroit, "COVID-19 Updates," https://techtowndetroit.org/covid-19-updates/.

158 City of Philadelphia, "Philadelphia COVID-19 Small Business Relief Fund," https://www.phila.gov/programs/philadelphia-covid-19-small-business-relief-fund.

$25M to buttress local small businesses, nonprofits, independent contractors, and self-employed individuals with grants up to $25,000.[159]

Among its peers, Portland, OR has stood out for centering racial equity in its response to the pandemic, by "dedicating resources and creating support systems to ensure this crisis does not exacerbate existing inequities.[160] These support systems include a small business relief fund of grants and zero-interest loans that prioritizes businesses owned by Black, Indigenous, Asian Pacific Islander and People of Color and/or women and employees, as well as three-month deferrals on loan and rent payments to the City's borrowers and commercial tenants. Moreover, Prosper Portland, the City's economic development agency, announced a partnership with the Asian Pacific American Network of Oregon (APANO) to provide $150,000 in grants to Asian/Pacific Islander-owned businesses, in response to heightened xenophobia and racism these businesses have faced amidst the pandemic.

Healing the Backbone of Chicago's Economy

It will take months, if not years, to grasp the full extent of how the pandemic and its aftershocks will affect and reorient our economy and shape the future and fortunes of small businesses in the United States, especially those owned by entrepreneurs of color. Amidst the present darkness, however, at least three emergent strategies offer hope for recovery.

First, the abdication of federal leadership during the early weeks of the pandemic has reinforced the leadership of local and state policymakers. The emergency response has rapidly transformed the realm of possibility regarding the levers local officials can pull and the resources they can shepherd to help businesses in distress. Policies will eventually shift from response to recovery and budgets will tighten, yet local officials should retain this spirit of innovation, shedding old assumptions for a renewed moral clarity and courage that recognizes the urgency of what is at stake for their local economies.

Relatedly, the pandemic must mean the end of "business-as-usual" for racial equity efforts. As local officials in Chicago and elsewhere work to mitigate the economic devastation of this public health crisis, they must remain clear-eyed about what city they are rebuilding. The pandemic, like other natural and man-made disasters before it, has put structural racial and economic inequities in sharp relief. Policymakers in Chicago must not only embed racial equity in their emergency response but make it the

159 Government of the District of Columbia, "DC Small Business Recovery Microgrants," https://coronavirus.dc.gov/dc-small-business-recovery-grants.

160 Prosper Portland, "Small Business Relief Fund," https://prosperportland.us/portfolio-items/portland-small-business-relief-fund/.

guiding principle of recovery and the vision of a city reborn. If anything is possible in a post-COVID-19 world, a Chicago without racial wealth disparities must be, too.

Finally, despite early stumbles in disbursing its Resiliency Fund, Chicago has displayed a bold sense of responsibility to its small business community in its response to the pandemic. As the City plans its recovery, it should revisit and apply the lessons of the Chicago Microlending Institute by: centering borrowers in the policymaking process, committing significant and sustained resources to build capacity among community-based partners who supported underserved borrowers well before the pandemic struck, and prioritizing the entrepreneurs and communities of color on the South and West Side. For Chicago to emerge stronger, more equitable, and more inclusive from the pandemic the City must adopt an equally bold sense of responsibility to its entrepreneurs of color and to the underserved borrowers who were shut out of the traditional lending ecosystem long before the city shut down. Recovery efforts must pave a "path to multi-generational wealth with no reliance on pre-existing multi-generational wealth."[161] Healing the "backbone of Chicago's economy" will require nothing less.

161 Opportunity Hub Atlanta, https://opportunityhub.co/.

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