EQUITABLE ACCESS TO CAPITAL FOR URBAN MANUFACTURERS

THE PROBLEM

Small businesses are a keystone of a strong local economy. In 2014, small businesses with less than 100 employees provided nearly one-third of all private sector employment in the U.S.[1] Manufacturers are some of the most impactful among small businesses; for every $1 you invest in your local manufacturer, they generate $1.89 in the community through job creation and by working with other local businesses.[2] Production jobs, or jobs where you create a physical good, still typically pay more than the living wage required to meet minimum standards of living in numerous U.S. cities.[3] While educational attainment requirements are rising in some manufacturing sectors, many of these jobs do not require a college degree, meaning they can help build wealth and provide economic mobility to individuals who do not have the means to attend a four-year university.[4]

To help these companies grow, new partnerships are needed to produce low-interest loans and lines of credit for urban manufacturers—particularly those which do not qualify for traditional bank services. The Urban Manufacturing Alliance's *State of Urban Manufacturing* research found that city-based manufacturers with less than 10 employees were struggling to scale because they could not access more capital.[5] While the *State of Urban Manufacturing* research is limited to 16 cities, nearly 60 percent of all manufacturers in the United States have less than 10 employees.[6]

Bank loans are particularly difficult to obtain for those with new businesses or low-income entrepreneurs because of strict credit standards. As a result, these business owners typically subject themselves to private loans which charge six to seven times the interest of a bank loan.[7] Those who are unable to find any loans often turn to credit cards, which carry interest rates that range from 11 to 24 percent.[8]

To grow their companies, small businesses are also forced to rely on their own savings or financial support from family and friends. But this creates significant equity implications. Personal wealth or the wealth within one's network may be a major determinant of growth for makers and manufacturers that are looking to expand. Aspiring entrepreneurs from communities with historically low wealth, like communities of color and those without a college degree, are thus kept at a distance from the capital they need to bring ideas to scale and potentially create jobs.

The *State of Urban Manufacturing* found that a large percentage of small manufacturing businesses in U.S. cities are only a few years old, meaning they are past the so-called start-up phase. National interest in start-ups, fueled by the technology industry, has inspired numerous forms of capital aimed at nascent business models in the form of loans or incubators. But smaller businesses that have a solid footing yet are looking to grow are in need of additional capital that can help them expand their workforce, buy new equipment to create more or new products, or buy their first piece of real estate.

THE SOLUTION

Cities are creating multi-stakeholder approaches to address this concern. Policymakers, local financial institutions, nonprofits, and public-private partnerships are working together to create capital programs that target manufacturers and other businesses which are two or more years old. Some of these programs strive to benefit entrepreneurs from communities that cannot access traditional bank loans, like low-income entrepreneurs or those without a credit history. Others require that manufacturers have been in operation for a set number of years—a kind of proof that the company's idea is viable. In all cases, these partnerships are providing small manufacturers and other businesses across the country with millions of dollars of additional funding, giving them the extra financial boost they need to purchase new technology or set up shop on Main Street.

EXAMPLES OF SUCCESSFUL EFFORTS

While the following examples benefit businesses from multiple sectors, each has provided loans to urban manufacturers.

The Community Economic Development Fund (CEDF) Small Business Express Program in **Connecticut** provides term loans that range from $1,000 to $250,000 to businesses that have been turned down by banks. It targets two types of borrowers: businesses that make less than $90,000 a year and have been turned down by banks, or businesses that have been turned down by banks and operate in one of 53 communities, like Bridgeport, New Haven, and Hartford. Borrowers usually have poor credit and limited collateral. Loans are intended to cover start-up costs, inventory, and equipment. There is no application fee for loans, which come with repayment terms of up to 10 years. Borrowers have access to CEDF's business advisory services, educational workshops, and seminars. In 2017, the program issued 24 small business loans worth $615,700, averaging out at nearly $25,600 per borrower. The program also provides lines of credit with variable interest rates up to $250,000 per business. The CEDF Small Business Express Program has received grants and equity investments from Key Bank and the Savings Institute Bank & Trust. Previous funders included Bank of America, Citizens Bank of Connecticut, Union Savings Bank, Wells Fargo Bank, and others.[9]

The **Philadelphia Industrial Development Corporation** (PIDC) provides working capital and equipment loans to small and midsize businesses. These loans help businesses purchase machinery and equipment, provide for facility and building upgrades, and act as general working capital. Loans range from $50,000 to $750,000. To qualify, companies must have revenues between $150,000 to $10 million, have been in operation for at least two years, and employ at least four employees. Priority is given to businesses that locate in low-to-moderate income census tracts or employ individuals from low-to-moderate income backgrounds. Application fees range from $250 to $1,000, depending on loan size. In 2016, PIDC granted 75 loans to small and growing businesses. More than 60 percent of its clients in 2016 were small, minority- or women-owned businesses. The PIDC, which is run by a board of directors that were appointed by the City of Philadelphia and the Greater Philadelphia Chamber of Commerce, created these loans with technical and financial support from Entrepreneur Works, Finanta, The Reinvestment Fund, Women's Opportunities Resource Center, The Enterprise Center, North Philadelphia Financial Partnership, Impact Services Corporation, and others.[10]

The **City of Rochester** partnered with the microloan platform Kiva in 2016 to begin offering crowdsourced loans to entrepreneurs, with an emphasis on entrepreneurs who may not qualify for traditional bank loans. Loans range between $1,000 and $10,000 at zero percent interest. The loans are crowdfunded $25 at a time, meaning individual investors loan up to $25 to businesses that they deem viable. Repayment terms range from six to 36 months. Companies with less than a year in operation can receive up to $2,000; companies with some revenue and one to three years in operation can receive up to $5,000; and established companies with three or more years in operation and steady revenue can receive up to $10,000. Borrowers usually use loans for facility improvements, to buy new equipment, or to set up their business in a storefront.[11] The Rochester Economic Development Corporation dedicated $100,000 to jumpstart this partnership. In its first year, more than 160 local people invested and over 21 businesses were funded. Over 75 percent of the businesses were minority-owned. And of those, 75 percent of businesses receiving loans have household incomes of $40,000 or less, and credit scores of less than 700. It is the only Kiva program where the trustee for the program is the City of Rochester, as opposed to a nonprofit, individual, or community group.[12]

LANDSCAPE AND RESOURCES

Those interested in learning more about capital access programs should research the Local Initiatives Support Corporation (LISC), which provides loans to small businesses in underserved areas across the U.S.; the National Development Council, a national non-profit which teams up with local community partners to provide loans and capital to small businesses; and the Urban Manufacturing Alliance, which connects local service providers to help create more capital access programs.

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