

**BLACK PAPER 3.1**

*Relationship-Based Lending:*  
**Driving Equity by  
Centering Trust in  
the Financial System**

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The Inclusive Capital Collective is a growing network of community fund managers and entrepreneur support organizations who have been designing and developing shared technical and financial infrastructure for aggregating and deploying financial capital and other resources to entrepreneurs and communities of color in the US.

Its purpose is to overcome systemic racism through equitable access to capital.

The ICC achieves this purpose by aiding and amplifying capital innovators and service providers who are building wealth in their communities using debt, equity and real estate instruments, and by connecting them in a jointly owned and governed network. With the ICC, capital innovators and service providers centering communities of color have created a novel kind of intermediary infrastructure to help each other accelerate the learning curve required to design, and redesign, for a more equitable future; mobilize capital; and grow their businesses.

ICC capital innovators are exploring alternative types of capital, developing more equitable ownership models, and structuring blended finance offerings that mobilize a range of philanthropic and private capital.

This work was important before the pandemic, and it has only become more urgent as we contemplate how to rebuild an economy and society that creates health and wealth for all.

The Black Papers are a series of briefings written by and for practitioners. They illuminate the systemic barriers in financial markets, focusing on specific areas and segments that are ripe for interventions by investors interested in deploying their resources for social justice. Each Black Paper spotlights scalable solutions developed by members of the ICC, and invites the reader to take action.



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# Executive Summary

In the U.S. financial system, the primary goal is to accumulate capital.<sup>1</sup> But, what if the goal was to share capital and support others equally to build wealth?

Data from a 2021 credit survey shows that white-owned small businesses are twice as likely to be fully approved for financing than small businesses owned by entrepreneurs of color.<sup>2</sup> Further, in the event that businesses run by people of color are able to access loans, they pay higher interest rates on average as compared to white-owned small businesses.<sup>3</sup> So, not only are businesses owned by people of color less likely to be funded at the level that they need, but they also will be paying more for this capital. The economic cost of these practices are high. As a 2020 Citibank report noted, just for Black-owned businesses the lack of fair and equitable lending opportunities over the last 20-years has locked these same businesses out of \$13 trillion in revenue that they could have invested in their businesses and communities.<sup>4</sup>

Exclusion and extraction are deeply rooted and reinforced in the financial system, by design. The multigenerational history of racially discriminatory behavior, practices, policies, and systems persist in denying wealth-building opportunities to Black people, Indigenous people, and People of Color (BIPOC). Many solutions in the market today are not created in conversation with these populations. These solutions also do not question the financial system's original goal of capital accumulation. As a result, these financial products perpetuate the lack of access to resources and affordability of capital in historically underestimated communities.

This Black Paper argues that how we lend, as well as the cost of that capital, are essential components to solving inequitable lending. And what is at the core of this is the recognition that we, as people and planet, are interdependent. Solutions that we develop to reduce inequality need to recognize, account for, and aim to reverse structural imbalances that continue to be perpetuated by mainstream frameworks and pricing methods to disburse capital.

<sup>1</sup> [According to the Federal Reserve Bank of San Francisco](#), “financial markets help to efficiently direct the flow of savings and investment in the economy in ways that facilitate the accumulation of capital and the production of goods and services.”

<sup>2</sup> [Credit Survey Finds White-Owned Small Businesses Were Twice as Likely to be Fully Approved for Financing as Black- and Latino-Owned Firms](#)

<sup>3</sup> [To expand the economy, invest in Black businesses](#)

<sup>4</sup> [Closing Racial Inequality Gaps](#)

Our current financial system is far from this vision, but we know that change is possible. We see it happening because we are in conversation and designing with so many others that are building a long term vision together. We are finding hope in models that shift power structures and address both the affordability and accessibility of capital. And we are energized by working to shift the paradigm of what is possible.


In the Inclusive Capital Collective, we are busy creating the financial and support infrastructure for relationship-based lending innovators like those featured in this Black Paper. In the fall of 2022, we are launching the ICC Credit Enhancement Facility to serve as a shared resource for these fund operators.

We invite readers of this Black Paper interested in learning more to reach out directly to the institutions profiled here, and to join the Inclusive Capital Collective at <https://www.inclusive-capital.us/>



# Thank You

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**ICC**

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