

Impact on The Racial Wealth Gap: A Comparative Case Study of 3 Community Development
Loan Funds Serving Black and Latino Communities

A Thesis Submitted by

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in partial fulfillment of the requirements for the degree of

Master of Science

in

Environmental Policy and Planning

Tufts University

August 2024

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Abstract

This thesis explores the strategies and distinguishing factors of Community Development Loan Funds (CDLFs) in addressing the racial wealth gap and promoting economic empowerment for Black and Latino communities in the U.S. Through case studies of the Boston Ujima Project, Local Enterprise Assistance Fund (LEAF), and Accion Opportunity Fund (AOF), my research evaluates how each organization contributes to wealth creation and the challenges they face. AOF's individualistic approach contrasts with the community-centric models of Boston Ujima and LEAF. While AOF provides crucial capital within conventional frameworks, Boston Ujima and LEAF emphasize collective wealth and community control, offering more radical alternatives. My research highlights that while AOF mitigates immediate disparities, it does not fundamentally challenge systemic inequities. In contrast, Boston Ujima and LEAF's models demonstrate the potential for more profound, systemic impact through community engagement and cooperative enterprises. My findings suggest that integrating community-driven models and innovative financing mechanisms is crucial for addressing deep-rooted economic inequalities and advancing sustainable, equitable development.

Acknowledgments

I would like to express my deepest gratitude to those who have supported me throughout this journey.

To the Accion Opportunity Fund team, especially the development team and Tony Giuliano, for their invaluable support and guidance, which greatly contributed to the completion of this thesis.

A special thank you to Jose Luis Rojas Villarreal from LEAF for his insights and assistance.

I am immensely grateful to Penn Loh and Jeff Rosen for their emotional and intellectual support, which has been crucial throughout this process.

To my UEP friends—Steph, Emily, Marquez, Camille, and Nicholas—thank you for your unwavering encouragement, for picking up my phone calls, and for always reassuring me of my capabilities.

Finally, to Michael Workman, my wonderful fiancé, thank you for your unrelenting compassion, patience, and dedication. Thank you for your unwavering belief in me and for standing by my side through every step of this journey.

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1. Introduction

This thesis explores the key strategies and distinguishing factors of Community Development Loan Funds (CDLFs) that actively contribute to reducing the racial wealth gap and fostering wealth creation for Black and Latino communities in the United States. Specifically, it examines how these financial institutions address systemic barriers to economic stability and prosperity faced by these communities. The central goal is to determine if there are specific elements, strategies, and actions that make a CDLF more or less effective in addressing the racial wealth gap, particularly for Black and Latino borrowers.

To achieve this, the research was conducted through case studies on three CDLFs—Accion Opportunity Fund (AOF), Local Enterprise Assistance (LEAF), and Boston Ujima. By researching and conducting interviews, this thesis compares these case studies, identifying similarities and differences, and analyzing why these differences matter to Black and Latino borrowers. Through this comparative analysis, the intention is to distill key elements that might contribute to a CDLFs success in mitigating the racial wealth gap. The findings aim to provide valuable insights that can fuel further research and practical applications, enhancing the effectiveness of CDLFs in their mission to address the racial wealth gap.

1.1. Background

Historically, people of color in the U.S. have faced significant obstacles in accumulating wealth due to systemic and institutionalized racism and discrimination. Policies such as redlining, Jim Crow laws, and discriminatory lending practices have all contributed to the persistent racial wealth gap. Community Development Financial Institutions (CDFIs), including Community

Development Loan Funds (CDLFs), have emerged as crucial players in attempting to bridge this gap by providing equitable access to capital and financial services to underserved communities.

1.1.1. The Racial Wealth Gap

In the U.S, Black and Latino communities have disproportionately borne the negative impacts of historical and contemporary policies that have limited economic stability and prosperity. Some of these policies and institutions have prevented Black Americans from owning land, subjected people of color to predatory lending practices, or contributed to the disinvestment of communities where a majority of people of color reside (Mehrsa Baradaran 2019b). A persistent devaluation of Black and Latino families and financial stability at the benefit of White wealth building may be contributing to the racial wealth gap (Oliver and Shapiro 2006). Black and Latinos families are the two racial and ethnic groups with the lowest median wealth in the U.S (Farrell et al. 2020; Robles 2010, pp. 241–266). From the report by Asante-Muhammad et al. (2016), the average wealth of White families has grown by 84% in the last 30 years since 2016, 1.2 times the rate of growth for Latino families and three times the rate of growth for Black families. They also state that if we were to repeat the rate of wealth accumulation, White families' wealth would increase over \$18,000 per year while Latino and Black families would see their wealth grow \$2,250 and \$750 per year, respectively. According to research from Kijakazi (2019) on average, White families in 1963 had \$121,000 more in wealth than Black families; by 2016 that number had grown to over \$700,000.

There exists a peripheral understanding of the wealth gap in the U.S. Some scholars, policymakers, and practitioners participating in discourse around the widening wealth gap may

believe that the racial wealth gap exists because of “irresponsible” financial decisions made by individuals with little to no wealth, a lack of opportunity to mainstream economic opportunities, or lack of access to other resources to build wealth such as home ownership or higher education.

The racial wealth gap cannot be attributed solely to limited opportunities or individual decision making. Rather, it stems from a deeply rooted system of structural oppression and systemic devaluation of people of color in the U.S.

1.1.2. CDFIs

There are various organizations and financial institutions that have emerged, with the desire to help close the racial wealth gap by providing working capital to marginalized and underserved communities. This includes Community Development Financial Institutions (CDFIs), of which there are 4 types of institutions. These are: (1) community development banks, (2) community development credit unions, (3) community development loan funds, and (4) community development venture capital funds (Balboni & Travers, 2017). More specifically, the type of CDFI I will focus on are Community Development Loan Funds also called Community Loan Funds (CDLFs). Using the definition of CDFIs types from Balboni and Travers (2017), adopted from the Federal CDFI fund, community loan funds also encompass microenterprise development loan funds.

A Community Development Loan Fund (CDLF) and a Microenterprise Development Loan Fund (MDLF) are both types of Community Development Financial Institutions (CDFIs) that provide financial services to underserved communities. An MDLF focuses on providing financial

services and support to micro-enterprises. Micro-enterprises are small businesses, often with less than five employees, that have limited access to traditional financing from banks. MDLFs offer small loans, business training, technical assistance, and other resources to help these microenterprises start, stabilize, and grow their businesses (CDFI Coalition 2021a).

Two of my selected case studies, Accion Opportunity Fund and LEAF are Community Development Loan Funds (CDLFs) that are also designated as Community Development Financial Institution (CDFI). In contrast, Boston Ujima is a CDLF that is not officially designated as a CDFI; rather, it is part of Seed Commons, a cooperative CDFI composed of individual peer members who handle lending and economic development. Boston Ujima operates as a community investment capital fund, which means it does not have the official CDFI designation from the U.S. Treasury. For the sake of brevity, I will refer to all three case study organizations as CDLFs in my discussion.

I have a particular interest in exploring CDLFs as the primary focus of my investigation for a few reasons. I have the most knowledge and experience on CDLFs as I previously worked in one. CDLFs are 501(c)3 non-profits, which has a few different implications for my data collection for informing my framework. Non-profits have their theory of change or mission statement clearly available; their financial documents are also publicly available. More importantly, CDLFs target small business owners and entrepreneurs that are of low-to-moderate income and from historically marginalized identities, the group which I am interested in examining.

My motivation for this project stems from a desire to understand and address the systemic barriers that contribute to wealth inequality in the U.S. Working for Accion Opportunity Fund, a CDFI, has given me firsthand insight into the challenges that Black and Latino entrepreneurs may face in seeking to build wealth. I completed an internship at Accion Opportunity Fund from April 2022 to August 2023 as a part of the Fund development team. Within this time I was able to reach out to small business owners and ask about the impact AOF had on them and their business. This research was conducted to understand the specific elements or factors that make certain CDFIs more successful at addressing the racial wealth gap through their missions and initiatives compared to other CDFIs. The ultimate aim of this research is to identify how CDFIs can more effectively support Black and Latino small business owners in their wealth-building endeavors.

My focus on Black and Latino borrowers stems from a deeply personal and cultural commitment to understanding the systemic issues that disproportionately affect these communities. As a Latina, I have a unique perspective on the challenges faced by individuals within these populations. My experiences working at Accion Opportunity Fund (AOF) have further solidified this commitment, as I was surrounded by colleagues who centered their own lived cultural experiences in their efforts to promote economic justice. I was also profoundly influenced by the striking findings of the research report "The Color of Wealth," published by the Federal Reserve Bank of Boston, which revealed that the median net worth of Black families in Boston was a mere \$8.

1.2, Research Questions

My main research question is: What are the key strategies and distinguishing factors of Community Development Loan Funds (CDLFs) that actively contribute to the reduction of the racial wealth gap and foster wealth creation for Black and Latino communities in the U.S?

To help guide my literature review, the following questions were used to frame the context and develop the foundation needed to understand the main research question:

- Why have Black and Latino families struggled to create generational wealth?
- What are the major factors contributing to the racial wealth gap?
- How does the racial wealth gap impact Black and Latino small business owner's access to capital?
- What role do CDLFs and other financial institutions play in addressing the racial capital gap?
- How do CDLFs compare to other types of financial institutions in terms of their ability to serve Black and Latino small business owners?

To guide my case study research, the following questions were addressed:

- What is the relationship between a CDLFs' theory of change and its lending and underwriting criteria and its source of funds for capital deployed?
- What strategies, initiatives, and actions do CDLFs take to help Black and Latino small business owners access capital and build wealth?
- How do CDLFs lending practices and policies impact the ability of Black and Latino small business owners to access capital and build wealth?

- How do CDLFs source capital for deployment, and what impact does this have on the availability and accessibility of funding for Black and Latino capital seekers?
- How do CDLFs measure and evaluate the success of their lending practices in achieving wealth creation for Black and Latino capital seekers, and what specific criteria do they use to assess creditworthiness and financial stability?

1.3. Guide to Thesis

The methods section will detail the methodological framework employed in this research, outlining the key topics covered in the literature review and the specific literature sources used to construct it. Additionally, this section will explain the rationale behind the selection of the three CDLFs—Accion Opportunity Fund, LEAF, and Boston Ujima—used as case studies, including the criteria for their selection. It will also describe the data collection process, including interviews and other qualitative measures, as well as any limitations encountered during the research process, providing transparency about the scope and boundaries of the study.

The literature review will provide a comprehensive overview of wealth creation, highlighting the historical and contemporary factors that contribute to the racial wealth gap. It will delve into the significance of capital in wealth-building efforts and examine the critical role that CDLFs play in addressing these disparities. This section will synthesize key scholarly contributions and establish a foundation for understanding the broader context in which CDLFs operate.

The findings section will present the research results, systematically analyzing the strategies and practices employed by the three CDLFs in their efforts to reduce the racial wealth gap. This

section will highlight key themes and patterns observed across the case studies, emphasizing both commonalities and unique approaches that emerged during the analysis.

The discussion will interpret these findings within the context of existing literature, exploring their implications for policy and practice. This section will critically engage with the research results, assessing how they align with or challenge established theories and frameworks in the field. It will also consider the potential impact of these findings on stakeholders, including policymakers, community leaders, and financial institutions.

Finally, the conclusion will summarize the key insights gained from this research, distilling the essential contributions of the thesis. It will offer concrete recommendations for future research avenues and policy initiatives aimed at effectively addressing the racial wealth gap and enhancing the impact of CDLFs in supporting Black and Latino communities.

2. Methods

The research conducted was qualitative, focusing on case studies to deeply understand the operations and strategies of each CDLF.

2.1. Research Approach

A case study approach was most appropriate for understanding my research question as it required an in-depth exploration of each CDLFs practices and strategies. This method allowed for a comprehensive analysis of each organization and facilitated a comparative assessment to determine the traits that make some CDLFs more or less effective in addressing the racial wealth gap. Given the complexities involved in addressing systemic financial inequalities, a qualitative case study approach provided the necessary depth and context.

2.2. Case Study Selection

2.2.1. Criteria for Selection

This portion of the research was guided by first determining the number of Community Development Loan Funds (CDLFs) that cater to the needs of Black and Latino small business owners. The Opportunity Finance Network's (OFN) CDFI Locator database was utilized to filter and identify CDLFs that aligned with the established criteria. The OFN, a nationwide network comprising over 390 CDFIs in the United States, operates as an intermediary entity bridging the gap between the public and private sectors. Its primary mission revolves around facilitating the identification and capital alignment opportunities for organizations and institutions to generate greater social benefit (Opportunity Finance Network, 2023).

Employing the filtering functions provided by the database, I identified 57 CDFIs that met the specific criteria established for this research. The filtering procedure involved first selecting "Loan fund" as the organizational type and subsequently manually eliminating CDFIs from the pool based on predetermined exclusion filters. These filters included CDFIs that did not provide loans to small business owners (e.g., capital deployment for homeownership or solar projects); the lack of explicit mention of serving Black, Latino, minority, or people of color communities in their mission, vision, values, or programming; and a strong sole focus on communities outside the research's scope, which included Asian Americans, Indigenous peoples, immigrants, or refugees.

2.2.2. Justification

While the resulting 57 CDFIs all share a general mission of addressing the racial wealth gap, they each have different frameworks for deploying capital to achieve this goal. For the comparative analysis, I selected three CDLFs with varied geographical focuses: Accion Opportunity Fund, which serves multiple states across the U.S.; LEAF, which operates in the New England area; and Boston Ujima, which focuses on the city of Boston. Additionally, the relationships that my advisor, reader, and I had with these organizations influenced their selection, as it facilitated easier access to experts within each CDLF and streamlined the data collection process.

Accion Opportunity Fund (AOF) deploys traditional lending strategies and provides technical support to their borrowers, serving as a baseline for how most CDLFs and loan funds operate.

LEAF, while still lending to enterprises, focuses on food co-operatives and community land trusts, requiring extensive knowledge and specialization with a community component. Boston Ujima, with a smaller geographical focus, is heavily community-driven. These different approaches provided a diverse range of strategies for comparison in this study.

2.3. Data Collection

2.3.1. Interviews

I conducted two interviews, one with a representative from LEAF and one from AOF. These individuals were selected based on their extensive knowledge of lending and underwriting processes, which may not be publicly available. Boston Ujima did not require an interview as their public documentation sufficiently covered their processes.

2.3.2. Documents

Publicly available information from all three CDLFs and internal documents from AOF were analyzed to gain insights into each organization's strategies and operations.

2.3.3. Financial or Impact Data

Most of the financial or impact data gathered was readily available on the CDLFs' websites. No deeper quantitative analysis was conducted beyond this publicly available information.

2.3.4. Data Collection Process

I created an interview guide to ensure consistency in questioning. The interview guide was informed by the research questions that guided the research on the case studies. The interviews were recorded, transcribed, and thoroughly reviewed to extract additional information and perspectives.

2.4. Data Analysis

I conducted a cross-case analysis of the case studies, analyzing multiple cases simultaneously to identify patterns or trends across them. The analysis focused on themes, strategies, and outcomes among the three CDLFs. Thematic analysis was used to extract key insights from interview transcripts and documents, providing a robust comparative framework.

2.5. Limitations

While this research provides important insights, it is not without limitations. The case study approach, while offering depth, may limit the generalizability of the findings. The sample size and scope are limited to three organizations, which may not represent the full spectrum of CDLFs and their strategies. Additionally, the geographic focus on specific regions may not reflect the experiences of CDLFs in other areas.

The insights derived from the selected case studies might not be applicable to all CDLFs or other financial institutions engaged in similar work. Differences in local economic conditions, regulatory environments, and community needs might affect the applicability of the findings to other contexts.

The research may lack diverse perspectives from all stakeholders, including borrowers, community members, and policymakers, limiting a comprehensive understanding of the CDLFs' effectiveness. Future research could expand by incorporating quantitative methods and more diverse stakeholder perspectives, which could enhance the understanding of CDLFs' lending practices in relation to the racial wealth gap.

3. Literature Review

3.1. Wealth and Wealth Creation

3.1.1. Introduction

The literature I have selected on wealth and wealth creation, identifies various factors contributing to wealth accumulation, including income, entrepreneurship, education, and intergenerational wealth transfer. Entrepreneurship has been highlighted as a valuable tool for building wealth, particularly in communities of color, although policies promoting "Black Capitalism" have had limited success (as described below). Education plays a significant role in generating higher incomes and wealth, but there are persistent disparities between racial groups, with Black and Latino individuals experiencing lower expected earnings. Inheritance and intergenerational wealth transfer perpetuate wealth inequalities. Wealth provides individuals and families with security, access to quality resources, social status, and opportunities for personal and professional growth. It acts as a cushion against financial hardships and allows for investments in better neighborhoods and schools. Additionally, wealth serves as a layer of financial security, reducing costs and enabling positive social outcomes. I argue that understanding these dynamics is crucial for analyzing the strategies and distinguishing factors of CDLFs that contribute to reducing the racial wealth and fostering wealth creation for Black and Latino communities in the U.S.

3.1.2. What is Wealth

The literature on wealth creation highlights a range of factors contributing to wealth accumulation, such as income, savings, investments, entrepreneurship, and education. However,

there is often a lack of consensus on the relative importance of these factors and their cumulative impacts.

Wealth, as defined by economists, encompasses inheritance, earnings, and savings, along with prudent consumption and investment patterns over an individual's lifetime (Oliver and Shapiro 2006). Wealth extends beyond its economic value, providing individuals and families with security, access to quality education and healthcare, social status, and opportunities for personal and professional growth. It is associated with improved well-being, reduced financial stress, and increased social and political influence (Killewald et al. 2017; Nembhard and Chiteji 2022a; Campbell and Kaufman 2005).

Researchers have found positive association between wealth and favorable social outcomes, including enhanced educational attainment and cognitive achievements among children from more affluent backgrounds. Access to parents' wealth can facilitate higher education, homeownership, ease transition into adulthood and other significant life milestones (Killewald et al. (2017) .They also emphasize that wealth acts as a buffer against negative economic shocks and serves as a cultural signal of status and achievement, potentially translating into increased political power (Killewald et al. 2017 ;Campbell and Kaufman 2005).

In retired adults, wealth accumulated is a critical financial resource that replaces earned income (Nembhard and Chiteji 2022a ; Killewald et al. 2017).

Having substantial wealth provides individuals with a range of advantages and opportunities that can enhance their standard of living. Wealth serves as a significant indicator of one's place in

society since its accumulation often spans a lifetime and is frequently passed down from one generation to the next. Families use their wealth, often inherited, to create greater opportunities for themselves and their children, either in number or in quality. Even a small amount of wealth plays a protective role in acting as a financial cushion that prevents severe economic crises such as temporary setbacks in income or labor market outcomes (Semyonov and Lewin-Epstein 2013, Campbell and Kaufman 2005, Nembhard and Chiteji 2022a).

Using wealth in this way is referred to as "transformative assets" in Campbell and Kaufman's research, allowing families to shape their lives and forge a more promising future. These transformative assets can produce results that include purchasing a home in a safer and more affluent neighborhood with higher quality public schools and greater housing appreciation rates, which, in turn, generates more wealth.

Baradaran (2019a) underscores the role of wealth in providing a layer of financial security. Without this cushion, marginalized families, particularly Black families, face higher costs for credit and financial services and are more vulnerable to financial hardships. Access to banking facilities and capital plays a significant but often overlooked role in producing positive social outcomes.

3.1.3. Ways Wealth is Built

3.1.3.1 Education

The literature on education and wealth highlights complex interconnections between family wealth, educational attainment, and long-term financial outcomes. Meschede et al. (2017) argue that wealthier families are more likely to achieve higher educational outcomes, with White

college graduates often leveraging family resources to secure stable careers and continued wealth accumulation. In contrast, Black college graduates are more likely to financially support their parents, which can limit their initial resources and result in lower long-term wealth returns.

The researchers emphasize that family wealth is a significant predictor of college attendance and completion, with family income also playing a crucial role. Students from higher-income families have higher rates of college completion compared to students from lower-income families. Although college education increases expected earnings for all racial groups, the total expected earnings of Black and Latino students remain lower than their White and Asian peers at all education levels. Even among Black and Latino students with Bachelor's and advanced degrees, lifetime earnings are at least 20 percent lower than similarly educated Whites, creating a lifetime earnings gap of \$480,000 (Meschede et al. 2017).

Killewald et al. (2017) find that parental wealth is positively associated with higher levels of educational and cognitive achievement in children. Specifically, parental wealth and the appreciation of home values demonstrate a positive correlation with college enrollment, institutional quality, and the completion of bachelor's degrees. This means that individuals from wealthier backgrounds are more likely to enroll in higher-quality colleges and complete their degrees.

Parental wealth benefits children by shaping the quality of their neighborhood and school contexts, as well as the resources available at home (Killewald et al. 2017). This indicates that while education is often viewed as a pathway to wealth creation, the impact of education on

wealth can be heavily influenced by pre-existing family wealth. This suggests that education may not be the equalizer it is often thought to be, particularly for marginalized communities where access to family wealth is limited (Killewald et al. 2017; Meschede et al. 2017).

3.1.3.2. Entrepreneurship

Some research speaks to the role of entrepreneurship as a major driver of wealth creation, especially within communities of color, emphasizing the value of innovative ideas and risk-taking.

Nembhard and Chiteji (2022d) suggest entrepreneurship as a valuable tool for building wealth for people of color, as business equity would contribute to one's wealth portfolio. However, they make the point that policies promoting "Black Capitalism" popularized by President Nixon have had limited success. They argue that all groups examined by them (people of color) benefit from business ownership and would benefit from more entrepreneurship and ownership opportunities. They also discuss cooperative ownership as a way to promote entrepreneurship and ownership while spreading the risks allowing for collective wealth creation and civic participation.

Campbell and Kaufman (2006) suggests that entrepreneurship is a pathway towards wealth accumulation especially for immigrants, more specifically Asian-Americans and Latinos. Entrepreneurship provides immigrants with a means to overcome barriers to traditional employment, such as language barriers, lack of recognized credentials, or discrimination in the labor market. They note that self-employment creates significant wealth gains for all households.

The reason they focus on Asian-Americans and Latinos is because they represent a high proportion of immigrants in the U.S.

Both sets of researchers underscore the importance of entrepreneurship in fostering economic mobility and wealth accumulation. They point out that entrepreneurship not only provides financial benefits but also offers a means to address structural barriers within traditional employment sectors (Nembhard and Chiteji, 2022d; Campbell and Kaufman, 2006). This may suggest that entrepreneurship, while only addressing some symptoms of larger systemic issues, can be a viable path towards building wealth and financial stability.

3.1.3.3. Intergenerational Transfer

The literature on intergenerational wealth transfer emphasizes its critical role in wealth accumulation and its impact on the racial wealth gap. Research has identified the significant impact of family resources and inheritance on wealth accumulation and the perpetuation of wealth disparities.

According to Semyonov and Lewin-Epstein (2013), household wealth is derived from two primary sources: income and intergenerational wealth transfers. For many families, wealth is accumulated for a long period if not for generations. Wealth is distinct from income in that it is accumulated over long periods, often across generations. Higher income and reception of inheritance are likely to increase household wealth. While income is earned through labor, wealth is created by the transfer of assets and capital across generations. This accumulated

wealth can substantially influence individuals' standard of living and consumption capacity, independent of their labor market outcomes.

When individuals from marginalized racial groups receive inheritance and wealth transfers, it provides them with a crucial financial advantage that can contribute to bridging the wealth gap and enhancing their economic position. White students often leverage family resources to establish stable careers and continue accumulating wealth, whereas Black students may start with fewer resources, leading to lower long-term wealth returns (Meschede et al. 2017).

The inheritance of wealth stands as a direct and immediate mechanism for perpetuating inequality, maintaining disparities between Black and White populations—a way in which inequality between Blacks and Whites was maintained even after slavery's end. Because wealth requires a lifetime to accumulate and often has an inherited component, both contemporary disadvantage and historic discrimination affect current wealth accumulation (Campbell and Kaufman 2005 ;Muñoz et al., 2015).

3.2. The Racial Wealth Gap

3.2.1. Introduction

The literature I have selected on the racial wealth gap in the United States examines the deep historical roots and contemporary persistence of this disparity. It highlights the disparities in wealth accumulation between White households and households of color, specifically focusing on African American and Latino families. The gap is not a result of individual financial choices by people of color, but rather a consequence of discriminatory policies and institutional practices

that have historically facilitated wealth accumulation for White individuals while creating barriers for Black and Latino families. From the enslavement of African descendants to the land dispossession of Latinos during the "manifest destiny" period, these systemic injustices have hindered wealth creation for these communities. Additionally, policies like the New Deal's social legislation and the G.I. Bill, while beneficial to many, excluded significant portions of the population based on race, further perpetuating inequality. The banking industry's profit-driven approach, biased practices in the Internal Revenue Service, and major drivers like restricted access to homeownership, occupational segregation, and lower returns on education have all contributed to the racial wealth divide. This comprehensive understanding of the historical and systemic factors underlying the racial wealth gap is crucial for analyzing strategies to address and reduce this disparity.

3.2.2 The Racial Wealth Gap

Researchers have found the major drivers of the racial wealth gap to include (a) restricted access to homeownership, (b) occupational segregation and pay disparities, (c) systemic inability to access fair credit and capital, (d) lower returns on higher educations and underinvestment in education systems and (e) asset destruction (Asante-Muhammed et al., 2016; McCarty & Ghosh, 2022). These drivers are deeply rooted in structural racism perpetuated by policies and institutions.

The racial wealth gap is a result of historical and contemporary discriminatory practices and policies. Decades of discriminatory policies, market practices, and other factors have disproportionately affected Black and Latino households, impeding their ability to accumulate

wealth. It is essential to recognize that the racial wealth gap is not the result of inadvisable, individual financial choices by people of color. Rather, it is a consequence of policies, programs, and institutional practices that were intentionally designed to facilitate wealth accumulation for White individuals while simultaneously creating barriers or stripping wealth from people of color. Government action and inaction have contributed to the current state of wealth inequality, as wealth-building policies overwhelmingly favor the wealthy, predominantly White households (Kijakazi 2019; Hamilton et al., 2020; Asante-Muhammed et al., 2016).

Presently, the enduring effects of generations of discriminatory and wealth-stripping practices have left Latino and Black households with six and seven times less wealth (\$98,000 and \$85,000, respectively) compared to White households (\$656,000) . (Asante-Muhammed et al., 2016).

3.2.2.1. Policies that created the Racial Wealth Gap

Historical policies and institutions have played a significant role in perpetuating the Racial Wealth Gap. The racialization of these policies have impeded the acquisition of assets for Black communities as well contributing to the economic disadvantages faced by Latino communities (Oliver and Shapiro 2006). Slavery, Jim Crow laws, as well as the New Deal, have all contributed to inhibiting asset acquisition for Black and Latino communities. Institutions such as the Federal Housing Authority, banks, lenders, and the Internal Revenue Service have also played a role in exacerbating wealth disparities.

Slavery hindered the accumulation of wealth for enslaved individuals by denying them ownership of their labor and the ability to acquire property. Enslaved individuals were treated as property themselves, with their labor exploited for the economic benefit of slaveholders. They were not allowed to own land, businesses, or other assets, and any wealth generated from their labor was appropriated by slaveholders. Many slaves acquired assets through thrift, intelligence, industry, and their owners' liberal paternalism, although these assets were mainly used to buy freedom and did not contribute to intergenerational wealth transfer. Slavery thus prevented enslaved individuals from accumulating wealth and perpetuated their economic oppression. (Oliver and Shapiro 2006).

The deliberate destruction of land, businesses, and assets owned by BIPOC communities through institutionalized and structural means is another severe manifestation of economic injustice (McCarty & Ghosh, 2022). These actions have included the implementation of homestead laws that stripped Blacks and Latinos of their land, the dispossession of land owned by Latinos through the expansionist policies of "Manifest Destiny," targeted destruction of Black and Latino businesses, as exemplified by the infamous "Black Wall Street" in the Greenwood District in Tulsa, Oklahoma, the forced repatriation of Mexicans including some U.S citizens of Mexican descent, and the historical legacy of slavery (Kijakazi et al. 2019). These historical events have had profound effects on families, leading to the destabilization of economic assets that could have generated income and accumulated into long-term intergenerational wealth.

Latino families experienced extensive land loss in the 1800s during the "Manifest Destiny" period. The Foreign Miners Tax prevented Mexicans from participating in the gold rush, and

Operation Wetback resulted in the deportation of thousands of Mexicans in the 1950s (Kijakazi et al. 2019). During the "manifest destiny" period in the 1800s, Latino families experienced significant land loss, often through policies that favored White settlers and expansion. As the United States expanded westward, Mexican and Latino communities were displaced, dispossessed of their lands, and marginalized. This land loss directly hindered the ability of Latino families to accumulate wealth through property ownership and agricultural enterprises, which have historically been important sources of intergenerational wealth. Additionally, the Foreign Miners Tax imposed during the gold rush era specifically targeted Mexicans and prevented them from fully participating in the economic opportunities presented by the gold rush. The Mexican repatriation program, or Operation Wetback, during the 1950s led to the deportation of thousands of Mexicans, including U.S. citizens of Mexican descent. This mass deportation resulted in the loss of homes, businesses, and other assets for many Mexican families (Kijakazi et al. 2019). The forced removal disrupted communities and their economic stability, further impeding their ability to accumulate wealth and build intergenerational assets.

The New Deal's social legislation, although intended to provide economic relief during the Great Depression, had exclusionary elements that hindered the accumulation of wealth for African Americans and Latinos (Darity et al. 2018). The Social Security Act of 1935, a cornerstone of the New Deal, initially excluded certain groups of workers, including farmworkers and domestic workers, who were predominantly people of color. This exclusion denied them access to the benefits tied to wages, such as retirement benefits, survivor benefits, and disability benefits provided by the Social Security program (Oliver and Shapiro 2006).

The Fair Labor Standards Act of 1938, another component of the New Deal, introduced minimum-wage protections but excluded specific tip-based professions predominantly held by Black workers, such as servers, shoe shiners, and domestic workers. This exclusion from minimum-wage protections further disadvantaged these workers, limiting their ability to earn fair wages and accumulate wealth (Asante-Muhammed et al. 2016). The exclusion of these groups and professions from key social and labor policies under the New Deal meant that African Americans and Latinos were denied important benefits and protections, leaving them with fewer resources to build wealth over time. This ongoing systemic inequality is further exemplified by the fact that African Americans, despite contributing more to the Social Security program through payroll taxes, receive disproportionately fewer benefits compared to their White counterparts, underscoring the racial disparities perpetuated by current state policies in asset accumulation (Oliver and Shapiro 2006).

3.2.2.2. Institutions that created the Racial Wealth Gap

3.2.2.2.1. Housing

Homeownership, a factor identified in wealth accumulation, has been hindered by historic discriminatory practices such as redlining and limited access to credit, preventing African Americans from building home equity and accumulating wealth (Shapiro, Meschede, and Osoro, 2013). The Federal Housing Authority's policies, particularly the development of low-interest mortgages, have contributed to racial residential segregation and limited Black homeowners' ability to build wealth (Oliver and Shapiro 2006). Discriminatory practices like restrictive

covenants, redlining, and declining city services have further destabilized Black communities and impeded their wealth accumulation (Oliver and Shapiro 2006). Even when families of color are home owners, they are more likely to have mortgage debt (Muñoz et al., 2015), pay higher interest rates and accumulate equity at a lesser rate than White homeowners (Oliver and Shapiro 2006). Recent deceptive practices in the mortgage industry, targeting communities of color for subprime mortgages despite qualifying for prime loans, have undermined homeownership as a path to wealth accumulation.

The New Deal introduced measures that aimed to support wealth accumulation, such as the creation of stable mortgage markets and reduced down payment requirements for homeownership. This transformed the housing landscape and allowed many working-class households to achieve the American dream of owning a home (Darity et al. 2018). However, the path to homeownership has been blemished by deep-rooted racism, particularly evident in the practices of the Federal Housing Administration (FHA). The FHA systematically denied loan applications from Black families through the practice of redlining, which involved delineating certain areas as high-risk and refusing to provide mortgage loans in those neighborhoods (Darity et al. 2018).

In 1944, the G.I. Bill was enacted with the intent of supporting and providing various benefits to World War II veterans, this included low-cost home mortgages, low-interest business loans. adjust to civilian life by providing them with a number of benefits, such as low-cost home, and financial support for the costs of education (Muñoz et al., 2015). However, racially biased officials within the Department of Veterans Affairs deliberately withheld many of these benefits

from service members of color, favoring White service members instead (Asante-Muhammed et al., 2016). This discriminatory administration of the G.I. Bill further hindered wealth accumulation for African Americans and Latinos.

More recently, Black and Latino families were among those targeted for subprime mortgages, even when they qualified for prime loans. This deceptive practice dealt a significant blow to homeownership, which has been considered a critical avenue towards wealth accumulation. The gains made in closing the racial wealth gap in the three decades following the passage of the Fair Housing Act of 1968 were subsequently erased after 2000 (Kijakazi, 2019). In fact, the homeownership rate for Black households in 2019 is the same as it was in 1967 when race-based housing discrimination was legal, and the rate continues to decline (Kijakazi, 2019).

3.2.2.2. Banking

Banks, driven by profit maximization, prioritize ventures with higher returns and often neglect the needs of the economically disadvantaged. Despite incurring similar transaction and overhead costs regardless of loan size, banks focus on larger loans that generate substantial profits. As a result, they have shifted their attention away from serving the broader community and perceive each customer as a potential profit source. Those deemed unprofitable are either rejected outright or burdened with punitive fees. These fees not only repel customers with low balances but also serve as a significant revenue stream for banks (Mehrsa Baradaran 2015).

This profit-driven approach has disproportionately impacted Black and Latino communities, exacerbating the economic disparities they face. We witness this in the unequal access to credit,

with Black households experiencing a significantly higher likelihood of lacking credit access. Approximately 28% of Black households are classified as "credit invisible" or unscorable, compared to around 16% of White households (Chau et al., 2020). The exclusion and limited access faced by African Americans within the banking industry have forced them to turn to alternative financial services characterized by high-interest rates and predatory practices.

Banks have broken the trust within communities of color, particularly among Black individuals who have endured historical injustices. For instance, the mismanagement of the Freedman's Savings Bank, established in 1865 to serve freed slaves, resulted in the loss of over half of accumulated Black wealth, a loss of \$2M in deposits over 18 months during the Panic of 1873. Deposits made by freed slaves were used without their knowledge or consent to finance speculative ventures by the First National Bank. The reckless speculation and mismanagement of depositors' funds led to the permanent closure of the Freedman's Savings Bank in 1874, leaving many depositors, including those who saved diligently for homeownership, in financial ruin. This failure eroded trust in the federal government and the banking industry among African Americans, reinforcing skepticism toward the banking system as a whole in Black communities (Mehrsa Baradaran 2019).

African Americans, excluded from the dominant banking industry, are forced to rely on alternative financial services characterized by high-interest rates and predatory practices. Limited access to fair credit and capital also hampers entrepreneurship opportunities for communities of color, hindering the development and growth of minority-owned businesses (Asante-Muhammed et al., 2016).

3.2.2.2.3. Taxes

The Internal Revenue Service (IRS), despite having race-neutral tax codes and policies, has contributed to the perpetuation of the racial wealth gap. The U.S. tax code exhibits a disproportionate distribution of benefits that favor White individuals and facilitate the accumulation of property and capital assets for this demographic (Oliver and Shapiro 2006). These advantages are embedded within the tax code and take various forms, such as differential rates on income, tax deferrals, deductions, exclusions, and credits (Oliver and Shapiro 2006)). Many of these benefits are asset-based, providing tax breaks that specifically benefit those who already own certain assets, thereby facilitating the accumulation of financial and real assets. This not only benefits the wealthy but also extends to the middle class, including homeowners and pension holders (Oliver and Shapiro 2006).

Within the federal tax programs, a clear pattern emerges, overwhelmingly favoring wealth building for individuals at the top (Asante-Muhammed et al., 2016). Over the past two decades, the federal government has allocated over \$8 trillion through tax programs to assist families in building long-term wealth, supporting retirement savings, homeownership, business ventures, and higher education. However, the outcome of this spending reveals a significant disparity, with the typical millionaire receiving approximately \$145,000 in public tax benefits for wealth growth, while working families only receive an average of \$174. Although the Internal Revenue Service (IRS) does not collect race or ethnicity data, research indicates that a substantial portion of tax policies disproportionately benefits White households across all income levels. This

disparity further compounds the economic gap between Black and White populations, as Blacks possess fewer initial assets, resulting in limited access to tax relief (Oliver and Shapiro 2006).

Notably, when examining households in the highest income quintile, those earning \$103,466 or more, White individuals account for 79% of filers, while Blacks and Latinos represent only 6% and 7%, respectively (Asante-Muhammed et al. 2016). These examples illustrate how the U.S. tax code differentially channels benefits and promotes property and capital asset accumulation based on race.

3.3. Access to Capital

3.3.1. What is Capital ?

Capital encompasses financial resources that individuals and entities use to initiate and grow businesses, invest in assets, and build wealth. It includes both monetary assets and investments in various forms, such as property, stocks, and bonds (Blanchflower, Levine, and Zimmerman 1998; McCarty and Ghosh 2022; Weller 2007) .

While the definition of capital as financial resources is widely accepted, it is important to recognize that capital encompasses more than just financial assets. It also includes social, human, and cultural capital, which play significant roles in accessing financial capital. Social networks, educational attainment, and cultural capital can influence access to financial resources, as individuals with greater social and human capital often have better connections to secure

capital (Blanchflower, Levine, and Zimmerman 1998; Mattos and Brewster 2021; McCarty and Ghosh 2022).

3.3.2. The Significance of Capital

Access to capital is crucial for individuals and businesses to achieve economic prosperity. It enables entrepreneurs to start new ventures, supports business expansion and innovation, and provides financial stability during periods of uncertainty. Capital also facilitates personal wealth creation, homeownership, education, and other opportunities for upward mobility (McCarty and Ghosh 2022; Blanchflower, Levine, and Zimmerman 1998; Weller 2007). Capital allows individuals and communities to support broader economic development, driving economic growth, job creation and overall community satisfaction (Mattos and Brewster 2021) .

3.3.3. The Racial Capital Gap

The Racial Capital Gap refers to the disparities in access to capital and financial resources experienced by racial and ethnic minority groups, particularly Black and Latino communities. This gap stems from historical and systemic factors such as discrimination, redlining, limited social networks, and unequal opportunities. The racial capital gap can significantly hinder economic advancement and limit the ability of minority-owned businesses to thrive (Mattos and Brewster 2021).

One of the primary determinants of disparities in access to capital is the racial wealth gap. White families have significantly more wealth than Black or Latino families, which influences entrepreneurs' ability to start and grow businesses. Wealth disparities affect capital access in two

ways: (1) entrepreneurs of color have fewer financial resources for business investment and (2) they have fewer assets, such as savings or home equity, which lenders typically require as collateral for loans (Mattos and Brewster 2021).

White families typically have significantly more wealth than Black or Latinx families. This wealth gap has a direct impact on the ability of individuals to start and grow businesses.

Entrepreneurs often rely on personal or family savings to fund their ventures, and racial wealth disparities limit the financial resources available for this purpose. (Mattos and Brewster, 2021)

The racial capital gap has been extensively documented in the literature, highlighting the disparities in access to capital faced by Black and Latino communities (Blanchflower, Levine , and Zimmerman 1998; Mattos and Brewster 2021; McCarty and Ghosh 2022; Weller 2007; Mehrsa Baradaran 2019; Oliver and Shapiro 2006). Scholars emphasize the historical and systemic factors contributing to this gap, such as discriminatory lending practices, redlining, and limited opportunities for wealth accumulation.

Access to capital remains a challenge for entrepreneurs of color. Prior to the COVID-19 pandemic, over half of entrepreneurs face unmet capital needs (51%) , but this percentage is significantly higher for entrepreneurs of color, ranging from 66% to 76% (Mattos and Brewster 2021) . Black-owned firms receive significantly less debt financing than their White-owned counterparts. Of firms that apply for debt financing, 38% of Black-owned firms receive none of the financing they applied for in comparison to the 20% of White-owned firms (Mattos and Brewster 2021). African-Americans and Latino families are still denied credit more often than White families with the same income, and low-income families are more often denied access to

credit than middle-income and higher-income families- even when low-income families apply for credit in line with their income and creditworthiness (Weller 2007).

Access to capital greatly influences business ownership and success rates, particularly among entrepreneurs of color. Limited capital access can lead to undercapitalization of businesses, making them smaller and less profitable. This can result in a higher likelihood of business failure. Despite starting a similar number of businesses per capita as other racial groups, BIPOC entrepreneurs often struggle to stay in business due to unmet capital needs (Mattos and Brewster 2021)

Even among high-risk credit profiles, entrepreneurs of color receive less debt financing compared to White-owned firms. Among entrepreneurs with a high-risk credit profile, 76% of entrepreneurs of color receive no funding compared to 46% of White entrepreneurs (Mattos and Brewster 2021). These disparities persist across various lending institutions, including large and small banks and online lenders. Moreover, Black and Latino firms have historically faced higher interest rates when approved for loans. There's also evidence of direct racial discrimination in the small business lending market, with entrepreneurs of color often receiving less favorable treatment (McCarty and Ghosh 2022 ; Mattos and Brewster 2021; Blanchflower, Levine, and Zimmerman 1998).

Research highlights that minority-owned small businesses, particularly Black-owned firms, face significant challenges in accessing credit compared to White-owned businesses, even when controlling for creditworthiness (Blanchflower, Levine, and Zimmerman, 1998; Andrews et al.,

2021). They have also identified two mechanisms of discrimination: statistical discrimination, where personal characteristics such as race are used to predict loan default likelihood, and direct prejudice, where the anticipation of rejection discourages loan applications. Researchers have found that this fear of prejudice and discrimination is a major barrier for minority-owned businesses, leading many Black and Latino firms to avoid applying for loans (Blanchflower, Levine, and Zimmerman 1998). This discouragement is significantly more prevalent among these groups than among their wealthier and White counterparts (Blanchflower, Levine, and Zimmerman 1998; Weller 2007).

Wealth disparities, compounded by racial bias, contribute to a substantial capital gap between entrepreneurs of color and their White counterparts. This wealth gap limits their ability to start and grow businesses. Entrepreneurs of color often enter industries with low capital requirements, leading to lower margins and higher failure rates (Andrews et al. 2021). Racial bias extends to lending practices, where highly qualified Black business owners are more likely to believe they will be denied loans compared to similarly qualified White business owners. Studies consistently show that minority business owners are denied loans at significantly higher rates, even when they have similar attributes and equity positions. Lack of equity to collateralize borrowing exacerbates this disparity (Andrews et al., 2021). Minority and lower-income families typically face higher borrowing costs. This includes both higher debt payments relative to debt and higher interest rates. These cost differences persist over time and are associated with various credit products, including payday loans, car title loans, and credit card debt (Weller 2007).

Despite programs like the Small Business Administration (SBA) 7(a) Loan Guarantee Program, which aims to expand capital access to underserved groups, there's evidence that Black and Latinx businesses receive a disproportionately small share of such loans. For example in 2018, Black and Latino businesses received 3 and 6 percent of SBA 7(a) loan dollars, respectively. (Mattos and Brewster 2021).

The COVID-19 pandemic exacerbated these disparities, with entrepreneurs of color experiencing higher vulnerability due to the nature of their businesses and lower reserves. The undercapitalization of firms owned by people of color, especially Black- and Latino-owned firms, leads to smaller, less profitable businesses with a higher likelihood of struggling or failing. Entrepreneurs of color, locally and nationally, tend to cluster in food and accommodation services, which have lower profit margins (Mattos and Brewster 2021).

3.3.3.1. The Racialization of Risk and creditworthiness

Risk and creditworthiness are often racialized due to various systemic factors. Historical biases and discriminatory practices have led to disproportionate negative stereotypes and assumptions about the creditworthiness of racial and ethnic minority groups. This can result in higher interest rates, stricter lending criteria, and limited access to capital for Black and Latino individuals and businesses. Racial disparities in credit scores, income, and wealth contribute to these inequalities, perpetuating the cycle of limited access to capital (McCarty and Ghosh 2022).

Access to capital becomes significant in the context of racialized definitions of risk and return. Historically, racial biases have resulted in the overestimation of risk associated with BIPOC

individuals and assets. This racial bias has hindered traditional capital flows to BIPOC communities. Access to capital, therefore, becomes a means to counter these biases and provide opportunities for BIPOC individuals and communities to access financial resources (McCarty and Ghosh 2022).

Research suggests that as financial regulations evolved, overt racial discrimination transformed into subtler financial proxies for race. For example, the use of household financial ratios, credit history, or property appraisal as risk assessment techniques was employed without explicitly referencing race. The author points out that mortgage scoring models, developed by government-sponsored enterprises, contributed to the racialization of risk by incorporating a wide range of borrower and neighborhood factors, capturing the social proximity of many minority households to risk factors (Ashton 2011). Credit markets can be segmented based on factors like race, income, and geography. Different lenders may offer varying terms and conditions, and this segmentation can lead to unequal access to credit and differing costs of borrowing. Discrimination in lending practices, such as redlining, can also contribute to market segmentation (Weller 2007).

Despite regulatory efforts to ensure non-discriminatory access to credit, Weller highlights that racial and income-based discrimination still exists in credit markets. African-American and Latino families are more frequently denied credit compared to White families with similar income levels. Low-income families also face difficulties in accessing credit, even when their applications align with their income and creditworthiness (Weller 2007). Entrepreneurs of color often face less favorable treatment by loan officers, which not only violates fair lending laws but

also perpetuates disparities in capital access. Such discrimination occurs at various stages, including asking for more information, being less helpful, and requesting information that violates fair lending laws (Mattos and Brewster 2021).

3.3.4. Ways to Access Capital

There are a handful of ways in which small business owners can access capital. These methods and sources can range from more traditional capital to newer, innovative capital. Traditional capital can include banking institutions and financial markets that provide capital through loans, investments, and savings accounts. Through traditional capital individuals and businesses can apply for loans or lines of credit. Banks typically assess creditworthiness and financial history to determine loan eligibility.

Crowdfunding has also become a popular way in which entrepreneurs, who can not access capital through banking institutions and financial markets, seek capital. Various online platforms offer opportunities to crowdfund but it may be suggested that individuals with access to traditional capital have an advantage (Mattos and Brewster 2021). Platforms like Kickstarter or Indiegogo allow individuals or businesses to raise funds from a large number of people who contribute small amounts. Through crowdfunding, entrepreneurs do not have to be assessed on creditworthiness and financial history, which is one less institutional barrier that entrepreneurs of color would face.

Government programs dedicated to economic development may provide grants, loans, or tax incentives to support specific industries, promote economic development, or encourage

entrepreneurship. Government support may only be contingent on eligibility requirements for grants and tax incentives but may still assess an entrepreneur for creditworthiness and financial history for loans (Mattos and Brewster 2021).

Community development financial institutions (CDFIs) are an entity that small business owners may turn to if they are rejected by traditional capital lenders. CDFIs promote economic development through financial services. They offer flexible loans and technical assistance, often serving as intermediaries in many regions. I will expand on CDFIs further in the next section of the literature review.

More innovative and visionary capital lending methods can include community investment funds and catalytic capital. Community investment funds (CIFs) pool investments from individuals, communities, and philanthropies, supporting local businesses. They often offer customized financing and support tailored to a small business owner's needs (McCarty and Ghosh 2022).

3.4. Banks and CDFIs

3.4.1. Introduction

This literature review synthesizes key findings from various academic sources to address several pertinent questions: how banks have failed entire racial and ethnic communities, the functions and significance of CDFIs, the process of becoming a CDFI, the pros and cons of CDFI certification, the ways in which CDFIs fill gaps created by traditional banks, their capital distribution mechanisms, critiques of CDFIs, limitations of the Community Reinvestment Act (CRA), and alternative financial entities.

3.4.2. Banks

Banks have historically failed entire racial and ethnic communities, primarily due to discriminatory practices such as redlining, which denied access to credit and financial services based on geographic location and racial composition (Baradaran 2015; Mattos & Brewster 2021; Beckon et al. 2020; Benjamin, Rubin, & Zielenbach 2004; Kolodinsky, Stewart, & Bullard 2006). The consequences of this exclusion are severe, with marginalized communities experiencing limited access to capital, hindering economic development and perpetuating cycles of poverty. Traditional banks have often failed entire racial and ethnic communities by neglecting to provide adequate financial services, thereby exacerbating economic disparities and hindering the economic progress of marginalized groups (Swack, Hangen, & Northrup, 2015).

Recent studies, including those by Mattos & Brewster (2021) and Swack, Hangen, & Northrup (2015), continue to emphasize the persistence of racial disparities in access to credit, housing, and other financial services. Scholars call for greater accountability and regulatory oversight to address systemic racism within the banking sector. There is increased scrutiny on banks' lending practices, with ongoing research and advocacy highlighting disparities in access to credit and financial services based on race and ethnicity. Initiatives to address racial equity in banking, such as the racial equity assessments in lending and investment, are gaining traction.

3.4.3. Community Development Financial Institutions (CDFIs)

In response to these systemic failures, Community Development Finance Institutions (CDFIs) emerged with social missions to fill gaps in access to capital by providing low-cost, flexible

financing solutions and support programs for entrepreneurs (Mattos & Brewster 2021). CDFIs have emerged as specialized financial intermediaries dedicated to providing financial services to low-income communities across the United States (Beckon et al. 2020), aiming to address the financial needs of underserved communities and promote community development (Smith 2007; Swack, Hangen, & Northrup 2015).

CDFIs are specialized financial institutions that serve underserved communities by providing financial products and services (Smith 2007). These institutions are certified by the U.S. Department of Treasury and play a crucial role in addressing financial disparities (Baradaran 2015). They are experiencing growth in response to increased demand for community-focused financial services, particularly in underserved and marginalized communities (Swack, Hangen, & Northrup 2015). Collaborations between CDFIs and traditional financial institutions are increasing, fostering partnerships to expand access to capital and resources (Baradaran 2015). Scholarship on CDFIs acknowledges their crucial role in providing financial services to underserved communities, particularly in areas where traditional banks have withdrawn (Beckon et al. 2020).

To become a CDFI, an entity must apply for certification through the CDFI Fund of the U.S. Department of Treasury (CDFI website). The entity must demonstrate a primary mission of promoting community development, serving an underserved market, and providing financial products and services to low-income or economically disadvantaged individuals or communities (Mattos & Brewster 2021). Emerging trends include the development of specialized CDFIs

focusing on niche markets such as affordable housing, renewable energy, and small business development (Beckon et al. 2020).

Research on the process of becoming a CDFI highlights the challenges and opportunities faced by organizations seeking certification (Swack, Hangen, & Northrup 2015). Critical perspectives question whether the certification process adequately assesses an entity's commitment to community development and social impact, or if it primarily focuses on financial metrics (Baradaran 2015).

Benefits of becoming a CDFI include access to grants from the U.S Treasury and low-cost capital, eligibility for various programs and initiatives, and the ability to fulfill a social mission (Mattos & Brewster 2021). However, there are cons such as regulatory requirements and limited access to traditional funding sources (Beckon et al. 2020). Additionally, debates center on the tension between regulatory compliance and maintaining a genuine commitment to community empowerment and economic justice (Smith 2007).

CDFIs often serve communities and individuals who are unable to access traditional banking services due to various reasons such as low income, poor credit history, or geographic isolation (Baradaran 2015). They provide affordable and accessible financial products and services tailored to the specific needs of these communities (Swack, Hangen, & Northrup 2015).

Research highlights CDFIs' innovative approaches to addressing banking gaps, including tailored financial products and community-based decision-making processes (Beckon et al. 2020).

CDFIs often provide loans and investments to businesses and projects that traditional financial institutions may consider too risky (Smith 2007). They leverage various funding sources, including government grants, impact investors, and socially responsible financial institutions, to provide capital to projects and businesses that may be deemed too risky by traditional lenders (Baradaran 2015). Critical analysis questions whether CDFIs prioritize impact over financial returns and whether their reliance on external funding compromises their independence and autonomy (Mattos & Brewster 2021). Debates exist regarding the role of philanthropy and impact investing in perpetuating or challenging existing power dynamics within the financial system (Beckon et al. 2020).

3.4.3.1. Critiques of CDFIs

Critics argue that while Community Development Financial Institutions (CDFIs) play a vital role in community development, they may not address systemic issues such as wealth inequality and structural racism (Baradaran 2015). Some critics contend that CDFIs may not be able to address the root causes of economic inequality and may perpetuate the status quo by focusing on individual or small-scale interventions rather than systemic change (Beckon et al. 2020). Moreover, concerns have been raised about the lack of transparency and accountability in some CDFIs, as well as potential conflicts of interest in governance structures (Mattos & Brewster 2021).

Scholarship critiques CDFIs for their reliance on top-down, market-driven approaches that may not adequately address the root causes of economic inequality (Baradaran 2015). Critical perspectives question whether CDFIs reproduce existing power structures within finance or if

they genuinely empower marginalized communities (Beckon et al. 2020). Debates center on the tension between CDFIs' role as intermediaries within the financial system and their potential to catalyze systemic change (Smith 2007).

Recent critiques of CDFIs focus on issues such as mission drift, lack of transparency, and potential co-optation by mainstream financial institutions (Baradaran 2015). Scholars call for greater accountability and community involvement in CDFI governance to ensure alignment with social justice goals (Beckon et al. 2020). Debates continue regarding the effectiveness of CDFIs in addressing systemic inequalities and the need for ongoing evaluation and improvement (Mattos & Brewster 2021).

The Community Reinvestment Act (CRA) is often critiqued for its limitations in effectively addressing the needs of community loan funds. While the CRA mandates banks to meet the credit needs of low- and moderate-income communities, its focus on quantitative metrics sometimes overlooks the qualitative aspects of community development (Kolodinsky et al. 2006). Additionally, the CRA's enforcement mechanisms may not always incentivize banks to invest in community loan funds, leading to challenges in accessing capital for these organizations (Benjamin et al. 2004). Critics argue that the CRA's reliance on self-reported data and subjective evaluations may hinder its ability to hold banks accountable for their community development activities, limiting the impact of community loan funds (Lowry 2018). Furthermore, the CRA's emphasis on geographic lending may neglect the needs of marginalized communities within larger metropolitan areas, contributing to the underinvestment in community loan funds serving these populations (Swack, Hangen, & Northrup 2015).

3.4.4. Alternative financial institutions

Alternative financial institutions, such as credit unions and cooperative banks, prioritize community ownership and democratic control over capital allocation (Baradaran 2015). These institutions offer an alternative to traditional banking models by emphasizing local decision-making and reinvestment in community development (Beckon et al. 2020). Impact investment funds and socially responsible investing represent another avenue for challenging conventional finance by integrating social and environmental considerations into investment decisions (Mattos & Brewster 2021).

Non-extractive financing models, such as revolving loan funds, aim to provide capital to communities without perpetuating debt cycles or extracting wealth (Benjamin et al. 2004). These models prioritize community wealth-building and asset ownership, offering alternatives to traditional lending practices that often result in financial exploitation (Kolodinsky et al., 2006). Revenue-based financing is another emerging model that aligns incentives between investors and entrepreneurs, promoting sustainable growth without relying on debt financing (Lowry, 2018).

Literature explores alternative financial entities and models that challenge the status quo of mainstream finance, such as public banks, cooperative credit unions, and non-extractive financing mechanisms (Smith 2007). Critical perspectives question whether these alternatives can truly disrupt existing economic systems or if they risk being co-opted and assimilated into the dominant financial paradigm (Swack, Hangen, & Northrup, 2015). Debates center on the

potential of inclusive capitalism and non-extractive financing to transform financial systems towards greater equity and sustainability (Baradaran, 2015).

Recent scholarship explores a range of alternative financial entities and models, including public banks, community development credit unions, and community land trusts (Beckon et al. 2020). Findings suggest that these alternative models have the potential to disrupt existing economic systems and promote greater equity and sustainability (Mattos & Brewster 2021). Scholars emphasize the need for policies and regulations that support the growth and viability of alternative financial entities to foster inclusive capitalism and non-extractive financing (Benjamin et al. 2004). Research on alternative financial entities and non-extractive financing has expanded in recent years, reflecting growing interest in community wealth-building and economic justice (Kolodinsky et al. 2006). Early studies focused on documenting the emergence and evolution of alternative financial models, including public banks, cooperative credit unions, and community development corporations (Lowry 2018). More recent research has explored the impact of these alternative models on local economies, social cohesion, and environmental sustainability, highlighting their potential to transform financial systems and promote inclusive capitalism (Swack, Hangen, & Northrup 2015).

4. Case Studies

I examine three distinctive cases within the realm of Community Development Loan Funds (CDLFs): Accion Opportunity Fund, Local Enterprise Assistance Fund (LEAF), and the Boston Ujima Project. These cases represent a spectrum of approaches within CDLFs, each employing unique strategies to address the racial wealth gap and foster wealth creation for Black and Latino communities in the U.S. To understand how these organizations tackle these issues, I utilized a comprehensive framework that includes examining their background, theory of change, strategies, lending practices, and sources of capital.

By analyzing each organization's theory of change, we can assess their underlying philosophies and intended impacts on economic disparities. Exploring their capital sourcing gives context to how sustainable their funding is, what restrictions might be in place, and how freely the funds can be used depending on the source's risk tolerance. Funding sources such as bank notes, government grants, and restricted donor funds often come with specific usage instructions, potentially limiting the organization's project funding flexibility. In contrast, less restrictive sources like investments and unrestricted donor funds allow more freedom in fund allocation. Through this structured analysis, I aim to uncover the key strategies and distinguishing factors that enable these CDFIs to contribute to reducing the racial wealth gap and promoting economic equity. Through this structured analysis, I aim to uncover the key strategies and distinguishing factors that enable these CDFIs to contribute to reducing the racial wealth gap and promoting economic equity.

4.1. Accion Opportunity Fund

4.1.1. Background

Accion Opportunity Fund (AOF) emerged from a series of strategic mergers and partnerships aimed at enhancing its capacity to support small business owners across the United States. The genesis of AOF can be traced back to 2012 when Opportunity Fund, a California-based Community Development Loan Fund (CDLF) specializing in microlending, merged with Confianza, a for-profit business engaged in small business lending in Los Angeles. This consolidation marked a significant step towards expanding Opportunity Fund's reach and impact in providing financial resources to underserved entrepreneurs (Accion Opportunity Fund 2023a).

In subsequent years, Opportunity Fund's trajectory was further propelled by a partnership with Lending Club, a prominent online lending platform. In 2016, Lending Club collaborated with Accion to launch national lending operations, spanning across 45 states. This strategic alliance broadened Opportunity Fund's scope, enabling it to extend its services to a diverse array of small businesses across the nation (Accion Opportunity Fund 2023a).

Two organizations, Accion U.S. Network and Opportunity Fund, shared a common goal of investing \$1 billion in small business coaching and advising. While Accion U.S. Network had a strong presence on the East Coast, focusing on business coaching and advising, Opportunity Fund emerged as a prominent CDFI microlender on the West Coast. In recognition of the growing demand for comprehensive support services for small business owners, Accion U.S.

Network and Opportunity Fund merged to create Accion Opportunity Fund in 2020 (Accion Opportunity Fund 2023a).

At its core, AOF is committed to providing equitable support to small business owners through an array of services, including fairly priced loans, educational resources, coaching, and support networks. The organization recognizes the systemic barriers that have traditionally marginalized entrepreneurs from accessing conventional financing options. Therefore, AOF adopts a personalized and expeditious approach to cater to the needs of these underserved communities, transcending geographical constraints to ensure accessibility for all small businesses across the nation. AOF takes pride in having a multilingual client-facing team, bridging barriers and further enhancing the accessibility of capital for Black and Latino borrowers.

4.1.2. Theory of Change

Accion Opportunity Fund (AOF) operates within a framework aimed at fostering economic inclusion and closing the wealth gap through entrepreneurial empowerment. Its vision entails an economy that facilitates wealth creation and financial security for all, with small business ownership serving as a vital pathway. Grounded in this vision, AOF's mission is to cultivate a financially inclusive economy by granting small business owners access to affordable capital, educational resources, coaching, networks, and to a lesser extent, political advocacy.

Central to AOF's theory of change is the conviction that investing in entrepreneurs and underserved communities is pivotal for enhancing financial mobility and well-being. Through strategic deployment of capital, coaching, and resources to underinvested small businesses and

communities, AOF endeavors to foster a more equitable financial landscape and foster enduring economic transformation. Notably, AOF predominantly serves women, people of color, and individuals from low-to-moderate income backgrounds, historically marginalized from accessing traditional financing avenues (Accion Opportunity Fund 2019).

4.1.3. Key Programs

Accion Opportunity Fund (AOF) employs a multifaceted approach to advance its theory of change, centered on fostering economic inclusion and empowering entrepreneurship. Through a range of initiatives and partnerships, AOF aims to bridge the gap between underserved entrepreneurs and accessible financial resources, with the goal of catalyzing lasting economic transformation.

A cornerstone of AOF's strategy is the provision of microloans tailored to the needs of small business owners who have been historically underserved by traditional lenders. These loans, ranging from \$5,000 to \$250,000, address the financing gap faced by entrepreneurs seeking smaller loan amounts. Notably, AOF offers loans under \$30,000 at cost, ensuring accessibility for borrowers often turned away by major financial institutions (Accion Opportunity Fund 2023b).

AOF facilitates grant opportunities and programs to augment its financial support for small business owners. Collaborative events such as "Brewing the American Dream," in partnership with the Boston Beer Company, provide entrepreneurs with the chance to pitch for grants and access business coaching. Similarly, initiatives like the DoorDash Accelerator Program offer

targeted support, resources, and networking opportunities to restaurant owners. AOF's established partnerships with prominent companies help them remain visible in the mainstream. This may encourage Black and Latino borrowers to discover AOF as an accessible capital lender. Recognizing that success in entrepreneurship extends beyond capital access, AOF offers free coaching services to small business owners. Through the AOF Coaching Hub, entrepreneurs can access personalized coaching sessions, educational webinars, and digital content aimed at addressing various business challenges. This holistic approach acknowledges the importance of comprehensive support in fostering sustainable business growth.

In response to the COVID-19 crisis, AOF established the Small Business Relief Fund to provide financial stability to struggling entrepreneurs. By deferring or forgiving loan payments for affected small business owners, AOF mitigated the economic impact of the pandemic and reaffirmed its commitment to supporting the resilience of small businesses (Accion Opportunity Fund 2019).

AOF's Research & Development (R&D) program is aimed at enhancing its microlending initiatives. The primary objective of this program is to provide loans starting at \$5,000 with more inclusive lending criteria, in comparison to their current working capital criteria. By leveraging regular data collection and analysis, the R&D program seeks to identify the most effective predictors of successful loan repayment among both current and prospective clients. This includes initiatives such as removing credit score requirements and lowering minimum time in business and revenue thresholds. Such adjustments are aligned with AOF's commitment to serving as

responsible stewards of its funds while simultaneously expanding access to capital for underserved populations (Accion Opportunity Fund 2023c; Lamb 2023).

While AOF does not have programming or initiatives dedicated to political advocacy, CEO Luz Urrutia has advocated for legislative and policy changes to address systemic barriers and promote equitable access to financial resources. An example being her testimony before Congress addressing the importance of Community Development Financial Institutions (CDFIs) and Minority Development Institutions (MDIs) in providing financial services to underbanked communities.

4.1.4. Underwriting and Lending

Accion Opportunity Fund (AOF) maintains a robust framework for lending practices and policies, with the goal to ensure accessibility and inclusivity in providing financial services to underserved entrepreneurs. While the Research and Development (R&D) program addresses specific gaps in AOF's offerings, the broader lending framework encompasses various aspects, from capital sourcing to eligibility determination, underwriting processes, and interest rate setting (Giuliano 2023).

Their underwriting process is streamlined through an online application platform, enabling AOF to offer pre-qualified loan offers within minutes of application completion and document submission. Loans are offered as low as \$5,000 with flexible underwriting criteria that extend beyond traditional credit scores.

While AOF does use some conventional sources of data, such as credit reports, to assess prospective borrowers' financial status and make loan decisions, they have moved away from having a strict focus on using these conventional sources of data and moved towards integrating alternative data sources. This includes cash flow data, bank account information, tax returns, and trended credit data, to evaluate creditworthiness in innovative ways. AOF argues that this approach expands the pool of entrepreneurs AOF can serve, particularly those from underfinanced communities of color.

AOF utilizes a varied approach in determining interest rates, taking into account factors such as the cost of funds and credit risk. Philanthropic backing is instrumental in subsidizing credit losses and facilitating investments in technology, data analytics, and interest rate adjustments, thereby enabling AOF to support entrepreneurs effectively.

AOF provides a range of loan options tailored to the needs of small business owners, offering amounts from \$5,000 to \$250,000 with terms spanning from 12 to 60 months. Their interest rates typically range from 8.49% to 24.99%, with the rate influenced by factors such as the chosen loan term; shorter-term loans generally incur higher interest rates compared to longer-term options. Additionally, AOF imposes an origination fee equivalent to 3 to 5% of the loan amount. AOF's lending approach stands out as they do not require collateral for loans, fostering accessibility for entrepreneurs. However, for loans exceeding \$50,000, they may request a blanket lien to secure the loan (Accion Opportunity Fund 2023b).

4.1.5. Sources of Capital

AOF secures its capital from a blend of private and public entities, predominantly relying on debt as its principal funding source. Bank notes represent the primary component of debt financing, contributing over 60% of the total funding, with foundations and impact investors contributing approximately 20-30% and 10%, respectively (Accion Opportunity Fund 2023). This diversified sourcing of funds bolsters AOF's lending capacity, facilitating the maintenance of a resilient lending portfolio that effectively addresses the financial needs of small business owners on a national scale. This heavy reliance on debt financing restricts AOF's flexibility in deploying capital and limits the risk they can take with their lending programs. In contrast, the capital deployed for the R&D program came mainly from philanthropic sources allowing for flexibility in loan recipients.

4.1.6. Analysis of AOF

Examining how AOF's actions align with its Theory of Change (ToC), we see a mix of strategies aimed at narrowing the racial wealth gap through entrepreneurship and capital access. While AOF's ToC makes sense intuitively – give people the tools to build wealth through entrepreneurship – it is unclear to what extent AOF's ToC directly impacts the racial wealth gap.

A big part of what AOF does is offering microloans, usually from \$5,000 to \$250,000, with smaller loans, under \$30,000 given at cost. This is meant to help small business owners who might be turned down by traditional lenders. But while this fills a specific gap, it does not change directly how lending works to address the racial wealth gap.

On the other hand, Accion Opportunity Fund's Research and Development (R&D) program represents a significant departure from traditional lending practices. This program endeavors to be more inclusive in its lending criteria, taking into account factors beyond credit scores and collateral. By doing so, it aims to provide equitable access to financial resources for a broader range of individuals, particularly those historically marginalized by conventional financial institutions. AOF is able to support this program through philanthropic sources, capital sources that do not have capital deployment restrictions. This innovative approach not only broadens the pool of eligible borrowers but also sets a precedent for more equitable and just lending practices in the financial sector.

Examining AOF's capital sources, it mainly relies on borrowing from banks and getting support from private and public sources. But because they need to bring in revenue to keep things running, they might not always have the freedom to try out new, more inclusive lending programs like the R&D initiative. The capital that AOF sources for its lending is reflected in their interest rates. Although AOF offers rates lower than those of for-profit lenders, the interest rates on their loans can still overlap with those offered by banks.

While AOF's loans aim to help small business owners, especially those in industries with slim profits, they might not always be enough to overcome the challenges these businesses face. Despite efforts to offer flexible loans, the tough reality of certain industries can make it hard for entrepreneurs to build long-term wealth.

In short, AOF is working towards its goal of empowering entrepreneurs and increasing access to capital.. But whether their lending practices can significantly contribute to a more equitable financial system and help close the racial wealth gap remains to be seen. The balancing act between making money and being inclusive means it's not always easy to push the boundaries of lending to make it fairer for everyone.

Attributes	AOF
Theory of Change	Fostering economic inclusion and closing the wealth gap through entrepreneurial empowerment
Key Programs	Microloans, grant opportunities through partnerships, business coaching, R&D program
Reach of communities	Lend in over 45 states, corporate partnerships contribute to reach
Sources of Capital	Debt, foundations, philanthropy, impact investing
Underwriting & Lending	Online application, underwriter, terms and interest rates are fixed, no negotiation or flexibility on loan terms unlike LEAF and Boston Ujima

4.2. Local Enterprise Assistance Fund

4.2.1. Background

Local Enterprise Assistance Fund or LEAF, established in 1982, is a non-profit Community Development Loan Fund (CDLF) with a distinctive mission focused on fostering human and economic development through the support of cooperatives, community-owned businesses, and other ventures with social purposes.

In 2001, LEAF received its designation as a Community Development Financial Institution (CDFI), solidifying its commitment to serving cooperatives and social enterprises. As one of just three CDFIs nationwide with a focus on cooperatives, LEAF plays a crucial role in supporting the development of cooperative enterprises, which contribute significantly to job creation, access to healthy food, affordable housing, and the establishment of worker-owned, community-based businesses in both urban and rural communities (Local Enterprise Assistance Fund 2019a). Cooperatives are member-owned organizations where individuals or businesses join together to meet common economic, social, and cultural needs. They operate on the principles of democratic control, with each member having an equal vote in decision-making. Profits are typically distributed among members or reinvested in the cooperative. This specialized focus enables LEAF to effectively serve low-income target populations across the nation (with a focus on Massachusetts) and address the needs of a market niche that is often overlooked by local lenders, including other CDFIs (Local Enterprise Assistance Fund 2019b).

4.2.2. Theory of Change

LEAF's Theory of Change revolves around its mission to advance human and economic development by offering financial support and development assistance to cooperatives and social purpose ventures that foster job creation and retention among low-income individuals. Through strategic partnerships with sector-specific organizations, LEAF is able to deliver comprehensive services to its borrowers, including those situated in Persistent Poverty Counties, empowering them to thrive and contribute positively to their communities (Local Enterprise Assistance Fund 2019b).

The focal areas of LEAF's efforts include food cooperatives, housing cooperatives and community land trusts, worker cooperatives, small businesses in communities of color, and the Massachusetts Food Trust Program (MFTP). Additionally, LEAF's Elevate Small Business program specifically supports small business entrepreneurs in Boston, aiming to bolster economic opportunities in the region (Local Enterprise Assistance Fund 2020).

LEAF's target demographic comprises the low-income employees of the cooperatives, small businesses, and social enterprises it finances. Remarkably, over 90% of the employees in companies supported by LEAF fall into the low-income, low-skill worker category. All of these enterprises are dedicated to providing living wages and enhancing the financial well-being of their employees and members. Furthermore, LEAF aligns its initiatives with the United Nations Sustainable Development Goals, particularly focusing on goals related to poverty alleviation, hunger eradication, sustainable economic growth, reduced inequalities, and the development of sustainable cities and communities (Local Enterprise Assistance Fund 2019a).

4.2.3. Key Actions

LEAF employs a multifaceted approach to support its theory of change, which centers on advancing human and economic development through the promotion of cooperatives and social purpose ventures that generate and preserve jobs for low-income individuals. Across the United States with a focus on Massachusetts, LEAF focuses its lending efforts on various cooperative models, including community-owned natural food cooperatives, low-income cooperative housing developments, worker-owned organizations, and community-based businesses and social enterprises. Over its four-decade history, LEAF has invested and leveraged more than \$122

million, resulting in the creation or retention of over 10,300 jobs (Local Enterprise Assistance Fund 2019b).

To complement its financial support, LEAF provides capital advisory services and technical assistance to small business owners, particularly in the Greater Boston area. Through its Elevate Small Business program, LEAF offers personalized 1-on-1 business coaching aimed at facilitating access to capital, expanding into new markets, and enhancing financial controls. These coaching sessions are tailored to address specific business challenges and empower entrepreneurs by strengthening their management skills and decision-making processes. Additionally, LEAF conducts workshops designed to build the confidence and capabilities of business owners, aligning with its mission to support economic development in underserved communities (Local Enterprise Assistance Fund 2019b).

A notable aspect of LEAF's approach is its national lending program, which distinguishes it among Community Development Financial Institutions (CDFIs) and loan funds. By operating at a national level, LEAF can access a broader range of projects and collaborate with numerous lenders across the country, thus extending its impact on cooperative development and job creation (Rojas Villarreal 2023). Furthermore, LEAF launched a local initiative in 2015 to provide tailored technical assistance, workshops, and small loans to diverse small businesses in the Greater Boston Area, addressing disparities highlighted in a study conducted by the Federal Reserve of Boston in 2015. This study underscored the wealth gap in neighboring communities, particularly due to limited access to capital for entrepreneurs of color, reinforcing LEAF's commitment to equitable economic development.

4.2.4. Underwriting and Lending

LEAF employs a structured application process that begins with an initial inquiry, wherein prospective borrowers submit an application for review. Following this initial stage, LEAF's lending team evaluates the suitability of the applicant's needs and conducts a comprehensive assessment covering financial goals, social mission alignment, uses of funds, creditworthiness, equity, and collateral. Candidates deemed promising but not yet ready for formal application are provided with support to strengthen their eligibility (Rojas Villarreal 2023). This detailed analysis and due diligence phase, which involves a rigorous evaluation of the borrower's financial situation ensures the long term viability of the enterprise. This phase includes in-depth conversations between the borrower and LEAF's board of directors, allowing for mutual trust to build as a part of the lending process.

Upon readiness, the underwriting phase commences, during which LEAF prepares a detailed credit memorandum encompassing essential aspects such as the background of the business or nonprofit, management capacity, historical financials and projections, and other pertinent information. Site visits may be conducted by LEAF staff to further assess the applicant's suitability. Subsequently, a final approval process ensues, where submitted materials are meticulously analyzed, and further inquiries may be made to the applicant. The Executive Director and board assess each loan's alignment with LEAF's social mission, the extent of low-income individuals served relative to the investment size, project visibility, and available collateral. A credit memorandum detailing transaction structure, historical operations,

community partnerships, and due diligence findings is presented to the board for approval (Local Enterprise Assistance Fund 2019b; Rojas Villarreal 2023).

LEAF's lending practices emphasize a rigorous due diligence process, leveraging its extensive experience in lending to cooperatives and social enterprises. The organization's credit analysis incorporates a holistic review of the borrower's business, including site visits, interviews with stakeholders, and collaboration with industry experts. Cash flow modeling and scenario evaluation are undertaken to ascertain project feasibility, capitalization appropriateness, and debt servicing capacity. The analysis culminates in an internal risk-rating of the loan, influencing participation size and loan loss reserve allocation.

Key underwriting criteria include considerations of traditional factors like tax returns, financial statements, and credit reports, with a departure from strict minimum credit score requirements typical of banks. LEAF prioritizes understanding the context behind credit scores, engaging in comprehensive conversations to assess the borrower's financial situation. Negotiation and flexibility towards the borrower are central to lending decisions, with terms tailored based on revenue, debt, and contextual factors (Rojas Villarreal 2023). Moreover, LEAF's alignment with its mission and values enables underwriting practices that don't necessitate personal guarantees or credit score checks, facilitating support for borrowers from communities of color and marginalized backgrounds.

LEAF's focus on cooperatives allows it to meet the financing needs of a market that is underserved by traditional lenders due to their lack of familiarity with the cooperative ownership

structure. They are an organization that understands the legal and financial complexities in financing and supporting cooperatives and enterprises with shared ownership structures. They have had decades of working with cooperatives allowing them to build and refine their skill set, tools, and partnerships tailored to each what borrower may need. They have created a lending process that addresses the nuances and features of co-ops that standard businesses may not have. For example, they have identified that cooperative members are a significant asset to borrowers and evaluate the strength of their membership in their due diligence.

4.2.5. Sources of Capital

LEAF strategically sources its capital from various entities to support the deployment of its programs and initiatives. One of their initiatives, Elevate Small Business, which provides services to business owners either at no cost or significantly below market cost, benefits from grant support from organizations like Mass Growth Capital Corporation (MGCC) and a contract with the City of Boston's Office of Economic Development's On-Site Technical Assistance Program (Rojas Villarreal 2023).

LEAF's supporters comprise a diverse range of entities, including banks, government support, along with impact investors. These partnerships not only provide financial backing but also enable LEAF to expand its reach and impact on underserved communities.

In ensuring its financial stability, LEAF places a strong emphasis on maintaining a clean portfolio, robust capitalization, and prudent risk management practices. With a loan loss reserve currently at 6.7% and Net Assets standing at 38% of Total Assets, LEAF remains committed to

managing its portfolio risk effectively. Loan loss reserves are an amount of funds set aside to cover loan losses like defaulted loans or borrower bankruptcy. This enables the organization to charge-off loans without drastically impacting the financial health of the organization. Net assets represent the difference between the organization's total assets and its total liabilities. It is a measure of the institution's equity or net worth. LEAF's Net Assets account for 38% of Total Assets, a relatively strong financial position, as a higher percentage of net assets suggests greater financial stability and less reliance on borrowing (Local Enterprise Assistance Fund 2019b).

Diversification is a key aspect of LEAF's capital sourcing strategy, with investments spanning various sectors, including community-owned natural food cooperatives, low-income manufactured-home cooperative housing developments, and worker-owned firms and other community-based businesses and social enterprises. Notably, while LEAF does receive philanthropic support, it places a stronger emphasis on impact investors. The organization offers investment memorandum where unaccredited investors invest a minimum of \$10,000 with terms ranging from 0% to 3%, depending on the investment term length, which ranges from 1 to 5 years. The investment capital that LEAF sources comes with fewer restrictions on how it must be used (Local Enterprise Assistance Fund 2019b).

4.2.6. Analysis of LEAF

LEAF's Theory of Change revolves around promoting human and economic development by providing financing and support to cooperatives and social purpose ventures that create and retain jobs for low-income individuals. When we look at LEAF's lending practices, underwriting criteria, and capital sourcing, we can see that they align closely with this theory. Their Theory of

change is explained at length in the ways in which their goals and actions to meet these goals impact their stakeholders and borrowers.

LEAF's lending practices prioritize providing loans to cooperatives, community-owned businesses, and social enterprises that cater to low-income populations. This focus ensures that their financial support directly contributes to job creation and retention among underserved communities.

Their underwriting criteria emphasize understanding the social impact of the projects they finance. They assess factors like the number of low-income individuals served by the project, job creation potential, and community engagement. This ensures that their lending decisions are not solely based on financial metrics but also on the broader social mission of supporting economic empowerment and opportunity for marginalized groups.

Lastly, LEAF's capital sourcing reflects their commitment to their Theory of Change. They receive funding from various sources, including grants, impact investors, and philanthropic organizations, which enables them to provide loans at below-market rates or even at no cost to borrowers. This funding structure aligns with their goal of promoting economic development and social equity by making financing accessible to those who need it most.

Attributes	LEAF
Theory of Change	advance economic development by offering financial support to cooperatives
Key Programs	Specialized lending to co-ops, technical assistance

Reach of communities	Works across the U.S in a few states. Focus in MA
Sources of Capital	Grants, impact investors, philanthropy
Underwriting & Lending	structured application process, a rigorous due diligence process, comprehensive conversations, negotiation and flexibility

4.3. The Boston Ujima Project

4.3.1. Background

The Boston Ujima Project represents a pioneering effort in community development and economic democracy, hosting the nation's first democratically governed investment fund (ImpactPHL 2022). Established to unite various stakeholders in Boston's local economy, including working-class residents, grassroots organizations, and small businesses, the project aims to create a new economic paradigm characterized by democratic decision-making and community control. Rooted in principles of economic justice and equity, the Ujima Project seeks to address the dehumanizing impacts of capitalism by fostering a circuit of investment, production, and consumption that meets local needs, generates employment, distributes wealth, and models economic democracy (The Boston Ujima Project 2017).

Originating from a cross-sector study group involving over 40 leaders from Boston's low-income communities of color, the Ujima Project emerged in 2015 through collaborative efforts by the Center for Economic Democracy, Boston Impact Initiative, and City Life/Vida Urbana. The initiative stemmed from a collective aspiration to empower communities to control capital,

nurture cooperative enterprises, and safeguard locally owned businesses from the adverse effects of economic globalization. This grassroots movement evolved into the Ujima Organizing Committee, tasked with translating theoretical insights into actionable strategies aimed at transforming the economic landscape of Boston (The Boston Ujima Project 2017).

The Ujima Fund, the flagship initiative of the Boston Ujima Project, embodies its principles of economic justice and community empowerment. Comprising Voting Members, grassroots partner organizations, community business owners, and their employees, the fund operates on a democratic basis, granting each member equal voting rights irrespective of their investment size. This inclusive approach ensures that the voices of working-class residents and marginalized communities are heard and valued in investment decision-making processes (Boston Ujima Project 2019).

In addition to its democratic governance structure, the Ujima Fund adopts a unique risk-sharing model designed to prioritize lower-income investors and mitigate their financial vulnerabilities. By raising a loan loss reserve through grant funding, the fund ensures that lower-income investors face minimal risk while enjoying higher expected returns compared to philanthropic and larger investors. This innovative financing mechanism not only fosters individual wealth-building among working-class members but also facilitates community asset accumulation and economic resilience (Levy 2023).

As a member of the Seed Commons network, the Ujima Fund is part of a broader movement promoting non-extractive finance and community-controlled capital investment. This network,

established in 2015, channels investment capital to peer members across the United States, prioritizing racial and economic justice in its lending activities. With a focus on communities of color, the Ujima Fund and its Seed Commons counterparts exemplify a transformative approach to finance that prioritizes community well-being and collective prosperity (Seed Commons Network 2018).

4.3.2. Theory of Change

The Theory of Change of the Boston Ujima Project embodies a collective vision for addressing systemic inequities and fostering economic liberation within Boston's communities of color. At its core, the organization seeks to confront racial wealth inequality, poverty, unemployment, and displacement by fostering cooperative economic infrastructure and returning wealth to working-class communities. Grounded in principles of democracy and member participation, the Ujima Project operates as an experiment in developing liberatory economic practices that challenge conventional notions of urban development and management.

Central to the organization's theory of change is the recognition that the multifaceted challenges facing communities—such as gentrification, poverty, food insecurity, and lack of healthcare—are interconnected and require holistic solutions. Rather than perpetuating siloed approaches, the Ujima Project advocates for complex and interconnected strategies that address the root causes of social and economic disparities (Evans et al. 2020).

The Ujima Project draws inspiration from the historical legacies of experimentation and organizing within Black, Indigenous, and People of Color (BIPOC) communities. By building

upon these legacies, the organization aims to transfigure hostile environments into spaces of abundance and protection, thereby reclaiming agency and sovereignty over economic resources (Levy 2023).

In alignment with contemporary reconstruction movements across the United States, the Ujima Project collaborates with stakeholders to shape a sustainable future that is decoupled from extractive economies and racialized exploitation. This collaborative effort seeks to redefine relationships, uplift community knowledge, and affirm the inherent worth and dignity of all individuals.

By giving themselves permission to innovate, forging new relational dynamics, and honoring the wisdom of communities, the Ujima Project endeavors to realize its theory of change and contribute to the creation of a more just and equitable society. Through these efforts, the organization seeks to catalyze transformative shifts in economic structures and power dynamics, ultimately advancing the collective well-being and self-determination of marginalized communities in Boston and beyond.

4.3.3. Key Programs

The Boston Ujima Project offers a multifaceted array of programming designed to address systemic economic disparities and empower marginalized communities through cooperative economic practices. These initiatives, outlined in their concept paper, encompass various dimensions of economic development, community empowerment, and advocacy. Through a comprehensive suite of services, the Ujima Project aims to foster a more just and sustainable

local economy while providing support to entrepreneurs of color at different stages of their capital attainment journey (The Boston Ujima Project 2017).

One key program offered by the Ujima Project is the "Good Business Certification and Alliance." This initiative seeks to establish community standards for businesses, ensuring that they prioritize practices such as living wages, local purchasing, and environmental sustainability. Certified companies receive recognition in a Good Business directory, along with access to capital, technical assistance, and cooperative purchasing opportunities through Ujima's Business Alliance. This program aims to uplift businesses that align with community values while providing them with resources to strengthen their operations and market share.

Additionally, the Ujima Project operates a "Community Capital Fund" to address the lack of access to patient capital for local entrepreneurs and affordable housing developers. By pooling savings and investments from its diverse membership, the fund leverages additional capital from various sources, including universities, union pension funds, and foundation endowments.

Adhering to non-extractive finance and economic democracy principles, members participate in the participatory budgeting of capital to meet community needs, such as enterprise development, housing, and consumer services.

The Ujima Project's "Worker Services Network" addresses the challenges faced by small businesses in providing robust supports and benefits for their employees. This initiative organizes human resource programs, such as group health insurance buying and workplace mediation services, to enhance employee satisfaction and security. Additionally, the project

engages in "Anchor Institution Advocacy" to influence large universities, hospitals, and government agencies to direct investment and procurement dollars to certified good businesses and developers. By uniting communities across sectors, the Ujima Project seeks to amplify political power and advocate for policies that advance transformative economy strategies.

The "Ujima Good Business Alliance" serves as a certification and membership program that provides small businesses with access to funding, networking opportunities, marketing support, and professional development courses. By joining the alliance, businesses commit to advancing social and economic justice through sustainable business practices that align with community values. Through these various programs, the Boston Ujima Project endeavors to build economic resilience, foster community empowerment, and advance social justice within Boston's communities of color.

4.3.4. Underwriting and Lending

The underwriting and loan terms of the Boston Ujima Project are structured to align with its mission of fostering economic equity and empowerment within marginalized communities, as well as promoting environmentally sustainable and socially responsible business practices. The organization offers a range of loan products and services tailored to meet the diverse needs of its target beneficiaries, including startup loans, microfinance loans, small business loans, growth loans, major initiatives, and real estate investments (Boston Ujima Project 2019).

The underwriting criteria used by the Boston Ujima Project are designed to ensure that businesses seeking funding adhere to community-driven standards and values. To receive

funding from the Ujima Fund, businesses must first join the Ujima Good Business Alliance and undergo an evaluation process conducted by the Community Standards Committee. This evaluation assesses the extent to which businesses align with Ujima's standards across eight categories, including good faith effort, community ownership, good local jobs, worker power, health and safety, customer and vendors, environment, and community power. By prioritizing underrepresented entrepreneurs and businesses committed to social and environmental responsibility, Ujima aims to promote economic resilience and wealth creation in working-class communities of color.

In addition to adhering to community standards, Ujima's lending terms reflect its commitment to non-extractive financing principles. Loans are structured to ensure that the returns to the lender do not exceed the profits generated by the borrower using the capital. This means that no interest or principal repayments are required until borrowers can cover operating costs, including market-rate wages, and at least 50% of returns remain with the borrower. Furthermore, Ujima does not require personal guarantees and only takes security over project assets purchased with the financing. Rather than relying solely on credit scores, the organization emphasizes the importance of building relationships between the organization and potential borrowers to establish reliability and trust.

Examples of lending terms provided by the Boston Ujima Project demonstrate the organization's commitment to offering fair and equitable financing options to businesses in its target communities. For instance, loans have been issued with repayment periods ranging from six to eight years, and interest rates ranging from 4% to 5% annually. These terms are structured to

support the long-term sustainability and growth of businesses while ensuring that the benefits of financing remain within the community. Overall, the underwriting and loan terms of the Boston Ujima Project exemplify its mission-driven approach to economic development and community empowerment (ImpactPHL 2022; Levy 2023).

4.3.5. Sources of Capital

The Boston Ujima Project derives its working capital primarily from investors, both accredited and non-accredited, along with contributions from philanthropic foundations and gifts. This multi-faceted approach to sourcing funds allows the organization to leverage community support and financial backing from various stakeholders, enabling it to fulfill its mission of fostering economic equity and empowerment within marginalized communities (Boston Ujima Project 2019).

Accredited investors, including high-net-worth individuals, banks, insurance companies, and trusts, play a significant role in providing capital to the Ujima Fund. These investors are permitted to engage in securities dealings that may not be registered with financial authorities, provided they meet specific criteria regarding income, net worth, governance status, or professional experience. The recent amendments to the accredited investor definition by the Securities and Exchange Commission (SEC) have facilitated greater access to private securities offerings, enhancing the pool of potential investors for organizations like the Boston Ujima Project.

In contrast, non-accredited investors, who do not meet the net worth requirements for accredited investor status, also contribute to the Ujima Fund. These individuals are essential participants in the community-driven investment process, pooling their savings and investments alongside accredited investors to support local businesses and affordable housing initiatives. The Ujima Project prioritizes equity and inclusion in its investment model, offering opportunities for working-class residents to build savings and invest in their own communities while mitigating risk through a tiered capital structure (Boston Ujima Project 2019).

Additionally, philanthropic foundations and gifts play a crucial role in augmenting the Ujima Fund's capital base. Contributions from foundations and other sources provide essential support for the organization's operations and investment activities, expanding the fund's risk tolerance and enabling it to offer affordable financing to Black and Latino businesses in Boston. This philanthropic support underscores the importance of community-driven economic development initiatives and the role of external stakeholders in advancing social justice and economic equity.

4.3.6. Analysis of Boston Ujima

The Boston Ujima Project stands as a beacon of innovative community development and economic empowerment, embodying principles of economic justice, equity, and democracy. Through a multifaceted approach encompassing democratic governance, community engagement, cooperative economics, and non-extractive financing, the Ujima Project demonstrates a commitment to challenging systemic inequities and fostering transformative change within Boston's marginalized communities.

The organization's Theory of Change serves as a guiding framework for its actions and initiatives, articulating a collective vision for addressing racial wealth inequality, poverty, unemployment, and displacement. By recognizing the interconnected nature of social and economic challenges, the Ujima Project advocates for holistic solutions that empower communities to shape their economic destiny. Grounded in the legacies of experimentation, organizing, and resilience within Black and Latino communities, the Ujima Project collaborates with stakeholders to build a more just and sustainable local economy, delinked from extractive economies and racialized exploitation.

Central to the Ujima Project's Theory of Change is its innovative programming, which includes the Good Business Certification and Alliance, the Community Capital Fund, the Worker Services Network, and Anchor Institution Advocacy. These initiatives are designed to address systemic economic disparities, support Black and Latino entrepreneurs, and promote socially responsible business practices. By fostering cooperative ownership, equitable employment, and community participation, the Ujima Project empowers marginalized communities to reclaim agency over economic resources and build collective wealth. Its most notable work stems from the Ujima fund.

The organization's lending practices and policies are aligned with its Theory of Change, prioritizing community-driven standards and values in the underwriting process. Through the Ujima Good Business Alliance, businesses are evaluated based on criteria that emphasize community ownership, good local jobs, worker power, health and safety, environmental sustainability, and community engagement. This approach ensures that investments support

businesses that reflect the values and goals of Boston's working-class neighborhoods of color, while promoting economic resilience and social justice.

The Boston Ujima Project's capital sourcing strategy reflects its commitment to equity and inclusion, leveraging investments from accredited and non-accredited investors, philanthropic foundations, and gifts. By engaging a diverse range of stakeholders, the Ujima Project expands access to capital for Black and Latino businesses and affordable housing initiatives, while mitigating risk through a tiered capital structure. This collaborative approach underscores the importance of community-driven economic development initiatives and the role of external stakeholders in advancing economic equity and empowerment.

In summary, the Boston Ujima Project exemplifies a model of community-driven economic development that prioritizes social justice, equity, and democracy. Through its Theory of Change, programming initiatives, lending practices, and capital sourcing strategy, the Ujima Project demonstrates a commitment to transformative change that empowers marginalized communities and fosters economic liberation. As a pioneering force in cooperative economics and community empowerment, the Ujima Project serves as a catalyst for building a more just and equitable society, rooted in principles of solidarity, resilience, and collective action.

Attributes	Boston Ujima
Theory of Change	Collective vision for addressing systemic inequities and fostering economic liberation
Key Programs	Good Business Alliance, community capital Fund

Reach of communities	City of Boston, underinvested neighborhoods
Sources of Capital	Majority comes from member investments
Underwriting & Lending	Businesses seeking funding adhere to community-driven standards and values then a voting process. non-extractive financing principles guide lending.

5. Discussion

I revisit the main research question guiding this thesis: “What are the key strategies and distinguishing factors of Community Development Loan Funds (CDLFs) that actively contribute to the reduction of the racial wealth gap and foster wealth creation for Black and Latino communities in the U.S.?” This research question serves as the framework for discussing insights gleaned from the three case studies—Boston Ujima Project, Local Enterprise Assistance Fund (LEAF), and Accion Opportunity Fund (AOF). Through these case studies, I explore how each organization progresses in addressing the racial wealth gap and examine the barriers and challenges they encounter in their efforts to promote economic justice and wealth creation for Black and Latino borrowers.

Accion Opportunity Fund (AOF) emerged from the merger of larger, more traditional organizations, blending for-profit and institutional influences. AOF believes strongly in entrepreneurship as a means to bridge the racial wealth gap. While AOF’s mission of cultivating a financially inclusive economy highlights its efforts to provide capital to diverse entrepreneurs, its approach to wealth creation is more individualistic. This is in striking contrast to grassroots-born organization, Boston Ujima, which views the racial wealth gap as a result of persistent systemic and historical inequalities and employs a multifaceted approach to community economic development. LEAF, similar to Boston Ujima, is focused on collective wealth creation through cooperative enterprises and social ventures.

LEAF’s Theory of Change centers on community wealth building through cooperative enterprises and social ventures. By targeting working-class borrowers, LEAF aims to generate

and preserve jobs, fostering economic resilience within low-income communities. Ujima's Theory of Change is rooted in principles of economic justice, democracy, and member participation. The organization views social and economic challenges as interconnected, advocating for holistic solutions that empower communities. Ujima's approach underscores the importance of cooperative economic infrastructure and community control of capital to address systemic inequities. This collectivist school of thought unites LEAF and Boston Ujima and informs the ways they deploy their capital, distinguishing them as innovative lenders.

AOF's lending practices, while inclusive, often resemble those of traditional banks, with structured underwriting criteria and capital sourcing strategies. However, it is undeniable that AOF has given capital to Black and Latino small business owners that have been turned away by larger lenders such as banks and even credit unions. It can be argued that these types of borrowers may not be looking for "radical and visionary" lenders but rather desperately looking for their first "yes". AOF has the resources to extend beyond the Boston and New England area. AOF may have the breadth to impact larger numbers of Black and Latino borrowers. Boston Ujima and LEAF bring depth, in the sense that they have hyper-specialized information and they have initiatives and resources in place to ensure that the economic support and development goes beyond the small business owner they lend to.

By concentrating its efforts in New England, LEAF provides targeted support that emphasizes job preservation and creation for low-income individuals. This regional focus allows LEAF to offer comprehensive advisory services and technical assistance, fostering sustainable economic development. Boston Ujima concentrates their efforts in the Boston area with a strong focus on

neighborhoods that are majority people of color as well as economically underdeveloped. For a business to get funding through Ujima they must become part of the “Ujima Good Business Alliance”. This is to insure investments support businesses that reflect the values and goals of Boston's Black and Brown working-class but also creates a collaborative, community-based economic environment where members are empowered regardless of financial investment.

The Boston Ujima Project, LEAF, and AOF each employ distinct strategies to address the racial wealth gap, reflecting varying theories of change and operational practices. Together, these organizations illustrate the potential and limitations of entrepreneurship as a tool for economic empowerment. I view AOF as a lending organization that is trying to mitigate the effects of the racial wealth gap on Black and Latino borrowers. AOF is doing the best they can to work within an economic system that has perpetuated the racial wealth gap but not enough to address the deep rooted systemic issues.

Ujima’s holistic, community-centric model highlights the importance of addressing systemic inequities through collective action, while LEAF’s cooperative focused lending underscores the benefits of regional, targeted support. I view Ujima and LEAF as two organizations that are using the tools from our current economic system that can then help create new systems to operate within.

The following table evaluates the impact of three community development organizations—Accion Opportunity Fund (AOF), Local Enterprise Assistance Fund (LEAF), and Boston Ujima—on their efforts towards closing the racial wealth gap. The table summarizes the

key attributes and initiatives of these organizations, highlighting their most meaningful contributions in addressing the racial wealth gap.

Attributes	Case Study Organizations		
	AOF	LEAF	Boston Ujima
Theory of change			✓
Key programs	✓	✓	✓
Reach of communities	✓	✓	
Sources of capital		✓	✓
Underwriting & lending		✓	✓

5.1. Findings

The findings from the case studies of Accion Opportunity Fund (AOF), Local Enterprise Assistance Fund (LEAF), and the Boston Ujima Project provide valuable insights into the strategies employed by Community Development Loan Funds (CDLFs) to address the racial wealth gap and promote economic empowerment. These findings reflect both the critiques of CDLFs discussed in the literature review and the exploration of alternative models.

5.1.1. Diverse Approaches to Economic Justice

Informed by their ToC, each organization has a unique approach to achieving economic justice. AOF focuses on individual entrepreneurship as a pathway to economic stability, operating primarily within the traditional financial framework, relying heavily on debt financing and conventional underwriting practices. This approach aligns with critiques from the literature that

argue many CDLFs, despite their mission-driven focus, often replicate traditional banking models without fundamentally transforming them. AOF's reliance on established financial tools, while providing crucial capital to underserved communities, reflects the broader challenge of CDLFs in leveraging systemic changes within an exploitative economic system. This indicates that, while AOF mitigates harm and increases accessibility for Black and Latino entrepreneurs, it does not substantially challenge or overhaul the underlying economic structures perpetuating inequality.

In contrast, LEAF's focus on cooperative enterprises and community-driven social ventures exemplifies an attempt to address systemic shortcomings within the traditional economic system. By emphasizing collective wealth building and investing in Persistent Poverty Counties, LEAF aligns with alternative models that seek to transform existing economic paradigms. The literature highlights that such approaches can offer more profound systemic impacts by fostering community control and economic resilience. LEAF's approach underscores a commitment to creating new economic infrastructures that prioritize community welfare and collective prosperity over individual gain.

The Boston Ujima Project further exemplifies an alternative to conventional CDLF practices through its democratic governance model and community-centric approach. Ujima's rigorous investment process, combined with its emphasis on community control and collective decision-making, represents a significant departure from traditional lending practices. This aligns with critiques that advocate for more radical rethinking of economic systems to address deep-rooted inequalities. Ujima's model highlights the potential of community-led initiatives to

create equitable economic systems that go beyond mere financial inclusion to actively reshape the distribution and impact of capital.

5.1.2. Operational Constraints

All three organizations face operational challenges, such as funding sustainability, scaling impact while maintaining mission fidelity, and navigating regulatory frameworks designed for traditional financial institutions. The broader economic and regulatory environment presents significant hurdles. AOF, for instance, operates within existing financial systems that perpetuate racial disparities, while LEAF and Ujima navigate legal and structural barriers to community-led economic initiatives. These findings align with the literature, which identifies similar obstacles faced by CDLFs and other community-focused financial entities (Baradaran 2015; Beckon et al. 2020; Mattos & Brewster 2021).

AOF relies heavily on debt financing, which restricts flexibility in capital deployment as well as limiting the ability to take on borrowers that have been seen as high-risk borrowers, reflecting the challenges highlighted by Baradaran (2015) regarding the constraints imposed by conventional financial tools. The need to balance financial sustainability with mission driven goals presents an ongoing challenge, reflecting critiques of CDFIs for their dependence on traditional financial mechanisms (Beckon et al. 2020).

LEAF may face difficulties in scaling its cooperative lending model while maintaining intensive due diligence and personalized support. The specialized nature of cooperative enterprises can limit the pool of potential borrowers.

Boston Ujima's democratic governance model, while empowering, can slow down the capital deployment process. Ensuring all community members have a voice in decisions can be time-consuming and complex.

5.1.3. Depth vs. Breadth in Lending Practices

The trade-off between serving a large number of borrowers (breadth) and providing intensive, long-term support (depth) is a critical consideration for CDLFs.

AOF operates on a broad scale, serving a wide geographic area and large number of borrowers. AOF's streamlined application process and extensive partnerships allow for a significant reach, but this can limit the depth of engagement and long-term support for individual borrowers. This is indicative of the tension between scale and personalized support within CDFIs (Baradaran 2015; Beckon et al. 2020).

LEAF balances breadth and depth by focusing on specific sectors and providing comprehensive advisory services. LEAF's specialized knowledge in cooperative enterprises allows for in-depth support and sustainable development within targeted communities.

Boston Ujima prioritizes depth over breadth, deploying capital slowly and deliberately to ensure alignment with community values and goals. This intensive process supports long-term viability and community impact but limits the number of borrowers served. This approach is reflective of the literature supporting deep community engagement in non-extractive ways (Beckon et al. 2020; Kolodinsky et al., 2006)

5.1.4. Impact on the Racial Wealth Gap

AOF provides crucial financial support to marginalized entrepreneurs who may not seek or need radical change but rather access to capital. While AOF helps individuals achieve financial stability, its conventional financial tools may not substantially close the racial wealth gap at a systemic level. This observation is consistent with critiques that CDFIs often provide immediate relief without addressing deeper systemic inequities (Baradaran 2015; Beckon et al. 2020).

LEAF invests in cooperative models that promote community resilience and collective wealth. LEAF's focus on job preservation and creation in low-income areas contributes to sustainable economic development but faces challenges in scaling impact nationally.

Boston Ujima seeks to create new economic systems through democratic decision-making and community control. Ujima's holistic approach addresses systemic inequities and aims to transform structures rather than merely operate within them, potentially offering a more profound long-term impact on the racial wealth gap. This aligns with the literature's advocacy for systemic change and the desire to push CDFIs beyond conventional financial frameworks to strive towards closing the racial wealth gap (Benjamin et al. 2004; Kolodinsky et al., 2006; Mattos & Brewster 2021)

6. Conclusion

In my thesis, I investigated the key strategies and distinguishing factors of Community Development Loan Funds (CDLFs) that actively contribute to the reduction of the racial wealth gap and foster wealth creation for Black and Latino communities in the U.S. Through the analysis of three case studies—Boston Ujima Project, Local Enterprise Assistance Fund (LEAF), and Accion Opportunity Fund (AOF)—I identified diverse methodologies employed by these organizations to address systemic inequities. The findings reveal that community-driven economic democracy, cooperative enterprises, and inclusive microlending practices are crucial in promoting economic justice and wealth creation for marginalized communities.

AOF (and perhaps organizations similar to AOF) are not system-changing, yet they can serve as a crucial stepping stone for Black and Latino entrepreneurs to feel more confident in seeking capital. AOF's capacity and structure, supported by loan loss reserves and a wide lending network across the U.S., enable it to lend to 'risky' borrowers due to its mission-driven approach. Although the capital may come from traditional sources, AOF maintains a nonprofit component driven by its mission, prioritizing impact over profit maximization, unlike traditional lenders.

LEAF targets their lending towards cooperative enterprises and community land trusts, financial endeavors that are often legally complex and challenging to navigate. LEAF's expertise in this niche allows them to lend to enterprises with collective/shared ownership, which typically face difficulties in securing funding. By focusing on these specialized groups, LEAF promotes collective wealth building and job creation in New England, leveraging its knowledge, resources, and ability to address the unique needs of these enterprises.

The significance of this research lies in its exploration and understanding of the diverse strategies employed by Community Development Loan Funds (CDLFs) to reduce the racial wealth gap and foster wealth creation for Black and Latino communities in the U.S. By highlighting both the progress and challenges faced by these organizations, this exploration provides valuable insights for policymakers, practitioners, and scholars in the field of community development and economic justice. It underscores the importance of tailored financial solutions that address specific community needs, illustrating how different CDLFs adapt their models to support diverse economic activities. Additionally, this research sheds light on the critical role of community involvement and control in decision-making processes, emphasizing the need for economic democracy in fostering sustainable development.

Questions and thoughts that came up for me in my research:

- Does having a personal, holistic, or community element matter in moving towards equitable capital lending?
- Would the fact that so many organizations are putting their weight behind entrepreneurship allow it greater strength as a tool to overcome the racial wealth than if they did not exist at all, or is this just a way to place blame back on the communities that have deeply suffered from economic neglect?
- How effective is entrepreneurship in building wealth for Black and Latino communities in the context of a systemic racial wealth gap, and what additional measures are needed to address the persistent disparities and underbanking faced by these groups?

- Can wealth be built collectively? Is it just as impactful (if not more) as building wealth in an individualist way?
- How can investment funds balance the trade-off between the speed of capital deployment and ensuring long-term community impact and business sustainability?
- How can the accessibility and fairness of capital influence the success of entrepreneurship in creating financial stability and building wealth?
- How can organizations balance the trade-off between providing deep, individualized support to each borrower and serving a larger number of borrowers? (depth vs breadth)

I believe that addressing systemic inequities and fostering community-driven economic empowerment are crucial because they align with my commitment to social justice and equity. Prior to this research, I believed that community engagement was needed to create more just lending and financial systems, systems that better served Black and Latino lenders. However, I was unsure of what that may have looked like in action.

Having studied these CDLFs, I firmly believe that models like Boston Ujima and LEAF, which prioritize community involvement and democratic governance, are vital for creating sustainable and equitable economic systems. I now understand that democratic governance and community involvement are vital for ensuring that financial services truly meet the needs of marginalized communities. This insight has reinforced my belief in the value of models like Boston Ujima.

Given the systemic inequities highlighted in my research, I give the following recommendations addressed to practitioners, impact investors, and stakeholders:

For practitioners:

- Adopt hybrid approaches: Practitioners should integrate the extensive reach of larger organizations with the intensive support provided by community-centric models, ensuring both broad access and deep engagement.
- Focus on capacity building: Practitioners must offer comprehensive capacity-building services, including business coaching and financial education, to ensure the long-term success of borrowers.

For impact investors

- Support co-op models: Investors should prioritize funding for cooperative enterprises (or community capital funds), which have demonstrated effectiveness in building collective wealth and promoting economic resilience

Field-wide recommendations:

- Innovative financing mechanisms: Innovative financing mechanisms that go beyond traditional banking methods are necessary to address the unique needs of marginalized communities effectively.
- Depth and breadth combined: Effective strategies should not only balance depth and breadth but also integrate community governance and innovative financing mechanisms to create a more inclusive and equitable economic system.

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