



*Center for Emerging Domestic Markets
Carving New Channels of Capital*

An Overview

The Center for Emerging Domestic Markets (CEDM) at the Milken Institute in Santa Monica, California is a clearinghouse for information, a gathering place for education and networking, and a laboratory for innovation in financing businesses in emerging domestic markets (EDM).

EDM refers to people, places or enterprises with growth potential that face capital constraints due to systematic undervaluation as a result of imperfect market information. These markets include ethnic- and women-owned firms, urban and rural communities, companies serving low-to-moderate-income populations, and other small- and medium-sized businesses.

Mission

To increase the flow of capital to America's emerging domestic markets.

Context

Driven by demographic trends, the U.S. marketplace is undergoing dramatic change. America's population is expected to increase by 131 million by 2050, 90 percent of which will be among ethnic groups – in common parlance, “minorities.” In June 2000, California's white population dropped to 50 percent of its total citizenry, and by 2050 the same will be true for the country as a whole.

Minorities are thus key to the future economic health of the country, and its business community. Between 1987 and 1997, minority-owned firms formed at six times the rate of all businesses, with revenues increasing at twice the national average. Ethnic consumers account for 20 percent of purchasing power, and this figure is likely to grow rapidly since seven in ten new wage earners in the next 20 years will be members of minority groups.

Much of the success in the economy over the past decade has followed from the exceptional efficiency of the financial markets in supplying capital to entrepreneurs. However, despite the evident growth in the minority business market, ethnic entrepreneurs still face higher hurdles in obtaining capital and credit – for example, only three percent of private equity goes to minority firms. It is plainly in the interest of both investors and society as a whole to lower the barriers.

A combination of advances in financial technology and shifts from a bank-based financial system to a securities-based system, create opportunities for innovation. Yet these same trends, and the speed at which they develop, pose challenges to non-mainstream entrepreneurs with smaller firms. Lenders and investors perceive these businesses as less desirable partners: data is inadequate to evaluate and price risk, and the cost of structuring deals and monitoring performance is higher. Minorities are also less likely to have the kinds of relationships or networks that can link them to innovative sources of capital and credit. By the same token, traditional investors have few links to EDM market opportunities or investment activities.

CEDM offers a variety of practical tools for bridging these gaps. The Center collects and analyzes a wide range of EDM-related data from diverse sources. With this information, it helps to generate:

- new financial instruments and services, such as securitized loans
- new entities to fill missing links in the capital supply chain, such as EDM loan originators akin to mortgage banking companies
- stronger EDM businesses with the potential to yield increased returns to investors
- improved public policies, based on lessons learned from a more active market representative of the country's evolving ethnic makeup.

Centers of Activity

CEDM's centers of activity are:

1. Research and Information Network

Goal: To catalyze EDM growth through information exchange, providing data for investors, entrepreneurs, researchers, policymakers and business professionals.

Activities:

- *Products*
 - Clearinghouse of regularly updated data and information related to capital access for minority businesses, including types of businesses, growth rates, breakdowns by ethnic groups and gender, capital structures, capital access needs, investment records, institutional investment activity, best practices, demographics, networks, etc.
 - Indices and rankings assessing EDM capital access, market impact, social returns and costs, etc., similar to the Milken Institute's Global Capital Access Index.

- Publications, including annual EDM status report, research reports, newsletters, directories of information, books, tracking of related research, and case studies of EDM businesses and investment vehicles.
- *Services:*
 - Web-based access to the information clearinghouse, with sophisticated search functions and ability to “slice and dice” data.
 - Customized research and advisory services, with sample projects including: institutional investor EDM investment strategies, small and minority business growth strategies for state and local governments, EDM program assessments, multiple bottom-line impact analyses, financing strategies for public-private-non-profit partnerships, etc.
 - Public policy development and strategy, including tax, financial regulatory, fiscal spending, economic development and education policy at the federal, state and local levels.

2. Educational Programs

Goal: To create learning environments that help catalyze EDM capital access and investment.

Activities:

- Annual conference uniting mainstream financial institutions with leaders in the minority business and finance communities
- Regular roundtables and forums on specific topics held at CEDM’s headquarters in Southern California, or with partner organizations including business schools, around the country.
- Virtual meetings, either through scheduled group sessions, on-line chats or ongoing on-line discussions, as well as streaming of live conferences.
- Research competitions to encourage a deepening of knowledge in emerging domestic markets.

Services:

- Customized briefings.
- Web-enabled access to educational programs, generating distribution among broader EDM communities.
- Partnerships with educational and practitioner organizations, such as investment forums run by local and regional business associations.

3. Financial Innovations Lab

Goal: To foster rapid development, testing, piloting and implementation of financial innovations targeted at increasing capital flow to minority-owned businesses.

Activities:

- The Financial Innovations Lab develops and pilots market-based products and public policies. Working groups convened around lab projects link practitioners with researchers. After incubation, projects are tested by CEDM-affiliated entities and networks, refined, and if viable, rolled out in the marketplace.
- Participating practitioners provide data, masked for confidentiality and used in developing innovations. In exchange, participants gain earlier and broader access to findings. With this approach, the Financial Innovation Lab improves the quantity and quality of loan and investment data, creates a market for piloting CEDM-developed innovations, and can foster pooling and spreading of risk and costs.
- Information arising out of the lab work may uncover areas requiring further policy development to be undertaken by the Center.

Audience

CEDM's audience includes institutional and individual investors, lenders and other financial institutions, asset managers, venture capital and private equity firms, community development financial institutions, entrepreneurs, guarantors, regulators, universities and other research institutions, policymakers, government officials, philanthropies, business and trade associations, and other businesses addressing the EDM arena.

Organization

CEDM is managed by its parent, the Milken Institute, under the direction of Betsy Zeidman and Glenn Yago, and partners with other research organizations and universities. The Milken Institute is a non-profit, non-partisan economic think tank with

particular expertise in analyzing and addressing financial risk, including the unique issues facing EDMs.

CEDM also benefits from an active Advisory Board, including leaders from financial services firms and other organizations engaged in EDM. The Minority Business Development Agency of the U.S. Department of Commerce provided initial funding, and CEDM is supported on an ongoing basis through foundation, corporate and government grants, and funds generated by its activities. CEDM provides some of its products and services to the public at no charge; others are fee-based. CEDM supporters receive proprietary access to in-depth materials and activities. As noted above, customized research, briefings and Financial Innovations Lab projects are available, and priced individually.