McKinsey Institute for Black Economic Mobility

A guide to impact investing in Black economic mobility

February 2023

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Preface

In recent decades, institutional investors have expanded the criteria they consider when evaluating investment opportunities. Environmental, social, and governance (ESG) inputs have become a regular part of the conversation for traditional investors. Meanwhile, impact investing—which seeks to not only achieve measurable benefits across ESG but also generate attractive financial returns—has the potential to unleash a rising wave of funding for innovative companies aligned with this mission. Together, such efforts have the potential to make a lasting impact on the country.

Black economic mobility has become an important part of this conversation. Since 2020, events have made addressing racial inequity a higher priority for public- and private-sector organizations. Companies have responded by committing to invest $350 billion in Black communities. The challenge: where to allocate these funds to make the greatest impact.

We believe the timing is ideal for investors to support Black economic mobility in the United States. This report features proprietary research on sentiments and trends in ESG and impact investing (see sidebar, "About the research"). Our findings suggest these priorities are set to be fixtures in investment decisions in the coming years.

Improving Black economic mobility is a complex problem; no one area holds the key. Just as numerous socioeconomic factors have combined to create an uneven playing field for Black Americans over centuries, progress will be made only by addressing a wide range of areas in a sustained way.

Our analysis identified eight socioeconomic pillars that represent the areas with the highest potential to move the needle on Black economic mobility while potentially offering investors favorable market returns. We hope that by highlighting the wide range of investment opportunities, this report provides investors with a road map to increase their financial support and engagement in the fight for Black economic mobility.

This report is a collaborative effort that benefited from the research and insights of our colleagues. We wish to thank Megan Armstrong, Leonie Badger, Jake Bryant, Danielle Hinton, JP Julien, Mike Kerlin, Connor Kramer, Melvin Mezue, Nick Noel, Jimmy Sarakatsannis, Nathan Shreve, Jonathan Woetzel, and Lauren Yayboke for their contributions.

Investors have a unique opportunity to lift up Black communities, minority- and women-owned businesses, and the country as a whole. They should not let this moment pass without concerted action.

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About the research

To get a better understanding of the investment landscape to support Black economic mobility, we drew on several sources. We conducted a survey of 100 private equity and venture capital funds, institutional investors, and impact investors in August 2022 to gain visibility into the prevailing perceptions of ESG and impact investing and how trends might evolve in the future.

In addition, we aggregated and analyzed data on existing racial disparities that affect the Black population and explored potential investment opportunities to address them. Data from the US government, such as the Census Bureau and Department of Housing and Urban Development, provided a detailed look at the lives and livelihoods of Black Americans. We augmented these insights with a review of market data about investors that managed impact funds or focused on investing in businesses owned by people of color. McKinsey research provided detail on elements, such as affordable housing, that helped to pinpoint the drivers of racial disparity and economic outcomes.

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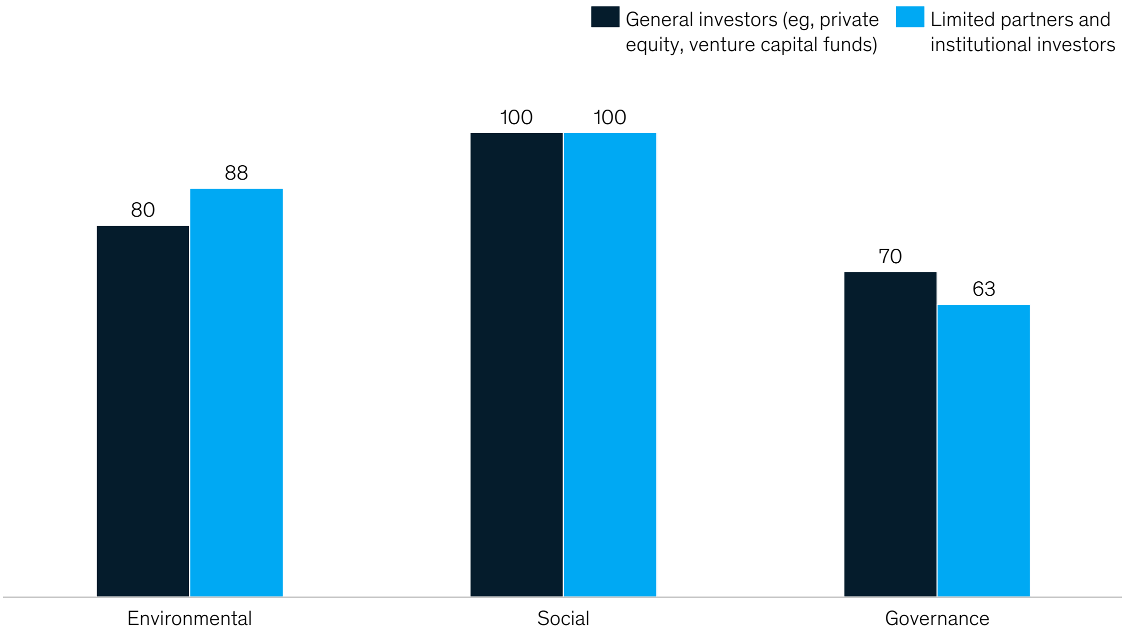
Impact investing on the rise

The convergence of several major factors—from climate change to the reevaluation of the private sector's responsibility to society at large—has spurred investors to weave broader considerations into their strategies and decision making. A recent McKinsey survey on ESG and impact investing found the majority of investors now consider ESG factors as part of their investment and portfolio management decisions (Exhibit 1).[1]

Exhibit 1

All survey respondents said they incorporate social considerations into their investment approach and portfolio management.

Organizational incorporation of ESG considerations,[1] % of respondents



[1]Question: Which of the following ESG considerations does your organization incorporate into its investment approach and portfolio management activities?; ESG is environmental, social, and governance.
Source: McKinsey ESG and Impact Investing Survey, August 2022 (n = 100)

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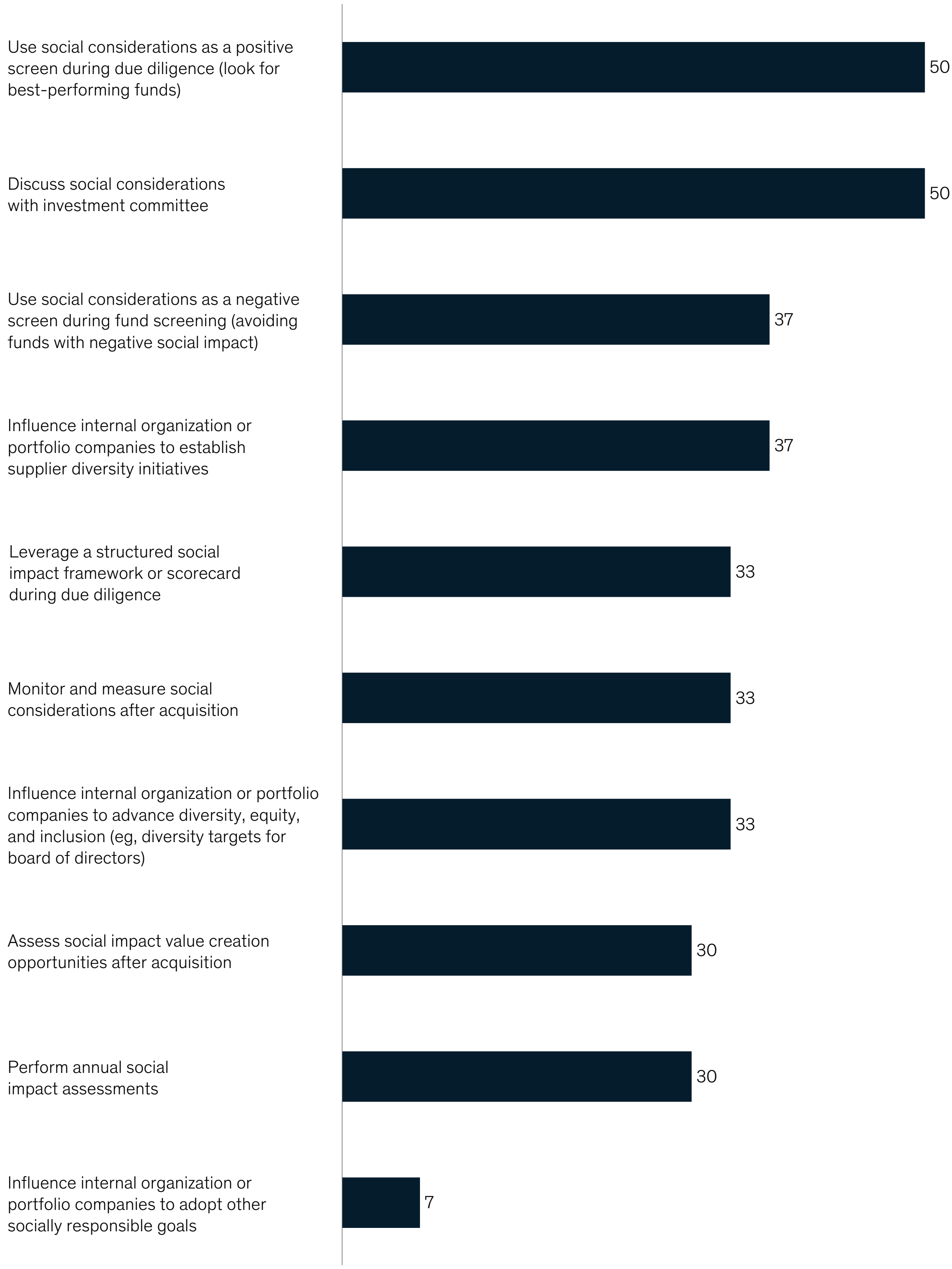
Limited partners (LPs) and general partners (GPs) reported incorporating social considerations into their fund screening and due-diligence processes (Exhibit 2). About half of respondents also indicated they influence their portfolio companies to be socially responsible. ESG figured into the dialogue for other areas as well, such as establishing initiatives for supplier diversity and monitoring social considerations post-acquisition.

Exhibit 2

General investors primarily consider social impact during due diligence.

Incorporation of social considerations,[1] % of respondents



[1]Question: How does your organization incorporate social considerations in its approach to investments?
Source: McKinsey ESG and Impact Investing Survey, August 2022 (n = 100)

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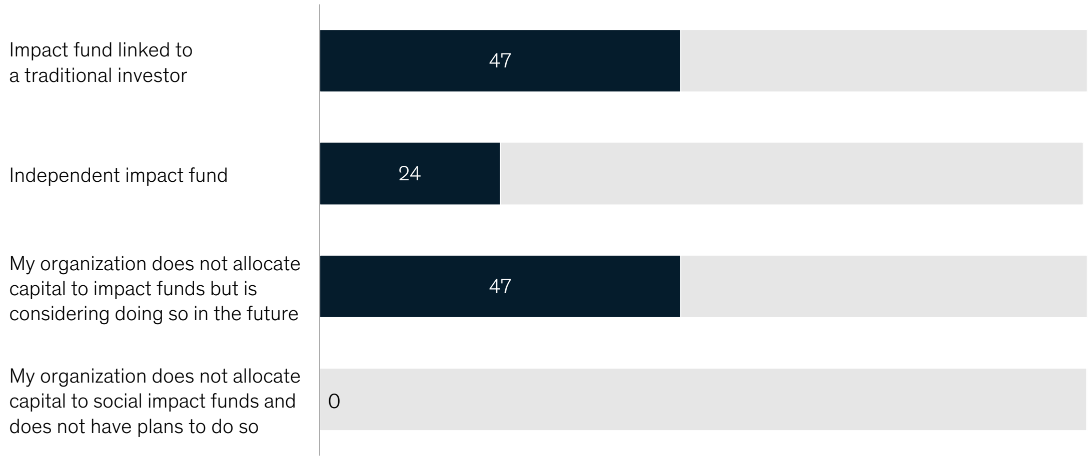
More than 50 percent of limited partners (LPs) currently allocate capital to impact funds, which aim to generate measurable benefits across ESG in addition to attractive financial returns (Exhibit 3). Nearly half indicated they haven't invested in these funds but would consider doing so in the future. About one-fifth reported they had been pressured to invest in impact funds by capital contributors; only 12 percent expected to earn higher returns from these investments.

Exhibit 3

More than half of limited partners allocate capital to impact funds; those who do not are considering doing so in the future.

Allocation of capital,[1] % of respondents



Note: Figures do not sum to 100%, because respondents were able to select multiple answers.
[1]Question: Does your organization allocate capital to the following entities?
Source: McKinsey ESG and Impact Investing Survey, August 2022 (n = 100)

McKinsey & Company

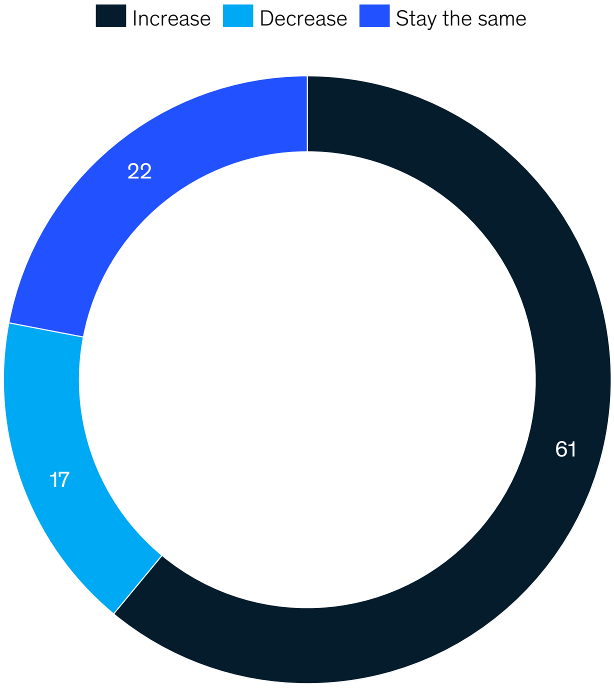
More than 50 percent of LPs currently allocate capital to impact funds, which aim to generate measurable benefits across ESG in addition to attractive financial returns.

In a relatively short period of time, impact investing has gone from an emerging trend to a regular part of the investor playbook and a factor that guides decision making. This trend appears set to continue and possibly accelerate. Our survey found managers of impact funds are bullish about the near future, with more than 60 percent reporting optimism about their ability to raise capital from LPs over the next three to five years. Less than 20 percent believe they will have less success attracting funding (Exhibit 4).

Exhibit 4

Those surveyed expect impact funds to have an easier time raising capital from limited partners over the next three to five years.

Expectation of ability to raise capital,[1] % of respondents



[1]Question: How do you expect your impact fund's ability to raise capital from limited partners to evolve over the next 3–5 years (not considering macroeconomic environment and trends)?
Source: McKinsey ESG and Impact Investing Survey, August 2022 (n = 100)

McKinsey & Company

In a relatively short period of time, impact investing has gone from an emerging trend to a regular part of the investor playbook and a factor that guides decision making.

The intersection of ESG and impact investing with Black economic mobility

This groundswell of interest in ESG and impact investing dovetails with the elevation of Black economic mobility as a prominent issue for society and business alike. Economic mobility—and, by extension, the experiences of Black Americans—is a critical component of the S in ESG.

For more than 400 years, Black Americans have faced severe socioeconomic disparities compared with White Americans. Systemic racism and other structural imbalances have created significant inequity for many Black Americans across a range of areas, from economic mobility to health outcomes.[2] These factors have contributed to a persistent 80 percent wealth gap between Black and White Americans.

The racial reckoning in 2020 and the tragic effects of the COVID-19 pandemic have both illuminated and exacerbated these inequities. In response to these crises, private-capital investors have begun prioritizing investment opportunities to promote inclusion and economic mobility for Black Americans. To date, US investors have committed more than $350 billion to this cause.[3]

However, private-capital investors face three core obstacles to successfully investing in Black economic mobility: a gap between committed capital and needed capital; a small number of Black-founded, -owned and -led funds; and a lack of clearly identified impactful investable themes. This report focuses on the latter obstacle by identifying key opportunities through which investors can make the biggest impact in advancing the economic mobility of Black Americans. All of the themes in this report have the potential to generate positive returns for investors, representing a potentially attractive but overlooked set of opportunities.

Eight socioeconomic pillars to advance economic mobility for Black Americans

Our analysis identified eight main socioeconomic pillars that will have the greatest impact in advancing economic mobility for Black Americans: affordable housing, pre-K–12 education, health equity, financial inclusion, credit and ecosystem development for small and medium-sized enterprises (SMEs), workforce training and job attainment, the digital divide, and public infrastructure (Exhibit 5). The list of pillars and the investment examples within each pillar are not exhaustive; rather, they represent the highest-potential opportunities to make an impact.

Across these eight socioeconomic pillars, a number of interlocking factors contribute to the lower socioeconomic standing of Black Americans. These factors must be explored further to develop tangible, targeted solutions. Underpinning all of these socioeconomic pillars is the lingering influence of centuries of systemic racial discrimination, which has prevented Black Americans from fully participating in the US economy.

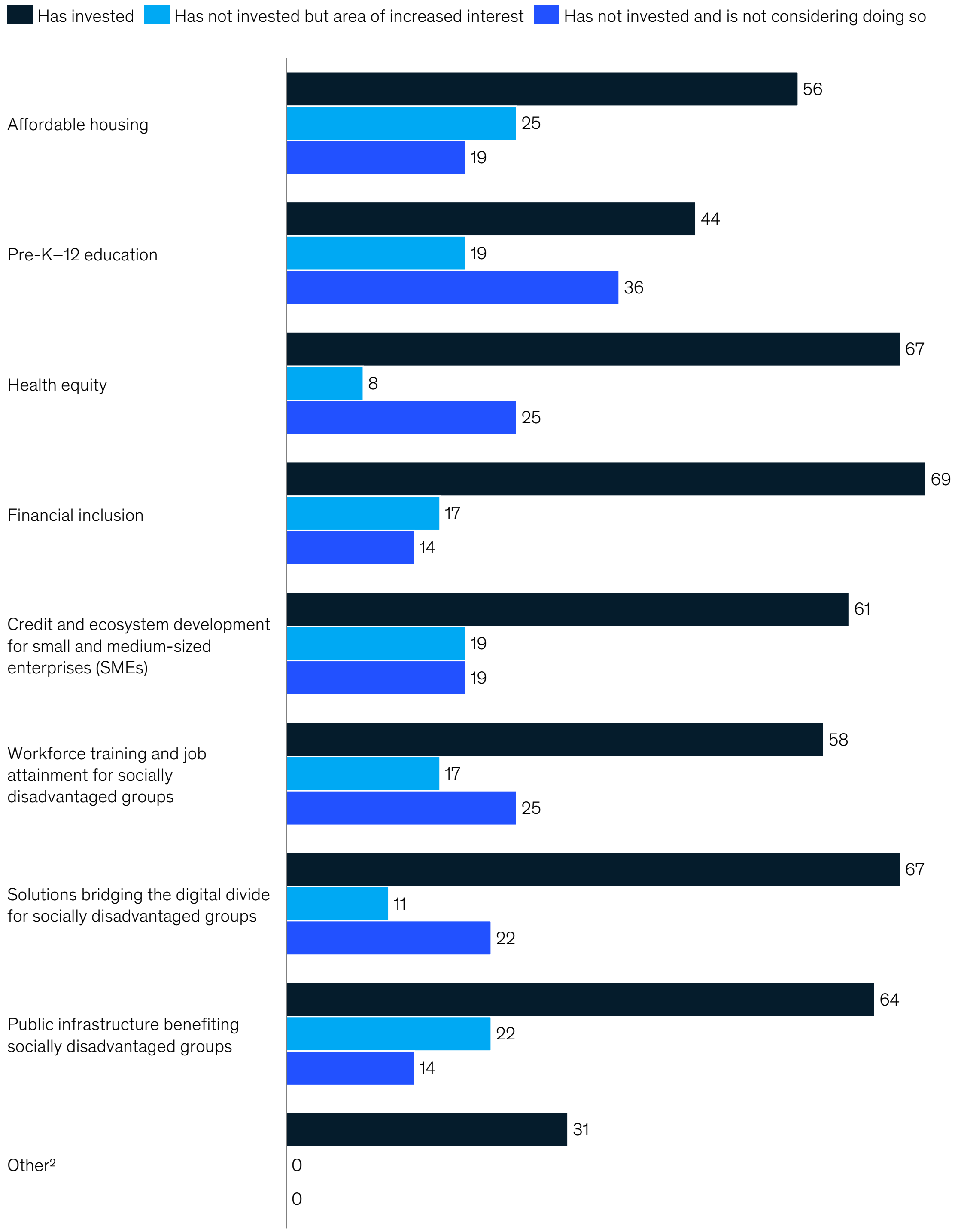
Upon pinpointing the root causes of disparities across these eight socioeconomic pillars, we identified potential investments through which private entities can close the persistent gap in equity and outcomes. Within each socioeconomic pillar, several investable themes outline how increased capital deployment can promote economic mobility.

Appropriate funding mechanisms vary across the investable themes. Common approaches include equity investments and debt funding for promising companies, as well as direct investments in impact funds and community development financial institutions (CDFIs). We also note some nontraditional investment strategies that could not only make progress and improve equity but also generate favorable returns.

Exhibit 5

Financial inclusion, health equity, and the digital divide are the most popular areas for impact investments.

Investment activity by impact area,[1] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Question: For each of the following socioeconomic impact areas, select your investment activity.
[2]Mostly includes climate- and sustainability-related investments.
Source: McKinsey ESG and Impact Investing Survey, August 2022 (n = 100

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Affordable housing

Our analysis suggests that racial inequity in affordable housing in the United States has at least two primary sources:

— The country's supply of affordable housing is inadequate: much of the existing stock is low quality, and new units are not being built in sufficient numbers. The cost of maintaining aging housing and the transition of affordable housing to market-rate units further limit supply.

— Racial bias and inadequate financial resources impede the ability of Black individuals and families to rent and purchase housing.

Housing affordability is a national issue. Nearly half of American households are rent burdened—that is, they spend more than 30 percent of their monthly income on housing costs.[4] This rent burden leaves fewer resources to support the educational attainment of students from lower-income households, which contributes to lower wages and employment rates and limits upward economic mobility. Black Americans are disproportionately represented in this segment of households.

The inadequate supply of affordable housing creates a significant challenge for Black Americans: 20 percent of Black households are extremely low-income renters in need of affordable housing, compared with 6 percent of White households.[5] In addition, the disproportionately low levels of homeownership for Black Americans are the result of decades of racial discrimination in real estate, lending practices, and federal housing policies. The gentrification of traditionally low-income neighborhoods and racist housing policies (such as redlining) have effectively reshaped the urban landscape of US cities by segregating low-income Black Americans in certain neighborhoods and denying them the ability to build intergenerational wealth through homeownership.

Several investable themes can address the root causes of inequity in affordable housing:

1. *Explore partnerships with noncommercial landowners (for example, schools and places of worship) to harness their tax-exempt status and purchase land for the creation of affordable housing.* Such arrangements would enable investors to increase the amount of land for new affordable-housing units.

2. *Invest in innovative social impact real estate funds that pursue data-driven strategies to preserve and create high-quality affordable housing.*

3. *Finance fintechs that use inclusive methods (such as on-time rent payments) to improve the credit scores* of Black renters and move them toward homeownership.

4. *Provide debt funding to minority depository institutions (MDIs) focused on offering low-interest housing loans and down-payment assistance to marginalized populations* that have difficulty obtaining loans from banks or other conventional lenders. This investment would lower the barriers to homeownership that Black Americans face due to income inequality and racial bias.

One private equity firm closed an affordable-housing fund with more than $250 million in committed capital. The fund also acquired several apartment communities comprising thousands of units. This investment will enable the firm to acquire and manage thousands of multifamily units of affordable housing for households earning less than the area's median income.

Pre-K–12 education

Education has a critical impact on an individual's lifetime earnings and economic mobility. However, racial inequity in pre-K–12 education has been an issue throughout US history. The root causes for this inequity fall into three categories:

— Institutional barriers such as racial segregation hinder access to quality education in certain geographies.

— Resources are distributed unevenly, so many Black students attend subpar schools that lack up-to-date, high-quality educational and instructional content and often employ less-experienced teachers.

— Embedded bias and racial discrimination in schools can have detrimental effects on the scholastic achievement of Black students.

Centuries of racial discrimination in the United States have resulted in a disproportionate share of Black students living in low-income neighborhoods and attending underfunded schools. Today, Black students are more likely than White students to lack access to necessary educational opportunities, further limiting their upward economic mobility.[6]

Racial biases and income inequality disproportionately affect young, Black learners. For instance, the overidentification of Black students with disabilities and disciplinary measures that disproportionately target Black students impede their educational attainment at an early age. One study found that Black students accounted for 19 percent of all public-preschool students but 47 percent of suspensions.[7] In addition, Black students are twice as likely to be labeled as emotionally disturbed and three times as likely to be diagnosed with an intellectual disability as their White peers.[8] They also have less access to high-quality prekindergarten programs.[9]

We have identified four investable themes where investors can best support economic mobility in pre-K–12 education:

1. *Invest in companies that provide culturally responsive teaching pedagogy and effective assessment tools to teachers who have recently shifted to an online or hybrid learning environment,* with a focus on closing the gaps in education for underserved students, thereby expanding the pool of high-quality teachers.

2. *Invest in edtechs focused on increasing student engagement and achievement through stronger peer collaboration in a virtual learning environment.* This funding would expand access to tech-based education solutions at a critical time when edtech programs have become the norm for many Americans due to the COVID-19 pandemic.

3. *Support transportation companies that provide cost-effective transportation services for students, with a focus on modernizing student transportation* to improve its equity, accessibility, and sustainability at a societal scale—all while increasing safety.

4. *Finance a scalable model to provide affordable housing in high-performing public school districts,* thereby increasing access to higher-quality education for students in traditionally underserved demographics.

Health

Black and White Americans experience drastic disparities in health outcomes because of the following factors, among others:

— Black Americans are less likely to have access to affordable healthcare due to low rates of insurance coverage and the high cost of care for the uninsured.

— A shortage of providers in accessible physical locations, the lower availability of mental health services, a dearth of digital healthcare service options, and lower health literacy among Black Americans combine to produce worse health outcomes.

— Black Americans are more likely to encounter racial bias from providers, leading to lower-quality treatment and patient interactions. In addition, they have lower access to pharmacies and a nutritious food supply, endure higher food insecurity, and have fewer options for activities that promote physical wellness.

Together, these factors create challenges that have far-reaching implications for health outcomes. Lack of affordable care through employer-sponsored health plans and the high cost of individual plans create challenges for Black Americans seeking coverage. Furthermore, disparities in access to care and services heighten health risks and directly affect the lives of Black Americans.

Consider that 12 percent of Black Americans under age 65 are uninsured compared with 8 percent of White Americans, and 26 percent of Black Americans lack a stable care provider, compared with 17 percent of White Americans.[10] Black Americans have suffered disproportionally from COVID-19 both in terms of mortality rate (2.2 times that of White Americans[11]) and hospitalization rate (1.7 times that of White Americans).[12]

In addition, Black Americans receive poorer healthcare treatment and are less likely to be given access to pain medications and mental health therapy. These patterns are further compounded by the racial biases of providers, which far too often leads to inappropriate and life-threatening treatment decisions. For example, half of healthcare providers responding to a survey said they are less likely to prescribe pain medication to Black patients because they believe Black people have less-sensitive nerve endings than White people.[13] Black Americans also have a higher risk of negative consequences from social determinants of health (SDOH) because they tend to have less access to healthy, affordable food in urban areas and higher rates of food insecurity.[14] In addition, they have limited options for activities that promote physical wellness: Black neighborhoods have fewer gyms and public parks than White neighborhoods.[15]

The potential impact of addressing health disparities that disproportionately target Black Americans includes increased access to affordable, high-quality care as well as decreased risk factors in SDOH.

Lack of affordable care through employer-sponsored health plans and the high cost of individual plans create challenges for Black Americans seeking coverage.

We have identified four investable themes that can best support inclusive growth through health equity:

1. *Provide capital to companies that work to develop racially sensitive AI-based predictive analytics technology,* with a focus on mitigating racial bias of machine learning algorithms in the healthcare space. Digital healthcare, which was especially important during the COVID-19 pandemic, provides a critical alternative to in-person care. Predictive-analytics technology calibrated by race would enable more accurate initial diagnoses for Black Americans and contribute to longer, healthier lives.
2. *Back high-growth companies focused on optimizing the relationship between pharmacies and their patients* in two ways: enable patients to conveniently buy pharmaceuticals online for home delivery, and provide pharmacists with the technology to get answers from patients without in-person interaction.
3. *Invest in companies that develop Medicaid support solutions for patients to maintain their plans and navigate the redetermination process.*[16] Black Americans account for a disproportionately large percentage of all Medicaid beneficiaries and are much less likely than White Americans to have employer-provided health benefits.[17] Contributing to the maximization of continuous Medicaid benefits is therefore an integral method for expanding access to healthcare for Black Americans.
4. *Invest in high-quality, low-cost (with pricing transparency) brick and mortar coupled with digital offerings to offer access in underserved communities.*


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Financial inclusion

Black families are disproportionately affected by barriers that limit their access to financial institutions and investment opportunities, further compounding racial inequity. Several factors impede financial inclusion in Black communities[18]:

— Black Americans live in areas without a sufficient number of financial institutions (including physical bank branches and ATMs) and cost-effective banks.

— Limited availability of product and service explanations, financial advice, and cost-effective credit options results in lower participation of Black Americans in stock and housing markets, undercutting their ability to build wealth.

— A history of discrimination against Black Americans has fostered distrust of financial institutions, whose lack of outreach and consumer education to address these misgivings serves as barriers to financial inclusion.

Decades of exclusionary policies and programs aimed at Black Americans have created a wide and persistent wealth gap between Black and White Americans. Limited access to financial institutions, products and services, and financial literacy are key challenges that exacerbate this wealth gap.[19] The lower number of physical bank branches and ATMs results in a lack of access, less competition, and higher banking costs for Black Americans. For example, counties with a majority of people of color have an average of 27 banks per 100,000 people compared with 41 banks per 100,000 in majority-White counties.[20]

Black families are disproportionately affected by barriers that limit their access to financial institutions and investment opportunities. As one example, 18.6 percent of White households own stocks compared with 6.7 percent of Black households. When the stock market rises, fewer Black Americans benefit.[21]

In addition, Black Americans have historically had fewer cost-effective options for mortgages and car loans because of racist lending practices. For example, non-White car shoppers are 62.5 percent more likely to be offered more-expensive options than their less-qualified White counterparts. Further, Black Americans are twice as likely to be denied credit as White Americans.[22]

We have identified three investable themes where investors can best support inclusive growth through financial inclusion:

1. *Invest in fintechs that use alternative metrics in measuring creditworthiness (for example, on-time rent payments), with the goal of bridging the gap in credit discrimination for Black Americans.* Nontraditional methods of gauging creditworthiness promote economic mobility by reimagining the assessment structures of conventional banking products such as loans and insurance.

2. *Provide growth capital to companies that develop tools to offer Black Americans the necessary financial investment tools and guidance* to help build lasting wealth and promote financial equity and equal opportunity. These apps, which could offer automated investment recommendations and educational content, would enable Black Americans to expand their knowledge and wealth while making investments aligned with their financial goals.

3. *Invest in mission-focused mobile-banking solutions that have national banking charters and are thus able to provide the highest standards of consumer protection and offer a broad array of integrated products nationwide.* These products could include certificates of deposit, individual retirement accounts, and credit cards, all without monthly minimum balances or overdraft fees. This approach would give Black Americans greater access to government-approved, end-to-end banking solutions.

Credit and ecosystem development for SMEs

Our analysis identified several primary root causes of racial inequity in credit and ecosystem development for SMEs in the United States:

— Economic barriers include lack of access to start-up capital and the concentration of Black businesses in underperforming sectors.

— From a market standpoint, Black Americans lack the credit and business and professional support services that could enable the founding and growth of promising companies.

— Potential Black business owners endure sociocultural barriers: many lack networks to provide expertise, mentorship, supply chain opportunities, and knowledge. They also face customers who don't want to support Black companies.

— In addition, Black-owned businesses often must navigate discriminatory or poorly designed practices and policies and operate in low-opportunity locations where consumers have less disposable income.

Collectively, these barriers hinder the growth of Black-owned businesses and the ability of Black entrepreneurs to build wealth.[23] Before the pandemic, 58 percent of Black-owned businesses were at risk of financial distress (compared with 27 percent of White-owned businesses). Following the onset of COVID-19, 41 percent of Black-owned businesses closed between February and April 2020 (compared with 17 percent of White-owned businesses).[24] Overall, Black entrepreneurs have less of a financial cushion to weather downturns: they are more likely to be denied financing and receive less support from private capital funds and their social networks (for example, friends and family).

Black entrepreneurs are also less likely to have access to business support (such as Toast, Clover, and other analytics-based point-of-sale systems) and professional services. They often lack mentors and professional networks to help them succeed in the entrepreneurship ecosystem.[25] Last, discriminatory practices (for example, credit redlining) exclude Black business owners from the resources they need. Data released by the US Small Business Association shows Black-owned businesses received only 2 percent of the first round of COVID-19 Paycheck Protection Program (PPP) loans; White-owned businesses secured 83 percent of these loans.[26]

Investors can help to promote and sustain credit and ecosystem development for Black SMEs by deploying capital in several investable themes:

1. *Invest in financial institutions (for example, CDFIs) that focus on providing affordable, responsible financing to women- or minority-owned small businesses* that struggle to obtain financing through traditional sources. Doing so would promote the racially equitable allocation of capital to Black entrepreneurs and small and medium-size businesses.

2. *Commit funding to companies that provide technical assistance, one-on-one financial counseling, and loan application assistance, with a focus on the financial empowerment of business owners who are Black, Indigenous, and people of color (BIPOC) or women.* This assistance would help BIPOC founders build knowledge and access capital to scale their businesses.

As one example, an investor invested in a CDFI that provided support to BIPOC-led businesses during the PPP application process, enabling them to secure much-needed funding. The CDFI also enabled training courses to enhance business acumen. Thanks to this support, BIPOC-led businesses were able to focus on growth. The investor makes money through its investments in CDFIs by retaining any funds in excess of the rate of return (about 2 percent) paid to investors.

Workforce and jobs

Racial inequity in the US workforce has roots in several factors:

— Black Americans have less access to postsecondary education, coaching, and support as well as lower participation rates in employment pathway programs. In addition, the criminal justice system has had a disproportionate impact on Black communities.

— Black workers are underrepresented in professional occupations,[27] and they are more likely to be concentrated in occupations with a higher risk of disruption from automation.

— Racial bias in the workplace has put Black workers at a significant disadvantage, and they lack adequate resources to support their development and advancement.

Black workers are disproportionately affected by labor market gaps and experience higher unemployment, fewer benefits, and less job stability. Racial bias and discrimination in the workforce, a lack of access to postsecondary attainment and workforce development programs, and inadequate resources directly contribute to job instability, stagnant earnings, and a persistent inequality gap. Fewer Black students move on to postsecondary education, in part due to lower access to well-resourced K–12 schools. Consequently, the current educational attainment of Black Americans is lower than that of White adults in 1990.[28]

Mass incarceration creates lasting obstacles to employment. Black Americans are imprisoned at five times the rate of White Americans[29] and make up one-third of all inmates despite accounting for just 12 percent of the total population.[30] Upon release, formerly incarcerated individuals can find it difficult to secure gainful employment: 60 to 75 percent did not have a job one year after their release.[31]

Black workers are underrepresented in professional occupations and overrepresented in frontline jobs (18 percent) compared with managerial jobs (9 percent).[32] As a result, they face a higher risk of losing their job to automation and financial instability.[33] Indeed, approximately 6.7 million Black workers (42 percent of the Black labor force) currently hold jobs that could be subject to disruption by 2030.[34] Compared with White employees, Black employees in the workplace are more likely to encounter racial biases, report their workplace is less inclusive, and experience discrimination through hiring and promotion practices.[35]

Black workers are disproportionately affected by labor market gaps and experience higher unemployment, fewer benefits, and less job stability.


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Private investors could promote economic mobility within the workplace by focusing on three investable themes:

1. *Purchase career impact bonds from organizations that identify in-demand, high-growth job opportunities; offer end-to-end support services; and partner with proven training providers.* Doing so would provide more Black Americans with career coaching and reskilling and subsequently enhanced opportunities for employment.

2. *Invest in companies that provide college and career preparation tools to BIPOC high school students, with the goal of bridging the knowledge gap in the university application process.* These tools could enable more students of color to attain high-paying positions in their desired fields.

3. *Create incentives for portfolio companies to use supplier diversity as a criterion for assessing investment opportunities.* A conscious effort to consider minority- and women-owned businesses in procurement decisions could have a huge economic impact. If spending with women- and minority-owned businesses doubled from $1 trillion to $2 trillion, four million jobs for women and minority populations could be created.[36]

One impact investment firm acquired an education company with the goal of improving its digital-learning experience and restructuring the organization. The investor connected this portfolio company with businesses looking to offer continuing-education opportunities to their employees. Through these efforts, the investor generated an internal rate of return of about 50 percent and increased the portfolio company's EBITDA by more than 50 percent.

Digital divide

Our analysis identified two primary root causes of racial inequity in the digital divide in the United States:

— The surging prices of devices and subscriptions and the classification of broadband internet as a market-based product keep these products and services beyond the reach of lower-income Black Americans.

— Black Americans have limited access due to insufficient infrastructure in the Black rural South and urban areas, limited availability and high cost of digital services, and lower levels of digital literacy.

Approximately 40 percent of Black American households—as opposed to 28 percent of White American households—don't have high-speed, fixed broadband.[37] Lack of access to digital services creates barriers to basic needs and support services, health and well-being, educational advancement, and career progression.

To address the root causes, we have identified two themes through which investors can best bridge the digital divide:

1. *Invest in digital infrastructure (fiber networks, data centers, and telecommunication towers) and companies focused on expanding the availability of internet and phone service to underserved populations* in the rural South and other economically distressed regions.

2. *Invest in edtechs that provide digital-literacy training for youth of color.* These companies can produce sponsored events that are tailored to the social and cultural demographics of the audience, with the goal of educating the public about the effects of the digital divide on communities of color.

Black Americans are twice as likely as White Americans to lack a device other than a smartphone only.

Public infrastructure

Our analysis highlighted two root causes of racial inequity in public infrastructure in the United States:

— Many Black Americans lack access to quality infrastructure because cost-based funding decisions have excluded low-income neighborhoods, leaving residents with substandard service.

— Poor transit routes can impede the ability of low-income Black Americans to commute to work.

Low-income Black communities throughout the country are affected by poor-quality public infrastructure. Historically, the development of quality infrastructure such as public transportation has promoted gentrification in low-income neighborhoods. Further, while Black populations are heavier users of public transit, they also face poorer access to high-frequency public transit compared with White populations.

Black neighborhoods are also more likely to be victims of environmental racism because of their proximity to low-quality and harmful infrastructure. Black families are disproportionately affected by natural disasters, crumbling infrastructure, proximity to hazardous-waste sites, and insufficient access to clean and affordable water—and the water crises in Flint, Michigan, and Jackson, Mississippi, highlight the impact of sustained underinvestment in infrastructure. Together, these factors contribute to increased health risks and lower quality of life.

Private investors have an opportunity to reduce the racial equity gap through investments in public infrastructure. Our analysis identified several investable themes:

1. *Make equity investments in leisure property and community infrastructure (including commercial properties, eateries, hotels, and entertainment) in predominantly Black districts.* Such investments can support the construction of pleasing commercial spaces that draw in more customers, subsequently creating higher-paying jobs for community residents and promoting a robust economy for the area.

2. *Provide growth equity to companies that use high-voltage direct current (HVDC) cable technology to link renewable-energy sources to urban markets in need of clean energy.* This approach would facilitate connections to clean energy for diverse metropolitan areas that typically lack access to renewable resources such as wind and hydro.

3. *Invest in companies focused on revolutionizing public transportation by using a mesh-network transit system with a smaller infrastructure footprint, on-demand anytime rides, and zero carbon emissions.* A smaller infrastructure footprint means lower up-front costs, which can increase profitability while offering communities trips to school, work, healthcare facilities, and more at market rates for public transit.

Toward a brighter future

All of the investable themes highlighted in the eight pillars have the potential to directly address the underlying factors that have historically created barriers to Black economic mobility. They also represent viable, potentially profitable opportunities for investors to do well by doing good. Progress requires investors simply to do the right thing—for their organizations, for Black communities, and for the country as a whole.

Endnotes

1 ESG and Impact Investing Survey, McKinsey, August 2022.

2 Currently, the median annual income is $45,000 for Black households and $76,000 for White households. Additionally, the unemployment rate is 9.7 percent for Black households and 5.3 percent for White households, and the poverty rate is 18.5 percent versus 7.3 percent. For more, see Federal Reserve Survey of Consumer Finances 2019, US Bureau of Labor Statistics, April 2021.

3 McKinsey analysis of investment figures aggregated from public sources for Fortune 1000 companies from May 2020 through July 2022.

4 Matthew Martinez and Mark Mather, "U.S. housing cost burden declines among homeowners but remains high for renters," PRB, April 15, 2022.

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February 2023

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