Microsoft

Racial Equity Initiative:

Engaging our ecosystem

2021 Progress report

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Overview

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"The right **business ecosystems** can mitigate or negate the effects of structural obstacles to business building for Black business owners—and add $290 billion in business equity."

McKinsey. *Building supportive ecosystems for Black-owned US businesses*

Preface

Microsoft's Racial Equity Initiative

In June 2020, we outlined a series of commitments designed to address the racial injustice and inequity experienced by racial and ethnic minorities in the US, including Black and African American communities.

With input and feedback from employees and community leaders, we developed a set of actions that we believe are meaningful to improve the lived experience at Microsoft, as well as change in the communities in which we live and work. This work is centered on three multi-year pillars, including:

1 Increasing representation and strengthening a culture of inclusion

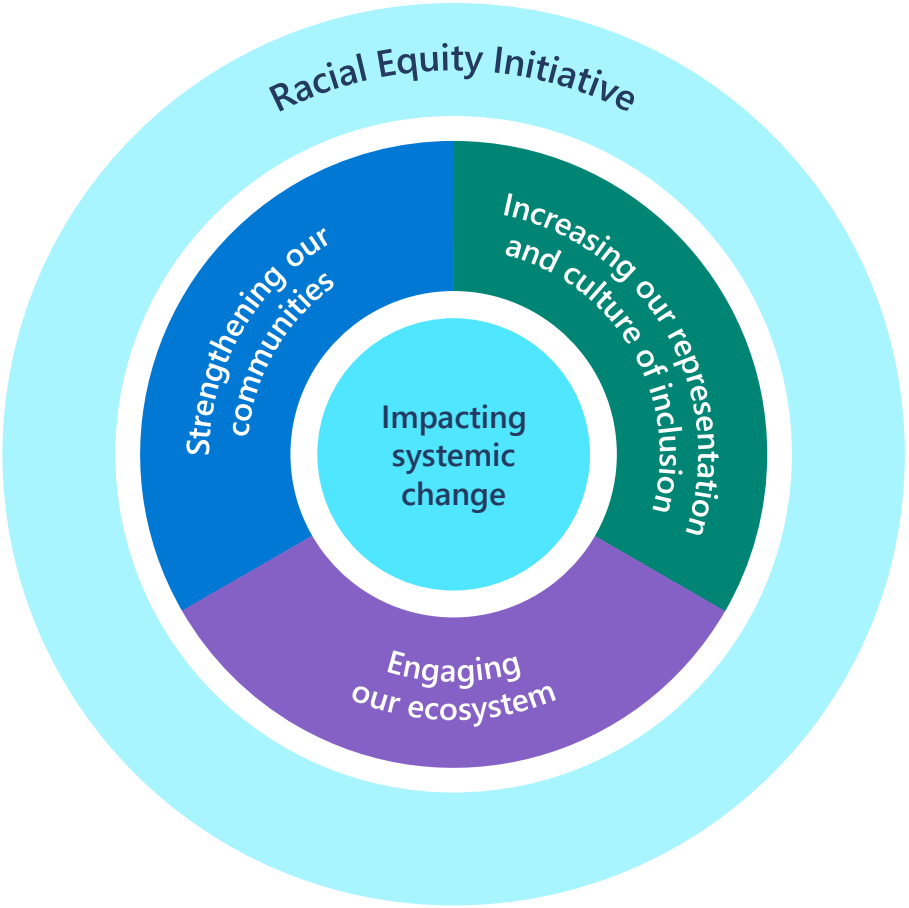
Building on the momentum of the last five years by adding $150 million of diversity and inclusion investment and doubling the number of Black and African American people managers, senior individual contributors, and senior leaders in the US by 2025.

2 Engaging our ecosystem

Using our balance sheet and working with suppliers and partners to extend the vision for societal change, contributing to the creation of new opportunities for them and the communities they serve.

3 Strengthening our communities

Applying the power of data, technology, and partnership to help improve the lives of Black and African American citizens across the US, including addressing the safety and well-being of our own employees in the communities in which they live.



Microsoft's Racial Equity Initiative

Outlook

A responsibility to do more

Each of us at Microsoft—starting with the senior leadership—has an important role to play in achieving the commitments laid out in our Racial Equity Initiative.

As a reminder, we launched the Racial Equity Initiative on June 23, 2020, and I am honored to lead one of our three pillars—along with Kathleen Hogan, our Chief People Officer and Brad Smith, our President and Vice Chair. From the inception of the Racial Equity Initiative, we made a commitment to provide periodic updates on our progress. At Microsoft, we believe deeply in the concept of transparency and accountability, and so are pleased to share another update on our progress with the Engaging our Ecosystems pillar.

Kathleen leads the work that ensures everyone at Microsoft is focused on our commitment to increase representation and strengthen a culture of inclusion—work that helps employees first, but also sparks change in our industry. Brad and I share responsibilities for using Microsoft's platform to affect change beyond our company with Brad working with his team to strengthen Black and African American communities through technology, data, and partnership, while my team works on engaging our ecosystem of financial institutions, suppliers, and partners.

A company with the size and scale of Microsoft includes a vast business ecosystem that allows us to serve our customers and achieve our mission to empower everyone on the planet. Our job over this multi-year initiative is to work closely with our suppliers and partners to extend the vision for societal change and to create new opportunities for Black and African American firms and the communities they serve.

By working with our supply chain, banking partners, and broader partner ecosystem we committed to:

- Double the percentage of our transaction volumes with Black and African American-owned **banks** and external managers, create a $100 million program to increase funds flowing into local communities, and leverage a $50 million investment fund to improve access to capital for Black and African American-owned small businesses.
- Double the number of Black and African American-owned approved **suppliers** over three years, spend an incremental $500 million with those existing and new suppliers, and encourage representation and holistic Diversity, Equity & Inclusion progress in our top 100 suppliers by incorporating diversity profile information into our RFP evaluations.
- Increase the number of Black and African American-owned **partners** in our US partner community by 20 percent over three years, leverage a new $50 million general partner fund to help with access to capital to all partners in our ecosystem, provide $20 million of financing to support cash flow needs, and invest $3 million in training programs.

These commitments are spelled out in much more detail throughout this report.

Throughout this initiative, our teams have placed the highest priority on accountability, transparency, and sustainable impact. These reports are not just a place to show our progress against goals. We are also committed to sharing best practices as well as our opportunities for learning and growth along the way. We have done so inside Microsoft as we've held listening sessions and received invaluable feedback from the Black and African American Corporate Vice President community and the Blacks at Microsoft employee resource group. And we will continue to do so with members of the Black and African American community and other companies and organizations working to address our shared goals. We may compete vigorously for customers but there is no competition in working to tackle these critical systemic issues.

As I look back and reflect on the progress we have made, I am humbled by the scope of the issues we aim to address, and the work still left to be done. The past 18 months have been an important first step in our efforts to create meaningful sustained changes through our ecosystem. I have immense gratitude for the teams across Microsoft who work tirelessly on these projects and our many employees who have sought ways to join in our efforts.

For every sentence in this report about a new initiative, fund announcement, or partner program—it required months of effort, creativity, and foundation building that I do not take for granted. As we move forward, we will continue to challenge our teams to apply a growth mindset—and just the right amount of tenacity and relentlessness—in seeking bold solutions to address racial inequity and injustice.



I hope this report sparks ideas, invites opportunities for improvement, and offers each of us a moment to pause and reflect on how we can accomplish more to address racism and injustice.

To everyone at Microsoft and beyond who is working to make the world a more just place—thank you. We're not done. In fact, we've barely begun.



Amy Hood,
Executive Vice President and Chief Financial Officer

The issue

Assessing the problem

Racial wealth inequity is evident within the business sector, particularly for minority business enterprises.

For example, Black and African American-owned small-to-medium-sized businesses (SMBs) were disproportionately impacted by the COVID-19 pandemic, seeing a 41% drop in business ownership, the highest of any racial group. According to a report by the Federal Reserve Bank of New York, "weaker cash positions, weaker bank relationships, and pre-existing funding gaps" left even the healthiest Black and African American companies financially disadvantaged. In addition, the geographic concentration of Black and African American companies within a few counties across the nation creates a compounding financial strain on the economic health of their communities.

However, technology has the power to serve as one solution to addressing racial inequities, particularly in business. While the pandemic has severely impacted many industries and communities, the tech sector has seen exponential growth as organizations accelerate their digital transformation. Expanding this type of growth within the Black and African American community would be transformational in helping more business owners develop generational wealth that spreads into the communities where they live and work.

Federal Reserve Bank of New York: *Double Jeopardy: Covid-19's Concentrated Health and Wealth Effects in Black Communities*

Technology is at the center of nearly every industry today. Therefore, technology firms have a broad responsibility to promote inclusive practices that address racial equity. Increasing representation in the technology sector, empowering businesses, and providing access to capital are a few ways to drive change. Creating a more inclusive technology industry that attracts and retains technologists with diverse backgrounds and perspectives enables the development of innovative solutions that truly empower every person and every organization to achieve more.

Lack of access to opportunity has been a persistent barrier to many Black and African American-owned businesses. Unconscious bias in purchasing decisions, inequitable access to technology, services and solutions, and misperceptions of capabilities of smaller firms are a few examples of hurdles diverse-owned suppliers and partners face. To address these issues, we must listen to understand and act by creating programs to allow these businesses to build networks, develop relationships, and attain sustainable growth.

Increasing capital access to Black and African American-owned small business is critical to advance community wealth for entrepreneurs and their employees while investing in community based financial institutions who are best positioned to support this effort. "Entrepreneurship and business ownership—particularly of community-based businesses—are crucial ways to develop community wealth, for both business owners and the people they employ. Healthy Black-owned businesses could be a critical component for closing the United States' Black–white wealth gap, which we project will cost the economy $1 trillion to $1.5 trillion (in 2018 dollars) per year by 2028."

McKinsey: *Building supportive ecosystems for Black-owned US businesses*

Brookings Institute: *Building racial equity in tech ecosystems to spur local recovery*

"Systemic inequities in America have created a history of wealth inequality, disproportionately exposed certain communities to the COVID-19 pandemic, and established conditions leading to racial violence and social unrest. To address these issues, communities of color—specifically, Black communities—will need broad-based economic support and policy reforms.

One high-priority recommendation in solving the country's racial wealth equity problem is developing inclusive local tech ecosystems, which can drive Black tech entrepreneurship and increase the Black tech workforce."

Brookings Institute

"With our corporate mission, our scale, and our global reach, we have a responsibility to do far more than just raise awareness about inclusion. We are uniquely positioned to drive the conversation, to have a meaningful, tangible impact on how people experience Microsoft products and services, and how they engage within our workplace and with the company in general. Our responsibility is not just to those who work with us, but to the larger technology industry, the industries we serve and the communities where we live."

Lindsay Rae McIntyre, Chief Diversity Officer

How we work

A more inclusive ecosystem

A vast business ecosystem surrounds Microsoft, from our supply chain to our partner community. We recognize that a stronger and more productive ecosystem requires better representation of the diversity in our communities. We will evolve our engagement with our banking, supply chain, and the broad Microsoft partner ecosystem in this effort.

Banking:

Investment in financial institutions

We are leveraging our balance sheet needs to increase our business volume with Black and African American-owned financial institutions, providing the opportunity for these firms to attract additional capital. We are investing in mission-driven banks to better equip them to support the communities where they operate. Finally, we are investing in small Black and African American-owned businesses to expand their access to capital, increase skill development and reduce technology gaps to support better outcomes for those businesses and the communities where they operate.

Banking

Supply Chain:

Broadening our work with suppliers

We are doubling the number of approved Black and African American suppliers over three years, spending an incremental $500 million with those existing and new suppliers, and encouraging representation and holistic Diversity, Equity and Inclusion progress in our top 100 suppliers. We are also creating individualized experiences to ensure our suppliers are set up for success by helping to build long-term relationships to create sustainable growth and matching supplier capabilities with our business needs.

Supply Chain

US Partners:

Partner investment

We are increasing the number of Black and African American partners and improving access to capital, providing financing to support cash flow needs, and implementing training and partner enablement programs. We will put our investments to work to help partners build and grow their services, solutions, and practices for long-term success. Successful partners create local higher-skilled jobs, provide technology access for businesses, schools, communities, and accelerate community transformation, propelling community investment. This work aims to enable inclusive economic growth within the communities where partners live and build businesses.

US Partners



"When we talk about empowering every person and every organization on the planet to achieve more, diversity and inclusion is core to how we pursue our mission. We simply cannot succeed in our business without it. If we want to empower the world, we must represent the world inside Microsoft."

Satya Nadella, Microsoft Chairman and CEO

Progress

Invest, partner, and advocate

We have been on a journey to listen, understand, and collaborate to launch and scale our programs.

Here is a snapshot of our work since June 2020:

1 Banking:

We have expanded access to capital to support Black and African American businesses and the communities they operate in.

- Increased the percentage of transaction volumes through Black and African American-owned financial institutions to more than 2.5x prior levels, exceeding our goal.
- Hired three Black and African American-led asset managers which now represent 30 percent of Microsoft's asset managers.
- Black and African American-owned firms represented 25 percent of our investment banking partners for a debt refinancing.
- Accomplished goal to commit $100 million towards mission-driven banks.
- Met $50 million small business investment commitment through partnerships with several organizations.

2 Supply Chain:

We have increased opportunity for Black and African American suppliers to achieve long-term sustainable growth.

- Enriched supplier pipeline with more than 250 Black and African American-owned businesses, a surge of more than 300 percent.
- We made several enhancements to our policies, sourcing processes, and tools. As a result, in our fiscal year 2021, Black and African American-owned suppliers were awarded 43 percent of Corporate Procurement RFPs they were invited to participate in.
- Created the AMP'D (Advocates, Mentors, Peers for Diverse Suppliers) program to ensure new suppliers receive adequate resources and individualized support.
- Enhanced our corporate-wide contingent staffing program—Contractors Services Program—increasing Black and African American supplier participation by more than 200 percent.

3 US Partners:

We have provided access to capital, financing, and training to achieve more inclusive growth for Black and African American partners.

- Launched the Black Partner Growth Initiative and have increased the number of identified partners by more than 150 percent to date, surpassing our initial goal.
- Invested $3 million in training programs covering financial management, tech solutions, and go-to-market readiness for all areas.
- Created the Partner Capital Fund, which provides low-or no-interest loans, and leveraged our Partner Financing program to support short term cashflow.
- Invested in areas where Black and African American partners are already creating impact for the business community, particularly through the Black Channel Partner Alliance (BCPA).



About this report

Transparency and accountability are essential principles that underpin our Racial Equity Initiative.

By sharing our progress and learnings in this report, we aim to live up to these principles. This is the last of our three updates that will be published this year to communicate progress against the commitments we have made to:

1. Strengthen our communities
2. Increase representation and strengthen a culture of inclusion
3. Engage our ecosystem

How to read this report

This report on engaging our ecosystem covers three areas of focus: banking, supply chain, and US partners. Each has its own chapter where you will find sub-sections outlining the work we have done over the past year, and where we are headed in the years ahead:

Our approach → **Progress** → **Key learnings** → **Call to action** → **What's next**

- **Our approach**: An explanation of why we focused on this area and overview of our commitments.
- **Progress**: An in-depth look at our progress in the last year in meeting our commitments.
- **Key learnings**: How information and results we gather informs the work and helps further meaningful impact.
- **Call to action**: How we are focusing to bring about systemic and scalable change.
- **What's next**: What we are focused on and planning for the coming year.

Banking

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Black entrepreneurs typically start their businesses with less capital and are 3x as likely as white business founders to say that a lack of access to capital negatively affects their businesses' profitability and almost twice as likely to cite the cost of capital.

Kauffman: *Startup financing trends by race: How access to capital impacts profitability*

Our approach

Meeting Our Commitments

Systemic and structural barriers persisting over centuries have manifested into steep racial inequities in our society today.

At Microsoft we know that we can only achieve our mission when everyone is included. We approach these efforts humbly with a commitment to be candid about our progress. We talk at Microsoft about having a growth mindset—to be open to learning and trying new things. The only way we'll make meaningful progress on our commitments and therefore achieve our mission is by working with others, trying new things, learning from others, and being held accountable. Since making our commitments, we have worked to turn those commitments into meaningful systemic change.

Last year, under the banking pillar, we made a commitment to use our balance sheet and banking needs to grow our portfolio investment activity with Black and African American-owned financial institutions.

Our commitments:

1 Transaction volumes

We made a commitment to double the percentage of our transaction volumes through Black and African American-owned banks and external managers where we have existing banking relationships. We also set out to grow that base, which provides an increased opportunity for these firms to attract more capital.

2 Mission-driven banks

Additionally, we made a commitment to create a $100 million program that will make its initial investment in collaboration with the Federal Deposit Insurance Corporation (FDIC) to target Minority Depository Institutions (MDIs), which directly enables an increase of funds into local communities (businesses, restaurants, housing, etc.).

3 Small businesses

Finally, we committed to establish a $50 million investment fund for all of our partners that will help support Black and African American-owned small businesses. This fund was designed to initially focus on investing to improve access to capital, increase skill development, and reduce the technology gaps that exist today.



Progress

Portfolio progress

Operating inclusively with our balance sheet needs and portfolio investment activities has been a longstanding focus here at Microsoft. We recognize that diverse owned financial institutions are underrepresented in large financial transactions with institutions like Microsoft, hindering their ability to earn fees to grow and scale their businesses.

As part of our announcement, Microsoft has doubled down on our commitment to Black and African American-owned financial firms. We are growing the Black and African American partner base and increasing our transaction volumes with these partners, acting as the pipeline of additional business, enabling them to earn fees and attract additional capital to grow, scale, and compete. Our increased business also enables these firms to hire and develop Black and African American talent, which is deeply underrepresented in this industry.

2.5x

In the last year, we have exceeded our goal, increasing the percentage of transaction volumes through Black and African American-owned financial institutions to more than 2.5x prior levels.

25%

Black and African American firms also represented 25% of investment banking partners for a debt refinancing—enabling these partners to earn significant fees on this transaction. Overall, total diversity banking partners represented 15% of the fees, more than double the typical allocation, and totaled $8.6M.

30%

Our team has also successfully hired three Black and African American-led asset managers, Pugh Capital, Ariel Investments, and Xponance which now represent 30% of Microsoft's external asset managers.



Xponance

"...we view this partnership and the account structure as transformational to our business. "

Tina Byles Williams, Founder and CEO of Xponance

Transaction volumes

As part of our more than fifteen-year commitment to Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs), which we refer to as mission-driven banks, we continue our work to strengthen these institutions and the communities they serve. In 2020, we committed to double the percentage of our transaction volumes through Black and African American-owned firms while growing that partner base. In FY21, we more than doubled our deposits with Black and African American partners as part of our Certificate of Deposit Account Registry Service (CDARS) program, while nearly doubling that partner base. Our partner mission-driven banks can feel confident that these are long-term deposits that they can utilize to increase lending in the communities where they operate.

Progress (continued)

Mission-driven banks

In 2020, we committed to create a $100 million program targeted towards mission-driven banks. Since then, we have made investments focused on strengthening these institutions, directly enabling them to deploy increased capital in local communities.

Here are some examples of our commitments to date:

1 Invested in the **Entrepreneur Backed Assets Fund (EBA).** EBA Fund is a start-up nonprofit that provides the first scalable capital solution for CDFI microlending. Small business microloans (<$50,000 in size) are extraordinarily important to small business owners. Lower levels of wealth, barriers in accessing external financing, and the legacy of occupational segregation have led to a much higher concentration of BIPOC and women-owned firms in industries with low barriers to entry, but also lower revenues and profit margins. The small loans these borrowers can afford to repay and grow their businesses successfully are hard to deliver at scale economically. EBA Fund creates a secondary market for the loans, delivering reliable capital to CDFIs so they can expand lending now while also generating premiums from the onward sale of the loans to banks for regulatory benefit. Premiums are donated back to the originating CDFI to help them grow their impact.

↘ EBA Fund

2 Committed to the **Mission-Driven Bank Fund** as an anchor investor. This fund is designed to provide flexible capital to these banks, enabling the deployment of increased capital in the communities they serve.

↘ FDIC Mission Driven Bank Fund

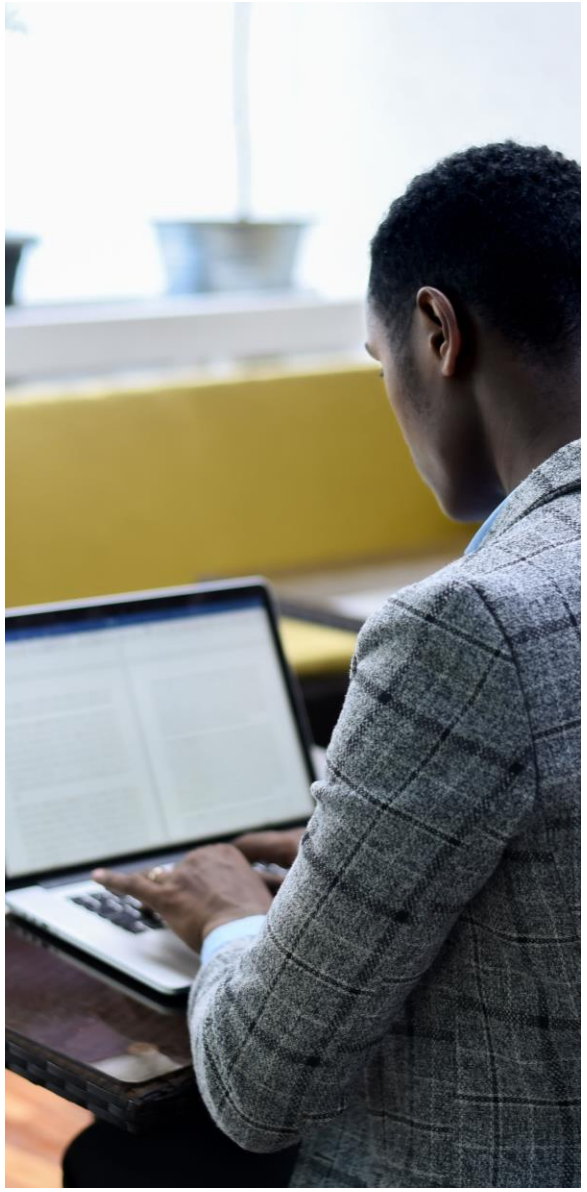
↘ FDIC Podcast for Mission Driven Bank Fund

"Microsoft was the first investor in EBA Fund. Their willingness to understand a complex business model and the potential impact paved the way for new investors and our success to date."

Brett Simmons, Managing Director and Principal

"A significant part of my focus as FDIC Chairman has been bridging the economic inclusion gap. While we recognize there is no single solution to address disparities in our financial system, we know that many mission-driven banks are anchor institutions in minority, low-income, and rural communities. Together, we can support these institutions and the communities they serve by providing them with capital, technology, and innovation. The FDIC is excited to facilitate the creation of the Mission-Driven Bank Fund to play an important role in building economic opportunity in low-income, minority, and rural communities."

Jelena McWilliams, Chairman Federal Deposit Insurance Corporation



Progress (continued)

Small businesses

Over the last year, we have accomplished our $50 million commitment to create an investment fund focused on supporting Black and African American-owned small business through partnerships with several organizations. These commitments range across investments focused on improving access to capital, increasing skill development, and reducing technology gaps that exist today.

Below are some examples of our investments to date:

1 Partnered with Siebert Williams Shank to create the **Clear Vision Impact Fund** designed to mitigate the deficits in capital access that minority-owned businesses often encounter, and thereby enhance the positive impact that these companies have on the communities in which they operate. When measuring investments' impact, the fund is closely monitoring the diverse and local hiring efforts by the portfolio companies in addition to the educational opportunities they provide for their staff and local communities. Clear Vision Impact Fund is acting as a flexible capital provider, willing to consider other factors in the underwriting process, providing access to a strata of borrowers overlooked by traditional financing sources. Finally, the fund understands that expanding beyond its first major client can prove difficult for most small businesses, so the fund collaborates with small companies to identify key customers and decision makers to increase their revenue-generating prospects.

↘ Clear Vision Impact Fund

2 Invested in the **Southern Opportunity and Resilience Fund (SOAR)**, a program created by a diverse group of community lenders aimed at helping small businesses and nonprofits with less than 50 employees navigate and rebuild from the COVID-19 health and economic crisis in 15 southern and southeastern states, a region where greater than 50% of the United States Black and African American population resides.

↘ Southern Opportunity and Resilience Fund

3 Invested in the **Morgan Stanley Next Level Fund** which focuses on primarily early-stage technology and technology-enabled companies with diverse or women members as part of the founding team, who are extremely underrepresented in traditional venture capital markets. This fund is part of our effort to level the playing field in the financial ecosystem and provide diverse founders with equitable access to grow their business and generate wealth.

↘ Morgan Stanley Next Level Fund



"For nearly 15 years, Microsoft has supported the enhancement of the quality and breadth of financial services that Siebert Williams Shank is able to offer corporate clients. Specifically, Microsoft has engaged our firm in an unprecedented number of capital markets activities including as an underwriter on Microsoft's debt offerings, as a commercial paper dealer, and as share repurchase agent for the Company's stock buyback program.

In addition, Siebert Williams Shank has also assisted Microsoft in investing its corporate liquidity, and most recently launched the Clear Vision Impact Fund with a $25 million investment of seed capital provided by Microsoft."

Christopher J. Williams,
Chairman of Siebert Williams Shank & Co., LLC

Voices from our communities

When we invested with our SOAR partners, we knew that they would help us drive impact for both small businesses and CDFIs. Here are their stories:



Photo: The NDC Community Impact Loan Fund team.

"The SOAR program has enabled NDC to extend our small business lending reach to meet the ever-changing needs of small businesses during the pandemic. NDC looks forward to meeting more businesses that we can support with flexible working capital resources to help them recover, rebuild and grow"

Ann Finnegan,
President of National Development Council (NDC) Community Impact Loan Fund



Photo: Earl Cooper and a group of his employees.

"We hire and train formerly incarcerated people and pay them a living wage. We have really helped returning citizens change their lives."

Earl Cooper, Founder of ECA

Earl Cooper, owner and founder of Everyone Can Achieve (ECA), is using his SOAR loan to grow his business, with the goal of purchasing additional vehicles to transport employees to job sites. Earl employs 14 full-time and 41 part-time employees.



Photo: Cory Thomas

"The process was easy and straightforward. It provided needed capital so that I could stabilize and recover from the impacts of COVID. At the end of the day, the program helped me to retain employees."

Cory Thomas, Impact Insurance

NDC had been working with this independent insurance brokerage for two years prior to the pandemic. The SOAR loan will be used as working capital to pay rent, payroll and other expenses.

Key learnings

Innovate, advocate, and adjust

Driving this initiative with a growth mindset requires us to routinely reflect, listen, and learn. We embody this mindset with everything we do and have learned so much in just the last year and still have so much more to learn. We want to share these learnings and set of actions we have taken as we continue to work to drive change in the communities where we live and work.



1 Catalyzing capital

We strive to be catalytic, finding innovative investment strategies focusing on impact first, while always encouraging others to participate in the effort to drive needed change for the Black and African American community. In that spirit, we learned that being catalytic means we must be patient with our capital in our various investments. The reality is that it takes time for the partners we invest in and with to both close funds and then deploy the committed capital to drive the desired and needed impact. While this time delay exists, we have found that our early commitment and willingness to create funds like the Clear Vision Impact Fund, or the more recently announced, Mission-Driven Bank Fund, drive greater impact, as we create the vehicle to catalyze and enable others to invest alongside us.

2 Expanding access to capital sources

When Microsoft made its commitment to addressing racial injustice last year, we deeply understood that driving the change that the world demands requires real work, focus, and cannot be achieved in one year. We are committed to improving Black and African American access to capital and one area of focus in this effort is lending. Laws that exist today, which protect borrowers from discriminatory lending practices, limit our ability to concentrate Microsoft capital to increase lending within the Black and African American community exclusively. Our hope is that lawmakers reevaluate the existing barriers that limit access to capital in diverse communities. In the meantime, we have worked to find creative ways to concentrate dollars to Black and African American communities across the United States including our investment in the SOAR Fund, which takes a geographic approach in deploying capital to communities and partners with CDFIs who direct at least 60% of all their financial products to these underserved communities.

3 Strengthening mission-driven banks

Regarding our commitment to support mission-driven banks in partnership with the FDIC, it is important to note that we've been making deposits into these institutions for more than fifteen years and we have learned a lot. One of the things we have seen is a diminishing impact of deposits—which help but are not driving the impact we hoped for in the communities served by these institutions. Due to broad United States banking regulations, these banks cannot deploy capital from these deposits without sufficient equity capital to match, as these deposits are held on the balance sheet as liabilities. What is needed is both equity and flexible capital that can unlock potential. Historically, the opportunities for flexible capital, including equity capital, to these banks has been fairly limited. The number of mission-driven banks over the years has decreased, with the number of Black and African American MDIs reduced by more than half since 2001. Access to flexible capital is necessary to strengthen these banks' balance sheets for the long-term, helping them grow and expand, acquire better technology, and more effectively serve their communities.

Call to action



Sustained focus for greater impact

We know that we can do more when we work with others. In that effort, it is necessary for us to understand the challenges our partners face when deploying capital to targeted communities and help mitigate those challenges.

1 Create programs to match small businesses with needed capital

One of the challenges small businesses face is sourcing capital, even if it is already available through various programs today. **There is no single place to match small businesses with the capital solutions they need, and vice versa.** Additionally, we have heard from our partners at the SOAR Fund that **the level of service that mission-driven banks provide to small businesses includes time spent to understand their business needs** and often to provide guidance surrounding the processes of securing capital.

Across our ecosystem commitments, we found **there are areas where we can team up across our own organization to support partners and drive additional impact**. A natural overlap exists with the banking pillar's focus on improving access to capital for small businesses that need it and the supply chain pillar's focus on doubling the number Black and African American approved suppliers in our ecosystem while increasing our spending with those suppliers. We have been partnering to systemically change the connection between those who have capital and resources with those who need it by **providing visibility to capital source programs** to help drive success for our own diverse suppliers within the Microsoft ecosystem.

2 Raise the bar for diversity, equity, and inclusion standards

It is going to take everyone working together to achieve true racial equity, and Microsoft will continue to do its part at the highest standards. **We are calling on our peers and large financial institutions to be persistent in the commitments from last year and to continue to step up and be held accountable to high diversity, equity, and inclusion standards.**

In our effort to encourage others to continue making meaningful progress on these commitments, we are raising the bar for traditional mainstream banks, asset managers, and other partners, holding them to the same diversity and inclusion standards as racially diverse firms, eliminating double standards. Our hope is that this will encourage others to change corporate policies that do not include everyone. We look forward to continuing the work we have started, catalyzing our peers, leveraging our learnings and growth mindset to improve and bring more people along in this work.

What's next

Evolve and scale

As we mentioned in our initial commitments, and earlier in this update we are creating the Mission-Driven Bank Fund, in collaboration with the FDIC and Truist Financial Corporation (Truist) to support mission-driven banks.

This fund will be a source of flexible capital where mission-driven banks can make pitches for customized capital solutions, directly enabling these institutions to better serve their communities. In the last year, Microsoft has been working with the FDIC on the Mission-Driven Bank Fund as an anchor investor in partnership with Truist. We are looking forward to the launch of the fund in the coming months.

Our passion and work to address racial equity will extend far beyond our initial commitment.

As we look to the future:

1. We will remain committed to furthering and deepening our existing impact including expanding our transaction flow and investments with existing Black and African American partners while looking to add partners.

2. We will ensure the impactful deployment of existing capital commitments.

3. Then, we will leverage our key learnings from our existing investments to find more impactful opportunities to scale.



Supply Chain

"Minority businesses continue to drive disproportionate economic growth in the US.

In the five years from 2014-2018, MBEs created 14.2% of the new jobs in the US. However, MBEs continue to lag behind, failing to realize the equitable economic benefits of their contribution. This disparity costs all communities an estimated $8 trillion dollars in GDP. Change is imperative."

Michigan Minority Supplier Development Council: *Facilitating Growth for Minority-owned Businesses*

*MBE: Minority Business Enterprises

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Our approach

Broadening our supplier ecosystem

A culture of diversity and inclusion is a key priority at Microsoft anchored by values of respect, integrity, and accountability. These values extend to our supply chain, where we aspire to create a more inclusive and sustainable supplier ecosystem that mirrors the diversity of the communities we live and work in.

As part of the Racial Equity Initiative (REI), we aim to leverage our economic purchasing power and supplier relationships to impact meaningful and lasting change.

Our commitments:

1 Buying practices and policies

We will double the number of Black and African American-owned approved suppliers by June 2023 by spending an incremental $500 million with those existing and new suppliers.

2 RFP evaluation process

We will do this by ensuring our existing guidance to include diverse minority-owned suppliers in all Request For Proposals (RFPs) is well understood, evaluating supplier portfolio composition, and enhancing the weighting of diversity characteristics during the supplier evaluation and selection process.

3 Holistic approach to suppliers

We also encourage Black and African American representation and holistic progress to diversity and inclusion with our top 100 suppliers, which account for over 50% of our indirect spend, by requesting annual disclosure of their diversity profile information (e.g., workforce diversity, goals) that we will incorporate into our RFP evaluations.

These commitments are not short-term. Our approach is to be methodical, intentional, and collaborative across our teams and the community to reduce the systemic obstacles impacting Black and African American-owned businesses including lack of access to capital, business networks (social capital), advocacy, and support.

As we further elevate the importance of diversity and inclusion within our supply chain ecosystem, we are committed to **extend our reach** to expand diversity across our supply base, **influence the industry** by encouraging suppliers to embrace diversity and inclusion progress in their own organizations, and **prioritize intentional engagement** with diverse suppliers through long-term **strategic relationships**.

It is imperative that we follow through on our commitment to create opportunities that produce equitable outcomes for the sustainable growth of Black and African American-owned businesses. Together, with our supplier community, we will hold ourselves accountable to creating meaningful and impactful change to transform the economic state of Black and African American communities.



Progress

Innovate for greater impact

Essential economic growth in the Black and African American community requires corporations to embrace inclusive supply chain practices that level the playing field for diverse-owned companies. This will enable them to successfully compete for opportunities and build long-term relationships to help grow their businesses over time and create sustainable growth for generations to come.

Our Racial Equity commitments generated a new level of excitement, energy, and support that permeated throughout Microsoft, the supply base, and the community. Microsoft eagerly published enterprise-wide commitments, announced at the highest level in the company, pledging our role as a change agent for diversity & inclusion beyond Microsoft.

As we reflect on the first year of this journey, early results show strong progress toward achieving our Racial Equity commitments, but these results only reflect part of our story. We have invested in our organization to embed supplier diversity into every function across corporate procurement including supplier programs, policy & compliance, tools, and business engagement—leveraging expertise across the organization to ensure end to end support. This will allow us to truly lead an effective, sustainable, and inclusive supply chain program for all diverse suppliers into the future.

Buying practices and policies

With targets in place and commitments announced, we have realized the need for significant improvements and investments to be woven into the fabric of our procurement function to support a project of this magnitude. We have made several enhancements to our policies, sourcing processes, and tools. Specifically, we have digitally transformed our diversity certification validation process to accurately identify diverse-owned businesses for supplier diversity program benefits.

The lack of an adequate number of Black and African American-owned suppliers in multiple categories has required us to complete a wide-spread market assessment that has resulted in filling our supplier pipeline with more than 250 Black and African American-owned businesses.

>50%

of our Racial Equity Initiative $500 million incremental spend commitment reached

300%

increase in Black and African American-owned suppliers in our supply base

43%

Of the RFPs that Black and African American-owned suppliers were invited to participate in, they were awarded 43 percent



TROY CONSULTING

"Since the onset of the 2020 REI, we have seen a significant increase in communications, support, and advocacy for our business and Black Owned Suppliers, in general.

We have seen an increase in revenue generating opportunities, had access to a larger number of RFPs, engaged 1:1 with key advisors and mentors to widen organizational presence, and most importantly, have had the opportunity to discuss and plan for our future and the future of other Black Owned Suppliers onboarded to Microsoft.

The team has gone above and beyond to gather feedback, assess cross-supplier and individual supplier needs, generate referrals, and develop actionable plans to support and develop existing and new suppliers."

Angela Troy, CEO and Founder of Troy Consulting

Progress (continued)

Buying practices and policies (continued)

To enable a smooth supplier onboarding experience for these companies, we have provided a concierge service to assist with their individual needs.

Increasing the supplier pipeline with Black and African American-owned businesses has been an essential step to achieve progress toward commitments. Our success requires more than filling the supply base with new suppliers—we must also include them in the buying process, increase spend with them, and create room for them in our supplier strategies.

Socializing these suppliers with business teams and setting tangible goals with our senior leadership teams has helped deliver increases in spend with Black and African American-owned suppliers. Each individual business organization has set targets to hold themselves accountable to achieve our goals. In addition, we have enhanced our ongoing sourcing process based on an RFP pilot. In this pilot we have ensured at least one Black and African American-owned supplier has participated in every US-based sourcing activity and we have increased engagement with these suppliers throughout the process. We are evaluating opportunities to include additional pilot findings into our ongoing procurement processes.

To ensure new suppliers are ready for business and receive adequate resources and support to be successful at Microsoft, we have implemented a program called AMP'D (Advocates, Mentors, Peers for Diverse Suppliers). This program focuses on supplier mentorship, advocacy, development, and access to capital programs through our banking relationships. AMP'D is a solution that pairs Black and African American-owned suppliers with an advocate in the business, mentor and/or supplier peers to help suppliers easily connect and address the topics most important to their businesses.

AMP'D is designed to intentionally focus on growing professional networks, accelerate business growth, gain visibility across the enterprise, and understand how to navigate the Microsoft landscape. Everyone can play a role to ensure these suppliers are successful at Microsoft by participating in the AMP'D program, including suppliers who are interested in serving as peer mentors for these newly onboarded suppliers. Peer mentors have an opportunity to collaborate with Microsoft in the growth and development of these suppliers by serving as advisors, guides, and subject matter experts as they learn to navigate the Microsoft landscape.

To create opportunities for diverse-owned businesses through our supplier relationships, we have streamlined our subcontractor program with some of our top strategic suppliers, leveraging these business engagements to generate additional growth for diverse suppliers. These engagements are particularly important in the real estate & construction industry where subcontractor models are prevalent.

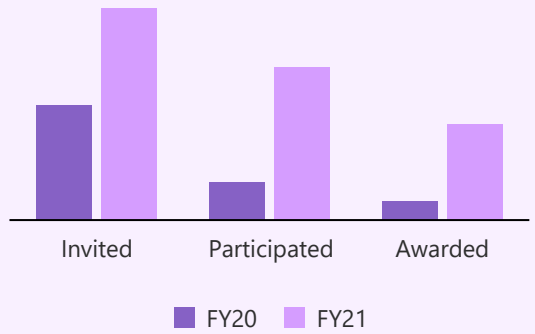
We have implemented a supplier diversity strategy for our corporate-wide contingent staffing program, called Contractor Services, to increase participation and spend with Black and African American-owned suppliers. Last year, we made significant enhancements to this program to help amplify Black and African American suppliers and increase business opportunities for them in the program. Since the launch of this activity, Black and African American supplier participation in this program increased by more than 200 percent.



RFP evaluation process

Since the start of July 2020, Microsoft has purchased more products and services from Black and African American-owned businesses than ever before. We have now achieved more than 50 percent of our REI commitment. The number of Black and African American-owned suppliers in our supply base has surged by more than 300 percent. In Microsoft's fiscal year 2021, Black and African American-owned suppliers were awarded 43 percent of the Corporate Procurement RFPs they were invited to participate in.

Black and African American-owned RFP Participated and Awarded



Holistic approach to suppliers

In recognizing the opportunity to engage with some of our top suppliers to influence diversity and inclusion beyond the walls of Microsoft, we have requested disclosure of their annual employee composition data through a workforce representation survey. Although the supplier's participation in the survey is voluntary, this past year more than 50 percent of our top suppliers chose to participate in the survey. Participation results—not the actual workforce composition data—are being incorporated into our corporate procurement RFP weighting process and suppliers are encouraged to track their representation progress over time to drive diversity and inclusion progress within their own organizations.

Our future with Microsoft looks bright



UNITY PROMOTIONS

"Unity Promotions is proud to have been selected to participate in the AMP'D mentoring program! The ability for a Black owned supplier to partner with a mentor inside Microsoft to build our business is next level."

Donald Fairconeture
Owner, Unity Promotions, LLC

Microsoft listens

When COVID-19 hit, like many companies, Unity Promotions was impacted and experienced challenges with a reduction in demand of promotional merchandise. This had a significant impact on our bottom line after 24 years of solid success. After sharing the impact to our business, Microsoft responded very quickly with our first project to provide an opportunity to prove our value and get great exposure within Microsoft.

Microsoft supports

As a diverse small business, when people hear we have been awarded a contract with Microsoft there seems to be a thought that business success is immediate. Having a contract does not mean the business revenue automatically flows. It takes a committed network of individuals willing to support, mentor, and act as a bridge to establish relationships to build the business. Our Microsoft mentors and employees we have worked with are that committed network.

Our contacts in Procurement understand the importance of creating opportunities to build networks and relationships which will encourage employees to give us a chance. We understand the importance of looking back to our rooted core value of leveraging the power of relationships as part of our next steps to increase business opportunities within Microsoft. We also understand the importance of fulfilling our commitment to excellence in quality and customer service.



Key learnings

Listen to understand

We have embarked on a year of learning, listening, change, and foundation building. Some of our lessons learned were recognized almost from the onset.

While we have had a Supplier Diversity program in place for many years, the Racial Equity Initiative has required us to quickly ramp-up in many areas. This has included increasing resources to expand our team, build new frameworks, and re-evaluate our current processes and policies. We have also placed heavy emphasis on seeking input, hearing our supplier's voices, and responding to their needs.

With our collective efforts, we have made material progress toward our commitments, but we know there is so much more to be done. We will invest where we have gained insights to advance our Racial Equity Initiative to the next level. This means having sustainable endeavors that make room for new suppliers in our businesses, adequately support their growth, create opportunities to learn from each other, and evolve from one-time engagement to multi-year cross-company relationships.

1 To increase the chances for sustainable growth for new Black and African American suppliers, **we must be intentional about matching suppliers to opportunities that are best suited for them to succeed**. The scale and scope of the work must be aligned to supplier capabilities. We have implemented assessment tools to gauge each supplier's readiness to support the scope of work. If a supplier is not ready, then we strive to provide individualized support to prepare them. We must also do more to help buyers shift their perceptions and mindset by taking a more holistic view of the supplier and their long-term ability to scale.

2 **We have moved away from a one size fits all approach** for diverse-owned businesses. We are now leaning in, listening, and responding to the supplier's individual needs. The AMP'D supplier program was designed with this in mind, offering suppliers the flexibility to choose and customize their path.

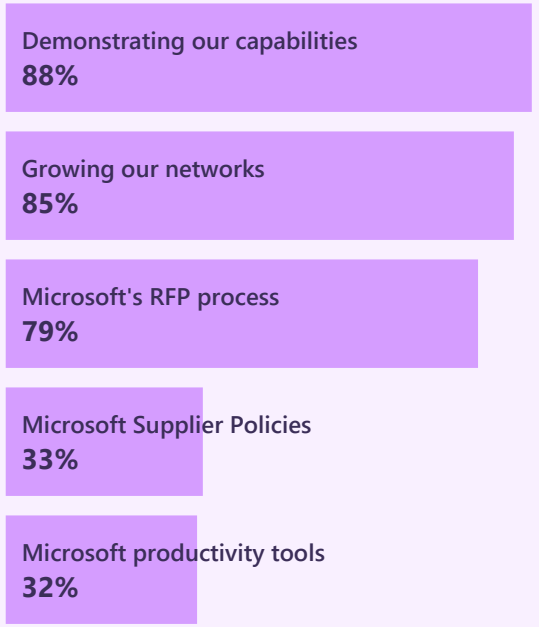
3 We have learned that **year-over-year growth in diversity spend is not the only indicator of progress.** In addition to accelerating overall diversity spend, we must have a program that cultivates a broader supplier portfolio comprised of both large and growing suppliers, and underrepresented diverse businesses with a broad range of capabilities across all our purchasing categories.

4 **Creating sustainable diversity and inclusion progress across our top suppliers requires us to look beyond workforce representation data.** To optimize for impact and sustainability we recognized the need to pause, reflect, and reset. We have evolved our approach of engaging top suppliers by introducing a broad-based DE&I evaluation model. This model encourages a holistic perspective, transparency, self-assessment, and governance of their DE&I progress. Our suppliers want to be part of this journey with us, and we will continue to support their efforts.

5 **We are continuously reminded that unconscious bias plays a role in the buying decision.** Sustainable progress will require buyers to employ a growth mindset and be open to working with new suppliers that provide diverse perspectives. We need to continue to raise our buyer's awareness of their unconscious bias and challenge their assumptions to create equity in the decision-making process.

Supplier top of mind

As we began our journey, we asked what was most important to Black and African American-owned suppliers. After conducting several listening tours, the chart below reflects the feedback we received and where we tailored our focus:



The feedback generated from these listening sessions have driven changes to our program to further align with our diverse suppliers' needs.

Call to action

Comprehensive approach to suppliers

Since June 2020, we have been on an incredible learning journey. Through our work with Black and African American-owned suppliers, we better understand the barriers they encounter to prevent them from gaining traction and growing their business.

Like Microsoft, many firms have made commitments to address racial equity. We feel the actions below are critical to driving economic impact through an inclusive supply chain program:

1. **Be intentional** about bringing Black and African-owned suppliers into your ecosystems—develop a plan and execute on that plan
2. **Exercise a growth mindset** by changing behaviors, broadening thinking, and being aware of unconscious bias
3. **Maintain effective tools and reporting** that allow for ease of identifying diverse suppliers and purchasing opportunities
4. **Gain top-down enterprise level support**, engage buyers early in the process to identify diverse suppliers and gain alignment and support
5. **Listen to diverse suppliers** to gain clarity on what is most important to them and then execute on delivering those needs



What's next

Accelerate impact

We have several supply chain activities planned to continue momentum towards our commitments. Our hope is to ensure a positive, individualized experience for each supplier while creating growth opportunities for suppliers at Microsoft and beyond. Here are a few examples to highlight what's ahead:

1 AMP'D (Advocates, Mentors, Peers for Diverse Suppliers)

We have been encouraged by the level of enthusiasm and support for driving lasting change in our ecosystem. AMP'D is kicking off a series of training and development workshops throughout the year to support Black and African American-owned suppliers gain traction at Microsoft and prepare them for success. Since inception, we have received highly positive feedback on the supplier experience.

2 Advisory Council for Diverse Suppliers

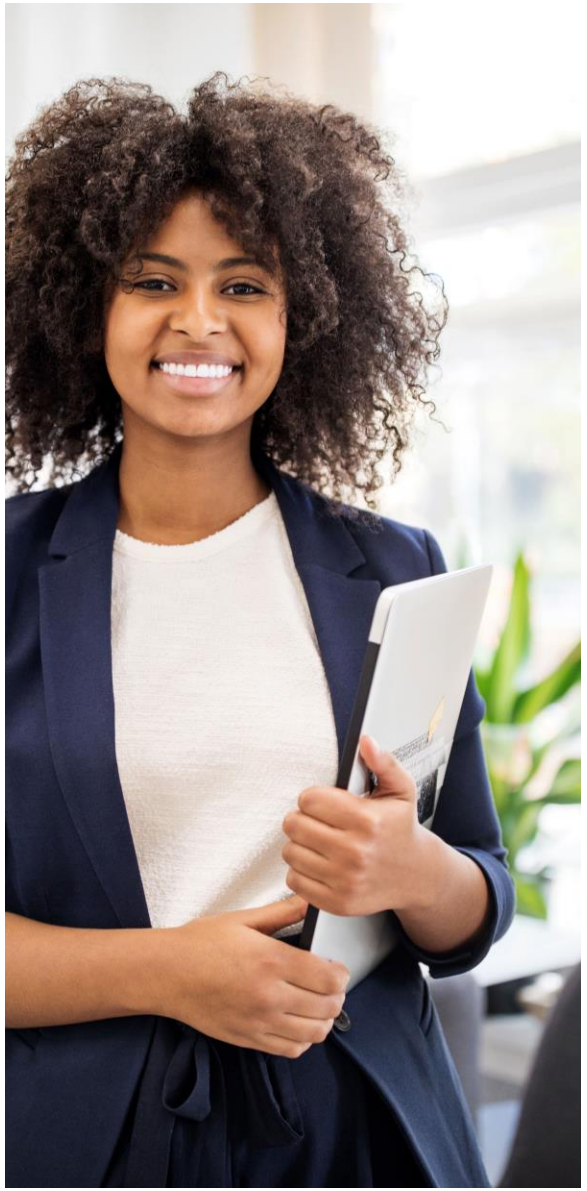
We are establishing an advisory council to provide diverse suppliers a forum to gather feedback and perspectives from their peers and offer Microsoft insight to deliver a better overall supplier experience. The advisory council will allow diverse suppliers to have a direct impact on their own success and the success of their colleagues.

3 Reduce barriers to entry for Black and African American-owned suppliers

Many small Black and African American-owned businesses may lack adequate access to capital. As previously mentioned, we are partnering across our Microsoft banking function to ensure Black and African American-owned suppliers have visibility to 'access to capital' programs with our banking partners as part of our REI commitment.

4 Market Assessment Activities

There is an ongoing need to bring in additional Black and African American-owned suppliers into our ecosystem. We are conducting a series of market assessments throughout the year to continue our quest to increase the number of Black and African American-owned businesses in the supplier pipeline. We are developing purchasing strategies to increase our pipeline with a broad portfolio of suppliers across every line of business.



US Partners

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"At the very time that broad economic productivity is critical to strengthening the economic foundation of the nation, the **growth potential** of minority-owned businesses **is being severely hampered**.

Across the nation, minority-owned businesses face the obstacles of access to capital, access to markets and access to social networks, all of which are essential for any business to increase in size and scale."

Minority Business Development Agency: *Disparities in Capital Access between Minority and Non-Minority Businesses*

Our approach

Empowering the Black and African American community through partners

Microsoft's responsibility and commitment to address racial equity focuses on sustained, multi-year efforts, with an intentional choice to first prioritize support for the Black and African American community.

Microsoft launched the **Black Partner Growth Initiative (BPGI)** as an umbrella portfolio of programs and projects to reach, recruit, support, and learn from Black and African American–owned businesses who become partners in the Microsoft ecosystem. The Initiative provides resources to drive partner growth, access to several capital programs to provide liquidity, as well as training that enhances financial management, technology solutions, and go-to-market readiness.

As the world has become more interconnected, it's become clear that including minorities, women, and other underrepresented communities represents untapped economic potential. In the United States, revenue parity between Black and African American-owned and white-owned businesses would add an estimated $290 billion to the economy, as reported by McKinsey. More importantly, increasing representation increases the diversity of thought within the ecosystem, leading to greater collaboration and innovation. In these unprecedented times, the world direly needs more innovation. We must include Black and African American partners in the technology-powered recovery effort to ensure that solutions are inclusive and economic impact reaches the hardest-hit communities.

By achieving a more inclusive economy—built on the ideals of participation, equity, growth, and stability—the entire Microsoft partner ecosystem is enriched and strengthened through unique solutions, diverse thought leadership, and innovation.

The Black Partner Growth Initiative helps move the needle for economic inclusion powered by technology-driven transformation through Black and African American technology providers.

Through direct engagement with the Black and African American partner community, we endeavor to catalyze business success by increasing capacity for partner business growth, and ability to produce opportunities for others in their communities.

Our commitments:

1 Increase representation

Increase Black and African American partner representation

2 Access to capital

Leverage a $50 million working general capital fund and establish a $20 million financing program.

3 Training programs

Invest $3 million in targeted training programs.



cFocus Software Incorporated
Custom-solutions Focused. Customer Focused.

"Through BPGI, we feel like we've laid the groundwork for explosive growth with Microsoft. We were introduced to one of the top 5 Microsoft Azure partners in the world and subsequently teamed with them on a $100M federal government contract opportunity to provide Azure services."

Jasson Walker, President, cFocus

Microsoft's Commitment to Addressing Racial Injustice

McKinsey: Building supportive ecosystems for Black-owned US businesses

Rockefeller Foundation: *Inclusive Economies Indicator Report*

Our approach (continued)

The Black Partner Growth Initiative

The Black Partner Growth Initiative provides businesses who become Microsoft partners access to information, resources, capital, community, and resources to fuel business growth

By investing in Black and African American partners, we aim to provide clear and specific pathways to achieve business growth. Through diversity, inclusion, and representation we strengthen the Microsoft partner ecosystem and fuel community growth.

Igniting change within our ecosystem requires a collective effort across communities to unlock market opportunities, deliver tech acceleration, and business enablement to Black and African American-owned partner organizations.

The Black Partner Growth Initiative showcases this collective effort. Through this portfolio of programs, partners receive access to resources, capital, and the larger global partner community. We have invested an additional $3M in training programs covering financial management, tech solutions, and go-to-market readiness for all areas. The majority of funds have been used for training and support for the program. We have learned that access to training is paramount for the success of partners and we will continue to maintain this access as a key part of our program.

Microsoft CEO Satya Nadella's Plan to Unlock 'Trillions of Dollars' In Partner Opportunity



Our approach (continued)

Black Partner Growth Initiative Programs

Business incubator

The entry point of the Black Partner Growth Initiative is the flagship business incubator, which aims to build relationships with new and existing partners and ensure that they are equipped with the education and training they need to deliver solutions and services at scale. We leverage proven partner development methodologies to onboard partners to Microsoft programs and provide access to financial and technical education as well as capital. We unlock access to key resources and offers within the Microsoft Partner Network and the broader Microsoft ecosystem.

Dedicated cohort and special programs

Business incubator participants who demonstrate a growth trajectory can apply for focused 1:1 support through our dedicated cohort and special programs, including the Accelerator and Hybrid Managed programs, which provide additional layers of business consultation, mentorship, financial training, solution-building support, and go-to-market readiness.

- **Solution Area Workshop Series (BizApps Cohort)** – Quarterly information series, currently focusing on Business Applications, helping partners understand how to leverage the Microsoft Business Applications platforms to drive business growth and expand customer footprint.
- **Mentorship** - Connects Microsoft full-time employees and experienced partners to BPGI partners to coach on build-with and sell-with execution motions for growth.
- **Accelerator Program** – Quarterly program providing a deeper 1:1 engagement opportunity to Initiative enrollees, focusing on revenue growth through roadmap development and sales play execution.
- **Hybrid Managed** – Available to select partners, this program aims to facilitate and support partners who are ready to scale.

Capital programs

We know lack of access to capital and financing is a barrier to business success. We are investing in our partners by providing low- or no-interest loans to support their startup/growth phase and utilizing financing to support cash flow needs. Using our balance sheet for capital and cash flow support, we have created two financial incentive programs and are taking a learning approach as we invest in these programs. Microsoft has made an intentional decision to prioritize investments in relationships over grants. While financial support is needed and a part of our strategy, we have found that achieving a sustainable upward trajectory of diversity and inclusion results depends on establishing a deep, long-term relationship with the communities we seek to empower.

- **Partner Capital Fund** – A $50 million partner fund developed in partnership with financial institutions to provide working capital to support tech small business growth and collaboration from startup through growth phases. This fund is open to all partners. Eligible partners can self-nominate to receive low- or no-interest loan funding up to $500 thousand.
- **Financing Program** – A $20 million financing program that provides liquidity and supports business cashflow needs for Black and African American-owned partners.



GRYPHON CONSULTING

"Our participation in the BPGI pilot program has benefited Gryphon Consulting immensely. For one, our revenues are up 50% over this time last year. We've utilized go-to-market resources available through the initiative to redesign and launch a more effective website.

We're projecting to grow our business by over 100% based over the next three years on the new workloads that we are adding to the company. And I don't see it stopping there.

Frank Valdivieso,
President & CEO, Gryphon Consulting

Our approach (continued)

Partner-led community collaboration

In addition to our programs, we are investing in areas where Black and African American partners are creating impact for the business community. The Black Channel Partner Alliance (BCPA) is an economic empowerment initiative founded by and for Black and African American partners. The initial ambition is to enable partners within the BCPA community to create $100 million in economic impact, creating 800 new tech jobs and 1,000 digital transformation successes. Together we are investing in the development of the community to deepen partner-to-partner relationships, expand business opportunities, increase mentorship/coaching, and fuel growth.

- **Black Channel Partner Alliance** – Microsoft-sponsored, partner-led community dedicated to growing and developing opportunities for Black and African American technologists within the Microsoft Partner Network (MPN).
- **Other organizational and partner-led community collaboration** – Providing pipelines to partner-led communities through office hours, the Black Channel Partner Alliance, the International Association of Microsoft Channel Partners, and through additional external collaboration.

Strategic Alignment

Our work with the Black and African American community, providing access to capital, and engaging our ecosystem to extend the vision for societal change creates new opportunities for partners and the communities they serve.

We're evolving our efforts to create a pipeline of opportunity for partners by creating space for partners to scale their businesses and access the talent pool of newly upskilled workers from Microsoft skilling initiatives.

Proposed Outcome

Inclusive economic impact drives long-term ecosystem change. These strategic programs serve as a base framework that can scale to empower minority partner communities across the globe.

Within the next two fiscal years, we will help over 1,000 partners accelerate growth through:

1. Skills and business development
2. Access to information and resources to build, sell, and grow
3. Go-to-market strategy support



real impact
TECHNOLOGY CONSULTING

"Access to gold-level go-to-market benefits including a comprehensive assessment and review of our market approach has allowed us to take our go-to-market strategy to the next level. We've also created a focused growth strategy with the guidance of our PDM and Technical Strategist through the Hybrid Managed Program."

Nyasha Tunduwani, President & CEO, Real Impact Technology Consulting

Capital programs impact

Partners sharing the impact of the Racial Equity Initiative on their businesses.



"Microsoft's capital funding is helping us scale our product to underserved school districts that would otherwise need to wait years to benefit from technology that is already here. Getting our solution to schools faster means closing the digital divide faster—this fund is helping us do that."

Dr. Tony Scallion, REDHOUSE Virtual Education

REDHOUSE VIRTUAL EDUCATION



"The product expertise, software benefits, and access to capital afforded to us through our Microsoft Partnership have been instrumental in our development as Microsoft partners. We've been able to quickly acquire knowledge from Microsoft product managers and attain and use funding to make key hires of Microsoft experts to accelerate the growth of our Microsoft product line."

William Ford, K Systems

Systems Solutions

"As a recipient of Microsoft's working capital loans, we've been able to leverage those funds to attract and acquire passionate, world-class experts to add to our team and support or partners. We have increased investments in technology (from Microsoft and Microsoft Partners), which support running and growing the company. Ultimately, we're able to offer a deeper level of support, reach more partners, and make a greater impact in our partner community…and that means everything.

Danny Brown, AppMeetup



AppMeetup

"The support from Microsoft…enabled me to more quickly adopt this posture with Tiemac and to have done so with an increased probability of success and as a result we are doubling down on an ancillary side of Tiemac's business. Through its program, Microsoft is providing support to startups throughout the different phases of the startups life cycle, from providing funding, to providing enabling technology to bringing the product and solutions to market and providing sales and marketing resources when in market."

Michael Treasure, TIEMAC Technologies, Inc



Progress

An intentional approach

The inclusion of Black and African American businesses is a central part of economic recovery. This work requires intentional engagement from Black and African American business leaders within our internal and external efforts to ensure unity in our collective response.

Increasing representation

Following the announcement by Microsoft CEO Satya Nadella in June 2020, we engaged the existing community of Black and African American partners, and the internal Blacks at Microsoft (BAM) employee resource group, to help us identify pressing needs to create lasting and equitable change within our ecosystem.

The BPGI pilot officially launched in October 2020 as a business incubator tasked with supporting new and existing Black and African American-owned partners, with an initial goal of growing Black and African American partner representation in the Microsoft Partner Network. Recognizing the importance of activating community, we partnered with Black and African American business and technology communities to build shared goals and recruit new partners into the BPGI. We engaged community through sponsored events with respected, well established community events such as **BLACK ENTERPRISE Entrepreneurs Summit** and **Black Women Talk Tech's Face of a Founder Summit**. Engagement with the community has created positive momentum and consistent growth in new partner recruitment.

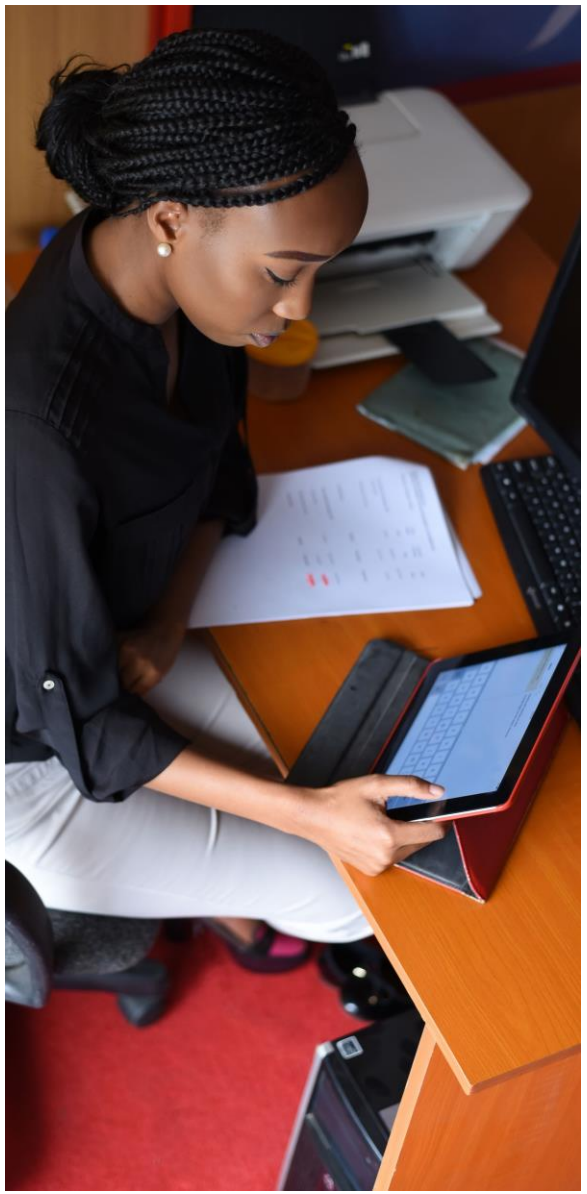
We continue to focus on increasing representation through community engagement, ensuring that we are continually listening to the needs of Black and African American businesses and partners in the community.

150%

increase in number of identified partners

9

community engagement events sponsored



Progress (continued)



"This business growth has enabled us to invest more in projects that benefit our community in Atlanta. We launched our own training division, Safe PC EdTech, to provide IT training and certifications to women and minorities disproportionally impacted by the pandemic. We've also launched our Non-Profit Webinar Series, which will kick off in October 2021."

Madinah Ali, President and CEO, Safe PC Cloud

Access to capital

Our work has required us to adjust our approach, commit to learning, and test various models for providing access to capital. The Equal Credit Opportunity Act (ECOA)—originally designed to prevent discrimination in lending—has limited our ability to focus capital access improvements directly to historically marginalized communities. Given this learning, we set out to develop an ECOA-compliant framework that provides the needed capital access and the ability to scale for maximum impact. As part of this period, we **established partnerships with banks**, including Minority-Owned Depository Institutions (MDIs), to provide low or no-interest loans. To date, we are actively investing in partners as part of the ongoing capital fund. This fund enables partners by providing access to working capital to support their business growth.

We continue to learn, shift, and expand our financial support to partners based on what makes the most significant impact on their business success. We are first ensuring impactful deployment of existing capital commitments and then leveraging our key learnings from our existing investments to find more impactful opportunities to scale. The time spent developing the framework has allowed us to build a more sustainable channel and we expect to meet our multi-year commitment.

Training programs

Our initiatives put Black and African American partners at the forefront of sustaining digital technology within their communities. Partners are already helping non-profits and other small businesses elevate their technical capabilities to ensure communities are prepared to participate and benefit from the rich economic opportunities available in the digital economy. We are enabling partners and highlighting their solutions and services so they can continue to provide innovation to the world.

The **Black Partner Growth Initiative** continues to evolve as ongoing learning, and partner feedback shapes our strategic path toward equipping Black and African American partners to thrive.

Key learnings

Focused engagement

Our investments to support Black and African American partner growth have created foundational learnings and structures that we hope will benefit the broader community of minority business owners and Small and Medium Businesses (SMBs) as well.

We understand that one year of investments and focus will not solve problems that have manifested over centuries. We are committed to sustaining our efforts in the long term to maximize impact to Black and African American partners.

Our learnings will continue to guide the expansion of Microsoft investments and initiatives and provide meaningful, evidence-based resources to help enable an inclusive partner ecosystem. This journey towards ecosystem inclusion requires listening, learning, and collaboration. We are committed to this learning journey and anticipate iterative strides as we progress toward an inclusive economy.

Through feedback from Black and African American partners, we have become more attuned to the challenges and successes of the community, fundamentally influencing our approach to scaling the program to benefit other minority communities, mobilize our ecosystem, tech industry peers, and the world.

From this, we have concluded that:

1. We must provide **partnership and education** to support growth.

2. **Access to capital** is vital and needs to be straightforward and directive towards the specific communities we wish to serve.

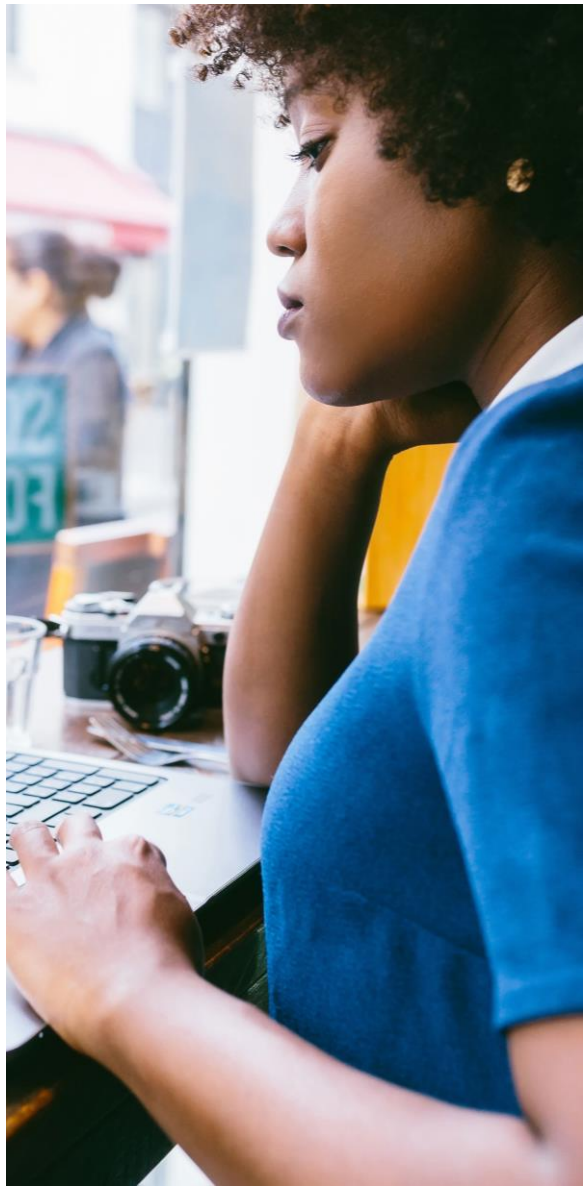
3. **Engagement with the community** is critical to ensuring that partners have the information to understand the market value of offers and know how to utilize Microsoft Partner Network resources to build, grow, and scale their business.

4. Partners require **tailored engagement** to equip them with the training, information, resources, and access to the broader partner community. In fiscal year 2022, we will continue amplification, community outreach and proactive onboarding. We know if diverse partners succeed, then our partner ecosystem thrives as well.

5. We have found a notable onboarding and readiness gap among partners and their levels of engagement with Microsoft. To address this, we will drive a focused education strategy, intensive onboarding through assessment, and gathering partner feedback to help close that gap. We know that **partners who have genuinely engaged with Microsoft drive the ecosystem**. The growth potential within this community demands our investment in partner acceleration.

6. For actual change to occur, **Black and African American partners must be incorporated into all aspects of the partner experience**, with our teams ready to provide support.

7. There are challenges associated with providing targeted investments to the Black and African American community stemming from regulatory oversight around processes and compliance. To make more significant progress, we must work with the public and private sectors to **remedy the limitations created by current lending laws**.



Call to action

Creating sustainable progress

Fundamental systems-level change and a future of economic inclusion requires focused commitment, openness to new perspectives, and access creation. From Microsoft, partners, peers in the tech industry and beyond, we must all commit to systemic and widespread change within our business and partner ecosystems, continue efforts to diversify our workforce and suppliers, and provide access to capital for underrepresented companies.



We continue to lend Microsoft's voice and industry leadership with representatives, regulators, and lawmakers who have the power to enact more sweeping systemic changes.

Existing laws, such as the Equal Credit Opportunity Act have candidly limited our ability to focus capital to Black and African American communities. We encourage changes in policy and clear regulatory guidance to create a straightforward path and greater equity in accessing capital.

In summary, we call on our industry peers to join us in collective action to:

1. Re-think our approach to working with partners and engaging with minority SMBs—continue to scale programs by expanding pilots and partnering for long-term growth.
2. Celebrate and promote diversity & inclusion within our partner ecosystem so that more inclusive solutions and services expand the market, increase customer value, and accelerate innovation.
3. Develop digital infrastructures that support inclusion and representation through self-disclosure or external validation tools, enabling the identification, targeting, and showcasing of minority-owned partners and impact-focused growth solutions.
4. Incorporate identification and support of minority-owned businesses and suppliers in everyday operations to ensure these businesses have clear pathways to opportunities.
5. Discuss how to expand access to capital to create meaningful impact beyond one-time motions and grants.
6. Support systematic change to lending laws to enable directed investments to historically marginalized communities.

What's next

Systems change is a collaborative mission.

We cannot create change alone. Supporting Black and African American partners through economic growth, inclusion, and systems-level change is our shared opportunity.

The path to economic inclusion and fortifying our communities through technology takes steady focus and shared ambition.

All partners can support organizations that cultivate tech leaders among underrepresented communities, share knowledge about business opportunities to strengthen the ecosystem, and leverage connections and relationships to create access to opportunities for Black and African American-owned firms. There is shared opportunity to collectively drive deeper partner-to-partner engagement, knowledge sharing, and investment in a more diverse workforce from the classroom to the boardroom.

Our efforts are grounded in our core principle of empowerment—for every person and organization on the planet—along with integrating the power of data, technology, and partnership.

Together we can enable economic resilience that unlocks potential, strengthens businesses, and transforms communities for today's opportunities and the benefit of generations to come.

Increasing representation within Microsoft's partner ecosystem enables inclusive economic growth within the communities where these partners live and build business. Successful partners create local higher-skilled jobs, provide technology access for business, schools, community, and accelerates community transformation which propels community investment.

Next steps:

1. We will continue to expand internal and external community engagement and pilot onboarding and amplification programs that support Black and African American partners.
2. We will seek to grow long-term relationships with Black and African American partners and SMB partners.
3. We will continue to ensure that Black and African American partners are incorporated into all aspects of the partner experience, with account teams and field teams across the organizational ecosystem ready to support these partners.
4. We will develop strategic scale partnerships to extend the reach through business development programs and customer growth opportunities.
5. We will continue to amplify Black and African American partners and share insights on other initiatives supporting SMBs for best practices and key learning.
6. We will continue to build trust in funding institutions with Black and African American-owned businesses and create paths to access to capital.
7. We will work with national and state level programs to strategize on supporting Black and African American-owned businesses on a corporate and enterprise level to develop partners for the new wave of economic growth.



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Our commitments

Five-year Racial Equity Initiative

In June 2020, Microsoft CEO Satya Nadella set forth Microsoft's five-year Racial Equity Initiative, highlighting the company's commitment to take action to help address racial injustice and inequity.

An email from CEO Satya Nadella to Microsoft employees

With significant input from employees and leaders who are members of the Black and African American community, Microsoft developed a set of actions they believe are both meaningful to improving the lived experience at Microsoft as well as driving change in the communities in which we live and work. The company charter guides the focus on three multiyear, sustained efforts:

1 Increasing our representation and culture of inclusion

We will build on our diversity and inclusion (D&I) momentum from the past five years by adding an additional $150 million of D&I investment and will double the number of Black and African American people managers, senior individual contributors, and senior leaders in the United States by 2025.

2 Engaging our ecosystem

We will use our balance sheet and engagement with suppliers and partners to extend the vision for societal change throughout our ecosystem, creating new opportunities for them and the communities they serve.

3 Strengthening our communities

We will use the power of data, technology, and partnership to help improve the lives of Black and African American citizens across our country, including to address the safety and well-being of our own employees in the communities in which they live.

The following are key details on how we will accomplish this.

Our culture

We need to ensure that our culture of inclusion is a top priority for everyone. It starts with our values of respect, integrity, and accountability. Each of us must be able to thrive in diverse teams. Every manager must be able to attract, retain, and grow employees of all backgrounds. This is certainly true at Microsoft and more broadly. It is the new baseline for manager excellence across industries across the globe.

We will meet this new goal in three ways:

We will accelerate our cultural transformation through further investment in inclusion. Managers who have a deep understanding and commitment to building inclusive culture are key to our company's success. Starting in FY21, our training on allyship, covering, and privilege in the workplace will be required for all employees, with additional new content on understanding the experience of the Black and African American community. Because leadership sets the tone, we will have required live sessions for CVPs and EVPs to ensure they better understand the lived experience of these specific communities.

We will strengthen our intentional career planning and talent development efforts. This will apply across our workforce, beginning with Black and African American employees. These programs will expand to include other employee groups as we learn and grow. We will expand on our leadership development programs for select Black and African American midlevel employees and their managers to help prepare for promotion to Director/ Principal. For Director/Principal level, we will create a new development opportunity to expose them to the leadership expectations of the Partner/GM level and match them with senior-level sponsors and mentors. For Partner/GMs, we are continuing to invest in the dedicated leadership development programs.

We will further strengthen company accountability for progress on representation. We will deepen our practice of evaluating each CVP/GM's progress on diversity and inclusion when determining their impact and rewards, as well as promotion considerations. We will provide CVPs with dedicated D&I coaches to confront and resolve systemic obstacles within their organizations. We will expand our global, quarterly promotion process to ensure we build diverse leadership teams at all levels. This will include direct engagement with business leaders on review of all candidates for people management, Director/Principal level, and Partner/GM level.

As we take on these three new areas with a sense of urgency, we also know we need to further and fully execute many of the steps we have already started as part of our ongoing cultural transformation—from building the pipeline, to diverse and inclusive hiring, to developing and retaining talent, to holding ourselves accountable, to investing in new locations such as Atlanta, GA and Reston, VA. You can learn more about what we have been doing so far in our publicly shared Microsoft Diversity & Inclusion Report and data disclosure, which we will update annually.

Microsoft Diversity & Inclusion report

Our ecosystem

A vast business ecosystem surrounds Microsoft, from our supply chain to our partner community. We recognize that a stronger and more productive ecosystem requires better representation of the diversity in our communities. We will evolve our engagement with our supply chain, banking partners, and the broad Microsoft partner ecosystem in this effort.

Our commitments (continued)

We will double the number of Black and African American-owned approved suppliers over the next three years and spend an incremental $500 million with those existing and new suppliers. We'll do this by ensuring our existing guidance to include diverse minority-owned suppliers in all RFPs is well understood, evaluate supplier portfolio composition, and enhance the weighting of diversity characteristics (both in ownership and in broad workforce) during the supplier evaluation and selection process. We will also encourage Black and African American representation progress in our top 100 suppliers, which account for over 50 percent of our indirect spend, by requesting annual disclosure of their diversity profile information (e.g., workforce diversity, goals) that we will incorporate into our RFP evaluations.

We will use our own banking needs to grow our portfolio investment activity with Black and African American-owned financial institutions. Over the next three years, we will double the percentage of our transaction volumes through these Black and African American-owned banks and external managers where we have existing strong banking relationships and look to grow that base, which provides an increased opportunity for these firms to attract more capital. We will create a $100 million program that will make its initial investment in collaboration with the FDIC to target Minority Owned Depository Institutions (MDIs), which directly enables an increase of funds into local communities (businesses, restaurants, housing, etc.). And we will establish a $50 million investment fund focused on supporting Black and African American-owned small businesses. The fund will initially focus on investing to improve access to capital, increase skill development, and reduce the technology gaps that exist today.

We know how important partners are to the growth of our business. We look forward to investing to increase the number of Black and African American-owned partners in our US partner community by 20 percent over the next three years. A new $50 million partner fund will help with access to capital providing loans to support these partners through their startup phase with the loans recovered over time as their business grows. We will provide $20 million of financing to existing and new partners to support their cash flow needs. And we will invest an additional $3 million in training programs covering financial management, tech solutions, and go-to-market readiness.

Our communities

No company can change the world by itself. But we believe that Microsoft can put the power of data, technology, and partnership to work to help improve the lives of Black and African American citizens across our country. That's what we're committed to doing, through a four-part effort to strengthen communities.

We will strengthen and expand our existing justice reform initiative with a five-year, $50 million sustained effort. Since starting this work in 2017, we've come to appreciate the importance of this issue not only to the nation but to the personal lives of our employees and their families. No one should have to live with the fear of being stopped by the police, harassed while shopping, or bullied in school because of the color of their skin. This conviction has led us to do increasing work advocating both in the Puget Sound and nationally, including in the communities where our employees live.

We will build on this foundation by using data and digital technology toward increased transparency and accountability in our justice system. All this work will be backed by public policy advocacy that will increase access to data to identify racial disparities and improve policing. We'll also use our technology and expertise to support evidenced-based and unbiased diversion programs that direct people into treatment alternatives instead of incarceration. We'll also use data to promote racial equity in the decisions made by prosecutors, including decisions about who to charge with a crime, the nature of the charge, plea offers, and sentencing recommendations.

We will expand our skills work to help Black and African American students and adults develop the skills needed to succeed in the digital economy. Over the next five years, we will expand in 13 states and the District of Columbia the Microsoft TEALS industry volunteer program to bring computer science education to an additional 620 high schools primarily serving Black and African American students. We will also strengthen Microsoft's support for Historically Black Colleges and Universities, including in computer and data science programs, campus initiatives and partnerships, and curriculum development. Finally, we'll offer digital skills training to Black and African American adults seeking new jobs. As part of a global skilling initiative, we will provide $5 million in cash grants to community-based nonprofit organizations led by and serving communities of color, enabling them to better support digital skills programs.

We will help expand access to broadband and devices for communities of color and the key institutions that support them in major urban centers by working with carriers, OEMs, our own hardware team, refurbishers, and nonprofits to enrich low-cost broadband access by providing affordable PCs and Microsoft software. We'll work to ensure these services can be put to effective use to improve people's lives, with a focus on telehealth services and educational offerings. Backed by public advocacy, we'll start by focusing on eight cities that currently confront the largest urban broadband gaps.

Finally, we will increase technology support for nonprofits that support and are led by people of color. We will help support the digital transformation that we know from experience can make nonprofits more effective. We'll provide access to Azure and Dynamics credits and financial grants that will enable these organizations to add the IT staff needed to better deploy and maximize technology. We look forward to tapping into the knowledge and expertise of our own employees as we identify effective groups we can support more strongly.

Change begins by looking inward. We expect this change in ourselves. Employees expect this change from their leaders. Our customers and partners expect this change from Microsoft. And the world demands this change.

This is not a one-time event. It will require real work and focus. We will listen and learn. We will take feedback and we will adjust. But it starts with each of us making a commitment to do the work, to help drive change, and to act with intention.

Microsoft's Strengthening our communities progress report

Microsoft

We're ready to work with you

Learn more about our commitment to address racial injustice and inequities for Black and African American communities in the US.

aka.ms/racial-equity-initiative