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Inclusive Entrepreneurship Is Key to Unlocking Equal Opportunity

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THIS PAPER IS A COLLABORATION BETWEEN THE PROGRESSIVE POLICY INSTITUTE (PPI) AND PROSPERITY NOW

The Progressive Policy Institute, in partnership with the Kauffman Foundation, has launched the Metro Federalism Caucus to advocate for a more direct and empowering relationship between national and local government leaders

The Caucus consists of former local officials who now serve in Congress, as well as accomplished mayors and former mayors from around the country, whose governing experience and insights can help U.S. policymakers reimagine the division of labor among national, state, and local governments. Its mission is to open a direct channel of communication that does not run through state governments, aimed at forging a stronger partnership between Washington and metro leaders.

Organized and supported by the Progressive Policy Institute (PPI), the Caucus will champion a new approach to federalism that channels resources and decision making directly to metro leaders. PPI calls this decentralizing dynamic "Metro Federalism."

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Rachel A. Askew and Grant M. Twyman are NEXT Consulting Firm Managing Partners.

The Progressive Policy Institute is a catalyst for policy innovation and political reform based in Washington, D.C. Its mission is to create radically pragmatic ideas for moving America beyond ideological and partisan deadlock.

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PPI AND PROSPERITY NOW COLLABORATION

FEBRUARY 2023

INTRODUCTION

America's entrepreneurial ethos is widely touted as a cornerstone of our culture and one of the ways to achieve the "American Dream." It is true that small businesses play a critical role in the economy, as they account for 99% of American employers.[1] Business ownership can also be a source of wealth creation for many, with self-employed individuals being wealthier, on average, than those who work for an employer.[2]

However, the path towards becoming an entrepreneur and growing a successful business is fraught with obstacles for large segments of the population. Entrepreneurs of color, particularly Black and Latine, face many barriers that result in them having smaller, less profitable businesses when compared to those owned by White entrepreneurs.

In recent years, the COVID-19 pandemic put a strain on many small businesses. It forced many of them to close in the early months of the crisis. It has also contributed to lingering societal and economic forces, such as inflation and the pivot to doing business online, that have changed the way small businesses operate. Black- and Latine-owned businesses were particularly hard-hit. As government leaders focus on lessons learned from the pandemic, rising prices, and ways to strengthen U.S. economic resilience, they should seize the opportunity to invest in small business development that works to level the playing field for entrepreneurs of color.

This report will describe the pandemic's effects on businesses of color and the broader, structural inequities that have limited these businesses' growth long before the pandemic began. It will also explore how organizations in three cities across the country have used pandemic relief funds from the federal government to support entrepreneurs of color in their communities. Finally, the report will offer recommendations for how federal and local policymakers, as well as other entities in the small business ecosystem, can best target assistance and resources to business owners of color.

THE COVID-19 PANDEMIC WEAKENED BUSINESSES OF COLOR

The COVID-19 pandemic that hit the United States in early 2020 impacted many facets of our economy, but the small business sector was — and remains — particularly hard-hit.[3] Entrepreneurs of color, especially Black and Latine, have long experienced disparities relative to their White counterparts, and the pandemic only served to deepen them.

From February to April 2020, 41% of Black-owned and 32% of Latine-owned businesses closed, compared to 22% of small businesses overall.[4] In addition, the Paycheck Protection Program (PPP),[5] a forgivable loan program launched by the federal government that was meant to help small businesses cover their payroll costs and certain other expenses during the pandemic, was inequitable. Since financial institutions were charged with approving PPP loans, larger businesses with existing bank relationships were quickly able to secure funds, while smaller businesses were much less likely to receive assistance. Entrepreneurs of color, who exhibited the greatest need but who traditionally lack banking relationships, were less likely to receive PPP funds early in the pandemic. According to the 2020 Small Business Credit Survey, 79% of White-owned firms received all of the PPP funding they sought, compared to just 43% of Black-owned firms and 61% of Hispanic-owned firms.[6] Finally, businesses owned by people of color have experienced greater reductions to revenue and staffing as a result of the pandemic.[7]

Even as the emergency phase of the pandemic wanes, certain lifestyle and societal changes that COVID-19 brought about still persist and affect entrepreneurs' livelihoods. The continuing prevalence of remote work represents a challenge for small businesses in urban areas that once depended on office workers. The rise of e-commerce during the pandemic meant that fewer people visited local, brick-and-mortar retailers, though it remains to be seen if this trend will continue.[8] Many businesses had to pivot to offering services digitally, despite facing barriers such as lack of access to broadband, the cost of procuring digital tools, and finding workers with the know-how to use these tools.[9] Small businesses also have to contend with competition from retail giants such as Amazon and Target. Last but not least, the turbulent economic conditions that the pandemic has contributed to — including supply chain disruptions and worker shortages that have led to inflation — are placing further strain on small businesses.

While entrepreneurs are still feeling the economic repercussions of the pandemic, there are signs of improvement. As of March 2022, the number of Black-owned businesses is 30% higher than pre-pandemic levels, with Black women driving much of that growth.[10] However, COVID-19 is just one of the myriads of barriers that entrepreneurs of color have had to face. Structural inequities kept them from reaching the same level of growth as their White counterparts long before the pandemic. Given the importance of entrepreneurship to the American economy, and the untapped potential that many businesses of color hold, public efforts to close these gaps must be redoubled.

ENTREPRENEURSHIP IS CRITICAL TO THE AMERICAN ECONOMY

Entrepreneurship is a critical economic driver and contributor to job creation in the United States. Small businesses employ 47% of the U.S. workforce and generate two-thirds of new jobs.[11] They help boost local economies by creating jobs and employing workers in their communities. A study on urban job creation found that in four of the five cities studied, small businesses are responsible for most of the jobs created in each city, including in distressed inner-city neighborhoods.[12] Aside from creating employment, small firms also generate local spending, which raises local governments' tax revenues.[13]

Businesses owned by people of color contribute significantly to the American economy, while also providing wealth-building opportunities to their owners. When looking at small businesses with employees, those owned by people of color generate more than 8.7 million jobs and over $1 trillion in economic output annually[14] — though, as discussed below, this is less than what could be possible if barriers to entrepreneurship for people of color were removed.

Business ownership also shows promise in narrowing the racial wealth gap. Studies have shown that Black business owners are wealthier in comparison to Black workers who are not self-employed,[15] and this increase in wealth helps reduce the gap between Black and White wealth levels. The Association of Enterprise Opportunity (AEO)[16] found that when looking at median wealth, White adults have 13 times the wealth of Black adults, but White business owners have just three times the wealth of Black business owners.[17]

ENTREPRENEURS OF COLOR HAVE A SMALL FOOTHOLD

Despite the contributions of small businesses to the economy and entrepreneurship's role in reducing economic inequities, a large section of the population of entrepreneurs is not able to fully reap the benefits of business ownership. When looking at data on small businesses, disparities along racial and ethnic lines are evident. For instance, while the rate of starting new businesses over the past two decades has been higher among Black and Latine individuals,[18] compared to their White counterparts, they own fewer businesses relative to their share of the population:

RACE/ETHNICITY	PERCENTAGE OF U.S. POPULATION	PERCENTAGE OF EMPLOYER BUSINESS	PERCENTAGE OF NON EMPLOYER BUSINESS
White	75.3%	83.5%	77.2%
Black	14.0%	2.3%	11.8%
Latine or Hispanic	18.0%	6.0%	14.7%

Source: Black-Owned Businesses in U.S. Cities: The Challenges, Solutions, and Opportunities for Prosperity

Black and Latine entrepreneurs are also more likely to be sole proprietors. While White individuals own the vast majority of employer businesses (83.5%), Black and Latine individuals own just 2.3% and 6% of employer firms, respectively. This presents a variety of disadvantages. Firstly, businesses with employees tend to have higher revenues, which is a contributing factor to the lower business values among Black- and Latine-owned firms.[19]

In addition, firms owned by people of color are more likely to hire workers of color, so the relative rarity of these firms represents lost opportunities for communities of color. For instance, an analysis of Black businesses by the Brookings Institution found that the relatively low share of Black-owned businesses contributes to the higher unemployment rate among Black Americans, which presents an obstacle to the development of Black communities.[20] Moreover, a Prosperity Now study on jobs provided by Black- and Latine-owned small businesses found a high degree of job satisfaction among these businesses' employees. Also, both employers and workers emphasized the importance of being able to hire or work for another person of color.[21] Studies such as these bolster the case for providing more opportunities for entrepreneurs of color to hire workers, particularly workers of color.

These disparities in business ownership also have broader ramifications, affecting the country's economic growth overall. It is estimated that if people of color started businesses at the same rate as White individuals, more than one million employer businesses and 9.5 million jobs could be added to the economy.[22]

WOMEN-OWNED BUSINESSES

It is worth noting that women-owned businesses — particularly those owned by women of color — experience disparities, as well. There are roughly 1.1 million women-owned employer businesses in the U.S., but they represent just 20% of all employer firms. Nine out of ten women-owned businesses have no employees.[23]

When it comes to women entrepreneurs of color, many of the statistics regarding the number and growth of their businesses appear promising. Women head roughly 35% of Black-owned businesses and 26% of Latine-owned businesses, compared to 20% of White-owned businesses.[24] And Black women are the fastest-growing group of entrepreneurs in the U.S.[25] However, women of color are also the most likely to face barriers in their path to entrepreneurship compared to other demographic groups. While this subject is beyond the scope of this report, it is important to keep in mind that these individuals may need more targeted supports than those aimed at businesses of color or women-owned businesses.

STRUCTURAL OBSTACLES TO INCLUSIVE ENTREPRENEURSHIP

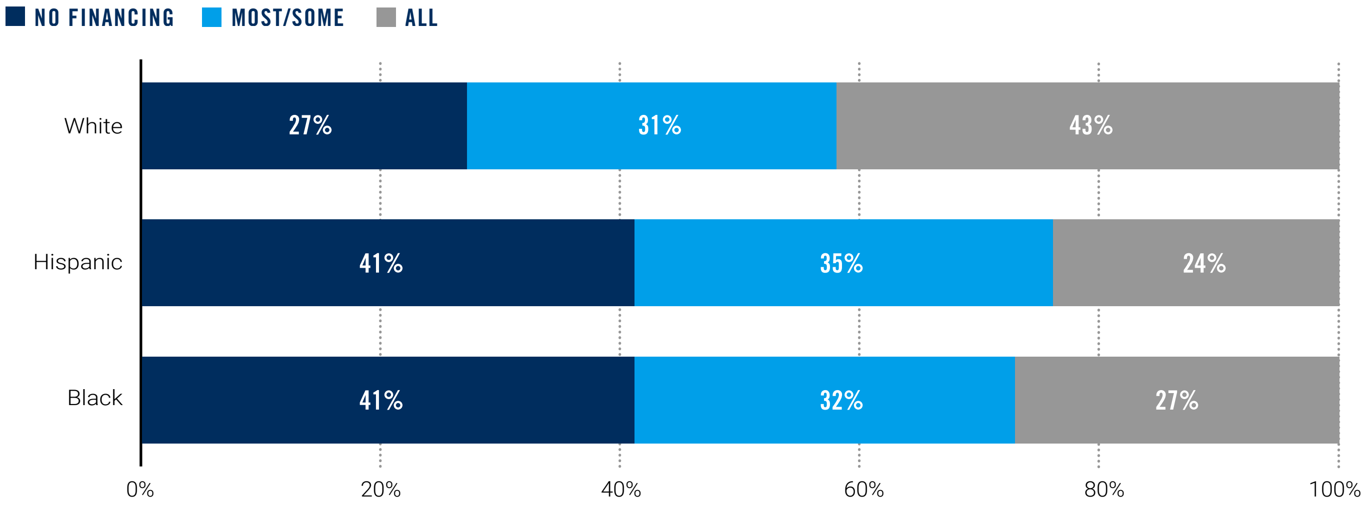
The relatively small size of Black- and Latine-owned businesses, both in number of employees and revenue, cannot be attributed to individual business decisions alone. Entrepreneurs of color face several structural obstacles that, when working in tandem with each other, limit their ability to launch and scale their businesses. As with many other systems and institutions in which racial and ethnic disparities are present, the obstacles for entrepreneurs of color can largely be attributed to the long history of racism and discrimination in the U.S. This section examines these structural barriers to inclusive entrepreneurship.

Limited access to capital hinders business startup and growth. Capital access is one of the most important factors in being able to launch and scale a business. Yet entrepreneurs of color have difficulty accessing capital for several reasons"

- Lower wealth levels limit their ability to tap into savings for startup capital. The majority of entrepreneurs rely on personal and family savings to launch their businesses, rather than bank loans or venture capital.[26] Since people of color are less likely to have adequate savings or financial support from their family, they are at a disadvantage compared to individuals with pre-existing wealth. A study called "Black and White: Access to Capital Among Minority-Owned Startups" found that new Black-owned businesses start with about one-third of the capital of White-owned ones.

- Lending discrimination and lack of banking relationships make it challenging to secure outside capital. The study “Black and White” found even greater disparities between Black- and White-owned businesses when looking at outside capital. In a business’ first year, the average White-owned firm has nearly six times as much outside debt (which includes bank loans, credit cards, etc.) as a Black-owned firm.[28] One reason is the relative lack of banking relationships among businesses of color,[29] a factor that often plays a role in a business’ ability to secure credit, as occurred in the PPP loan distribution. Another reason is lending discrimination. The 2022 Small Business Credit Survey found that White-owned firms were twice as likely as Latine/Hispanic-owned firms and three times as likely as Black-owned firms to have their financing needs met.[30] These disparities persist even when looking at firms with low credit risk, as can be seen in the chart. This means that factors which banks traditionally use to make lending decisions, such as a business’ credit score, are not the primary reason for the higher rate of denials among business owners of color.

FIGURE 1: TOTAL FINANCING RECEIVED BY APPLICANT FIRMS WITH LOW CREDIT RISK



Source: Small Business Credit Survey: 2022 Report on Firms Owned by People of Color
Note: Percentages may not sum to 100% because of rounding

Unfortunately, financial institutions currently have little incentive to change these practices. The Community Reinvestment Act (CRA), enacted in 1977, requires federal banking regulators to assess the extent to which financial institutions are meeting the credit needs of the communities they serve, including low- and moderate-income neighborhoods. However, the CRA does not include specific requirements to meet the needs of borrowers of color, so banks are not evaluated based on their lending by race and ethnicity. This approach puts little pressure on banks to improve their performance.[31]

Community development financial institutions (CDFIs) often serve as an alternative, more accessible source of capital for small businesses. CDFIs are community-based, mission-focused lenders that offer affordable credit, long-term capital, and technical assistance to businesses and households in underserved communities.

Minority depository institutions, which are owned by and serve people of color, also provide targeted funding to help businesses of color gain access to the capital and other supports they need. However, these institutions have been historically underfunded and could use more resources to meet the capital needs of small businesses.[32]

- **Applicants' lack of credit history also limits their access to bank capital.** In essence, the barriers that keep entrepreneurs of color from accessing bank loans result in a vicious circle. Business owners take out fewer loans, which then limits their ability to build credit and borrow in the future.[33]

Businesses of color are overrepresented in low-revenue industries. Due to challenges in accessing capital, entrepreneurs of color tend to seek out industries with low barriers to entry, which are also generally less lucrative.[34] Among employer firms, the percentage of Black- and

Latine-owned firms (63% and 47%, respectively) with $100,000 or less in revenues is higher than that of White-owned firms (19%).[35] Moreover, Black and Latine entrepreneurs are more likely to open businesses that serve a local market. While this does support the well-being of their communities, it also means that the type of businesses they own and the markets they serve are restricted, which again limit their opportunities for growth.[36]

A lack of peer networks can limit business growth and learning opportunities.

As mentioned earlier, a limited financial support network among family and friends makes it more difficult for entrepreneurs of color to acquire start-up capital. Moreover, networks are also important when it comes to gaining business knowledge, mentorship, and access to a broader market. In "Stuck from the Start," a 2017 study conducted by Prosperity Now on the needs of Black entrepreneurs in the South, many participants expressed that networking was a barrier. Some noted that White business owners were often unwilling to share industry knowledge with them, and at the same time, it was challenging to find Black mentors or peers working in the same industry.[37] Similarly, an Aspen Institute report found that a lack of access to networks and mentors is one of the factors limiting the growth of Latine-owned businesses.[38]

Entrepreneurs of color have less access to business management training.

When looking at formal education, both Black and Latine individuals are underrepresented when it comes to business school admissions.[39] Beyond formal training, however, entrepreneurs also benefit from informal learning, such as work experience in a family business. A research study on Black-owned businesses concluded that since Black entrepreneurs are less likely to have self-employed family members, they have fewer opportunities to acquire general business management experience. This was found to be a contributing factor to the lower success rate of Black-owned businesses as compared to White-owned ones.[40]

Government programs and resources should be better targeted to entrepreneurs of color.

The federal government interacts with small businesses through many avenues, including financial assistance, technical assistance, and federal contracting. Although there is a multitude of programs that are directed towards supporting entrepreneurs — including several that target underserved populations, such as minority- and women-owned businesses — they should be better targeted to meet the needs of entrepreneurs of color. Below are a few examples:

- Small Business Administration (SBA) lending programs should be more equitable. The SBA is the main federal agency that assists small businesses. It offers several loan programs to small businesses through qualified lenders, such as private financial institutions and community development organizations, and guarantees a percentage of the loan values to mitigate the risk to lenders. A Prosperity Now analysis of lending under the SBA's flagship 7(a) loan program and 504 program found racial and ethnic disparities in loan approvals, with Black and Native American communities facing the most disparities. From 2017 to 2020, more than three-quarters of all 7(a) loans that were approved went to majority-White zip codes.[41] Some of these results can be attributed to how the SBA's loan programs are structured.[42] The distribution of funds through private lenders means that business owners of color must contend with some of the capital access challenges mentioned previously, including a lack of banking relationships and lending discrimination.

- Entrepreneurs of color are often unaware of or unable to access technical assistance programs. The SBA offers technical assistance to small businesses through various programs. The bulk of the agency's technical funding goes to Small Business Development Centers (SBDCs), but the SBA also offers technical training to underserved business owners through programs like Women's Business Centers and the Program for Investors in Microentrepreneurs (PRIME). Another key agency that provides technical assistance is the Minority Business Development Agency (MBDA). The MBDA, which focuses its support on minority-owned businesses, has Business Centers in communities with large concentrations of businesses of color.[43]

While the existence of these programs demonstrates a commitment to serving entrepreneurs, it is difficult to assess whether they are meeting their target populations' needs, particularly when it comes to entrepreneurs of color. For instance, the MBDA, despite being established in 1969, was just recently codified into law and is underfunded, limiting the extent to which it can support businesses of color.[44] Another issue is the lack of data on the outcomes of programs like SBDCs and the MBDA's Business Centers, which makes it challenging to evaluate their effectiveness.[45] Finally, it is necessary to assess whether entrepreneurs of color have equitable access to technical assistance programs overall. In the study "Stuck from the Start," many of the participants expressed a feeling of disconnectedness from these types of opportunities. While they indicated an interest in receiving training around business skills and business strategy questions, many of the entrepreneurs had limited or no connections to these types of resources, and others were simply not aware of existing programs.[46]

In the writing of this report, Prosperity Now spoke with partner organizations and individuals that work directly with small business owners of color, who raised similar sentiments. These entrepreneurs expressed interest in receiving technical assistance but were often unable to access it. Our partner organizations also noted the importance of technical assistance to help business owners access financial services, such as loan products from CDFIs, and federal resources, such as the PPP loans earlier in the pandemic. Many small business owners are either unaware of such resources or lack the administrative infrastructure to apply for them.

- The percentage of federal contract awards that go to businesses of color should be higher. Federal contracting is the way by which the federal government acquires goods and services, a portion of which are obtained from small businesses. It is the largest source of federal money that flows into small businesses.[47] The government has specific targets for the amount of contracting dollars that go to small businesses, including a target of 5% of contracting dollars being spent on "small disadvantaged businesses (SDBs)," which include many firms owned by people of color. While this target does get met (around 10% of contracting dollars typically go to SDBs[48]), setting a higher goal could be an effective way of directing more federal dollars to underserved businesses. Raising the percentage of contracting dollars that the government spends on SDBs by 2025 is one of the goals of the Biden administration.[49] In addition, the SBA has begun releasing contracting data disaggregated by race and ethnicity, which is essential for providing a clearer picture of where contracting dollars are flowing and assessing whether the government is meeting its targets.[50]

The lack of a centralized database of small business lending data makes it difficult to determine where lending discrimination is occurring. Having data on the applicants and recipients of small business loans can help identify where capital is being directed, and who is being excluded. Currently, however, the collection of small business lending data from financial institutions is spread across several federal agencies, and the data itself is incomplete and not widely available to the public. In late 2021, the Consumer Financial Protection Bureau (CFPB) released a proposed rule, Section 1071 of the Dodd-Frank Act, which calls for the collection and centralized reporting of small business lending data disaggregated by race and ethnicity.[51] This disaggregation should help reveal where lending disparities are occurring, giving authorities the opportunity to address them. The CFPB is expected to release the final rule in 2023,[52] so the robustness of the data collection and reporting requirements remains to be seen.

CREATIVE NEW INITIATIVES TO SUPPORT INCLUSIVE ENTREPRENEURSHIP

As can be seen, there are many structural challenges that keep businesses of color from reaching their full potential, but there are equally as many opportunities to address these barriers. In response to the pandemic's aftermath, the federal government has passed legislation that made funds available to states and localities to support their economic recovery. This includes aiding small businesses by providing access to capital, technical assistance, and resources for business development.

One key piece of legislation is the $1.9 trillion American Rescue Plan Act (ARPA), which was signed into law in March 2021. Under ARPA, the Coronavirus State and Local Fiscal Recovery Funds program is delivering $350 billion to state and local governments to help them manage the aftermath of the pandemic and make investments to support communities' long-term growth. ARPA also called for the reauthorization of the State Small Business Credit Initiative (SSBCI), which was first established in 2010 under the U.S. Department of the Treasury. The new version of SSBCI is providing $10 billion to states, which can use the funds to create or expand existing small business support programs, particularly focused on providing capital access and technical assistance.

Cities and states are using these federal funds in innovative ways to support the small businesses hit hardest by the pandemic — those owned by entrepreneurs of color. This section will explore initiatives to meet the needs of businesses of color in three cities across the country: Baltimore, Maryland; Tacoma, Washington; and Wilmington, Delaware. There will also be a discussion of how cities can best leverage the funds they receive from the federal government.

BALTIMORE BASE NETWORK
BALTIMORE, MARYLAND

As mentioned earlier, a critical challenge in designing policies to aid small businesses is ensuring that business owners are aware of opportunities available to them and able to take advantage of them. The small businesses that need technical assistance and credit the most are often the least likely to access them due to a lack of knowledge on how to apply and qualify for such benefits. These issues disproportionately afflict entrepreneurs from low-income neighborhoods with residents of color.

Recognizing the challenges facing entrepreneurs of color, the Baltimore Development Corporation launched the Baltimore BASE (Business Assistance and Support for Equity) Network[53] to facilitate greater information sharing between city officials, nonprofit groups, CDFIs, and small businesses to ensure that the needs of small businesses across the community were being met. Launched in 2020, the BASE Network created a database to track which small businesses are receiving what sort of assistance so partner organizations can coordinate service delivery to ensure that aid and assistance is going to the businesses that need them most. The Network also has weekly meetings to share best practices and discuss where community needs are and are not being met. By leveraging localized knowledge to connect the small business community to various sources of small business funds and assistance, the BASE Network has worked to give the small business community in Baltimore access to the resources they need.

BASE Network initiatives have already had a positive impact on the Baltimore small business community. For instance, 80% of Black-owned small businesses in Baltimore that applied for PPP loans with the help of Network partner organizations were able to attain them — a significant improvement over national statistical averages. In 2022, the BASE Network launched their Economic Recovery Fund to distribute ARPA funds to small businesses through grants and technical assistance. In round one of this program, 194 small businesses owned by people of color in Baltimore were able to access ARPA small business grants, and this number will likely double when the second round of grants go out later this year. Since BASE Network partner organizations know which businesses and neighborhoods are receiving assistance and which are still in need, they were able to effectively target these grants to the entrepreneurs who would benefit most from them.

Thus far, the Baltimore BASE Network initiative has helped over 3,000 small businesses in Baltimore access over $40,000,000 in COVID relief funds from both the public and private sectors. By promoting cooperation between the various public and private sector actors who are all working towards creating an inclusive environment for small businesses in Baltimore, the BASE Network has created a business support infrastructure that centers the needs of the community and the entrepreneurs they are seeking to serve.

PIERCE COUNTY BUSINESS ACCELERATOR
PIERCE COUNTY, WASHINGTON

After meeting with community leaders who represent the full diversity of Pierce County, Washington, the County Council determined that a critical need within the community was for greater business education, so local small businesses could access business assistance programs and more effectively scale their operations. The economic strains of the pandemic meant many businesses in Pierce County were on the verge of shutting down, and many small business owners, particularly in communities of color, lacked the technical knowledge that would help them access resources to keep their businesses afloat.

The Pierce County Business Accelerator Cohort 4 Class, led by instructor Antoinette Atkins and co-instructor Will Waverly.

To prevent small businesses from going under, the Council decided to allocate $5 million of ARPA funding to the creation of the Pierce County Business Accelerator.[54] Candidates accepted into the Business Accelerator were enrolled in a six-week crash course that taught essential business management skills to help these entrepreneurs grow their businesses, such as how to access credit, build capacity,

Photo by Katelyn Kristine Photography

Rachel A. Askew and Grant M. Twyman are NEXT Consulting Firm Managing Partners. NEXT is the team that led the Pierce County Business Accelerator. They created the curriculum, recruited instructors and business coaches, led the classes, and coordinated technical services.

and brand and market. To date, there have been nine cohorts who have gone through the course, with each cohort consisting of 25 small business owners who were able to connect and learn from one another. Further, each participant was assigned a business coach to meet with outside of class time who could help these entrepreneurs address the particular challenges that their small businesses are facing. They were also granted $5,000 each for business and technical assistance services and a $5,000 match grant for credit and capital access, which the Accelerator helped the entrepreneurs obtain by connecting them with CDFIs and crowdfunding organizations.

The program explicitly targeted entrepreneurs of color, who made up 90% of the program participants. There was a specific focus on women-owned and veteran-owned businesses, and the firm that was contracted to run the program is also owned and managed by people of color. By listening to voices of color and creating a communal learning environment, the Pierce County Business Accelerator helped entrepreneurs learn how to grow their businesses and access federal funds, while also creating a more connected small business ecosystem within the county.

The program received almost 400 applicants, but due to funding constraints, they could only accept 200. Increased funding for small business development programs such as the PCBA would help expand program outreach to more members of the small business community. This approach to free comprehensive business training, supplemented with grants for business services and capital investment to enable more rapid growth and scaling, has the potential to bridge the knowledge and performance gaps that persist between White-owned and person of color-owned businesses.

WEST SIDE GROWS TOGETHER
WILMINGTON, DELAWARE

As is the case in many U.S. cities, the small business community in Wilmington, Delaware, has largely been neglected by city-wide development initiatives, which typically give higher priority to attracting large firms from outside of the city. A collective of community organizations located in the west side of the city, however, is currently experimenting with a different path toward economic development that emphasizes community development and building from within.

The Cornerstone West Community Development Corporation, through the West Side Grows Together initiative,[55] is leading the effort to revitalize both the community and economy of the West Side. West Side Grows is a coalition of community groups representing the diverse residents and community needs of the West Side. Their multifaceted approach seeks to attract new businesses and residents to the West Side by rejuvenating the existing small business community through business assistance programs and bringing life back to the community by repairing old housing lots, creating community parks and gardens, organizing open street fairs, and connecting youth groups and other community organizations. When the pandemic hit, many of the businesses that West Side Grows works with were too small to access the existing loan programs that were intended to help businesses stay open. To meet local small businesses where they were, West Side Grows launched the Wilmington Strong Fund to distribute emergency microgrants to businesses that were in need. Initially, a pilot program that was only targeting small businesses in the West Side, they have since expanded their outreach to small businesses all across Wilmington. This was made possible by the $1,450,000 in ARPA funding that the mayor's office allocated to West Side Grows following the initial success of this program.

Photo by Four Youth

Dino Thompson, owner of Dino's Ice Cream and Italian Water Ice Truck. Dino's is one of the businesses located in the main commercial corridor of Wilmington's West Side.

The majority of the Strong Fund recipients were small business owners of color who, thanks to the program, were able to pay rent, utilities, and inventory expenses that otherwise would have forced them to shut down. In addition to the microgrants, West Side Grows has bi-weekly business assistance office hours so local businesses have direct and easy access to technical assistance, enabling them to address the specific problems their business is facing. This also helps develop trust between the small business community and West Side Grows, which can then be leveraged to engage the small business community in local community-building activities.

Thanks to their partnership with the city of Wilmington, West Side Grows has been able to access ARPA funds to launch two new, larger grant programs that provide local entrepreneurs with critical investments to help them grow their businesses. The West Side Small Business Innovation Grant provides up to $10,000 to recipients for exterior renovation and equipment upgrades, and the West Side Corridor Revitalization Fund provides up to $20,000 to invest in site acquisition, capital, and inventory. These various programs aimed at preserving and growing the West Side's small business community have helped revitalize the economy of the West Side.

Photo by Four Youth

Dominican Café, is one of the businesses in Wilmington's West Side.

STEPPING STONES COMMUNITY FEDERAL CREDIT UNION

In addition to the work that community organizations are doing to facilitate small business recovery after the crisis phase of the pandemic, many of them stepped up to support businesses as the pandemic was unfolding. Stepping Stones Community Federal Credit Union, founded by the Delaware Community Reinvestment Action Council (DCRAC),[56] serves the low-income community of Wilmington by providing them with safe, reliable access to credit and other financial services. Prior to the pandemic, Stepping Stones was not an SBA lender. However, seeing the need in their community, they became an authorized PPP lender to aid small businesses and nonprofit organizations during the pandemic. They provided loans during the second and third rounds of funding to help these businesses survive the economic instability they encountered. In total, Stepping Stones successfully approved 60 PPP loans, totaling $3,631,536. The loan amounts ranged from $1,296 to $703,000.

Guidance for Leveraging Federal Pandemic Relief Funds

The initiatives underway in cities like Baltimore, Tacoma, and Wilmington serve as examples of how organizations are leveraging the influx of federal money to meet the needs of entrepreneurs of color in their communities. The Baltimore BASE Network developed a system to coordinate the delivery of resources to small businesses throughout the city, so they were able to target ARPA grants to the businesses most in need. In Tacoma, the Pierce County Business Accelerator provided business management training to entrepreneurs of color, connected them to technical assistance services, and helped them access additional capital. Finally, the West Side Grows Together initiative is working to revitalize an underserved section of Wilmington by helping small businesses keep their doors open and undertake renovations, while also attracting new small business owners to the area.

Given the magnitude of federal investment, institutions have created additional guidance on how to make the most of the funds. Planning and coordination among public and private sector stakeholders are key in order to use the money for the greatest impact.[57]

Accelerator for America and its partner organizations have established Stimulus Command Centers in certain cities across the country in an effort to organize and coordinate the use of federal funds.[58] Some cities are also developing Investment Playbooks, created by New Localism Associates and the Nowak Metro Finance Lab at Drexel University, to help them design projects that can leverage both federal and private resources.[59]

The Nowak Metro Finance Lab has also outlined ways for state and local governments to maximize the reauthorized SSBCI program.[60] Analysis from the first round of SSBCI in 2010 shows that the states that were most effective either leveraged existing networks of local leaders and capital providers or built new networks from the ground up.

This can and should look different for each state. For example, Pennsylvania had already built relationships with CDFIs prior to the first round of SSBCI funding and worked with those groups to reach rural and low-income communities. Other states like Georgia and West Virginia used the opportunity to build new networks that helped invest the funds effectively and with significant impact for their targeted communities.

HOW TO BUILD AN INCLUSIVE SMALL BUSINESS ECOSYSTEM

To level the playing field for entrepreneurs of color, policy change is needed to dismantle the structural barriers they face. The COVID-19 pandemic brought to light some of the challenges, such as lack of access to capital and technical assistance, that existed pre-pandemic but were perhaps not as widely recognized or understood. Now, as the country emerges from the crisis, there is a prime opportunity for policymakers and other authorities to not only help Black- and Latine-owned small businesses recover, but also set up long-term supports and investments to help them thrive.

The recommendations below were informed by feedback from Prosperity Now's partner organizations, coalitions, advocates, and staff members with expertise in small business issues,[61] as well as lessons from the city case studies. In speaking with these partners, three key areas where change is needed rose to the forefront: capital access, technical assistance, and data and transparency. Several partners that work directly with small business owners mentioned that capital and technical assistance are particularly important to entrepreneurs, but businesses of color are often unable to access them. In addition, they said that having accessible data on small business lending and transparency around the outcomes of federal small business programs are key to understanding the challenges that business owners face.

The small business support ecosystem is large and complex. There are several other ways to support entrepreneurs that will not be covered here, such as giving them better access to business development training and healthcare benefits for themselves and their workers. However, the three areas mentioned above were deemed to be particularly impactful for entrepreneurs of color, so the recommendations in this report will be centered around these issues.

The remainder of this section explores specific actions that policymakers, city leaders, and lenders can take to address the inequities that entrepreneurs of color have long faced and, ultimately, help businesses of color reach their full potential.

Capital Access

Policymakers

Make the SBA's flagship 7(a) loan program more accessible to small businesses of color. As mentioned earlier, the way the 7(a) program is structured limits its reach to business owners of color. Reforming the program to correct these flaws will give these entrepreneurs a better opportunity of accessing SBA-backed loans. One approach the SBA can take is to provide additional incentives to financial institutions acting as 7(a) lenders in order to make it more attractive for them to lend to smaller, "riskier" borrowers. For example, increasing the SBA-guaranteed portion of loans can minimize banks' lending risks, and reducing 7(a) service fees can encourage banks to lend to smaller borrowers.[62]

Codify the SBA's Community Advantage loan program.[63] This program allows community-based, mission-oriented lenders, such as CDFIs and Certified Development Companies (CDCs), to access 7(a) loans and lend to small businesses in underserved markets. Since these kinds of lenders have a better track record of reaching small businesses and serving disadvantaged communities, as compared to traditional banks, the Community Advantage program presents another opportunity for businesses of color to access 7(a) loans. However, the program is currently set to expire in September 2024. Making it permanent would help ensure its continued support to entrepreneurs of color.

Ensure that State Small Business Credit Initiative (SSBCI) funds reach businesses of color. In the first round of SSBCI, which ran from 2011 to 2017, funds were not specifically targeted to businesses of color, and states were not required to report the amount of funds going to these businesses. From the data that is available over that time period, almost 43% of total SSBCI funds went to businesses in low- and moderate-income areas, while 41%[64] went to women- or minority-owned businesses.[65]

Setting aside a percentage of funds for businesses of color can help ensure that they receive an equitable portion of SSBCI money. The recent reauthorization of the program requires recipients to target a portion of funds to businesses owned by socially and economically disadvantaged individuals (SEDI). While this is a good first step, there are other opportunities for states to better target these funds to the businesses that need them most. Some ideas for how to achieve this include:

- Require states that receive SSBCI funds to set aside a portion of the funds for CDFIs with a track record of serving communities of color.[66] As mentioned earlier, CDFIs are likelier to reach small business owners, so carving out a portion of SSBCI funds for these institutions—especially those deeply rooted in communities of color—could be a good way to reach these businesses. While many states have already submitted their plans for using SSBCI funds under the most recent round of the program, states can opt to take this route to help reach their goals for serving businesses owned by socially and economically disadvantaged individuals (SEDI). Treasury officials should also keep this in mind for the upcoming dispersal of $200 billion in technical assistance funds.

- Hold states accountable to a set of best practices that ensures an equitable rollout of funds. As states are putting their SSBCI plans in motion, they should coordinate with organizations that have expertise in strengthening businesses of color. Such organizations can provide tools, guidance, and other resources for how to best reach these businesses. Ultimately, these organizations could develop a set of principles for how to distribute SSBCI funds equitably, which can help guide states through the implementation process.

Increase lending to underserved small businesses through modernization of the Community Reinvestment Act (CRA). In 2022, government agencies released a proposed rule aimed at strengthening and modernizing the CRA. The recommendations below would make the final rule more responsive to the needs of entrepreneurs of color:

- The CRA should require banks to gather and report disaggregated racial and demographic data as part of CRA examinations.[67] As mentioned earlier, financial institutions are not currently evaluated based on their lending by race and ethnicity under the CRA. Including such a component in exams could prompt banks to increase their lending in communities of color.

- Financial institutions should receive CRA credit for business loans only when the businesses receiving the loans operate in low-income census tracts or employ workers from these areas.[68] Currently, mortgage loans count for CRA credit only when the borrower is low-income or lives in a designated low- and moderate-income area, whereas there is no requirement under the CRA for small business loans to be made in such areas.[69] Ideally, the CRA should evaluate based on race and ethnicity, since low- and moderate-income is not an effective proxy for race.[70] In the absence of such a requirement, however, this proposal could also help drive more small business lending in disadvantaged communities.

Lenders

Develop new, creative ways of extending capital to small businesses, with the particular needs of entrepreneurs of color in mind. Due to the challenges mentioned above, businesses of color are not always able to meet the terms of traditional financial products. Alternatives like revenue-based financing, which allows for loan repayment based on a business' monthly revenue, can be more accessible to entrepreneurs of color. An example of an initiative to provide alternative forms of capital is the Kauffman Foundation's Capital Access Lab, which provides capital to funds that offer innovative financing options to underserved entrepreneurs.[71] It is important to keep in mind that such product offerings should also be accompanied by an outreach strategy, so small business owners are aware of these new products and can understand their terms.

Technical Assistance

Policymakers

SBA technical assistance providers, such as Small Business Development Centers (SBDCs), should increase their community outreach and make their trainings more accessible to entrepreneurs of color.
More outreach could help business owners

become aware of the services that SBDCs offer. In addition, strategies like providing training materials in multiple languages and hiring staff from the community an SBDC serves can make technical assistance more approachable for entrepreneurs of color.[72] Since SBDCs are often located on college campuses, the SBA should also expand its partnership with minority serving institutions (MSIs) to offer technical assistance through their campuses.[73]

Increase government funding for intermediary organizations that provide technical assistance at the local level, such as incubators and accelerators, to strengthen local business support ecosystems. The majority of SBA's technical assistance funding goes to SBDCs.[74] While SBDCs can assist individual businesses, only investing in one type of support organization represents a piecemeal approach to technical assistance that can miss the needs of businesses at different stages of their lifecycles. Creating a strong business support ecosystem at the local level, which includes a variety of entrepreneurship support organizations (ESOs), is a better way of strengthening businesses of color throughout an entire community.[75] To help achieve this, the SBA should direct more resources to intermediary institutions, like incubators and accelerators. Innovative examples of these types of institutions include Cincinnati's Minority Business Accelerator[76] and Philadelphia's Enterprise Center.[77]

City Leaders

Create broader, more cohesive networks of entrepreneurship support organizations at the local level. One of the challenges that small business owners face in seeking technical assistance is navigating the sheer multitude of ESOs that exist. ESOs represent several different types of entities, including private, public, and nonprofit organizations, that provide support services to entrepreneurs. Given this challenge, city leaders can consider ways to increase awareness of ESOs and the different services they offer. One recommendation from National League of Cities' "A Roadmap to Inclusive Entrepreneurship" is for city leaders to create a public resource documenting these organizations, thus helping small businesses determine where to seek assistance. Officials could also hold convenings of ESOs within their cities, which can facilitate communication, partnership, and the creation of more holistic networks to support entrepreneurs.[78]

Data and Transparency

Policymakers

Ensure that Section 1071 of the Dodd-Frank Act is properly enforced. As mentioned earlier, the final Section 1071 rule, which relates to the reporting of small business lending data disaggregated by race and ethnicity, will be released in 2023. Once this occurs, the CFPB should regularly assess and ensure that financial institutions are complying with the data reporting requirements. This will be important for getting an accurate picture of the small business lending landscape and the capital needs of businesses of color.

Strengthen evaluation of SBA programs to better understand their impact on entrepreneurs of color. The SBA does not gather data on the outcomes of borrowers using its loan programs, so it is difficult to assess whether these programs are having a positive impact.[79] Gathering and publicizing this data across all SBA programs could help determine their effect on entrepreneurs of color and allow the agency to better target its programs to their needs. The SBA should model data reporting requirements under Section 1071, disaggregating the data by race, ethnicity, tribal affiliation, gender, and geography.

City Leaders

At the local level, city leaders can track metrics, such as the number, revenue size, and industry concentration of businesses of color. This recommendation from "A Roadmap to Inclusive Entrepreneurship" can help local leaders not only determine the status quo of businesses of color in their city, but also measure their progress towards building an inclusive entrepreneurship ecosystem over time.[80]

CONCLUSION

Small businesses are integral to communities across the country and play a significant role in economic growth and job creation. For people of color, owning a business can be a key step toward building wealth and passing it down to future generations. However, the COVID-19 pandemic dealt a blow to businesses of color, which have long contended with economic and social forces that have prevented them from reaching the same level of success as White-owned businesses.

Now, as the U.S. emerges from the pandemic, the federal funds allocated to states and localities are giving local leaders and community organizations the opportunity to help small businesses recover. In Baltimore, Tacoma, and Wilmington, and in many other cities across the country, initiatives are underway to uplift entrepreneurs of color, connecting them to capital, technical assistance, and other business support services. In addition to efforts like these, broader policy change is also necessary to address the structural barriers that Black and Latine entrepreneurs face. This report offers several recommendations for policymakers, city leaders, and lenders that can help mitigate the challenges that entrepreneurs of color most often face: limited access to capital and technical assistance, as well as the lack of transparency in lending data, which can mask the extent of lending discrimination.

Given this timely opportunity of federal funding dedicated to recovery and growth post-pandemic, the time to act is now. With more targeted support from policymakers, financial institutions, and local leaders, entrepreneurs of color can have a chance to thrive, which will not only benefit themselves but also the economy and society as a whole.

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