



SMALL  
BUSINESSES  
OF  
COLOR  
RECOVERY GUIDE

*For City Leaders and Community Groups*



FEDERAL RESERVE BANK of KANSAS CITY



FEDERAL  
RESERVE  
BANK  
of ATLANTA



# FOREWORD

The Federal Reserve Bank of Kansas City serves the seven states of the Tenth District: Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri. The Federal Reserve Bank of Atlanta serves all of Alabama, Florida, and Georgia, and parts of Louisiana, Mississippi, and Tennessee. As part of the nation's central bank, the Federal Reserve Banks of Kansas City and Atlanta participate in setting national monetary policy, supervising and regulating financial institutions, maintaining stability of the payment system, and providing financial services to banks and other depository institutions. To succeed in each of these mission areas, the Federal Reserve relies on numerous resources, ranging from the most current economic and banking data to the analysis and expertise of its staff. One of the Federal Reserve's resources is its community development function, created in the 1980s following Congress's approval of the Community Reinvestment Act. Community development professionals take policymakers to the front lines of community issues through a range of initiatives, including forums, conferences, directed research, and advisory councils. These initiatives position the central bank to respond effectively to emerging economic developments, long-term needs, and new challenges confronting rural and urban low- and moderate-income communities. The Federal Reserve Banks of Kansas City and Atlanta understand the vital role small businesses play in growing the economy by providing jobs, building communities, and being key innovators of new technology and processes. This guide was developed to assist communities throughout the nation in supporting small business owners of color (SBOC) as they recover from the economic crisis caused by the COVID-19 pandemic.

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## EDITORIAL NOTES

This guide is heavily informed by Federal Reserve Bank of Atlanta and Kansas City outreach and a long-form questionnaire that gathered responses from 20 small business support providers from around the nation who work with small business owners of color. These responses are primarily found in direct quotes in part 2. Inclusion of these quotes does not indicate an endorsement of their organization or programs.

For ease of reading, small businesses of color and small business owners of color each will be identified as SBOCs. We use SBOC to refer to non-white racial groups generally. When possible, we specify the particular ethnic or racial group. In certain quotes, the term “minority” is also used in reference to people or small business owners of color.

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# PART I

## THE ECONOMIC CONTEXT FOR SBOCs

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The COVID-19 pandemic and the corresponding economic crisis it caused have had an unprecedented impact on SBOCs. In a June 2020 working paper, economist Robert Fairlie's analysis showed a significant drop in active small business owners from February through April 2020, with a disproportionate number of those businesses being small businesses owned by people of color. According to Fairlie's research:

The number of active business owners in the United States plummeted by 3.3 million or 22 percent over the crucial two-month window from February to April 2020. The drop in business owners was the largest on record, and losses were felt across nearly all industries and even for incorporated businesses. African-American businesses were hit especially hard experiencing a 41 percent drop. Latinx business owners fell by 32 percent, and Asian business owners dropped by 26 percent. Simulations indicate that industry compositions partly placed these groups at a higher risk of losses. Immigrant business owners experienced substantial losses of 36 percent. Female-owned businesses were also disproportionately hit by 25 percent. These findings of early-stage losses to small businesses have important policy implications and may portend longer-term ramifications for job losses and economic inequality.<sup>1</sup>

As the nation continues to work toward economic equity, and the demographics of the United States continue to change, the necessity of supporting the recovery of SBOCs becomes imperative. The purpose of this guide is to help support the recovery of these businesses by providing readers with a range of ideas in the areas of small business credit and capital, education and training, policy recommendations, and community support.

The information in this guide was derived from a wide variety of sources, including pre-existing research, insight from a wide range of outreach calls with small business support providers, and insight from a long-form questionnaire, which received responses from 20 organizations that support SBOCs from across the nation.

The guide will cover three major topics. The first will discuss the state of SBOCs before the COVID-19 pandemic to provide a historical context for the challenges these businesses faced. The second will be a series of recommendations for communities that seek to help SBOCs both recover in the short run and thrive in the long run. The final topic will share tools organizations can use to help develop and support programs for SBOCs in their community. A special appendix has been prepared consisting of additional thoughts shared by questionnaire respondents. First, a brief examination of the condition of SBOCs in the United States.

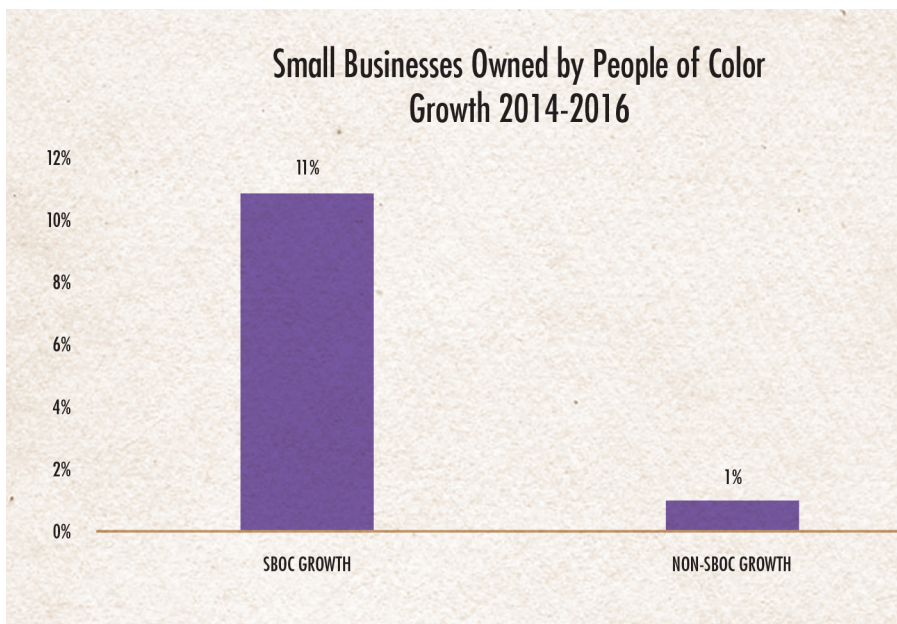
<sup>1</sup> Fairlie, R. W. (2020). The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses. Working Paper 27309. <http://www.nber.org/papers/w27309>



## The State of SBOCs

Small businesses (firms with fewer than 500 employees) continue to be the lifeline of communities across the United States. They also help drive innovation and competitiveness within the economy, accounting for 44% of U.S. economic activity.<sup>2</sup> They are responsible for creating two of three new jobs and employing nearly 50% of private sector workers.<sup>3, 4</sup> Small businesses also provide essential goods and services, playing a valuable role to help deliver day-to-day transactions. Business ownership has offered a promising pathway to allow people to create their own jobs, provide employment opportunities to others in their community, and build an asset that can be passed to future generations. Microbusinesses (those with fewer than five employees) comprise over 90% of all enterprises and are responsible for 31% of all private-sector employment in the United States.<sup>5</sup>

SBOCs have become an increasingly important part of the economy.<sup>6</sup> Between 2014 and 2016, the number of businesses in the United States owned by people of color grew 11%, compared with a 1% increase in non-SBOCs.<sup>7</sup>



Nationally, SBOCs account for about 19.8% of all small businesses. Research has found that SBOCs can significantly reduce the racial wealth gap, while simultaneously reducing the unemployment rate of people of color.<sup>8</sup> SBOCs tend to hire from the community, creating jobs for neighborhood residents.<sup>9</sup>

*Data Source: 2019 U.S. Small Business Office of Advocacy – Spotlight on Minority-Owned Employer Businesses*

- 2 Kobe, K., & Schwinn, R. (2018). Small Business GDP 1998–2014. U.S. Small Business Administration Office of Advocacy. <https://cdn.advocacy.sba.gov/wp-content/uploads/2018/12/21060437/Small-Business-GDP-1998-2014.pdf>
- 3 U.S. Small Business Administration. (2018). Frequently Asked Questions about Small Business. Office of Advocacy. <https://www.sba.gov/sites/default/files/advocacy/Frequently-Asked-Questions-Small-Business-2018.pdf>
- 4 Small businesses are firms with fewer than 500 employees.
- 5 Association for Enterprise Opportunity. (2017). The Tapestry of Black Business Ownership in American: Untapped Opportunities for Success. [https://aeoworks.org/images/uploads/fact\\_sheets/AEO\\_Black\\_Owned\\_Business\\_Report\\_02\\_16\\_17\\_FOR\\_WEB.pdf](https://aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB.pdf)
- 6 We use “SBOC” to refer to non-white racial groups generally. When possible, we specify the particular ethnic or racial group.
- 7 Esposito, N. (May 2019). Spotlight on Minority Owned Businesses. U.S. Small Business Office of Advocacy. <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/31131339/Small-Business-Facts-Spotlight-on-Minority-Owned-Employer-Businesses.pdf>
- 8 Stoll, M., Raphael, S., & Holzer, H. (August 2001). Why Are Black Employers More Likely than White Employers to Hire Blacks? Institute for Research on Poverty. <https://www.irp.wisc.edu/publications/dps/pdfs/dp123601.pdf>
- 9 Asante-Muhammad, D., Collins, C., Hoxie, J., & Nieves, E. (2017). The Road to Zero Wealth: How the Racial Wealth Divide Is Hollowing Out America’s Middle Class. Prosperity Now and Institute for Policy Studies. [https://prosperitynow.org/files/PDFs/road\\_to\\_zero\\_wealth.pdf](https://prosperitynow.org/files/PDFs/road_to_zero_wealth.pdf)



Despite the growth of SBOCs across U.S. communities, the scale and stability of these businesses consistently have been compromised. Nationally, people of color represent about 40% of the population, but only 20% of the nation's 5.6 million owners of businesses with employees. Persistent structural barriers in acquiring the capital, knowledge, and market access needed by entrepreneurs of color to grow their firms account for these outcomes.<sup>10</sup> Businesses need capital to start, survive, and achieve scale. However, lower levels of assets among Blacks account for more than 15% of the difference between the rates of business creation among whites and Blacks and more than half of the business entry rate gap for Latinx firms.<sup>11</sup>

Deep and persistent patterns of racial discrimination against business owners of color have resulted in higher loan denials and higher interest rates, yielding lower profit margins and limited opportunities to forge thriving businesses.<sup>12, 13</sup> For example, businesses owners of color are more likely than white business owners to feel discouraged from seeking loans, according to Federal Reserve research.<sup>14</sup> These business owners have also been found to face higher documentation burdens, receive less information about fees, and get less friendly service when visiting a small business lender.<sup>15, 16</sup> However some of this discrimination is more subtle, as it manifests in the way credit scores and loan to value ratios (LTVs) end up disproportionately limiting credit availability for borrowers of color. Segregated neighborhoods, which are rooted in both historic and ongoing racial discrimination, cause many people of color to continue to have less access to home equity and limited access to affordable, sustainable credit.<sup>17</sup> Instead of accessing mainstream credit available to white borrowers and white neighborhoods, people of color often are relegated to using fringe lenders and paying much more than they would have had to otherwise.<sup>18</sup> In addition, credit-scoring systems in use today penalize borrowers

*White-owned businesses have an average value of over \$656,000 – nearly three times the average business value owned by people of color.*

**10** Klein, J., & Liang, J. (2015). *The Racial Wealth Gap: Narrowing the Racial Wealth Gap through Business Ownership*. Retrieved from Asset Funders Network <https://assetfunders.org/resource/racial-wealth-gap-narrowing-racial-wealth-gap-business-ownership/>

**11** Fairlie, R. W. (2009). *Kauffman Index of Entrepreneurial Activity: 1996–2008*. Ewing Marion Kauffman Foundation. [https://www.kauffman.org/wp-content/uploads/2019/09/kiea\\_042709.pdf](https://www.kauffman.org/wp-content/uploads/2019/09/kiea_042709.pdf)

**12** Wiedrich, K., Rice, S., Sims, L., and Weisman, H. (2017). *On track or left behind? Findings from the 2017 Prosperity Now Scorecard*. Prosperity Now. [https://prosperitynow.org/files/PDFs/2017\\_Scorecard\\_Report.pdf](https://prosperitynow.org/files/PDFs/2017_Scorecard_Report.pdf)

**13** Koellinger, P., & Minniti, M. (2006). Not for Lack of Trying: American Entrepreneurship in Black and White. *Small Business Economics*, 27(1), 59–79.

**14** de Zeeuw, Mels and Barkley, B. (2018). *Mind the Gap: Minority-Owned Small Businesses' Financing Experiences in 2018*. Retrieved from <https://www.federalreserve.gov/publications/2019-november-consumer-community-context.htm>

**15** Lee, A., Mitchell, B., and Lederer A. (2019). *Disinvestment, Discouragement and Inequity in Small Business Lending*. <https://ncrc.org/wp-content/uploads/2019/09/NCRC-Small-Business-Research-FINAL.pdf>

**16** McManus, M. 2016. *Minority Business Ownership: Data from the 2012 Survey of Business Owners*. U.S. Small Business Administration Office of Advocacy. McManus says: “Research also finds that minority business owners are more likely to feel discouraged from seeking private loans. In a Census survey, only 16% of nonminorities felt discouraged from seeking a loan, while almost 30% of minorities felt the same way. These, in combination with other reasons, may be why minority business owners have a heavier reliance on personal finances.” (citing Christine Kymn, January 2014, “Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables.” U.S. Small Business Administration, Office of Advocacy, available at <https://www.sba.gov/sites/default/files/Issue%20Brief%203%20Access%20to%20Capital.pdf>)

**17** Rothstein, R. (2017). *The Color of Law: A Forgotten History of How Our Government Segregated America*. New York: Liveright Publishing Corporation.

**18** Baradaran, M. (2017). *The Color of Money: Black Banks and the Racial Wealth Gap*. Cambridge: The Belknap Press of Harvard University Press.

for using the type of credit disproportionately used by borrowers of color.<sup>19</sup> Similarly, while business ownership has increased among workers of color relative to white workers, the value of white-owned businesses has increased at a rate more than double that of businesses owned by people of color (22.6% and 10.8%, respectively). The gap in business value for white-owned firms versus those owned by people of color largely is driven by the percentage of firms without paid employees. Ninety-six percent of Black-owned businesses have no paid employees, compared with 79% of white-owned businesses. Nationally, white-owned businesses have an average value of over \$656,000—nearly three times the average business value owned by people of color.<sup>20</sup>

Lack of access to capital is one key structural factor that significantly compromises the potential of SBOCs. The 12 Reserve Banks of the Federal Reserve System conduct an annual Small Business Credit Survey (SBCS) to look in-depth at small business performance, debt holdings, and credit experiences. The survey is a national sample of small businesses. One report examining the financial health of SBOCs found they are more at risk for fiscal stability, by factors such as profitability, credit scores, and propensity to use retained earnings as a primary funding source.<sup>21</sup>

Overall, Black-owned businesses usually are launched with far less capital, whether that capital is from investments or bank loans, than are white-owned businesses. Furthermore, only 1% of Black business owners get a bank loan in their first year of business, compared with 7% of white business owners.<sup>22</sup> Limited access to credit also compromises the financial viability of SBOCs. Based on data from the 2018 Small Business Credit Survey, the Brookings Institution found that large banks approve about 60% of loans sought by white small business owners, 50% of those sought by Hispanic or Latinx small business owners, and just 29% of those sought by Black small business owners.<sup>23</sup>

The Federal Reserve recently released a special summary based on 2019 data titled “Can Small Firms Weather the Economic Effects of COVID-19?”<sup>24</sup> The report highlighted key themes that are particularly relevant to the current pandemic:

- Even in late 2019, a period characterized by positive economic growth and low unemployment, small businesses exhibited varying degrees of financial health.
- Smaller firms, younger firms, and firms with Black or Latinx owners were more likely to be classified as “at risk” or “distressed.”
- Only one in five healthy firms (and even fewer less-healthy firms) had sufficient cash reserves to continue normal operations if they were to experience a two-month revenue loss.

<sup>19</sup> Rice, L., & Swesnik, D. (2013). Discriminatory Effects of Credit Scoring on Communities of Color. *Suffolk University Law Review*, 46, 935-966.

<sup>20</sup> Wiedrich, K., Rice, S., Sims, L., & Weisman, H. (2017). *On Track or Left Behind? Findings from the 2017 Prosperity Now Scorecard*. Prosperity Now. [https://prosperitynow.org/files/PDFs/2017\\_Scorecard\\_Report.pdf](https://prosperitynow.org/files/PDFs/2017_Scorecard_Report.pdf)

<sup>21</sup> Federal Reserve System. (2019). *Small Business Credit Survey: 2019 Report on Minority-Owned Firms*. [www.fedsmallbusiness.org](http://www.fedsmallbusiness.org)

<sup>22</sup> Fairlie, R., Robb, A., and Robinson, D. T. (2017). *Black and White: Access to Capital among Minority-Owned Startups*. SIEPR Discussion Paper No. 17-03. Stanford Institute for Economic Policy Research. <https://siepr.stanford.edu/sites/default/files/publications/17-003.pdf>

<sup>23</sup> Liu, S., and Parilla, J. (2020). *Businesses Owned by Women and Minorities Have Grown. Will COVID-19 Undo That?* Brookings Institution. <https://www.brookings.edu/research/businesses-owned-by-women-and-minorities-have-grown-will-covid-19-undo-that/>

<sup>24</sup> Miller, C. and Battisto, J. (April 2020). *Can Small Firms Weather the Economic Effects of COVID-19?* Federal Reserve Bank of New York. <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/covid-brief>

*“Structural racism is the exclusion of racial minorities from resources and opportunities (e.g., wealth, housing, education), which creates a significant disadvantage.”*

Communities of color throughout the United States have been affected by development practices and political forces that have infringed on their economic resilience. White flight, large-scale disinvestment, and misguided and discriminatory policies have led to a significant decline of many thriving, economically vibrant neighborhoods.<sup>25</sup> By definition, structural racism evolves across time and contexts. Structural racism is the exclusion of racial minorities from resources and opportunities (e.g., wealth, housing, education), which creates a significant disadvantage.<sup>26</sup> The historical legacy of racial oppression experienced by Black Americans and persistent differences in access to resources has resulted in a system of strong links between race and social class at the population level.<sup>27</sup>

Despite these deep structural challenges, a study analyzed business owners by race from 2007 to 2012 and found that firms owned by people of color made significant contributions during the last economic recovery in the United States.<sup>28</sup> Of businesses that added jobs in that time period, non-white business owners added 72.3 percent of total new jobs. This underscores the crucial importance of efforts to support SBOCs and help facilitate a thriving economy. Similarly, supporting SBOCs will play an instrumental role in creating a stronger recovery.

*“We do not want to return to our economic condition pre COVID, we want to be better ... We need to bend the curve of COVID but we also need to have a more inclusive and mobile economy.”*  
ANONYMOUS PROVIDER

<sup>25</sup> Bayor, R. H. (2000). *Race and the Shaping of Twentieth-Century Atlanta*. University of North Carolina Press.

<sup>26</sup> Phelan, J. C., and Link, B. G. (2015). Is racism a fundamental cause of inequalities in health? *Annual Review of Sociology*, 41, 311-330.

<sup>27</sup> Feagin, J. and Bennefield, Z. (2014). Systemic Racism and U.S. Health Care. *Social Science & Medicine*, 103, 7-14.

<sup>28</sup> Austin, A. (2016). *The Color of Entrepreneurship: Why the Racial Gap among Firms Costs the U.S. Billions*. Center for Global Policy Solutions. <http://globalpolicysolutions.org/wp-content/uploads/2016/04/Color-of-Entrepreneurship-report-final.pdf>



## PART 2

### SUPPORTING SBOCs DURING THE RECOVERY

SBOCs had faced significant disparity prior to COVID-19, and this is expected to have been exacerbated by the pandemic. This means that to help these businesses recover in the short run, and help create economic equity in the long run, communities may need to scale up existing strategies and simultaneously create new strategies. In this section, we focus on practitioner perspectives on the strategies that may be needed to create a more equitable recovery for SBOCs. While the recommendations in this section are informed by research and practice, they are only a few ways local communities can support SBOCs. Each community will need to effectively evaluate the unique needs, community structure, and context in which their small business owners start and grow businesses. In addition, the process of recovery will require long-term planning. Given the persistent patterns of structural racism, solutions require long-term commitment to eliminate inequitable policies and practices that are deeply embedded in our economy and financial system's structure. In referencing their experience during Hurricane Katrina, one outreach interviewee shared this statement:

COVID is highlighting the vulnerabilities that already existed in so many communities. Philanthropy is being responsive and reactive, we welcome their commitment. However, we do not want to create another Katrina, where resources are exclusively marshalled for the crisis without a long-term sustainable strategy.

This section offers recommendations in the areas of credit and capital, education and training, policy, and community support. It concludes with a discussion on the importance of ensuring that small business organizations providing services to SBOCs also are supported during the recovery.

#### RECOVERY CAPITAL FOR SBOCs

Access to capital will be critical to many small business owners during the recovery. Entrepreneurs will be looking to restart their firms and recapitalize their firms after having capital diminished during the pandemic. New entrepreneurs will be starting firms after they lost their jobs. This means communities that want to successfully help small businesses during the recovery will need to develop flexible, and often new, forms of capital. This will require looking at capital flexibility both in type and terms.

*“Even before the pandemic, founders of color were constrained by undercapitalization and relied on family loans to start and maintain their businesses... We believe that in order to move towards equitable recovery, equity and equity-like capital with flexible terms... By deploying the right type of capital, we will increase our chances to overcome yet another crisis.”*

DEMETRIC DUCKETT, LIVING CITIES

### *Traditional Business Lending Challenges*

Traditional business banking relies on lending practices designed to reduce the risk of making loans that will not be repaid. It uses a historical financial, cash flow-based underwriting model. In other words, traditional business lending looks at how the business has performed in the past to determine if it will be able to pay new debt. In addition, traditional business lending looks to match the length and type of loan to the collateral being provided. For example, banks don't offer 30-year loans on equipment expected to last only five years. These lending practices mostly rely on personal guarantees, which often are not easily accessible for many people of color, as a form of collateral.

This also is why banks generally perceive startup loans as very risky. Startup businesses very rarely have any historical financial records, so are usually speculative and risky. According to the Small Business Administration (SBA), only about half of all new businesses are operating five years after they start.<sup>29</sup> One of the fastest ways a bank can fail is by making loans that will not be repaid. This makes startup lending a challenge for banks, as they have to both follow regulatory requirements and maintain a responsibility to their customers to make high-quality loans that have a strong likelihood of being repaid.

### *The Recovery Underwriting Challenge*

Underwriting business loans during the recovery will be a challenge. This will be true for both traditional lenders like banks and nontraditional business lenders like fintech lenders, minority depository institutions (MDIs), and community development financial institutions (CDFIs). While some businesses will come out of the economic crisis in a strong position, many others either will have closed completely or be looking to restart due to significant loss in revenue. In addition, there is strong probability that personal credit scores, which still are used in the underwriting process by most business lenders, will have decreased for many owners due to an inability to pay existing debt. While traditional bank lending is a regulated activity, which may limit business lending flexibility, alternative financial institutions may be able to create new and innovative business loan underwriting. Pedro Zamora, from the HEDC Impacto Fund (a survey respondent), suggests, "First a change to the credit reporting and scoring system must accompany any deployment of credit/capital solutions."

Another consequence of the crisis will be a reduction in assets and savings by business owners. This means many small business owners may have fewer personal funds and assets to make down payments, or guarantee debt. As a result, using underwriting standards of the past means large numbers of SBOCs may be excluded from accessing credit to restart their business, or restore their business to past levels of performance.

### *COVID-19 Pandemic and New Lending Models*

The economic crisis caused by the COVID-19 pandemic has led to unprecedented small business lending products supported by financial and monetary policy. The most well-known of these, the Paycheck Protection Program (PPP), saw many large and small banks providing loans that had the potential to be forgiven to small business owners with

<sup>29</sup> Small Business Administration Office of Advocacy. (2012). Do Economic or Industry Factors Affect Business Survival? *Small Business Facts*. <https://www.sba.gov/sites/default/files/Business-Survival.pdf>

employees.<sup>30</sup> Traditional banking institutions could provide these new, innovative business loan products because the U.S. government backed them.

## ALT-CAP, A UNIQUE LENDING APPROACH DURING CHALLENGING TIMES

*Alt-Cap, a Kansas City-based CDFI small business lender, created a new loan fund in Kansas City to support the relief and recovery process. The loan terms demonstrated how alternative underwriting and repayment schedules can be put in place to support small business owners of color.*

- Up to 3-year term
- Loan amount up to \$50,000
- 0% interest for first 12 months; 2% interest for months 13-24; 4.5% months 25-36;
- Deferred payments for the first 6-12 months
- No minimum credit score is required
- Collateral requirements are flexible
- No loan origination fee
- No pre-payment penalties
- Quick processing time

While these programs have provided support to many small businesses around the nation, there is significant concern that SBOCs did not have equitable access. Studying these disparities will be a challenge for researchers, as the SBA did not require demographic data on loans to be reported.<sup>31</sup> However, some initial reports have come out documenting ways SBOCs were structurally disadvantaged in the PPP compared to white-owned businesses.<sup>32</sup> Long delays in the distribution of funding and the prioritization of larger firms meant that small businesses and businesses owned by people of color had to wait to receive critical PPP loans to retain their employees and stabilize their businesses. Also, the PPP documentation requirements necessary to ensure that loans are forgiven rather than converted to long-term debt are far more difficult for smaller businesses that cannot retain legal or financial counsel. In addition, the program excludes business owners based on many forms of criminal legal system involvement, including people who have been charged, but not tried or convicted of a crime. Historically, racial disparities in the criminal legal system and the cost of economic exclusion have been well-documented.<sup>33</sup>

**30** U.S. Small Business Administration. (2020). Paycheck Protection Program.

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

**31** Small Business Administration Inspector General. (May 8, 2020). *Flash Report Small Business Administration's Implementation of the Paycheck Protection Program Requirements*.

[https://www.oversight.gov/sites/default/files/oig-reports/SBA\\_OIG\\_Report\\_20-14\\_508.pdf](https://www.oversight.gov/sites/default/files/oig-reports/SBA_OIG_Report_20-14_508.pdf)

**32** Center for Responsible Lending. (May 27, 2020). *The Paycheck Protection Program Continues to Be Disadvantageous to Smaller Businesses, Especially by Businesses Owned by People of Color and the Self-Employed*.

<https://www.responsiblelending.org/research-publication/paycheck-protection-program-continues-be-disadvantageous-smaller-businesses#:~:text=Executive%20Summary-,The%20Paycheck%20Protection%20Program%20continues%20to%20be%20disadvantageous%20to%20smaller,weeks%20of%20receiving%20the%20loan.>

[https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-apr2020.pdf?mod=article\\_inline](https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-cares-act2-smallbusiness-apr2020.pdf?mod=article_inline)

**33** Bucknor, C. and Barber, A. (2016). *The Price We Pay: Economic Costs of Barriers to Employment for Former Prisoners and People Convicted*

*of Felonies*, Center for Economic and Policy Research. <https://cepr.net/images/stories/reports/employment-prisoners-felonies-2016-06.pdf?v=5>



According to small business provider outreach conducted in April by the Atlanta Fed, interviewees expressed a consistent theme that COVID-19 is amplifying disparities that existed in small businesses. For example, interviewees expressed concern that the first round of the PPP primarily was accessed by firms that had existing banking relationships. Respondents noted that smaller, minority, and younger firms are less likely to have these banking relationships and therefore are particularly vulnerable to closure.<sup>34</sup> Several respondents wanted the recovery to forge more equitable economic outcomes. One interviewee noted: “We do not want to return to our economic condition pre-COVID, we want to be better.”<sup>35</sup>

During the recovery, it will be extremely important to ensure that both policy-driven and local innovative credit and capital solutions are designed to ensure equitable access by SBOCs. To underscore this, one interviewee in April shared:

It’s too late for so many of these businesses to take advantage of current legislation (CARES Act stimulus loans), we need to start building for the 2nd and 3rd round of funding and new economy...we are not tackling the capital absorption for communities of color.

Along with government-backed innovative loan products, CDFIs, which are mission-based lenders backed by the U.S. Treasury Department, also were able to provide some new loan products to businesses.<sup>36</sup> Local lending by microlenders, nonprofit small business lenders that offer loans of less than \$50,000, also increased during the pandemic. Many states and cities provided funds to these local microlenders so that they could lend to small business owners during the crisis. In addition, many bank and nonbank lenders allowed business owners to modify existing loans. Some modifications included interest-only payments, payment forbearance, cash-flow based underwriting, and repayments or an extension of loan repayments to reduce monthly repayment costs.

### *Recovery Capital Types and Terms*

“Patient” and “flexible” are the two words that most characterize the recommendations by respondents to the *SBOC Recovery Guide* questionnaire. The consensus was that payments need to be delayed, interest cost needs to be low, and underwriting needs to be flexible. Many respondents also shared that grants, forgivable loans, and patient equity capital will be needed to help SBOCs recover.

The type of credit SBOCs will need will be based on the types of businesses they currently own or will restart or start. This means that diverse types of capital will need to be accessible in the marketplace. Davin Gordon, business development officer with AltCap, suggests, “[W]e have to diversify the capital stack. We could also look at debt plus equity models that allow for more flexibility and time to build the business back up.”

<sup>34</sup> Williams, J. and Hirt, M. (June 10, 2020). Southeastern Small Businesses in the Face of COVID-19. *Partners Update*. Federal Reserve Bank of Atlanta. <https://www.frbatlanta.org/community-development/publications/partners-update/2020/covid-19-publications/200610-southeastern-small-businesses-in-the-face-of-covid-19>

<sup>35</sup> Fazili, S. and Hirt, M. (April 16, 2016). The Quest for Durable and Inclusive Economic Growth. *Partners Update*. Federal Reserve Bank of Atlanta. <https://www.frbatlanta.org/community-development/publications/partners-update/2016/04/160722-quest-for-durable-and-inclusive-economic-growth.aspx>

<sup>36</sup> To learn more about CDFIs, visit <https://www.cdfifund.gov/Pages/default.aspx>

Diversity of business type notwithstanding, there was a general belief shared that low-interest-rate loans with longer repayment windows were important.

Here are some recommendations shared by small business support providers on potential loan structures for business owners of color.

- Relief and Recovery Loan: Up to \$20,000. APR: 3.75%. Term: 12-months interest only and 60-month repayment period. 2. Guaranteed Loan Programs: 1% interest for the first 18 months. Step up to 5–6% for months 19 through the end of the term (36–60) months. Initial six-month principal payment holiday (only interest), seventh month onward, interest and principal payments with straight-line amortization. **Francisco Lopez, DreamSpring**
- Lines of credit with delayed repayment start dates. Long-term loans with delayed repayment start dates. Capital that will also be inclusive of the soft costs of doing business correctly. Professional services **Winsley Durand, Greater Omaha Chamber of Commerce – REACH Program**
- Microloans, microgrants: Low interest rates, 3–5 year terms. Ability to “forgive” some months or reduce some monthly payments, but restructure the loan so there is “no load” at the end. **Keiren O’Connell, Greater Philadelphia Hispanic Chamber of Commerce**
- SBOCs will need both performance-based lending and contract lending. These are loans that are not based on the credit score. They will need low to no interest, with six months to a year deferment. I am not a fan of long-term loans but I think depending on the industry terms and maturity should be negotiable. **Kim Randolph, Heartland Black Chamber of Commerce**

While many respondents offered general or specific thoughts on how loan types could be structured, others shared that grant support, not only debt, should be provided.

- Free money. Wall Street gets free money. Ventures get free money (90% of startups fail and the venture capital is just lost and the founder doesn’t have to pay it back). Main Street needs a bail out. They need grants and forgivable loans. **Kelly Burton, Founders of Color**
- It depends on the size of the businesses. Many businesses had somewhat limited revenue and have little capacity to take on debt. They don’t need to come out of the crisis with debt that their pre-COVID revenues would not support. If there’s opportunities to transition some of it into a forgivable loan/grant after so many years or tied to post-COVID job creation, I think that would be valuable. **Anonymous Support Provider**

### THREE BIG CAPITAL AND CREDIT RECOMMENDATIONS

- Develop loan and line-of-credit products, with low interest rates, lower monthly payments, and deferred payments.
- Create small business grants or forgivable credit products that do not increase the long-term debt burden on SBOCs.
- Develop new and flexible underwriting standards that account for the challenges many SBOCs have, including lowering or eliminating credit score requirements, scaling character-based loan programs, lowering collateral thresholds, and reducing down payments and personal guarantees.

### RECOVERY EDUCATION FOR SBOCS

When discussing the needs of SBOCs, access to credit and capital often gets the most attention. However, small business education and training often is equally as and, in some instances, more important than capital. Small business education provides the knowledge, skills, and abilities to efficiently start and grow firms. In the Kansas City Fed's "Black Women Business Startups Report," Black women participating in the focus groups shared that one of their largest barriers, even greater than capital access, was business knowledge and information.<sup>37</sup>

While the final effects of the economic crisis will not be known for some time, a few things are likely to occur across the national small business sector. First, because of changes in the labor market, many individuals who have lost their jobs will look to entrepreneurship as a source of income. Second, business owners who had to temporarily close their doors will reopen to a new economy, requiring them to re-acquire their customer base and diversify their business. Finally, most of the businesses that are starting or restarting, and those that never closed, increasingly will be looking toward technological tools to help support their businesses.

As a result, a wide variety of business education and training, delivered through diverse channels and by culturally competent providers, will need to occur during the recovery. Here are some education and training recommendations from questionnaire respondents.

*"The greatest need that founders have is gaining the skill set to execute efficiently. It doesn't matter if a founder raises an extra 20% in capital, but they are executing half as fast or half as effectively as a seasoned entrepreneur. The challenge that many of our founders face is that they do not have the same access to skill-building as certain more privileged groups."*

SERGIO PALUCH, PARTNER, BETA BOOM

<sup>37</sup> Gines, D. (2018). Black Women Business Startups. Federal Reserve Bank of Kansas City. <https://www.kansascityfed.org/community/smallbusiness/black-women-business-startups>



## General Business Education

Providers say that general business education that teaches the foundations of business ownership will need to increase in communities of color. Traditional classes, such as ones on how to draw up a business plan, and classes that teach the basics of management, marketing, operations, and finance will need to be increased in most communities. In addition, emerging models of basic business training that have been growing in the United States also will need to increase. This includes lean startup models and other new models of entrepreneurial training. On the heels of COVID-19, the relevance, stability, and scalability of these businesses also will depend heavily on their ability to access and have a sophisticated command of multiple digital platforms.

### BLOCK KNOWLEDGE

*Block Knowledge provides unique entrepreneurship training for small business owners of color. By taking small business owners through lean startup methodologies and technology training for non-technical and technical founders, along with a strong product development training program, Block Knowledge works to improve the chances of startup and scaleup success and mitigate the risk of business failure.*

[www.blockknowledge.co](http://www.blockknowledge.co)

One of the anecdotal themes that came out of numerous Federal Reserve Bank outreach calls was a lack of basic business infrastructure, where many owners did not have various business records and clearly defined business processes in place. This created a challenge in accessing stimulus loans that required these historical financial records and other documentation. This type of training will need to be increased for SBOCs also. One anonymous support provider shared:

The need for education around proper financial management, use of accounting systems like QuickBooks, etc., is hugely needed in order to position these businesses to take advantage of more opportunities.

Along with education about general business practices and around networking, learning about available local resources also will need to improve for SBOCs. This includes teaching the importance of joining local trade associations, chambers of commerce, and other local networking events and organizations. These networks will help create social capital and improve informal learning. This type of community-based learning, along with other general support and technical assistance, will need to increase.

- (Education that helps owners answer) what is financial position and how do I calculate it? What is cash flow? How do I forecast my sales and profits? Simple assistance, but impactful assistance...(on the) basics of running a business and planning for the future. **Keiren O'Connell, Greater Philadelphia Hispanic Chamber of Commerce**

- Small business owners need to learn how to better interact and benefit from their local chamber of commerce and leaders within their community. Additionally, business owners should learn (be educated) about other avenues to increase business, acquire more customers and to conserve cash using trade and barter. **Lazone Grays, IBSA, Inc.**
- Our experience is that small business owners have different needs based on their size and their scalability. Our programming focuses on helping solopreneurs to scale. It provides the small business basics as most small business owners have received no formal business-related education on how to build a brand, identify a customer, tap a market, develop products and services, activate distribution channels, build teams or systems. That's the sort of education that will enable them to be sustainable. **Kelly Burton, Founders of Color**

### *Specialized Education and Training*

Support providers say that significant specialized education and training will need to increase in communities of color, or be made accessible to SBOCs. As of this writing, significant questions remain around stimulus loan funds and resources, and their long-run implications for businesses. Francisco Lopez of DreamSpring says SBOCs will need training in "PPP loan forgiveness, and social distancing protocol education for businesses like retail and other customer onsite models."

In addition to COVID-19-related training, other forms of specialized training and technical assistance need to be expanded. This training often is industry specific or designed to build targeted technical competency related to a small business owner's industry. Some examples are government contract acquisition training, industry compliance training, specific industry competency training (for example food safety certification in the food industry), and technical assistance to navigate Minority Business Enterprise (MBE) certification processes.

There are a few ways for local communities to determine what types of specialized training could be developed for SBOCs. One is to determine the major industry clusters in which small businesses owned by people of color currently conduct business and then design programs that support those clusters. An alternative way is to examine existing local corporation supply chains and develop training for SBOCs that fit within those supply chains. Finally, another way is to target emerging and high-growth industries and provide training to help SBOCs in those targeted industries scale.

### *Technology Education and Training*

Providers suggest that a wide variety of technology training will be needed to effectively help SBOCs during the recovery process. Early in the COVID-19 pandemic, technology became a significant topic of conversation for small businesses. Because of stay-at-home orders, virtual communication, delivery services, and work-from-home technologies became critical business survival tools for many small business owners. This demand for small business technology is expected to continue throughout the pandemic, and into the recovery process. As one questionnaire respondent shared, "Post-COVID-19 we will see an explosion of virtual tools and experiences. Local businesses of color will be able to connect with other businesses like never before."

Outreach calls made during the pandemic by the Federal Reserve Banks of Atlanta and Kansas City indicate many SBOCs did not have the technological skills or capacity to pivot their businesses. Becoming tech-enabled will require enhanced technology training and education for SBOCs. This includes website creation, social media, automation, virtual communication, and industry-specific technology training.

- I see a need for programs that help small business owners be more computer savvy. What are the benefits of storing information in the cloud? How can technology efficiently manage the administrative workload? What are financial strategies to do business better? What are effective ways to use online sales to increase revenue? How can social media help build a stronger customer base? **Lee Kathryn Gash-Maxey, Colorado Black Chamber of Commerce**
- Insights into gig economy resources, outsourcing smaller tasks without learning a software platform or application. How to manage workflow instead of “doing” everything. Automation of workflow. Ways to apply to get on governmental contract bids. (How to) use free or low-cost services (Google for business, marketing tools, accounting, etc.). Website user experience (understanding the importance). **Bryan Kryder, We Are Right Hand**
- Document preparation, digital tech skills and services, and accounting and tax assistance will be needed to re-brand, re-group and re-establish a model of working their business. **Lazone Grays, IBSA, Inc.**
- Marketing assistance that includes social media and online service. **Lewis G. Walker, Black Family Technology Awareness Association**
- Many SBOCs, especially Latinos, are less likely to have websites, which can allow them to advertise during COVID, let people check their hours, order services/products online, etc. **Anonymous Support Provider**

### *Informal Education and Training*

Providers recommend other forms of education and training for SBOCs during the recovery as well. One important, and often understated, form of education is informal education through mentoring and peer-to-peer learning. Developing mentoring programs can help SBOCs learn and receive guidance from someone who has “been there.” Creating opportunities for SBOCs to connect with, and learn from, each other can help with knowledge exchange, and provide support during the often-challenging process of starting and growing a business.

### *Education and Training Program Accessibility*

It is not enough simply to have an education or training program in your community and expect participation by SBOCs, say the support providers. Just because a program is available in a community does not mean it is accessible to SBOCs. The following list shares ways education and training programs can be made more accessible.

- Financial accessibility – Is the program provided at a reasonable cost for the targeted audience?
- Time/duration accessibility – Is the program the appropriate length? Is it being taught during a time that fits the target audiences schedule?

- Location accessibility – Is the target audience able to get to the program’s location without undue burden? If digital, does the target audience have the appropriate technology or technological skills to access it?
- Design accessibility – Are the criteria for joining the program appropriate for the target audience or are they higher (or lower) than they need to be?
- Education-level accessibility – Is the program too intellectually rigorous or too intellectually weak for the target audience?
- Culture/gender accessibility – Do the participants feel welcomed and included in the program, or do they feel like they don’t belong?

### THREE BIG EDUCATION AND TRAINING RECOMMENDATIONS

- Scale up significantly both general and specialized education and training programs, including COVID-19-topic-recovery training, targeted toward SBOCs.
- Develop a wide variety of technology training that educates SBOCs on how to create more tech-enabled companies.
- Ensure education and training programs are both available and accessible by ensuring that you understand the needs of the SBOCs your program is seeking to attract.

## RECOVERY POLICY FOR SBOCs

Federal and local government policies have played a significant role in helping to reduce the effects of the economic crisis caused by the COVID-19 pandemic. Government policy will also be critical to helping SBOCs during the recovery. This section discusses two primary forms of policy to help SBOCs recover, government procurement policy and policies that focus on subsidies and abatements.

### Government Procurement Policies

There was no greater consensus by questionnaire respondents than the importance of improved diversity and inclusion in government procurement programs during the recovery. Recommendations by support providers focused on existing policy enforcement, establishing accountability for supplier diversity programs, and developing set-aside programs that create a specific amount of government purchasing from SBOCs. Winsley Durand of the Greater Omaha Chamber of Commerce-REACH program says it is important to have “policies that encourage economic inclusion in the procurement processes of local government.”

*“The goal is to create a space for government leaders to reckon with a history of systems that work in the disfavor of people of color and ultimately adopt reparative approaches to addressing barriers faced by Black and Brown communities.”*

DEMETRIC DUCKETT, LIVING CITIES



A 2019 article by the U.S. Government Accountability Office indicates 40% of all U.S. government discretionary spending in 2018 (about \$550 billion) was directed toward contracts for goods and services.<sup>38</sup> Because of the complex and unique nature of each state's and city's budgetary processes, it is difficult to determine how much, in total, each municipality has to spend through the government procurement process. However, with over \$3 trillion in estimated state spending, the amount likely is substantial.<sup>39, 40</sup>

Historically, there has been disparity in government contracts awarded to SBOCs. A 2016 report titled "Contracting Barriers and Factors Affecting Minority Business Enterprises" released by the Minority Business Development Agency (MBDA) says, "Analysis of public contracting data indicates that substantial disparities exist between minority and non-minority business enterprises. Specifically, the data shows that minority business enterprises (MBEs) typically secure a lower number and dollar amount of contracts in proportion to the number of available MBEs in a relevant market."<sup>41</sup> To some degree, the disparity in accessing government contracts is a result of many SBOCs being clustered in service-based industries.<sup>42</sup> However, this also implies that governments need to be more intentional and innovative in order to bring more SBOCs into their supply chains. Figure 1, from the MBDA, demonstrates how SBOCs (referred to as MBEs) face barriers in contracting.<sup>43</sup>

The economic crisis caused by the COVID-19 pandemic is expected to cause significant challenges to state and local budgets. As of this writing, stimulus funds have been awarded to local governments to help support the recovery process. As federal, state, and local governments recover, one way to help ensure that SBOCs also recover, is to expand and strengthen diverse procurement contracts and policies. The following thoughts on government procurement were shared by questionnaire respondents.

- We believe that in order to drive the cities toward an equitable version of recovery, the government needs to "view" access to contracts and resources for people of color as a Civil Right issue. **Demetric Duckett, Living Cities**
- I'm sure money is going to be given to governmental agencies to spend at State/Federal level. It would be great to see transparency in how contracts are awarded. **Bryan Kryder, We Are Right Hand**

While this section focuses on government procurement policies, supplier diversity best practices need to be prioritized in the private sector as well. There are interesting case statements including Dun and Bradstreet's The Growing Business Imperative for Supplier Diversity and Supplier Diversity Best Practices.

<sup>38</sup> U.S. Government Accountability Office. (May 28, 2019). Federal Government Contracting for Fiscal Year 2018 (infographic). *WatchBlog: Following the Federal Dollar*. <https://blog.gao.gov/2019/05/28/federal-government-contracting-for-fiscal-year-2018-infographic/>

<sup>39</sup> Urban Institute. (July 1, 2020). State and Local Expenditures. State and Local Finance Initiative. <https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/state-and-local-expenditures>

<sup>40</sup> Note: 22% of state and local spending is on public welfare, which includes Medicaid and other forms of social assistance.

<sup>41</sup> Minority Business Development Agency. (2016). Contracting Barriers and Factors Affecting Minority Business Enterprises: A Review of Existing Disparity Studies. <https://archive.mbd.gov/news/news-and-announcements/2017/01/contracting-barriers-and-factors-affecting-minority-business.html>

<sup>42</sup> McManus, M. (2016). *Minority Business Ownership: Data from the 2012 Survey of Business Owners*. U.S. Small Business Administration Office of Advocacy. Issue Brief No. 12. <https://cdn.advocacy.sba.gov/wp-content/uploads/2016/09/07141514/Minority-Owned-Businesses-in-the-US.pdf>

<sup>43</sup> Minority Business Development Agency. (2016). Contracting Barriers and Factors Affecting Minority Business Enterprises. A Review of Existing Disparity Studies. <https://archive.mbd.gov/news/news-and-announcements/2017/01/contracting-barriers-and-factors-affecting-minority-business.html>

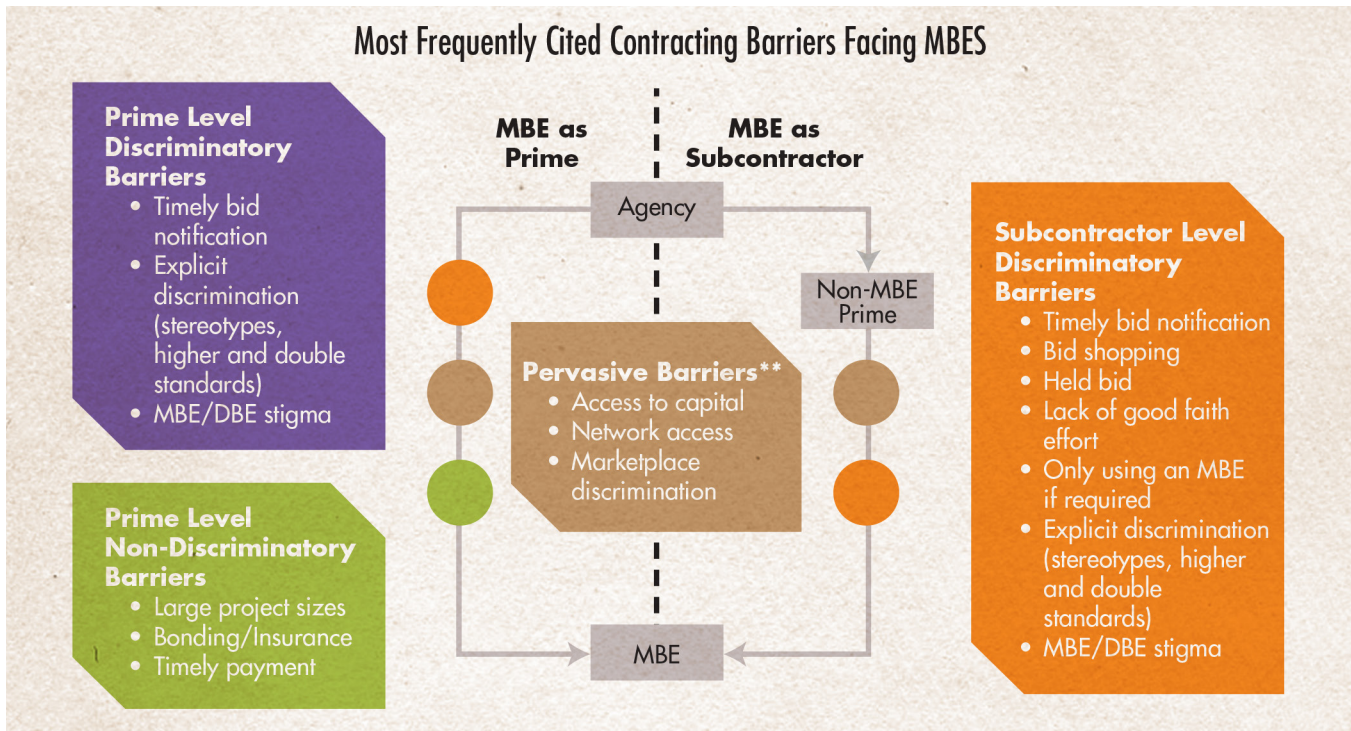


Figure 1 - Minority Business Development Agency

## CITIES AND DIVERSE PROCUREMENT

*Living Cities worked with local governments to identify ways cities can improve their diverse procurement process. They published a set of recommendations and case studies to help others learn from their peers.*

### *5 Ways Cities Can Use Their Purchasing Power to Support Minority-Owned Businesses*

<https://www.governing.com/cityaccelerator/blog/cities-purchase-power-people-color-minorities-lc.html>

#### *Subsidies and Abatements*

It will be important to reduce business expenses of SBOCs during the recovery through various subsidy and abatement policies. Owners of small businesses of all types and sizes suffered significant loss of revenue due to the economic crisis. However, many fixed costs such as commercial rent and mortgage costs have not decreased. Davin Gordon of AltCap shares that SBOCs will need "(r)ent/mortgage vouchers. Since businesses won't be able to operate at full capacity, they need a subsidy to offset the decline in revenue."

In addition, government policies that allocate or re-allocate existing government spending and grant programs, like Community Development Block Grants, need to occur. The re-allocations of grants, discretionary government spending, and dedicated policies that allocate funding through the legislative process to supporting SBOCs are



important to the recovery. These funds could be deployed to support a variety of small business needs. These might include loan fund capitalization, education and training, subsidizing the cost of chamber and trade association memberships, offsetting a variety of labor and payroll costs while adding staff, and enhancing the technological capacities in SBOCs.

Other policy mechanisms to support SBOCs are simplifying and enhancing the capacity of forming, and the programs of business improvement districts (BIDs).<sup>44</sup> These districts often enjoy a quasi-legal status, and can leverage districtwide small tax increases to support small business and economic development in the district. Allowing the easy expansion of BIDs and BID-type structures in targeted areas where there are a significant number of people and SBOCs can help create more formal community-based structures to support the recovery.

Many of these policies have been or are being done on a small scale by various state and local governments. However, to address the needs of SBOCs during the recovery, a significant increase in scope and scale of these types of policies, and more, will need to occur.

### *Creating More Inclusive Policy Processes*

While not a specific policy recommendation, increasing the inclusion of small business owners and communities of color in the policymaking process needs to occur. There is little substitute on how a policy might affect a community than gathering insight from that community on the policy. Pedro Zamora of HEDC Impacto Fund Inc. suggests the following:

“Immediately stop city planning and zoning from conducting online planning and zoning hearings that ask for land use and zoning changes; these online hearings are excluding our vulnerable communities and business who are digitally disconnected and are working on surviving. The wealthy developers are still proposing development projects in designated opportunity zones without community input further leading to gentrification and the demise of affordable retail space in minority communities.”

By creating more inclusive policymaking processes, better insights into the ways new policies may challenge and improve the outcomes for SBOCs will occur.

### **THREE BIG POLICY RECOMMENDATIONS**

1. Expand and strengthen government procurement policies for small businesses owned by people of color, ensuring that they are inclusive. This includes ensuring compliance by prime contractors and purchasers using diverse firms as subcontractors and creating greater public transparency.<sup>45, 46</sup>
2. Improve the inclusivity of subsidy and abatement policies in order to provide small business owners of color reduced or free access to a wide variety of business support services.
3. Develop and strengthen business improvement districts and other types of place-based policies, which target economic development of communities with a high density of SBOCs.

<sup>44</sup> Project for Public Spaces. (January 1, 2009). A to Z of Business Improvement Districts. <https://www.pps.org/article/bid-2>

<sup>45</sup> Lohrentz, T. (2015). *Contracting for Equity Best Local Government Practices that Advance Racial Equity in Government Contracting and Procurement*. Insight Center for Community and Economic Development. [http://haasinstitute.berkeley.edu/sites/default/files/gare-contract\\_for\\_equity\\_0.pdf](http://haasinstitute.berkeley.edu/sites/default/files/gare-contract_for_equity_0.pdf)

<sup>46</sup> PolicyLink. (March 30, 2017). Expanding Opportunity in City Contracts: St. Paul's Racial Equity Strategy. <https://www.policylink.org/equity-in-action/st-paul-contracting>

### *Community Support for Recovery*

Local communities are in a unique position to support SBOCs. Some important ways communities can support SBOCs are by providing support in the form of buy local campaigns, improving the local communities many SBOCs operate in, and creating guidelines for reopening and public health.

### *Buy Local Pledges and Campaigns*

Over the past decade, buy local campaigns have grown across the United States. In addition, since the civil rights movement, African-American communities have developed a long history of developing “Buy Black” campaigns. Developing these types of campaigns, as well as their virtual equivalent through business directories and portals, is a key way local community can support SBOCs. Winsley Durand of the Greater Omaha Chamber of Commerce – REACH Program shares, “Support with their spending from the community of people of color; as well as support from the community as a whole. Buy local campaigns have been important in the past, but are now much more so in the age of Amazon.” This was echoed by another respondent who shared, “The best support communities can do is purchase and promote (SBOCs) products.”

*“The community has the potential to be a tremendous source of growth for entrepreneurs. There are two huge gaps that community is uniquely positioned to close for underrepresented founders: access to customers and strategic partnerships. Beyond capital, the second most requested wish list item for many founders with whom I have spoken is simply customers.”*

**SERGIO PALUCH, BETA BOOM**

## THE VILLAGE MARKET, CREATING COMMUNITY THROUGH CAMPAIGNS

*The Village Market in Atlanta provides a unique buy Black experience and offers a wide variety of entrepreneurship training sessions and community connection. In partnership with the Atlanta Wealth Building Initiative and other local partners in response to COVID-19, they launched a Business Is Black campaign in spring 2020.*

[www.thevillagemarketatl.com/vm](http://www.thevillagemarketatl.com/vm)

Lee Kathryn Maxey-Gash of the Colorado Black Chamber of Commerce encourages communities to:

*“Commit to supporting Black businesses for their goods and services. Community campaigns and pledges to eat at Black-owned restaurants, commitments to use technical services (web design, social media managers, event planners, etc.) provided by people in our communities. Churches can certainly promote the services owned by members in their congregation.”*



While Maxey-Gash's quote is specific to supporting Black businesses, the concept of creating community campaigns and pledges is a strong recommendation for all communities seeking to support SBOCs.

In addition to business-to-consumer buy local campaigns, which often are the focus, business-to-business buy local campaigns need to be developed. Many SBOCs have products or services that can be used by other SBOCs and other businesses in the community. Developing programs at the local level to help introduce SBOCs to other owners from the same community can help strengthen the entire local economy.

### *A Focus on Broader Community Needs*

It often is easy to forget that small business owners need support in other ways than just direct forms of business support. Questionnaire respondents and feedback from outreach calls emphasized this need. The environment in which many SBOCs live and many times operate was seen as critically important to supporting SBOCs. Multiple respondents cited the need for adequate and safe childcare, broader community improvement plans that create clean and safe environments, and better and more inclusive local community development policies. One anonymous questionnaire respondent offered that communities of color will need "... childcare, elder care, food assistance, home mortgage/apartment rent assistance, community-based crime reduction initiatives and accessible transit."

### *COVID-19-Specific Community Support*

A lack of clarity about the duration of the economic downturn caused by the COVID-19 pandemic helps make this public health crisis much different from past recessions. The pandemic has hit many communities of color, in particular Black communities, harder than average. Because of this, communities will need to create clear guidelines to ensure two things. The first is ensuring that SBOCs have clear guidance in understanding the safety precautions they will need to take to protect the community. The second is that the broader community will need to feel safe and protected during the recovery.

Because the current recession was caused by a public health crisis, during the recovery the public will need to feel safe in returning to daily activities, including purchasing behavior. According to Nia Richardson of the City of Kansas City, Missouri, one way communities and SBOCs can work together is by co-creating transparent community guidelines and protocols during the recovery. She said, "Businesses need customers, and they need for their customers to feel safe when they shop at their establishments. They can work together to create community guidelines and equipment to protect employees and customers. We need to slow the spread in our Black communities where the survival of the virus is suspiciously low, and death rates are the highest."

### **THREE BIG COMMUNITY SUPPORT RECOMMENDATIONS**

1. Develop holistic buy local campaigns that focus on purchasing from local SBOCs and peer-to-peer small business purchasing.
2. Improve the local environment where small business owners live, and often operate their small businesses. This includes ensuring that adequate childcare, senior care, and transportation are available.
3. Co-create with local small business owners and the community clear and transparent COVID-19 recovery plans that prioritize safety and transparency during the recovery.

### *Ensuring That Support Providers Are Supported*

Providers of support services to SBOCs need to be supported during the recovery. The loss or weakening of these organizations, which often provide culturally competent and dedicated support to SBOCs, will increase the challenge of recovery. One of the great challenges expressed by small business support providers during outreach calls was the loss of funding to provide services to small businesses. SBOC-focused chambers of commerce expressed that their operational budgets declined significantly due to a decline in both corporate and small business membership. In addition, the ability to secure stimulus funds was limited or nonexistent due to their 501(c)(6) legal status. Other small business support organizations that support owners of color expressed similar budgetary challenges. Many shared that traditional philanthropic funding has pivoted away from their organization to social service support. In addition, both SBOC-focused chambers and other small business support providers said they experienced major losses of revenue because of the inability to hold annual fundraising dinners and events due to pandemic-related stay-at-home orders.

## NONPROFIT QUARTERLY SHARES HOW PHILANTHROPY CAN SUPPORT SMALL BUSINESS OWNERS OF COLOR

*In a 2018 article, Nonprofit Quarterly provides multiple examples of how foundations and philanthropists can support small business owners of color in their article:*

### *Foundations and Nonprofits Offer Support to Entrepreneurs of Color*

<https://nonprofitquarterly.org/foundations-and-nonprofit-offer-support-to-entrepreneurs-of-color/>

To ensure the strongest possible recovery for SBOCs, these organizations will need to be supported and scaled up. Here are thoughts from respondents on ways small business support providers can be strengthened.

- We will need financial support and partnerships with our banks and corporations. We will need to be receiving funding from the city, county, and state budgets every year to ensure we are developing a viable pool of SBOCs who are qualified and certified. **Kim Randolph, Heartland Black Chamber of Commerce**
- Raise capital for DreamSpring's COVID-19 Relief and Recovery Program. DreamSpring aims to raise support for small businesses impacted by the COVID-19 crisis — especially those run by women, people of color and immigrants. Our COVID Relief and Recovery Program provides immediate relief to struggling small businesses. **Francisco Lopez, DreamSpring**
- We need recoverable grants or forgivable loans to help us build a revenue model. There are no real capital sources for social enterprises to access startup capital. As a result, most for-profit entrepreneur support organizations can only bootstrap, which doesn't allow us to scale in ways that meet the need. **Kelly Burton, Founders of Color**

- Our organization needs to have information and contacts that we can pass on and connect to the small businesses in the community. **Lewis Walker, Black Family Technology Awareness Association**
- Operational and program funding and lending capital. **Pedro Zamora, HEDC Impacto Fund Inc.**
- Trust from community leaders, businesses, and the community. We have to continue to build our relationships and listen more to our community to truly understand the barriers to them accessing the right capital for them. **Davin Gordon, AltCap**

### **THREE BIG PROVIDER SUPPORT RECOMMENDATIONS**

1. Improve philanthropic and corporate support for both operational and programming budgets for small business support providers.
2. Increase contracts, service agreements, and grant funding for small business support providers from local and state governments and corporations for support providers that serve SBOCs.
3. Expand bank, government, and philanthropic investments in existing and new alternative and CDFI loan and equity funds that provide capital to small business owners of color.

### **Conclusion**

A broad range of capital, education and training, policy, and community support will be needed to effectively help SBOCs' recovery. The recommendations in this section are only a few ways to do so. The Federal Reserve Banks of Kansas City and Atlanta encourage local communities to engage SBOCs in the process of developing new or expanding existing support tools. This will allow communities to develop strategic recovery plans unique to their community and the needs of the local SBOCs.



## PART 3

### ACTIVATING AN ECOSYSTEM FOR RECOVERY AND BEYOND

The insights in this guide's Supporting SBOCs During the Recovery section provide a context for taking action to support the needs of local SBOCs. However, to implement these recommendations and provide other forms of local support for SBOCs, entrepreneurship ecosystem building must occur to support long-term solutions. This section discusses entrepreneurship ecosystem building and ways local communities can rapidly act to develop their local entrepreneurship ecosystems to better support SBOCs during the recovery.

#### *Prioritizing Entrepreneurship Ecosystem Building*

Entrepreneurship ecosystem building must be prioritized during the recovery process for SBOCs. Because the needs of entrepreneurs in general, and SBOCs in particular, require a wide range of support it is imperative that the support of these business owners be holistic and systemic. No single program will be sufficient. One strategy for doing this is to focus on building local entrepreneurship ecosystems. An entrepreneurship ecosystem can be defined as “the individuals, organizations, support programs, investors, companies, relationships, policies, environments, spaces, and cultures that interactively work together in support of entrepreneurs as they start and grow...companies in local communities.”<sup>47</sup>

An overview of entrepreneurship ecosystem building is described in the Kansas City Fed's publication “**Grow Your Own: Entrepreneurship-Based Economic Development for Local Communities.**” This publication provides a foundation for understanding the key actors, critical roles and functions, and potential configurations of an effective ecosystem that can be adapted to a local community's needs.

While ecosystem building is traditionally focused on higher growth businesses, it has not typically been concerned with the demographics of the entrepreneurs served. Most often this has left out business owners from communities of color.

To address this, an inclusive approach is presented in the Kansas City Fed's publication “**Building Entrepreneurship Ecosystems in Communities of Color.**” This publication provides additional background and recommendations for adapting an entrepreneurship ecosystem building strategy to serve communities of color. In particular, it provides a useful framework for applying the concepts of inclusion and accessibility at a system level rather than a focus on the individual businesses served, and for connecting the entrepreneurship ecosystems for communities of color to broader economic development activities and goals.

During the recovery, weaknesses and gaps that affect SBOCs in the local entrepreneurship ecosystem need to be filled. There needs to be an increase in resources, and improved networks and relationships between providers with each other and between providers and entrepreneurs.

<sup>47</sup> Gines, D. and Sampson, R. (2019). Building Entrepreneurship Ecosystems in Communities of Color. Federal Reserve Bank of Kansas City. <https://www.kansascityfed.org/-/media/files/publicat/community/smallbusiness/ecosystembuildingincommunitiesofcolor062019.pdf>



## Engaging SBOCs

Engaging local SBOCs is key to developing an ecosystem that is responsive to local needs and resources. They will have the best understanding of their situation, the assistance needed, and types of resources on which they traditionally have relied. This information is essential to strengthening support for them.

Engaging small business owners sounds intuitive but it is the opposite of traditional approaches to developing and delivering services. True engagement requires two radical approaches: recognizing and building on existing assets in the community and placing the business owners at the center of decision-making processes. One useful way to prepare for engaging SBOCs is reading existing research and findings that share high-level insight into the community they serve. For example, the Atlanta Fed wrote an article on “[Southeastern Small Businesses in the Face of COVID-19](#).” This article offers an overview of the state of small businesses in the Southeast pre-COVID-19, explores the virus’s effect on small businesses and the communities in which they are located, and suggests some potential paths forward to support small businesses. Gathering pre-existing data that include both the lived experiences of the community and data about the community from trusted sources will help prepare you for the engagement process with SBOCs.

While a broad set of experiences and resources have been developed to support such approaches to economic development, an entry point remains “[Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community’s Assets](#).” This comprehensive and practical handbook provides a step-by-step approach to identifying local assets that can be mobilized, connected, and leveraged to meet local needs. Though its concern is broader than small business support, the framework helps identify the wide range of assets that contribute to a strong ecosystem and provides a process grounded in the knowledge and experience of community members.

## Starting the Work

While the goal is to have small business owners be the driver, ecosystem building most often is started by an individual or small group that sees a need and potential response. Small business owners often will be skeptical or too busy to be the initial leaders.

Finding those initial champions is critical to building a process that can develop and sustain an ecosystem. Luckily, every community has individuals who possess some if not all of the qualities of effective ecosystem builders:

1. Representative of the community where the work is being done.
2. Connected to programs that support leadership and skills development.
3. Own or control real estate for hosting meetings, training, and networking.
4. Access to capital and financial resources to support both ecosystem activities and small business needs.
5. Facilitator of relationships within the local community and a bridge to the larger economy.<sup>48</sup>

Ecosystems are about building connections and relationships among all the different institutions, organizations, and resources that can support SBOCs. It is about building networks and community. This is different from building another organization and requires a different approach to leadership.

<sup>48</sup> Ibid.

This requires a unique style of leadership, or “network leadership,” which has been described by the Leadership Learning Community as “behaviors that foster engagement, experimentation, and self-organization among groups of people.”<sup>49</sup> The contrast of this style with more traditional organizational leadership traits needs to be recognized to ensure small business owners and stakeholders are kept at the center of the development process.<sup>50</sup>

ORGANIZATIONAL LEADERSHIP	NETWORK LEADERSHIP
Few leaders	Everyone a leader
Broadcast	Help people engage
Tell what to do	Encourage people to initiate
Individual	Help small groups form
Planning	Encourage innovation and experimentation
Control and manage	Offer facilitation and support
Directive	Encourage emergence
Top down	Bottom up
Provider service	Support self-organization

### Framing the Work

Building an entrepreneurship ecosystem may seem like a big task at the beginning, but there are lessons and tools to help inform the work. For example, Welcoming America’s “*Welcoming Economies Playbook: Strategies for Building an Inclusive Local Economy*” brings together lessons from years of experience with developing the economic potential of refugees, immigrants, and their families.

Effective practices from this work provide a framework directly applicable to working with SBOCs. The guide presents a set of “Tips for Success” that can be adapted to small business ecosystem building:

- Develop a deep understanding of local economic priorities and small business assets.
- Look for data sources that tell the story of the area’s small businesses.
- Identify and connect with existing programs and potential partners that can play a role in the ecosystem.
- Directly engage with SBOCs to understand their aspirations, goals, resources, and needs.
- Develop a comprehensive and holistic view of the ecosystem that can best serve small business owners.
- Connect with broader regional economic development plans and institutions to amplify your effort’s voice and impact.
- Create an action plan to strengthen the ecosystem through concrete actions.

<sup>49</sup> Network Weaver. (July 27, 2020). Leading culture and systems change. NetworkWeaver. <https://networkweaver.com/product/leading-culture-and-systems-change/>

<sup>50</sup> Ibid.

The “Welcoming Economies Playbook” discusses each of these steps and gives examples of how communities from different geographies and with different needs have put them to work to create local change. The “**Local Entrepreneurial Ecosystem Toolkit**” takes a deeper dive into action steps with a specific focus on the small business sector. Case studies, suggested activities, and extensive resource lists help to illustrate both the process of ecosystem building and its goals.

There are many strategies to start the work of building better entrepreneurship ecosystems for SBOCs. Because time is of the essence, one useful strategy for rapid action used by the Kauffman Foundation in their national entrepreneurship ecosystem building work is “strategic doing.” Strategic doing “... teaches people how to form collaborations quickly, move them toward measurable outcomes, and make adjustments along the way. In today’s world, collaboration is essential to meet the complex challenges we face.”<sup>51</sup> This tool is useful in developing rapid collaborative action to address complex community challenges. Here are the seven factors of strategic doing success:

1. Build on existing assets.
2. Operate with a network organizational structure that connects those assets.
3. Use an iterative planning and implementation process.
4. Decentralize implementation responsibilities among multiple organizations.
5. Move forward with a progression of shorter-term goals.
6. Use metrics to learn what works and make adjustments along the way.
7. Demonstrate high levels of trust and a readiness for change among those engaged.<sup>52</sup>

Strategic doing allows for a core group of invested stakeholders to develop a rapid set of strategic actions that then bring in the broader community to inform and design the entrepreneurship ecosystem.

### *Doing the Work*

Following are some of the key activities that support a strong ecosystem. There are many different ways to carry out this work depending on your local community’s context, goals and resources.

### *Asset Mapping*

Developing an asset map often is a good first step in identifying the actors, organizations, and institutions in an area, what they have to offer, and how they are perceived. While there are many variations for building an asset map, it is important that small business owners and other stakeholders are engaged directly in its creation. The asset map should reflect the users’ perspective of the assets within the community and their value. The Asset Building Community Development Institute offers extensive resources, guides, and case studies on the creation and use of asset maps. Its publication “**Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community’s Assets**” is a foundation in the field.

<sup>51</sup> Strategic Doing. (March 19, 2019). An Introduction to Strategic Doing. <https://strategicdoing.net/intro/>

<sup>52</sup> Morrison, E. & Hutcherson, S. (June 20, 2014). Accelerating Civic Innovation through “Strategic Doing.” *Stanford Social Innovation Review: Informing and Inspiring Leaders of Social Change*. [https://ssir.org/articles/entry/accelerating\\_civic\\_innovation\\_through\\_strategic\\_doing](https://ssir.org/articles/entry/accelerating_civic_innovation_through_strategic_doing)

The Southern Rural Development Center has developed a curriculum both to train community members on the asset mapping process and support making one. *Mapping the Assets of Your Community* provides instructional materials, presentations, worksheets and a database to organize findings of the mapping process.

The guide “*Participatory Asset Mapping: A Community Research Lab Toolkit*” places a strong focus on processes and strategies for engaging citizen involvement in the mapping process. The guide presents several different mapping processes, integrates the use of technology, and provides instructional materials conducting and presenting mapping projects.

### *Engagement and Facilitation*

While gaining the trust, participation, and commitment of SBOCs is essential to building effective entrepreneurship ecosystems that provide value, it can be a difficult undertaking. They may have seen other projects come and go without tangible results, top-down processes that provided solutions designed by outsiders without a clear understanding of local problems and context, or leadership structures that did not provide them a voice.

Entrepreneurship ecosystem building requires small business owners to be the center of focus when strategies are designed. This does not happen by accident. It requires a focused commitment to understanding the needs and challenges of SBOCs by industry, size, and where they are at in their business growth. In addition, organizers can use specific skills and techniques to support this engagement. *The Participatory Community Guidebook: Building Community Capacity* provides a wealth of short, detailed descriptions of many of these techniques and how they can be used.

### *Network Weaving*

An entrepreneurship ecosystem is animated by relationships and interactions. These must be sought out, nurtured and cared for to grow. A “Network Weaver” is a person who intentionally engages in this work. The “*Network Weaver Handbook: A Guide to Transformational Networks*” explores the roles of network weavers, the skills and techniques available to them, and the effects they can have on a network’s outcomes for its members. This role can be critical in making connections among different resources within the ecosystem as well as ensuring that decision-making processes are open, transparent, and inclusive.

### *Communications*

Shaping and telling the story of local SBOCs is important for many reasons: to have their impact and value recognized, to attract resources, and to instill community pride, among others. *Welcoming America’s ‘Stronger Together: Making the Case for Shared Prosperity Through Welcoming Immigrants In Our Communities’* presents a method for establishing communications goals, identifying key audiences, and defining message themes. The approach, tools and worksheets can be adapted to the communication needs of ecosystems supporting SBOCs.



While narrative and story make for compelling messages, data play an important supportive role. The organizations identified through the asset mapping process are good sources for data on different aspects of the small business community. As trust is developed, small business owners may be more forthcoming with data on their businesses. National reports, such as the *Association for Enterprise Opportunity's Bigger Than You Think* and *The Big Picture*, can provide both data and examples of how it can be used.

### *Bias Toward Action*

Bias toward action will be necessary during the recovery. Long deliberations and perfect program designs will exacerbate the challenges SBOCs faced during the COVID-19 pandemic. Bias toward action is a term developed in design thinking methodology, originally developed in the technology industry but since applied to community development. The following is useful in understanding bias toward action.

Too often in business, companies spend countless hours and dollars brainstorming to come up with the perfect ideas. Then when those ideas have been finalized – nothing changes. The concept of bias towards action refers to acting on these ideas, and beginning to put changes in motion. If an employee has to make a decision to take Avenue A or Avenue B, and just waits because he can't decide which is better, bias towards action would say analyze and quickly decide which route you want to take, and then move. It means don't just wait around – always make the default choice to instill change rather than idly stand by.<sup>53</sup>

Rapid action needs to be taken once it is decided to develop a local entrepreneurship ecosystem building strategy to support SBOCs. This includes gathering lived insights from local SBOCs, developing a network of relationships at the local level, and beginning to put tangible programs, policies, and projects in place. This must be done quickly because time will be of the essence during the recovery.

**53** Storyboard That. (n.d.). Bias Toward Action (definition). <https://www.storyboardthat.com/design-thinking/bias-toward-action>

## CONCLUSION

SBOCs are important contributors to the national economy. Their role in the national economy will only increase as major demographic shifts occur in the United States. However, SBOCs were vulnerable prior to the COVID-19 pandemic, and the resulting downturn has had a disproportionate negative effect on SBOCs, including increased closure rates.

A broad range of national and local actions needs to occur to help SBOCs recover. These include improved access to various forms of credit and capital that are designed to meet the specific needs of SBOCs. In addition, new or expanded forms of education and training, better policy solutions, and increased community support will need to occur. Expanded support for existing and new small business support providers that support SBOCs also will need to be put in place.

Entrepreneurship ecosystem building must be prioritized during the recovery. Because the challenges faced by SBOCs are holistic and systemic, identifying the local gaps and areas needed to be strengthened in SBOCs local ecosystems is critically important during the recovery. To build the entrepreneurship ecosystem, local stakeholders need to better understand the lived experiences of SBOCs, create local community and network-based strategies, and have a bias toward action, based on the significant effects COVID-19 has had on SBOCs.

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