ADVOCATING FOR AN EQUITABLE SMALL BUSINESS RECOVERY, an advocacy toolkit

I. The Need for an Equitable Small Business Recovery

In 2019 the Tax Policy Center released disturbing data about Black and Hispanic households.[1] Black households in America have a median net worth of $17,000 or 10% of white household wealth and Hispanics are at $20,720 or 12% of white household wealth. The pandemic was not kind to business owners of color. A McKinsey analysis found that “4% of businesses run by black Americans are still in business after 3.5 years compared with the national average of 55.5%.”[2]

Analysis of the Current Population Survey found that over the two-month window from February to April 2020, “the number of active business owners in the United States plummeted by 3.3 million or 22 percent …The drop in business owners was the largest on record, and losses were felt across nearly all industries and even for incorporated businesses.”[3] The recent rise in COVID-19 cases warns of continued harm.

A deeper dive into the data shows that the pain has not been equal across the board. The drop in the number of business owners are as follows:

- African-American business owners dropped by 41 percent.
- Immigrant business owners dropped by 36 percent.
- Latinx business owners dropped by 32 percent.
- Asian business owners dropped by 26 percent.
- Female business owners dropped by 25 percent.
- White business owners dropped by 17 percent.

Again, African-Americans end up suffering the most, with other minority communities coming in close second. The Federal Reserve of New York identified several reasons for this decline:[4]

1. Most of these businesses were in the top 50 areas for cases of COVID-19.
2. Many of these businesses were not able to access the Paycheck Protection Program (PPP). Only 20% of African-American owned businesses could access this program.
3. Lack of cash, lack of banking relationships, and already large funding gaps left many firms without the necessary cash to weather the COVID-19 storm.

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[1] Median Value of Family Net Worth by Race (03.11.2019), Tax Policy Center

[2] McKinsey & Company, “Consumer demand for Black brands is rising”, November 17, 2021

[3] Farlie, Robert, “THE IMPACT OF COVID-19 ON SMALL BUSINESS OWNERS: Evidence of Early Stage Losses From the April 2020 Current Population Survey”, Stanford Institute for Economic Policy Research, May 2020

[4] Kramer-Mills, Claire “Double Jeopardy: COVID 19’s Concentrated Health and Wealth Effects in Black Communities,” Federal Reserve Bank in New York, August 20

We share U.S. Treasury Secretary Janet Yellen's belief that business ownership is one of the four pillars of wealth creation. This advocacy toolkit focuses on how low-wealth households are constrained when starting a small business and how fostering the right ecosystem of support for underserved small business can guide an equitable recovery and increase wealth.

If small businesses are the canaries in the coal mine when it comes to the economy, then the plight of African American small businesses shows the state of the American soul. If the state and country are going to weather this crisis to the best of our ability that means investing in small businesses is a priority; and investing in African-American and other minority-owned businesses is an imperative.

Businesses are starting at higher rates than ever before. According to the US Census, more people started businesses in 2021 than ever before, a full 5.4 million applications.[5] Investment especially is needed because more people of color are starting their own businesses than their white counterparts, but the former have systematically struggled to access capital. Black women started 17% of new businesses compared to 10% for white women and 15% for white men over the same time period; however, only 29% of black women live in households with incomes over $75,000 compared to 52% of white male business owners and only 3% grow into mature businesses because of lack of capital to grow.[6] Entrepreneurs of color and underserved small businesses need and should receive the capital they need to grow.

Investments, when made, are not necessarily reaching the populations in need.

On the federal level, programs included in the relief bills such as the PPP loans and Economic Injury Disaster Loans (EIDL) loans will help businesses should they reach them. However, a Goldman Sachs survey of small businesses found that

- 79% of Black business owners applied for a PPP loan, compared with 91% of small businesses overall;
- 40% of Black business owners have been approved for a PPP compared to 52% overall; and
- 26% of black business owners have less than one month of cash reserves compared with 17% overall.

[5] https://www.census.gov/econ/bfs/index.html

[6] Kelly, Donna and Majbouri, Mahdi, "Black women are more likely to start a business than white men" *Harvard Business Review*, May 11, 2021.

In the first round of PPP loans, according to SBA data, less than 3% of all small businesses and sole proprietors in California received one. The second round went far better for our small businesses as 70% of the loans approved were for less than $50,000.

It became evident that CAMEO's work advocating for resources to these communities that have been left out - especially black-owned businesses that historically have not had good relationships with banks, as well as ITIN holders, and other micro businesses - was vital. At the federal level, that means supporting grant funding for small businesses, ensuring those grant programs work, responsible business lending, and liquidity for Community Development Financial Institutions (CDFIs).

At the state level, the California Relief Grant launched over Christmas 2020 and ended on September 30, 2021, with the state granting more than $4 billion to California small businesses. The following table was calculated from the state reports and shows the percentage of grants that went to various demographic groups, compared with the total population and business owners.

Demographic	Percent Receiving CRG	Percent of CA Population	Percent of CA Business owners
LMI	59.2	34	n/a
Rural	6.7	6	n/a
Minority	60.9	64.8	27.3
White	39.1	71.1	72.7
Women	44.4	50	43.1
Veteran	2.8	3.9	4.4
African American	1.2	6.5	5.5
Asian	34.2	15.9	20.6
Hispanic	18.2	40.2	23.4
Native	1.8	1.7	0.5
Other Pacific Islanders	2.3	0.5	0.4

Source: California Relief Grant State Report, U.S. Census Bureau, except for the LMI which came from the Public Policy Institute of California (PPIC), and the U.S Small Business Administration California State Profile.

The California Relief Grant reached a much higher percentage of low-moderate income and minority business owners than those that are represented in the California population and as a percentage of California business owners. Women business owners received the grant more or less proportional to their business ownership, while veteran grant recipients were lower than their proportional representation in the general population and as business owners. When we breakdown the minority grant recipients into race and ethnicity Asian, Native, and other Pacific

Islander grant recipient received a greater proportion of grant funding than their population and business ownership proportions, while African Americans and Hispanic received lower percentages.

In addition to investment, we need to recognize that inequality is rife in our system and needs fundamental structural change. Society must alter the baked in racism and unrig the system.[7] We need new rules that promulgate equity, and not systematically perpetuate an unequal society. This is the long-view and CAMEO will work toward that path. Simultaneously, we recognize that policy decisions are being made in the here and now and we must respond appropriately to that reality.

Responding to COVID-19, most efforts thus far have been focused on relief with an eye toward recovery. As we move deeper into the recovery phase, we must understand that some businesses, including many of the socially and economically disadvantaged businesses remain in the relief phase, and that businesses are starting at higher rates than ever before.

If the state and country are going to weather this crisis properly and reimagine what an equitable recovery is, investing in small businesses is a priority; and investing in BIPOC businesses and their owners is an imperative. We must do better this time around.

II. Supporting Local Entrepreneurial Ecosystem to Support Underserved Small Businesses

To promote a sustainable and equitable recovery from the economic distress of COVID-19, we need to include small and very small business development in our economic development strategies and focus it on racial economic equity. One such strategy that any community can implement is to create a strong ***Local Entrepreneurial Ecosystem.*** The ecosystem includes: business training and management skills, small amounts of capital, access to markets, an environment in which to thrive, and policies that encourage entrepreneurship, or put a simpler way, the five 'C's (5Cs) of Coaching/training, Capital, Connections, Climate/policy, and Culture. [8]

When looking at entrepreneurial support the focus is often narrow, e.g. "Let's start a loan program." It's important to consider the five Cs as a whole, not in silos. You can't have a loan

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[7] Racial Economic Equity In Small Business Funding has a brief history of systemic racism in small business lending and CAMEO was a part of the collaboration that produced that document.

[8] The concept of an entrepreneurial ecosystem is not unique and many descriptions use different nomenclature, but conceptually they are similar. For more explanation of the 5Cs and the LEEP, download CAMEO's LEEP Toolkit. The 5Cs are aligned with Ewing Marion Kauffman Foundation's America's New Business Plan: Access to Opportunity and Support encompass, Climate (policy); Access to Funding is directly analogous to Capital; Access to Knowledge is directly analogous to Coaching.

program if your borrowers do not have clients or understand their financials. That is why a growing number of efforts are shifting to a more holistic view, a view that we advocate for to become commonplace. The result is to create a strong and diversified infrastructure of entrepreneurial support (consisting of the five Cs) that serves the needs of many small, locally-owned, underserved businesses, a major source of job creation, economic stability, and community success in the new economic reality.

In an ecosystem, pieces interact, support each other and depend upon each other. They don't work in silos. With a strong ecosystem, local economies are able to nurture self-employment and small businesses to create a sustainable, self-reliant, and thriving local economy. Part of being in an ecosystem is that the pieces interact, support each other and depend upon each other. Much like a puzzle, our ecosystem needs each piece, each C in this case, to show the full picture and increase its impact.

We learned through the pandemic, that the business owners who were connected to the ecosystem of support, were the ones that survived and were able to pivot. We find it useful to build our advocacy within the context of the Local Entrepreneurial Ecosystem of 5Cs. We briefly describe the ecosystem below and provide policy recommendations that focus on what states can do, but the principles apply to other jurisdiction levels.

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Coaching / Training

Business assistance is the first step in the capital access and builds the pipeline of potential borrowers. Businesses that receive coaching are 50-80% more likely to be in business after 3 years, create 2 jobs in addition to the owner and be more resilient. Strategies are to provide business training and coaching services; train public sector staff on business owner needs; create active partnerships between public agencies and other local groups.

At the state level, initiatives like the ones mention below are key to strengthen the ecosystem of support. CAMEO advocates for and encourages our partners to advocate for:

- Continued and permanent support for business service organizations, such as California did in 2022 when it made the Technical Assistance Expansion Program (TAEP) permanent in the California budget. These organizations focus on serving entrepreneurs of color, low-moderate income business owners, and other under-invested in populations; the services they provide are crucial to entrepreneurial success.

- Expanding support of small business center's to growing communities. For example, in San Bernardino County no small business assistance centers exist outside of the city of San Bernardino. San Bernardino County is the largest county in the country that spans 20,105 square miles and assistance for small businesses is scarce. While virtual coaching has become more common, high-touch services are often more effective.
- All programs intended to reach underserved and under-resourced entrepreneurs need marketing, outreach and administrative dollars, including grant programs. Most programs also need support for coaching activities. Materials need to be language and culturally appropriate.
- Application for the State Small Business Credit Initiative technical assistance dollars to fund credit assistance that focuses on building the pipeline of underserved entrepreneurs.
- Using unused resources, e.g. in California Cal Competes money, to support business development organizations that have proven effective in building community wealth.
- Create an entrepreneur track in California's workforce development programs especially in underserved communities.

Capital

Capital is essential to any company who wants to grow and expand. According to a Liftfund study, "startups receiving funding are dramatically more likely to survive, enjoy higher revenues and create more jobs," Receiving a microloan can increase a business's chance of surviving by over 50%.[9] Strategies include: ensure a spectrum of capital options; establish and publicize non-bank and start-up capital options; seek additional funds for community investment.

At the state level, initiatives like the ones mention below are key to strengthen the ecosystem of support. CAMEO advocates for and encourages our partners to advocate for:

- Strong transparency in small business lending regulations, e.g. California's SB 1235 and small business lender accountability through the Department of Financial Protection and Innovation (DFPI).
- If a lender is participating in state credit enhancement programs, or otherwise subsidized by the state, they should adhere to responsible lending practices, e.g. such as those suggested by the Small Business Borrowers' Bill of Rights.
- When future disasters strike, provide grants for small businesses to cover operating expenses for the duration of the shutdown and the transition period to re-opening.

[9] Fracassi, Cesare et al, "How Much does Credit Matter for Entrepreneurial Success in the United States?"

- Use the return or unused funds from tax credit programs and other state programs targeted to small businesses to support grants, loan deferment options to small businesses, and cover loan fees.
- Grant funding and/or very patient capital (0% long-term (20 year) patient capital for CDFIs so that they are able to make it through the recession and assist in the recovery with a flexible carve out to CDFIs that make loans to microenterprises and small businesses that are owned by undocumented people.
- Support using SSBCI 2.0 dollars to increase access to capital to underserved entrepreneurs.
- Support a state fund similar to the U.S. Department of Treasury's CDFI Fund and its implementation.
- Support private public partnerships that offers low-cost capital to small businesses, such as the California Rebuilding Fund, the New York Forward Loan Fund, or the Chicago Small Business Resiliency Fund.
- Ensure that programs support financing for start-ups.
- Provide technical assistance and permanent funding to help CDFIs expand operations.

The combination of business technical assistance and small amounts of capital are critical success factors for microbusiness owners, especially those that are normally locked out of traditional financial resources. The Federal Reserve's Small Business Credit Survey found prior to the pandemic that 76% of Black entrepreneurs and 67% of Latino entrepreneurs were seeking loans of less than $100,000.[10]

The need for responsible small business lending

In a tight cash markets with declining incomes, business owners who are desperate often turn to whoever will offer them money. African American and Hispanic-owned employer firms apply to online lenders at higher rates than White-owned firms.[11] Also, during the pandemic online lenders used interest in PPP loans to generate leads in anticipation of being able to offer them regardless of their approved lender status. Thus, an equitable recovery must ensure responsible small business lending standards.

[10] Wiersch, Ann Marie, and Misera, Lucas, "Federal Reserve Small Business Credit Survey 2022 Report on Firms Owned by People of Color", p 10.

[11] Lipman, Barbara and Ann Marie Wiersch, Board of Governors of the Federal Reserve System, "Searching for Small Business Credit Online," Consumer and Community Context, Nov 2019, Vol 1, No 2.

While not all online lending is predatory, if a deal sounds too good to be true, it often is. Small business financing online often come with interest rates of higher than 50 percent — some even reaching 350 percent — *without* these rates being disclosed to the borrower.

The problem is online lenders often throw out low numbers that sound like and interest rate, but the true cost of the funding is usually much higher. Navigating the space is challenging, even for an experienced borrower. Rates, loan structures, fees, terms, etc. can be hard to discern from the websites.

In 2018 the Federal Reserve published a study *Browsing to Borrow: "Mom & Pop" Small Business Perspectives on Online Lenders*, which looked at small business owners' perceptions of online lending. The three key takeaways from the study were:

- Small business owners were familiar with online lenders and didn't have a good impression of them;
- Small business owners want more information on their financing options; and
- Existing products are confusing.

Most of the study's participants said clear, understandable information should be available to potential borrowers before they apply for a loan and turn their businesses' financial data over to a lender.[12]

The federal Truth in Lending Act protects consumers but does not protect small businesses. That's why California enacted SB 1235 in 2018, which requires lenders to clearly communicate to small businesses what their financing would cost. It was the first small business truth-in-lending law in the country. In July of 2020 New York passed similar legislation citing California as a leader in protecting small business from predatory lending.

Industry is clear that they are not interested in a patchwork of different regulations and disclosures. We need leadership in Washington to act accordingly and pass the Small *Business Lending Disclosure Act* (H.R. 6054) that was introduced by Congresswoman Nadia Velazquez in 2021. CAMEO has worked with the Responsible Business Lending Coalition since the bill was passed and has been supporting the California Department of Financial Protection's (DFPI) efforts to provide financial protection for small businesses.

Connections

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[12] Lippman, Barbara and Wiersch, AnnMarie, Federal Reserve Board, Browsing to Borrow: "Mom & Pop" Small Business Perspectives on Online Lenders, 2018.

Connections are sometimes referred to in academic literature as social capital. According to Harvard Professor Robert Putnam,

> The central premise of social capital is that social networks have value. Social capital refers to the collective value of all "social networks" [who people know] and the inclinations that arise from these networks to do things for each other ["norms of reciprocity"].

People in communities with lots of social networks have more ability to work together and address economic problems. Connections or social capital help with information flows, mutual aid, collective action, developing a community mentality, and connections to critical support. For the entrepreneur, that network may be connections to the CDFI for start-up capital or a business owner may use their relationship with a supplier to expand.

When discussing an entrepreneurial ecosystem, we need to address two different types of connections:

- connections between the business owner and her customers, i.e. markets
- connections between networks of entrepreneurial activity

The government can strengthen the local ecosystem by being the market, that is being the customer, whether on a local or state level. Government procurement contracts are often a pathway to growth for many small businesses. For example, Gregory Dulan owns Dulan's Soul Food with two locations and co-owns Hotville Chicken in Los Angeles. His family has owned restaurants for over 47 years and donates money and food to local charities. During the pandemic, global lockdowns forced many restaurants and commercial kitchens that provide services to senior citizens and the disabled to close. To save his restaurant and serve his community, Mr. Dulan secured a procurement contract with the city of Los Angeles along with other restaurants to serve over 4 million meals to senior citizens and the disabled. Because of the successful work he did with the city of Los Angeles, another nonprofit, World Central Kitchen also paid for the restaurant to serve a few thousand meals to the clients they serve. While this is a local opportunity, the concept extends to the state and federal levels.

Another impact that state and local governments can have on connects to markets is to minimize the wide disparities in broadband internet access. According to the Federal Communications Commission 98.5% of Americans in urban areas have access to fixed terrestrial broadband, but only 77.7% of those in rural areas and 72.3% on tribal lands do. According to an analysis of California Public Utilities Commission data, only one-third of rural California households have internet access, largely because people can't afford the internet and very few internet providers service the area. In addition to geographical disparities in access, we need to consider racial disparities. According to Pew Research, 71 percent of Black Americans, 65% Hispanic Americans, and 80% of White Americans have home broad band subscriptions.

New and current business owners use the internet for telework, fulfilling orders, contracting firms, and other business matters. The internet has also opened the door for small business by allowing small business owners to do business outside of the boundaries of a local town to the globe. During the pandemic those businesses that could easily pivot to online sales had a head start.

CAMEO advocates for the following to improve small business connections to markets:

- Continue the expansion of broadband to all of California, as it is a basic utility that everyone needs to access.
- Set guardrails for online platforms to play fairly and not engage in abusive practices.
- Continue contracts even if unable to deliver projects because of disasters.
- Replace import with goods and services from locally-owned companies.
- Compare bids net of expected tax proceeds for lowest bidder.
    - Example, locally-owned Company A bids $1.2 million for a state contract and a nonlocal Company B bids $1 million. If Company A generates $300,000 more in taxes for the state, Company A is the low bidder.
- Encourage local, county, and state governments to purchase supplies and render services from local small businesses. This keeps the money in the community and the local and county governments eventually see some money return when the small business pays taxes.

As mentioned above, connections to other entrepreneurs and entrepreneurial activity are also important and are carried out by private entities. However, the government can indirectly support connections by investing in the ecosystem partners, which illustrates the intertwining relationship between the 5Cs.

For example, during the labor shortage, some restaurants in California's Central Valley shared staff to fill out their shifts - all were clients of the local Small Business Development Center (SBDC). Being connected to the ecosystem - such as an SBDC or Women's Business Center or other nonprofit business service provider - helps an entrepreneur tap into a whole host of other resources including other business owners. Those organizations helped thousands of businesses apply for the California Relief Grant, access the PPP program, pivot their businesses, and provide support systems in a time of crisis. So while there's not a policy recommendation specifically to connect entrepreneurs with other entrepreneurs, this is a related benefit to funding ecosystem partners.

Culture

Culture is critical to the development of any ecosystem. The culture aspect of an entrepreneurial ecosystem supports entrepreneurship as an integral part of community norms. "A community's attitude toward entrepreneurs is important. Supportive communities welcome the new ideas and businesses that entrepreneurs bring, getting to know them and their needs. They provide support in good times and when failure strikes. And, these communities make investments so that they can offer the quality of life that footloose entrepreneurs seek."[13]

Culture is not usually seen as a government activity, but the government can support an entrepreneurial culture with recognition and engaging in the policies suggested elsewhere that provide a strong LEEP. By providing leadership, they create the stage for communities to embrace policies that create their own strong local entrepreneurial ecosystems. While we usually focus cultural recommendations on local actions, the state can take a few steps to improve small business culture in California. CAMEO recommends:

- Embrace small business as part of economic development.
- Recognize the importance of entrepreneurship and small business ownership.
- Create a small business council that includes small business owners, policymakers, and other stakeholders that are focused on investing in the entrepreneurial ecosystem, providing capital access, connecting business owners to markets and other topics of concerns to business owners to ensure that the state of California is listening to the concerns of business owners.

Climate

Climate encompasses the policy and regulation piece of the ecosystem. According to the Ewing Marion Kauffman Foundation, nearly three-quarters of the small business owners they surveyed agree that government regulations for business are complex and hard to follow. Sixty-three percent of business owners believe that it is to too time-consuming and difficult to stay legally compliant with local, state, and federal regulations.[14] A survey taken in 2020, showed new

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[13] For more information, refer to CAMEO's LEEP Toolkit.
[14] Ewing Marion Kauffman Foundation, America's New Business Plan, p. 5.

business owners that had been in business for less than a year identified laws, policies, and regulations as a challenge.

Usually, government regulations and policies favor larger businesses over smaller ones, because the larger ones often exert more influence over policy than smaller ones. Small businesses are interested in a strong infrastructure, (e.g. good roads, reliable broadband, availability of housing), the ability to compete with the large businesses, and increasing the demand for their products. A positive regulatory approach is one that promotes a healthy local economy that benefits businesses of all sizes. Government strategies should consider the general business climate, as well as what their effects will be on different types of businesses and entrepreneurs.

One of the best policies that governments can implement is to invest in the other four Cs mentioned earlier. When it comes to climate - regulation and policy - that have not already been discussed, we recommend the following actions.

- Re-align policies and institutions with today's new market, labor force and technology realities, including an equity lens and an understanding of the needs of small businesses.
- Encourage cooperation among regions.
- Put energy into creative solutions. For example, while hiring tax credits are popular, a new report by Ewing Marion Kauffman Foundation finds they are not the best way to help entrepreneurial firms.[15] The smallest of small businesses often can't take advantage of hiring tax credits.
- Ease restrictions for starting businesses, such as cottage food production. During the pandemic, many people who lost their jobs or quit them, began cooking and offering meals or sweets made in their home kitchens. Advertisements for soup or a dozen tamales were common on Nextdoor, but many of these businesses were operating under the table.
- Form a commission of small business owners, nonprofits that support small businesses, and policymakers that is focused on improving the cost of doing business. All regulations and fees should be evaluated for their effect on small business success.
- States should have a dedicated agency that helps small businesses that is properly staffed to be able to serve the number of small businesses in its jurisdiction. For example, California's Office of the Small Business Advocate (CalOSBA) has three regional advisors and three engagement specialists that are responsible for outreach to more than four million California small businesses. The state should expand its regional advocate program to include advocates in each major economic area such as Los

[15] Hackler, Darrene, and Harpel, Ellen, "Incentives for Entrepreneurial Firms," Ewing Marion Kauffman Foundation, August 2021, p. 10.

Angeles, Orange County, San Diego, Central Valley, Central Coast, Bay Area, Rural North, etc. The advocates could be aligned with the regions in the Community Economic Resiliency Fund program.

- Ensure that state agencies have small business liaisons that communicate to improve the environment for small businesses and streamline processes and regulations. In California, the law requires that any agency that has a small business effect must have a small business liaison, but the law does not require they meet.

CONCLUSION

California is the world's fifth largest economy; it couldn’t hold that position without a strong and successful small business economy. According to the U.S. Small Business Administration California small businesses employed 7.1 million people, about 48.8% of employed people are employed by a small business. California has a reputation for entrepreneurship on all levels and are experiencing record business starts with entrepreneurs of color leading the way.

When the five Cs – Coaching (all training), Capital, Connections, Climate, and Culture – are solid, a community will have a strong Local Entrepreneurial Ecosystem (LEEP). Embed a racially equitable lens, we have an opportunity to eliminate economic disparities and build sustainable, communities and tackle our system inequities. Everyone wins.

Small and very small business concerns must be front and center of any economic recovery. Concerns of entrepreneurs of color must be in the same position. CAMEO will advocate and educate our elected and appointed leaders of the importance of building a sustainable and strong entrepreneurial ecosystem that works for *all* entrepreneurs with a focus on those who are underserved and underinvested.