

## CHALLENGE

### **MINORITY- AND WOMEN-OWNED SMALL BUSINESSES HAVE FACED HISTORICAL BARRIERS TO ACCESSING CREDIT, WHICH HAS BEEN FURTHER EXACERBATED BY THE COVID-19 PANDEMIC.**

Over one million minority-owned small businesses employ more than 8.7 million workers and generate more than \$1 trillion in annual economic output, yet these businesses have historically faced barriers to accessing credit—a trend that has been exacerbated by the COVID-19 pandemic.<sup>1</sup> Although federal law requires fair lending, many hurdles remain for both minority and women entrepreneurs. According to survey data, 42 percent of minority-owned small businesses reported increased difficulty obtaining credit, compared to 29 percent of all respondents.<sup>1</sup> Prior to the pandemic, another survey found nearly 60 percent of women entrepreneurs reported they do not have the same access to capital as their male counterparts.<sup>2</sup> Moreover, large racial gaps have persisted over time in small business revenues, profit margins, cash liquidity, and survival that persist across industry, geography, and owner gender and age. The Black-White gap is particularly striking: Black-owned businesses had revenues and profit margins less than half those of White-owned businesses, and about two-thirds the level of cash liquidity.<sup>3</sup> In June 2020, it was reported that

there was a 19 percent (more than 200,000) decline in the number of active Black business owners since February.<sup>4</sup> Before the pandemic, JPMorgan Chase Institute research found that half of small businesses had roughly two weeks' worth of cash buffer to cover expenses in the case of a disruption of inflows.<sup>5</sup> By July 2020, according to survey data, more than half of all small businesses were concerned that they would have to permanently close and almost three-quarters were concerned about the financial impact of long-term closures.<sup>6</sup> Microbusinesses make up more than 90 percent of all firms and employ nine or fewer employees, of these businesses 21.8 percent are female-owned, 14.6 percent are owned equally by men and women, and about 20 percent are owned by minorities. Even before the pandemic, many microbusinesses had little in both short and long-term savings.<sup>7</sup> Soon after the pandemic began, only 55 percent of businesses with four or fewer employees reported being comfortable with their cashflow.<sup>8</sup>

## SOLUTION

### **BETTER ALIGN FEDERAL PROGRAMS TO MEET THE NEEDS OF THE MOST VULNERABLE SMALL BUSINESSES AND COMMUNITIES.**

Federal policy changes can enhance access to capital for minority- and women-owned small businesses, which have a harder time accessing credit and have been severely impacted by COVID-19. Policy reforms should be targeted to meet the needs of these businesses.

- The **SBA Microloan program**, which provides loans of up to \$50,000 to help small businesses start up and grow to scale, should be expanded. This program was designed to provide small loans to women, minorities, veterans, and low-income business owners. The program is an invaluable resource for the smallest businesses, particularly startups and microbusinesses that have difficulty accessing capital.<sup>9</sup> Making product adjustments and increasing resources will allow the Microloan program

to reach a greater number of entrepreneurs overall and more minority-owned businesses. Entrepreneurs of color typically start with less capital and often face greater challenges when trying to obtain a loan to expand their businesses, but with comparable revenues and cash liquidity, are just as likely to survive as White-owned businesses.<sup>10</sup>

- The **SBA Community Advantage (CA) program**, a pilot program to meet the credit needs of underserved markets, should be made permanent. It has served as a vehicle for lenders to package both lending and technical assistance to entrepreneurs in underserved markets.<sup>11</sup> In Fiscal Year 2017, the CA program showed strong loan performance, with 92.9 percent of its loans reported as current or paid in full. The program also reached historically underserved entrepreneurs, performing second to the Microloan program amongst ethnic minorities (by percentage), and utilized by a higher proportion of veterans and new businesses when compared to the SBA's Microloan, 7(a), and 504 programs.<sup>12</sup> The CA pilot program started in 2011 and is set to expire in 2022.<sup>13</sup>
- The **Small Business Investment Company (SBIC) program** provides flexible forms of growth capital to qualified small businesses. SBICs are privately owned investment funds, licensed and regulated by the SBA to invest in small businesses across different industries and sectors, such as clean energy and education. The SBIC program could reach a more diverse set of asset managers by expanding the types of SBICs that can apply for a license and making more capital available to SBICs who are approved, especially to those that are owned by minorities. SBICs have not invested heavily in underserved businesses, providing about 5 percent of total financing to minority-owned and controlled businesses and about 3 percent to women-owned businesses annually.<sup>14</sup> With requirements outlined for how SBICs invest their capital into the small business sector, a more diverse set of firms will likely result in a greater availability of capital to underserved entrepreneurs.<sup>15</sup>
- Restrictions on **small business lending to justice-involved individuals** should be modified. COVID-19 relief programs in the Coronavirus Aid, Relief and Economic Security Act were initially implemented with restrictions on those with a criminal record or pending criminal charge that went beyond existing SBA eligibility standards and those requirements were later eased.<sup>16</sup> However, the SBA's existing 'good character' policy requires that individuals applying for programs disclose previous criminal offenses, including records that have been expunged. The SBA should lower barriers to programs for people who have fulfilled their justice system obligations.<sup>17,18</sup>
- Policymakers should increase the statutorily set **contracting goals** for small businesses and streamline the certification process for small business federal contracting programs. The SBA works across federal agencies to set goals for federal contracts that will go to small businesses, including socially and economically disadvantaged businesses, women-owned businesses, service-disabled veteran-owned businesses, and HUBZones.<sup>19</sup> Both the government-wide small business contracting goal and goals for the aforementioned categories should be increased. Additionally, easing the burdensome application process would promote greater participation in federal contracting programs.
- Policymakers should limit **contract "bundling"** to increase opportunities for small businesses to participate in procurement activities. In recent years, there has been a decline in the number of small businesses securing government contracts. In Fiscal Year 2019 the federal government spent a record \$132.9 billion on prime contracting for small businesses. However, from 2016 to 2019 there has been a nearly 15 percent decline in the number of small businesses participating. The federal government's unmatched purchasing power has the ability to significantly grow businesses, making it all the more important for small businesses to have a fair chance at competing.<sup>20,21,22</sup>
- The Department of Treasury's **Community Development Financial Institutions (CDFI) Fund** is used to support economic revitalization in communities by providing grants, loans, and technical assistance. The loans these institutions provide and strong relationships they have fostered among business-owners help drive significant economic activity in underserved communities. In 2019, the CDFI fund award recipients originated more than 772,000 (above \$21.5 billion) in loans and investments, with an average sized loan less than \$28,000.<sup>23</sup> The federal government should increase the federal CDFI Fund from \$250 million to \$1 billion, with a set-aside for Black-led CDFIs in order to boost economic revitalization in underserved communities.
- The SBA's **Paycheck Protection Program (PPP)** was designed to help small businesses impacted by COVID-19 maintain their payrolls. Congress worked quickly to stand up a payroll assistance program and the SBA approved more than 6 million loans (almost \$600 billion in resources) by the end of January 2021.<sup>24</sup> According to the JPMorgan Chase Institute, PPP loans substantially increased cash balances, supporting expenses while revenues were depressed.<sup>25</sup> Absent PPP loans, many small businesses likely would not have been able to stay afloat. In the second COVID relief spending package, policymakers expanded the list of covered expenses while still requiring that 60 percent of resources be spent on payroll in order to qualify for loan forgiveness.<sup>26</sup> Since most small businesses are nonemployers, policymakers should better consider the full scope of expenses small businesses face. The PPP should be targeted to those businesses hardest hit by COVID-19, with a specific focus on the needs of underserved markets and ensuring that the appropriate level of resources is made available.

- Federal policymakers should create a stable source of funding for **state and local governments** to provide small businesses with relief loans and grants. By localizing dollars, programs can be better tailored to fit the specific needs of communities and community networks can be utilized to reach the businesses most in need.<sup>27</sup> Policymakers should consider creating programs or initiatives similar to the **State Small Business Credit**

**Initiative (SSBCI)**, which deployed \$1.5 billion to states to spend on small businesses recovering from the Great Recession. The program gave states the flexibility to design small business financing programs that pinpointed businesses facing hardship while requiring that states generate \$10 of new small business financing for every dollar of federal funding allocated.<sup>28</sup>

More support is needed to strengthen the ecosystem that would increase availability of capital to small businesses, including the Minority Business Development Agency (MBDA), Small Business Development Centers (SBDCs), and Women’s Business Centers (WBCs). Additional recommendations will be released by the *PolicyCenter* pertaining to technical assistance for small businesses.

**JPMorgan Chase Path Forward Commitment:** JPMorgan Chase announced that it will provide an additional **15,000 loans to small businesses** in majority-Black and -Latinx communities over the next five years. To do this, the firm will deliver **\$2 billion** in loans. Building on the firm’s supplier diversity efforts, the firm will also **spend an additional \$750 million with Black and Latinx suppliers**.

## ENDNOTES

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