

GETTING UP TO SPEED

# ACCESS TO CAPITAL

A CONCEPT PAPER FOR SMALL BUSINESSES



BANK

# INTRODUCTION

Capital is the foundation of any thriving business. Capital helps small businesses increase their revenue, employ more people, and achieve long-term success.<sup>1</sup> Equitable access to capital is thus crucial for building thriving business districts and local economies, underscoring the widespread benefits of ensuring entrepreneurs of all backgrounds, races, and genders have access to the capital they need.

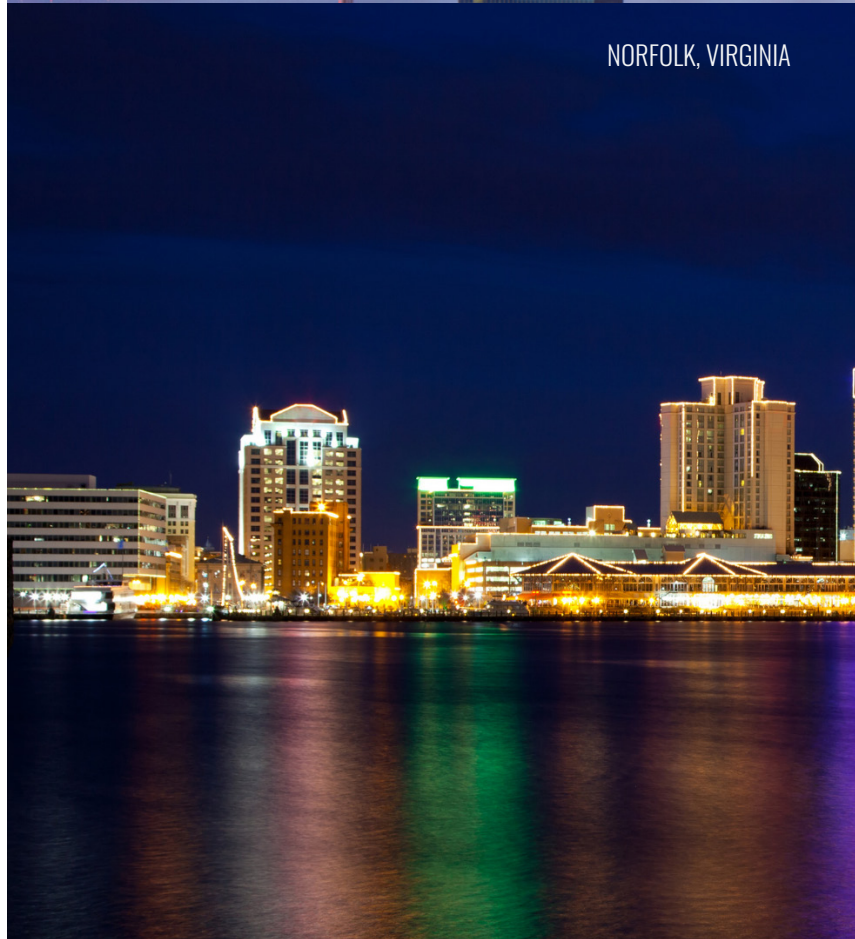
Access to capital has generally been more difficult for women and Black and Latinx people seeking assistance to finance their small businesses. **In an effort to uncover root cause analysis, MSA was able to spotlight two cities – Newark, New Jersey, and Norfolk, Virginia – that have significant Black small business ownership to gain more insight from our members and understand the specific challenges they are facing.** In 2019, there were more than double the number of Black or African American (Non-Hispanic) residents in Newark than any other race or ethnicity, and 37 percent of the people in Newark are Hispanic.<sup>2</sup> In Norfolk, Black or African American (Non-Hispanic) residents comprised the second most common ethnic group.<sup>3</sup> Over the past two years, MSA members met to discuss challenges they have experienced and think through solutions.

Newark, New Jersey, and Norfolk, Virginia, boast vibrant small business communities. To assess the landscape in Newark – home to many innovative Latinx and Black-owned businesses – Main Street Alliance surveyed and held in-depth conversations with 57 small business owners. In Norfolk, where Black-owned businesses are growing, Main Street Alliance spoke with 53 small business owners. These conversations took place in the fall and winter of 2021/2022, and covered a range of questions concerning access to capital, including access to capital during the Covid-19 pandemic.

NEWARK, NEW JERSEY



NORFOLK, VIRGINIA



# WHAT THE RESEARCH SAYS ABOUT SMALL BUSINESS ACCESS TO CAPITAL

Capital is not equally distributed among entrepreneurs, and those without family wealth cannot launch their businesses on the same footing as those who draw on such resources. **Black and Latinx entrepreneurs, in particular, have less business equity on average than their white counterparts<sup>4</sup> and experience discrimination in lending;<sup>5</sup>** due to financial barriers, their businesses tend to bring in lower revenue and have lower profit margins.<sup>6</sup> Women-owned businesses face similar challenges.<sup>7</sup> **This is particularly significant because Black-owned and Latinx-owned businesses are also more likely to be women-owned.<sup>8</sup>**

Investing in equitable capital access is essential for realizing the value of businesses launched by entrepreneurs not well-served by the current financial system. Researchers estimate that an investment in parity between Black-owned businesses and other businesses would spur \$5.9 trillion in increased revenue and more than 19 million jobs.<sup>9</sup> Similarly, with scaling parity, Latinx-owned businesses could add \$1.46 trillion to the economy as a whole.<sup>10</sup>

Expanding access to capital is about more than just offering financial products. It also involves providing the support that allows small businesses to obtain high-quality, affordable financing and use it to solidify and grow their businesses, generate good jobs, and contribute to vibrant, equitable communities. Prior research by Main Street Alliance has found that small businesses want a public infrastructure that connects them to opportunities to receive and take advantage of capital.<sup>11</sup>



## HEARING FROM YOU

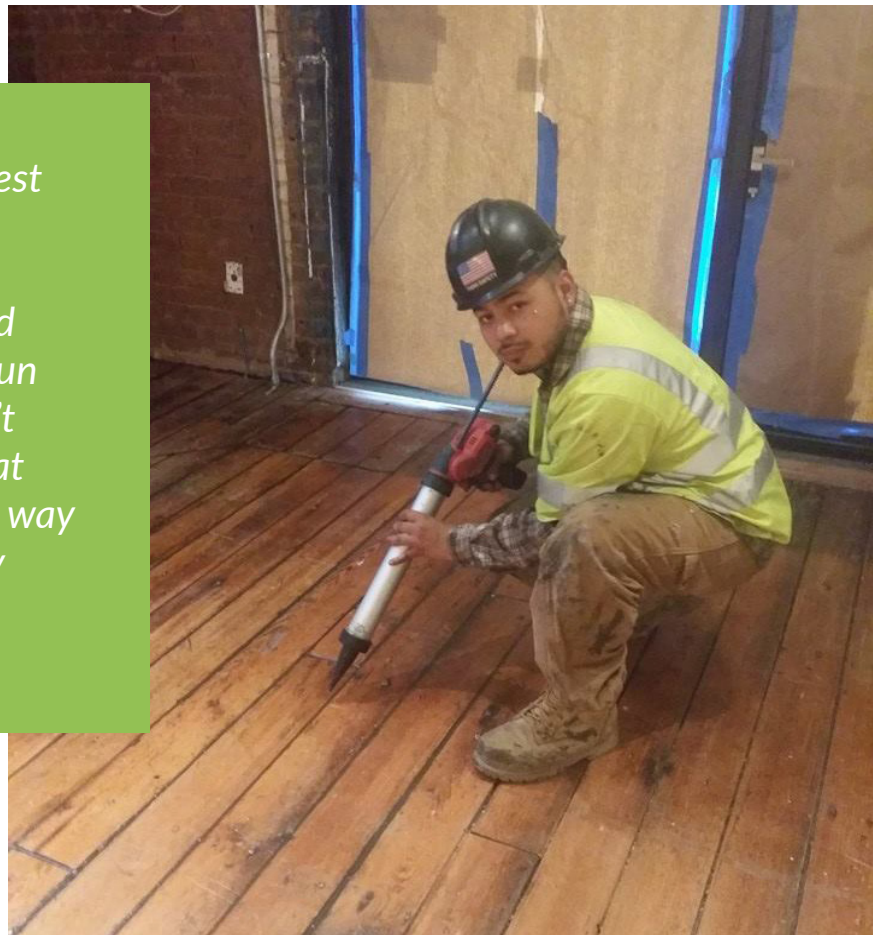


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Access to capital would help me do a lot of different things: Have a better product, have more materials, and maybe even have a little more advertising to be able to draw in more business.... I am interested in finding a way to grow my businesses through resources Norfolk has to offer.” – Milton Harrell, a Black small business owner who owns Family Car Wash Inc. in Norfolk

“

I was working and saving to invest in my business,” recalled Oscar Rodriguez, who operates Fenix Services LLC in Newark. “I would spend 2 hours at one job then run to another job and so on. I didn’t start off big. Things were small at the beginning. But that was the way I could start without having any credit.”



# OPPORTUNITIES FOR PROGRESS AND ACTION

Based on our organizing in Newark and Norfolk, we better understand what resources are needed to support Black- and Brown-owned businesses. Our recommendations are as follows:

**Small businesses need city investments in local outreach and online support.** By creating a small business office of assistance, the city can better provide dedicated support to small businesses. This will be a “one-stop shop” for small business resources – including up-to-date information about grants, technical assistance and procurement opportunities – while serving as the hub for economy-boosting policies at the city level. Funded with public dollars, it should be staffed with culturally competent staff who can support entrepreneurs by: simplifying rules and regulations, streamlining process for city-level compliance requirements, providing targeted outreach to under-served communities, and connecting small business owners to capital and credit opportunities.

**Mentorship and technical assistance programs can catalyze small business growth.** Small businesses need support preparing business and financial documentation for loan applications. They want more opportunities to access mentorship and financial and business planning services that they can trust.

**Financial reforms are needed to address systemic racism and gender discrimination within traditional business lending and improve capital access,** particularly for historically marginalized groups. Small business owners need legislative or regulatory action that expands credit criteria for small business owners without traditional financial/credit history and makes it easier to compare loan products across banks/online lenders and lending institutions. Local and regional government dollars used for contracting, consulting, and procurement should be proportionate to the demographics in our communities for equitable economic development. Every level of government should work to increase local procurement efforts and reduce barriers to contracting with minority-owned and local businesses.

**There is still a need for continued relief and technical assistance for COVID-19 recovery.** The small business economy is still hurting from the effects of the pandemic. An infusion of grants can help ease the pandemic’s economic toll burden and contribute to a local recovery with vibrant small businesses. Small businesses who accessed relief through the federal government’s Paycheck Protection Program need support securing loan forgiveness. Services to help small businesses navigate the forgiveness process will ensure that small businesses do not carry forward unnecessary debt.



## ENDNOTES

- 1 [https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport\\_042519.pdf](https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf), p. 6.
- 2 <https://datausa.io/profile/geo/newark-nj/>
- 3 <https://datausa.io/profile/geo/norfolk-va>
- 4 <https://www.aspeninstitute.org/wp-content/uploads/2021/10/Sec5-Ch40-Klein-1.pdf>, p. 328.
- 5 <https://ncrc.org/lending-discrimination-during-covid-19-black-and-hispanic-women-owned-businesses/>; Amber Lee, et al, Divestment, Discouragement and Inequity in Small Business Lending, National Community Reinvestment Coalition, <https://ncrc.org/wp-content/uploads/2019/09/NCRC-Small-Business-Research-FINAL.pdf>
- 6 <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-small-business-owner-race-report.pdf>
- 7 <https://cdn.www.nwbc.gov/wp-content/uploads/2018/02/27191226/High-Growth-Women-Owned-Businesses-Access-to-Capital-Report.pdf>
- 8 <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-small-business-owner-race-report.pdf>, p. 9.
- 9 <https://www.brookings.edu/essay/to-expand-the-economy-invest-in-black-businesses/>
- 10 <https://www.aspeninstitute.org/wp-content/uploads/2020/02/AILAS-2020-Playbook-final.pdf>. Scaling refers to reaching \$1 million in revenues annually. (Compared to white-owned businesses.)
- 11 <https://static1.squarespace.com/static/5ff74507e375c93150f0ca32/t/60905c2ca055ee-18b199a9dc/1620073527274/Role+of+Government+Report+Design+FINAL.pdf?emci=cdf7a013-4eac-eb11-85aa-0050f237abef&emdi=ea000000-0000-0000-0000-000000000001&ceid=>