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# Building Financial Capability and Assets for Disadvantaged Entrepreneurs

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The COVID-19 pandemic presents an immense crisis for small businesses across the United States. During the initial months of the pandemic, the number of active business owners plunged by 3.3 million, the largest drop on record (Fairlie, 2020). During the lockdown in April and May of 2020, at least 60% of small businesses laid off employees (Humphries et al., 2020) and the surge of unemployment was larger among workers in small firms than those in large enterprises (Lin, Aragão, & Dominguez, 2021). Over 50% of small businesses reported that the pandemic had large negative impacts during the lockdown, and around 30% of small businesses reported such impacts throughout the remainder of 2020. Nearly 75% of businesses reported a decrease in sales or revenues due to the lockdown. There was an estimated average loss of 29% in sales for small businesses (Bloom et al., 2021). The pandemic has left many small businesses financially fragile, with three quarters of business owners in a survey having only enough cash to cover 2 months of operation (Bartik, Bertrand, et al., 2020; Fairlie, 2020). The situation is especially precarious for those businesses owned by African Americans, Latino Americans, and Asian Americans.

Assistance has been provided at various levels to help mitigate the impact of the pandemic on small businesses. At the federal level, the Paycheck Protection Program, established by the CARES Act (Coronavirus Aid, Relief, and Economic Security Act, 2020), is implemented by the Small Business Administration with support from the U.S. Department of the Treasury (Bartik, Cullen, et al., 2020). Small business borrowers in the Paycheck Protection Program may be eligible for full loan forgiveness if they satisfy certain conditions (U.S. Small Business Administration, n.d.). In addition, the Economic Injury Disaster Loans program, administered by the Small Business Administration, provides relief loans to small businesses and nonprofit organizations that experienced a temporary loss of revenue. State and local governments also provide aid and loan programs for small businesses (Casselman, 2020; Wilson et al., 2020). About 75% of small businesses requested Paycheck Protection Program loans in 2020, nearly 30% requested Economic Injury Disaster Loans, and about 10% requested the Small Business Administration loan forgiveness (Buffington et al., 2020).

A lesson from the COVID-19 pandemic suggests that, in addition to these policies, it is important to support entrepreneurs, especially financially vulnerable ones, by facilitating the development of financial capability and assets. Such support would enable them to prepare proactively for potential risks. For example, emergency funds can help low-income entrepreneurs absorb negative economic shocks and support them in their efforts to achieve long-term success.

In this brief, we use data from the 2018 National Financial Capability Study (NFCS; ARC Research & FINRA Investor Education Foundation, 2018) to describe the income volatility and emergency savings of entrepreneurs (identified by their self-employment status). The NFCS is funded by the FINRA Investor Education Foundation and implemented by ARC Research. The 2018 NCFS collected household financial information from a nationally representative sample ($N$ = 27,091) to assess American households' financial capability.

The survey includes nearly 3,000 households with entrepreneurs (11% of the 2018 NCFS sample). Compared with nonentrepreneurs, entrepreneurs are about 10 percentage points more likely to report a large income drop in the previous 12 months, 6 percentage points more likely to report having set aside emergency funds, and 7 percentage points more likely to report being able to come up a $2,000 for an unexpected need. However, the risk of income volatility is higher among entrepreneurs with lower income and lower education, as well as among those who identified themselves as non-White. Entrepreneurs in those groups also are less likely to report having set aside emergency funds to cover unexpected needs.

The results suggest that income volatility is more prevalent among entrepreneurs and that a substantial proportion of them are able to take some actions to limit the damage of unexpected financial shocks. Although entrepreneurs are more likely to have set aside emergency funds, those resources must cover both

**Table 1**
*Income Volatility and Emergency Savings by Self-Employment Status (percentages)*

| | Experienced a large income drop in the last 12 months | Set aside emergency funds to cover expenses for 3 months | Able to come up with $2,000 if an unexpected need arose within the next month |
|---|---|---|---|
| Full sample | | | |
| Entrepreneurs (*n* = 2,980) | 29.58[a] | 54.12[a] | 71.10[a] |
| Nonentrepreneurs (*n* = 24,111) | 19.24 | 47.88 | 64.21 |
| Entrepreneurs | | | |
| Household income | | | |
| Income < $35,000 (*n* = 819) | 41.39[b] | 34.70[b] | 47.93[b] |
| Income ≥ $35,000 (*n* = 2,161) | 24.61 | 62.29 | 80.84 |
| Race | | | |
| Non-White (*n* = 771) | 36.17[c] | 50.98[c] | 65.35[c] |
| White (*n* = 2,209) | 25.65 | 55.99 | 74.52 |
| Education | | | |
| High school and below (*n* = 755) | 33.68[d] | 43.51[d] | 61.14[d] |
| Some college (*n* =1,122) | 33.53 | 51.56 | 69.22 |
| Four-year college and above (*n* = 1,103) | 20.97 | 66.54 | 82.06 |

*Note.* Weighted analysis results are reported. Entrepreneurs are defined by the self-employment status of the respondents and their spouses or partners.

[a]The difference between entrepreneurs and nonentrepreneurs in this variable is statistically significant at the .05 level.

[b]The difference between lower income and higher income entrepreneurs in this variable is statistically significant at the .05 level.

[c]The difference between non-White and White entrepreneurs in this variable is statistically significant at the .05 level.

[d]The differences in this variable among entrepreneurs by education is statistically significant at the .05 level.

family consumption needs and business operations. In addition, the results suggest that entrepreneurs with disadvantaged socioeconomic status are less financially prepared for the economy uncertainty but have greater risk of income volatility. Although these results come from data collected prior to the pandemic, they suggest that the temporary supports for small businesses during the COVID-pandemic should be transformed into long-term policy mechanisms for preparing entrepreneurs (especially disadvantaged ones) to build financial capability and emergency assets.

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