

DISPARATE FINANCIAL ASSISTANCE SUPPORT FOR SMALL BUSINESS OWNERS



Executive Summary

Small business owners experienced a drastic economic disruption caused by the COVID-19 pandemic. Government pandemic assistance failed to reach many small business owners, especially those historically underserved by financial institutions. Drawing on a 2021 survey of 246 small business owners, the Social Policy Institute at Washington University in St. Louis descriptively examined the extent to which small business owners sought and received business assistance, and whether applications and approval of government assistance varied by race and ethnicity. We find that though Hispanic and Black business owners applied for government assistance at a higher rate than white business owners, Black business owners were significantly less likely to be granted assistance. For example,

- 67% of Hispanic and 44% of Black business owners applied for Paycheck Protection Program (PPP) loans compared with 39% of their white counterparts. Only 59% of Black business owners were approved compared with 100% of all others.
- 43% of Black business owners received a Shuttered Venue Operators Grant (SVOG) compared with 64% of white business owners and 100% of all others.
- 25% of Black business owners were approved for a delay in payroll tax compared with 75% of white business owners and 100% of all others.

Thus, while government assistance programs are crucial for the survival of many businesses during the COVID-19 pandemic, our descriptive analysis shows that these programs are significantly less likely to reach Black business owners.

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Background

Throughout the pandemic, numerous businesses closed for good.¹ Small businesses in particular were economically vulnerable at the onset of the pandemic.² In response, the U.S. government, through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Small Business Administration, instituted numerous relief programs for small business owners and their employees through the pandemic. Some research found that businesses owned by Black and Hispanic individuals disproportionately closed,³ prompting research exploration into whether loans reached majority-minority communities at sufficient rates. Much of this research looks at how many loans were received for a given geography, such as a zip code, and only looks at PPP loans or Economic Injury Disaster Loans (EIDLs). Using a survey of small business owners, we look at a wider range of loans and other types of financial relief by the race and ethnicity of business owners, allowing for an exact examination of how equitably accessible financial relief was for business owners.

Methods

SAMPLE

To survey small business owners, we reached out to a selection of community development financial institutions (CDFI's). These partner organizations distributed a survey to small business owners in their networks via email and social media. All business owners contacted took loans from the CDFIs and came from all 50 U.S. states. In total, the survey received 246 completed responses between Oct. 4, 2021, and Oct. 7, 2021.

SURVEY

The survey included questions about whether business owners applied to a variety of small business financial assistance programs, if they received any funding from these programs, and if so, whether they received partial or full funding. We also asked whether owners who received PPP loans had applied and been approved for loan forgiveness. Questions about the demographics of business owners were also included. We asked about the following financial relief programs: the PPP, SVOG, EIDL, Restaurant Revitalization Fund (RRF), Employee Retention Credit (ERC), a delay in paying payroll taxes, a new line of credit, an increase to an existing line of credit, and state or local relief funding programs.

Findings

DEMOGRAPHICS OF SAMPLE

On average, respondents were 37 years old (SD = 25.59), majority male (56%). In addition to male respondents, 43% of business owners were female and 2% preferred not to say. No respondents replied that they were non-binary.

Of the business owners who responded, 54% identified as white, 39% as Black, 15% as Hispanic or Latinx, 6% as Asian, 1% as American Indian or Alaskan Native, and 2% as a race not listed. Due to sample size, we created an other category that included all groups smaller than 15% of the sample and those who indicated they were multiracial. The final business owner race or ethnicity categories are as follows: Black, white, Hispanic/Latinx, and other.

1 Fairlie, R. W. (2020). The impact of COVID-19 on small businessowners: Evidence from the first three months after wide-spread social-distancing restrictions. *Journal of Economics & Management Strategy*, 29, 727-740. <https://doi.org/10.1111/jems.12400>

2 Bartik, A. W., Bertrand, M., Cullen, Z., Glaeser, E. L., Luca, M., & Stanton, C. (2020). The impact of COVID-19 on small business outcomes and expectations. *Proceedings of the national academy of sciences*, 117(30), 17656-17666. <https://doi.org/10.1073/pnas.2006991117>

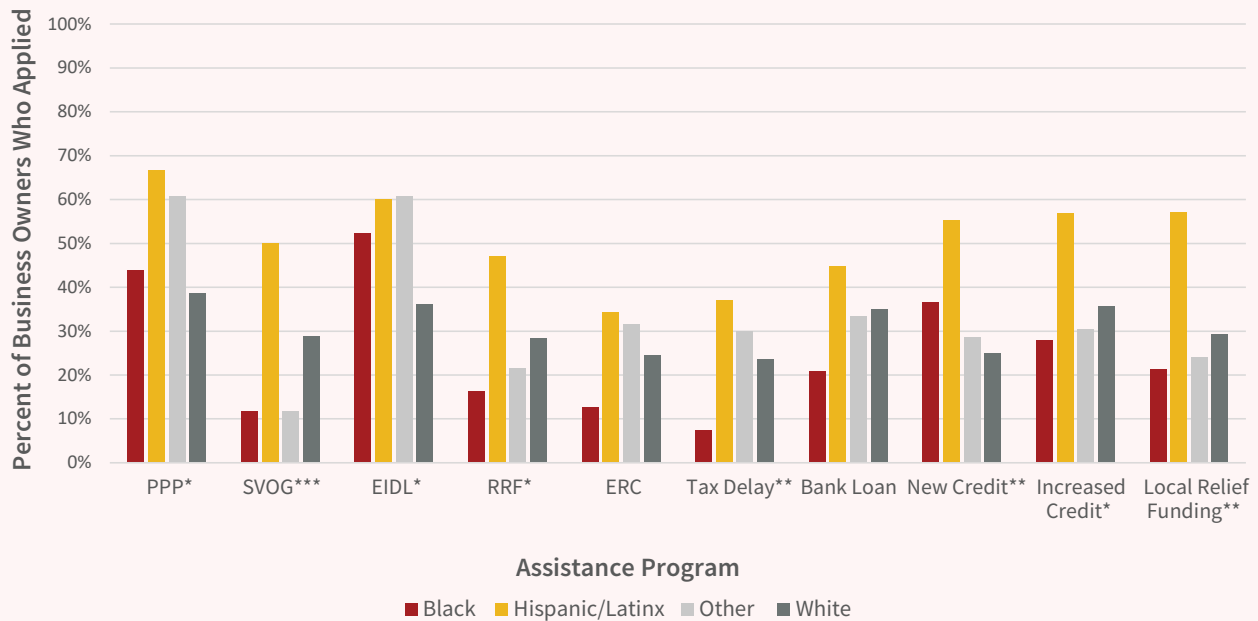
3 Farrell, D., Wheat, C., & Mac, C. (2020). Small business financial outcomes during the onset of COVID-19. JPMorgan Chase & Co. <https://www.jpmorganchase.com/institute/research/small-business/small-business-financial-outcomes-during-the-onset-of-covid-19>

Three-quarters of businesses in the study employ less than 20 employees. About two-thirds of respondents described their business as a family business. On average, businesses were in operation for 6.73 years (SD = 6.02 years); 80% of respondents were in operation less than ten years. In response to the pandemic, 22% of business owners reported closing some or all locations. At the time of the survey (October, 2021), only 53% of business owners were fully open for business.

APPLICATION FOR ASSISTANCE

Hispanic business owners applied for federal and local programs at significantly higher rates than other groups (Figure 1). For example, 67% of Hispanic business owners surveyed applied for PPP loans versus 44% and 39% of Black and white business owners, respectively. Similar trends appeared for the EIDL, SVOG, RRF and local relief funding. The EIDL has smaller margins of difference though, with 61% of business owners of another race applying and 60% of Hispanic business owners compared with 52% and 36% of Black and white business owners. Local relief funds showed the largest discrepancies between application rates for Hispanic business owners and business owners of other races/ethnicities. For local funding, 57% of Hispanic business owners in our sample applied compared with less than 30% of other races/ethnicities.

FIGURE 1. FINANCIAL SUPPORT PROGRAM APPLICATION BY RACE AND ETHNICITY OF BUSINESS OWNER



*p<.05, **p<.01, ***p<.001

We also observed differences for business supports other than government loans, such as delaying payroll tax payments and accessing more credit based on applicant race/ethnicity. For payroll tax delays, business owners of most races and ethnicities applied at modest rates (between 24% and 37%), however, Black business owners applied at significantly lower rates (7%). As for credit access, Hispanic business owners also applied at significantly higher rates both for new lines of credit at 55% and increases in existing credit lines at 57%. In both cases, these application rates were about 20% higher than for business owners of other races/ethnicities.

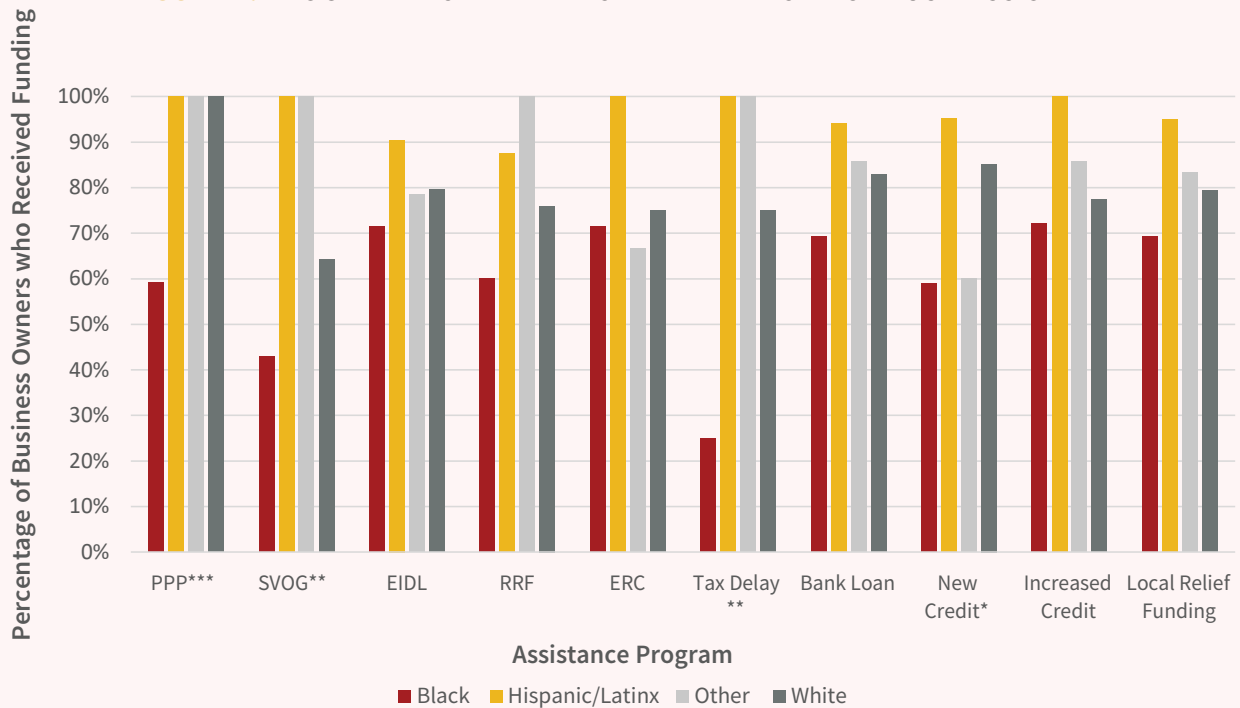
RECEIPT OF ASSISTANCE

Concerning receipt of financial assistance, disparities between Black business owners and business owners of other races were stark (Figure 2). For PPP loans, which had the highest rate of application, only 59% of Black business owners reported being approved compared to 100% of owners of all other races (p<.001). The SVOG similarly saw

approval for only 43% of Black business owners, while 64% of white business owners and 100% of all others were approved ($p < .01$). Black businesses owners were also approved at significantly lower rates in their applications to delay payroll taxes, with only a quarter of applicants gaining approval compared to 75% of white business owners and 100% of all other owners. Approval from private entities posed little exception, with only a little over half of Black applicants getting approval for new lines of credit while 85% of white and 95% of Hispanic applicants got the new lines of credit.

However, the EIDL, which had the highest rate of application for Black business owners in our sample, showed no significant differences in acceptance rates by race of business owner.

FIGURE 2. PROGRAM RECEIPT BY RACE AND ETHNICITY OF BUSINESS OWNER



* $p < .05$, ** $p < .01$, *** $p < .001$

LOAN FORGIVENESS

Of those who received PPP loans, 94% also applied for loan forgiveness. For those who did not apply, most said that they did not yet have a chance to apply. Of those business owners who applied for loan forgiveness, almost all received it (97%) with no significant differences by race and ethnicity.

Implications

Consistent with previous research finding that PPP loans reached Black communities at lower rates, we found that Black business owners were significantly less likely to apply for and receive PPP loans than business owners of most other races and ethnicities. Additionally, we found that Black small business owners were significantly less likely to receive the SVOG funds, payroll tax delays, and new lines of credit they applied for. Only one government relief program had no significant differences in application and acceptance rates by race of business owner: the ERC. The tax credit funding structure of the ERC also distinguishes it from other relief programs, perhaps indicating the value of tax credits rather than loans. Future research should explore what led to disparities in application and acceptance rates by race for government loans and what kept the ERC from showing these disparities.

The research within this brief does not reflect the views and opinions of the funders.