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# **BRIDGING THE DIVIDE**

**How Business Ownership Can Help Close the Racial Wealth Gap**

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## Introduction

Our nation faces a significant and growing gap between the wealth of whites and that of people of color.<sup>1</sup> This gap in wealth — in addition to the fact that large segments of our nation lack minimal level of savings or wealth to draw upon to weather financial shocks or to invest in the future — poses a growing challenge in a nation that is increasingly ethnically and racially diverse. Business ownership is a route to wealth creation, a particularly important and valued route in a capitalist economy. As such, it is important to understand the role that it plays in wealth creation for people of color and to identify and pursue strategies for addressing the challenges facing entrepreneurs of color.

This white paper is intended to serve as an overview of the key issues underlying the connection between business ownership and wealth for Latinos and African Americans.<sup>2</sup> The goal is not to reflect the full set of research on minority business enterprise, which is extensive, but rather to highlight key findings from that body of research and update them with recently released data from the Annual Survey of Entrepreneurs conducted by the US Bureau of the Census. From a review of the research and recent data, the paper then suggests a set of short- and long-term policy and programmatic strategies to

enhance the role that business ownership plays generating wealth for Latinos and African Americans.

Although this paper focuses on the potential for business ownership to help address the racial wealth gap, entrepreneurship also plays a vital role in creating jobs and dynamism within our economy more broadly. The rate of business starts has been declining in the US.<sup>3</sup> Among firms that are created, the greatest growth is in businesses owned by entrepreneurs of color.<sup>4</sup> To the extent that there are factors inhibiting the growth and success of minority-owned firms, it is essential to understand and address them, particularly as people of color become the majority in our country.<sup>5</sup>

Finally, it is important to acknowledge that our nation also faces a significant gender wealth gap, and that women of color hold the lowest levels of wealth.<sup>6</sup> The challenges that women of color face in accumulating wealth through business ownership, and in growing their businesses, are a function of their gender as well as their racial or ethnic identities.<sup>7</sup> Many of the recommendations contained in this brief are, or could be designed and implemented to be, inclusive of female entrepreneurs.

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<sup>1</sup> Dedrick Asante-Muhammed, Chuck Collins, Josh Hoxie, and Emanuel Nieves, *The Ever-Growing Gap: Without Change, African-American and Latino Families Won't Match White Wealth for Centuries* (Washington, DC: CFED and the Institute for Policy Studies, 2016) accessed January 11, 2017, [http://cfed.org/policy/federal/The\\_Ever\\_Growing\\_Gap-CFED\\_IPS-Final.pdf](http://cfed.org/policy/federal/The_Ever_Growing_Gap-CFED_IPS-Final.pdf).

<sup>2</sup> In this brief, the terms African American and black, and the terms Latino and Hispanic, are used somewhat interchangeably. In data tables that present data from federal data sources, we use the terms Hispanic and black, as they are the terms used by the federal government in its data collection efforts.

<sup>3</sup> Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda, "The Role of Entrepreneurship in US Job Creation and Economic Dynamism," *Journal of Economic Perspectives* 28, no. 3, (Summer 2014): 4.

<sup>4</sup> Algernon Austin, *The Color of Entrepreneurship*, (Washington, DC: Center for Global Policy Solutions, August 2016), 7, accessed January 11, 2017, <http://globalpolicysolutions.org/report/color-entrepreneurship-racial-gap-among-firms-costs-u-s-billions/>.

<sup>5</sup> US Census Bureau, "US Census Bureau Projections Show a Slower Growing, Older, More Diverse Nation a Half Century from Now," news release, December 12, 2012, <https://www.census.gov/newsroom/releases/archives/population/cb12-243.html>.

<sup>6</sup> Mariko L. Chang, *Women and Wealth: Insights for Grantmakers* (New York: Asset Funders Network, 2015), accessed January 11, 2017, [https://assetfunders.org/images/pages/AFN\\_Women\\_and\\_Wealth\\_Brief\\_2015.pdf](https://assetfunders.org/images/pages/AFN_Women_and_Wealth_Brief_2015.pdf).

<sup>7</sup> Heather McCulloch, *Closing the Women's Wealth Gap: What It Is, Why It Matters, and What Can Be Done About It* (San Francisco: Asset Building Strategies, November 2016, last updated January 2017) accessed January 11, 2017, <http://assetbuildingstrategies.com/wp-content/uploads/2014/06/Closing-the-Women%E2%80%99s-Wealth-Gap-Jan2017.pdf>.

## Why business ownership and assets are important to family wealth

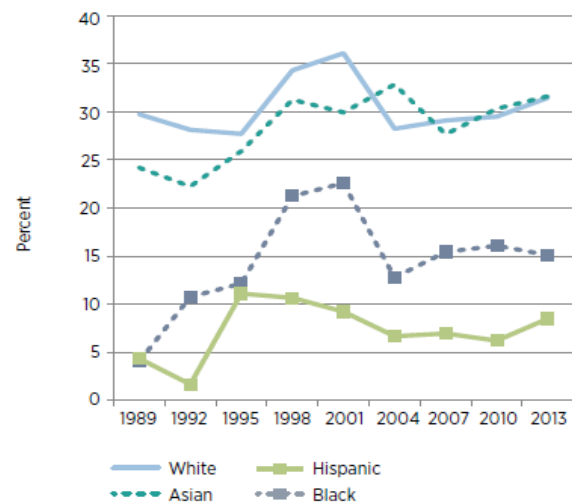
One of the reasons for the racial wealth gap faced by Latinos and African Americans is their relatively low levels of business and financial assets. As documented by the Center for Financial Household Stability at the Federal Reserve Board of St. Louis, Hispanic and black Americans have levels of net worth that are only one-tenth of those held by white Americans,<sup>8</sup> and fewer of their assets are in the form of business assets. Specifically, while white and Asian Americans hold one third of their assets in business and financial assets, Hispanics and blacks hold only 15 percent and 8 percent, respectively, of their wealth in these forms.<sup>9</sup>

Why do the kinds of assets that families hold matter? As the St. Louis Federal Reserve notes, business and financial assets provide greater diversification and higher average returns over time than tangible assets such as homes and cars.<sup>10</sup> In the wake of the recession, African American and Latino families have suffered from the fact that their net worth is highly concentrated in housing.<sup>11</sup> Business ownership is associated with higher levels of wealth. In 2004, families in which the head of the household was self-employed had a median net worth five times that of households in which the head worked for someone else.<sup>12</sup>

Additionally, entrepreneurship shows the potential for closing the gap between black and white wealth

by boosting the opportunities for black entrepreneurs to build wealth. William Bradford analyzed data from the Panel Survey on Income Dynamics and found that black entrepreneurs have higher wealth levels and higher levels of wealth mobility than black

**Figure 1: Median Share of Total Assets Invested in Financial and Business Assets**



Reproduced from: Ray Boshara, Williams R. Emmons, and Bryan J. Noeth, *The Demographics of Wealth: How Age, Education and Race Separate Thrivers from Strugglers in Today's Economy*, (St. Louis, MO: Federal Reserve Board of St. Louis, Center for Household Financial Stability, February 2015), 7.

Source: Author's analysis of data from the US Census Bureau (2007 & 2012), *Survey of Business Owners* and the US Census Bureau (2007 & 2012), *American Community Survey*, obtained from IPUMS-USA, University of Minnesota, [www.ipums.org](http://www.ipums.org).

<sup>8</sup> Ray Boshara, Williams R. Emmons, and Bryan J. Noeth, *The Demographics of Wealth: How Age, Education and Race Separate Thrivers from Strugglers in Today's Economy*, (St. Louis, MO: Federal Reserve Board of St. Louis, Center for Household Financial Stability, February 2015), 7.

<sup>9</sup> Boshara et al, 11.

<sup>10</sup> Boshara et al, 11.

<sup>11</sup> Ray Boshara and William Emmons, "After the Fall: Rebuilding Family Balance Sheets, Rebuilding the Economy," *Federal Reserve Bank of St. Louis Annual Report 2012*, May 2013, accessed January 12, 2017, <https://www.stlouisfed.org/annual-report/2012/essay-1>.

<sup>12</sup> Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, with assistance from Gerhard Fries and A. Michael Neal, "Recent Change in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," *Federal Reserve Bulletin*, March 2006, A1-A38, accessed January 11, 2017, <https://www.federalreserve.gov/pubs/bulletin/2006/financesurvey.pdf>.

workers, and that while black entrepreneurs have levels of wealth mobility equal to those of white entrepreneurs, white workers have greater wealth mobility than black workers.<sup>13</sup>

Thus, at least in recent years, entrepreneurship has shown to be a potential means to address the racial wealth gap, both because of the apparent relationship between business ownership and wealth, and because of the opportunities for higher levels of wealth and wealth mobility for black entrepreneurs.

compared to 22.8 percent in 1996. Growth was particularly strong among Latinos, which grew from 10 percent of new entrepreneurs in 1995 to 20.8 percent in 2015.<sup>14</sup> Similarly, analysis conducted by the Center for Global Policy Solutions found that between 2007 and 2012, all population subgroups except black men and white men experienced higher rates of growth in business ownership than in labor market participation. These relative growth rates were particularly pronounced among black women, Hispanic men, Native American men and women,

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*There is an emerging class of minority entrepreneurs who have started firms and, in some instances, may be bringing a stronger skill set to their venture.*

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### **Why do Latinos and African Americans have lower levels of business wealth?**

The lower levels of business wealth among people of color — and particularly among Latinos and African Americans — have historically resulted from two factors: lower rates of business ownership and the fact that businesses owned by Latinos and African Americans are also smaller, on average, than those owned by whites. The good news is that in recent years, there is an emerging class of minority entrepreneurs who have started firms and, in some instances, may be bringing a stronger skill set to their ventures. Data from the Kauffman Foundation's Index of Startup Activity indicates that in 2015, 39.3 percent of new entrepreneurs were non-white,

and Asian American women. Conversely, black and white men both experienced very low rates of growth (or declines, in the case of black men) in business ownership, and saw rates of business growth that lagged behind changes in their participation in the labor market, in part due to declines in the construction industry in the aftermath of the Great Recession.<sup>15</sup> Thus, the gap between business ownership among Latinos, blacks, and Native Americans and business ownership among whites appears to be closing — although there may be cause for concern among black men.

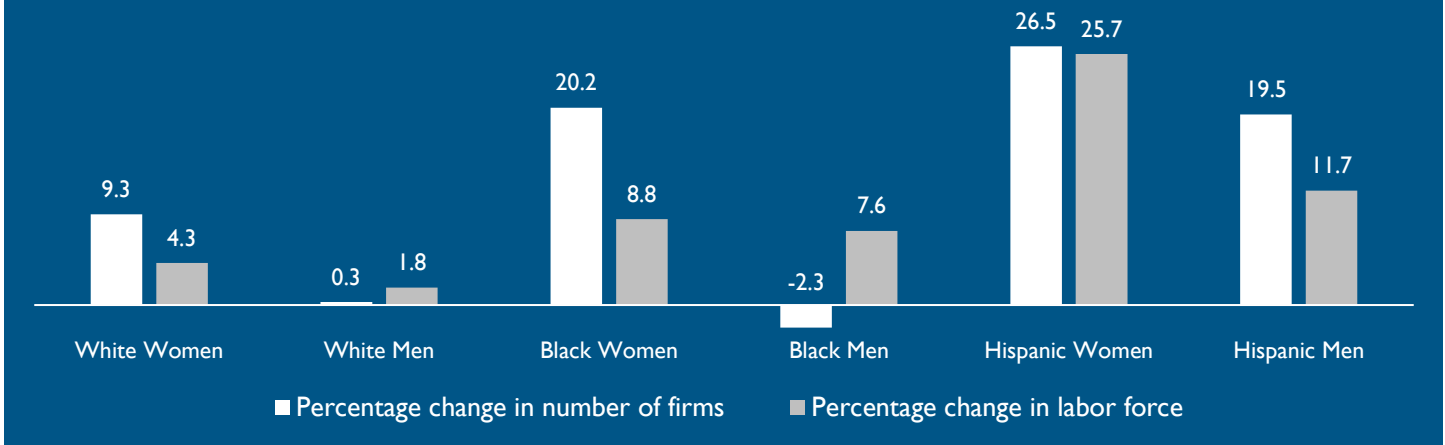
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<sup>13</sup> William D. Bradford, "The 'Myth' that Black Entrepreneurship Can Reduce the Gap in Wealth Between Black and White Families," *Economic Development Quarterly*, 28, no.3 (2014): 267.

<sup>14</sup> Kauffman Index of Startup Activity, <http://www.kauffman.org/microsites/kauffman-index/profiles/entrepreneurial-demographics/national?Demographic=Race&Report=StartupActivity>.

<sup>15</sup> Austin, 7.

Figure 2: Percentage Change in the Number of Firms and in the Labor Force by Race or Hispanic Ethnicity and Gender, 2007 to 2012



Adapted from: Algernon Austin, *The Color of Entrepreneurship*, (Washington, DC: Center for Global Policy Solutions, August 2016), 7, accessed January 11, 2017, <http://globalpolicysolutions.org/report/color-entrepreneurship-racial-gap-among-firms-costs-u-s-billions/>.

Original source note: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners* and the U.S. Census Bureau (2007 & 2012), *American Community Survey*, obtained from IPUMS-USA, University of Minnesota, [www.ipums.org](http://www.ipums.org). Race data includes Hispanics. Hispanics can be of any race. The labor force is restricted to 25- to 64-year olds.

At the same time, recent data indicate that the second factor — the relatively small size of firms owned by entrepreneurs of color — still influences the business wealth of African Americans and Latinos. Looking across all firms (those with and without employees), businesses owned by entrepreneurs of color lag behind those owned by whites in terms of virtually all metrics of business size. One key metric of size is whether a business has employees. In 2012, the year for which the most recent data is available on non-employer firms (those without employees), business owned by blacks and Hispanics were much less likely to have employees than those owned by Asian Americans or whites. For example, 23.9 percent of firms owned by white men had employees, compared to only 11.0 percent of those owned by Hispanic men and 6.0 percent of those owned by black men. Similarly, while 11.9 percent of firms owned by white women had employees, only

4.6 percent of firms owned by Hispanic women and 2.5 percent of those owned by black women had employees.<sup>16</sup>

Firms owned by entrepreneurs of color are also smaller in terms of revenues and average payroll, with African American-owned firms lagging in particular. Looking across all demographic groups, the sales of male-owned firms are higher than those of female-owned firms. But for both of these gender categories, whites have the highest average revenues (at \$2.80 million for men and \$1.22 million for women in 2012), while blacks have the lowest (at \$1.25 million for men and \$557,000 for women).<sup>17</sup> Average payroll per worker is lowest among Hispanic- and black-owned firms, with white firms having the highest levels of payroll per worker (holding true across genders).<sup>18</sup>

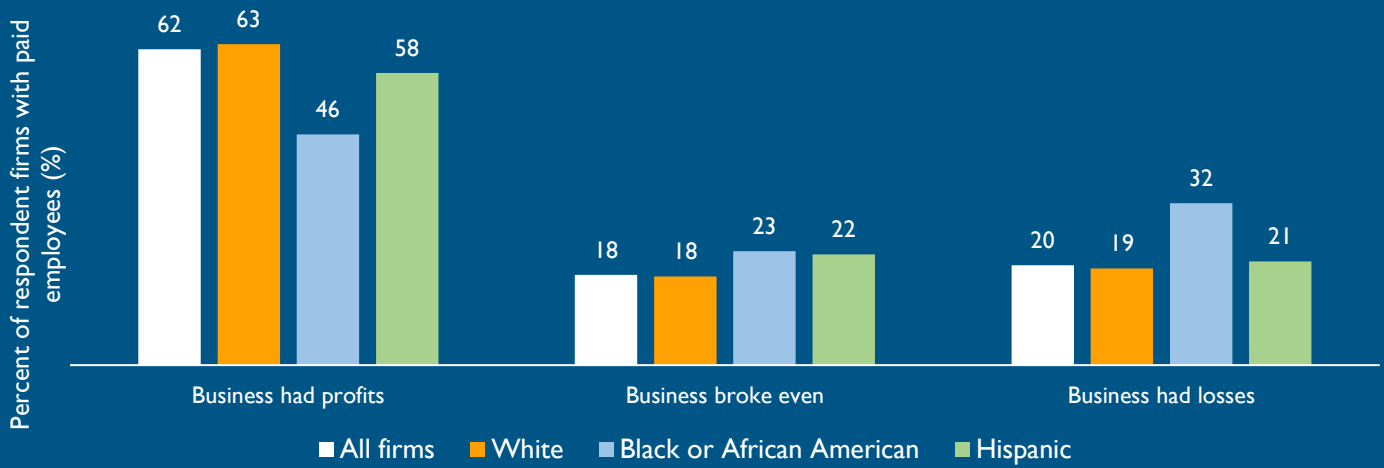
<sup>16</sup> Austin, 4.

<sup>17</sup> Austin, 10.

<sup>18</sup> Austin, 11.



Figure 3: Profitability of US Employer Firms by Race and Ethnicity



Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

Finally, recent data from the Annual Survey of Entrepreneurs, which covers employer firms (firms with employees), also found that African American- and Hispanic-owned firms were less likely to be profitable than those owned by whites. In 2014, 63.4

percent of white-owned employer firms indicated that they were profitable, compared to 57.7 percent of Hispanic-owned firms and 45.6 percent of African American-owned firms.



## What factors contribute to the relatively smaller size of firms owned by Latinos and African Americans?

There is a rich body of research on the factors that contribute to the smaller size of firms owned by minority entrepreneurs, particularly with regard to the experiences of African Americans. Although it is difficult to fully reflect the complete list of factors highlighted in existing research in a brief paper, three factors emerge<sup>19</sup>:

- Challenges faced by entrepreneurs of color in accessing the capital needed to grow and sustain their firms.
- Lower levels of education and business skills, and perhaps lower-quality educational experiences among entrepreneurs of color, which affect the level of human capital they bring to their enterprises.
- Limitations on the scope of markets in which entrepreneurs of color operate, and a concentration of entrepreneurs in lower-income urban markets and those that focus on co-ethnic markets.

In addition to these research findings, some data also indicate that differences in firm size may stem from two additional factors: differences in the ages of businesses owned by entrepreneurs of color relative to those owned by whites (older firms tend to be larger, on average), and variations in the motivations and aspirations of the entrepreneurs themselves. In the remaining sections of this paper, we draw upon research and recent data to illuminate

these key factors, and identify policy and programmatic solutions that could enhance the growth of firms owned by entrepreneurs of color.

### *Access to capital*

One of the most challenging aspects of the connection between business ownership and wealth stems from the fact that not having wealth makes it more challenging to start and grow a business. Individuals with lower wealth levels have less of their own capital to invest in their businesses, and fewer assets to leverage or pledge in accessing capital from others. Data from multiple sources — the US Census Bureau’s Annual Survey of Entrepreneurs, the Federal Reserve’s Survey of Small Business Finance, and the Kauffman Firm Survey — reveal similar outcomes: that African American- and Latino-owned firms are more reliant on owner investment, and less able to access bank financing, than white-owned firms. This is true even when one controls for differences in credit scores, industries, and owner experience. As a result, firms owned by blacks and Hispanics start with lower levels of financial capital, for which they pay higher prices.<sup>20</sup> Many do not even apply for bank loans out of a belief they will be denied.<sup>21</sup> Those who receive debt from external sources are more likely to use credit cards (business or personal) to finance their business, or to use a home-equity line of credit.

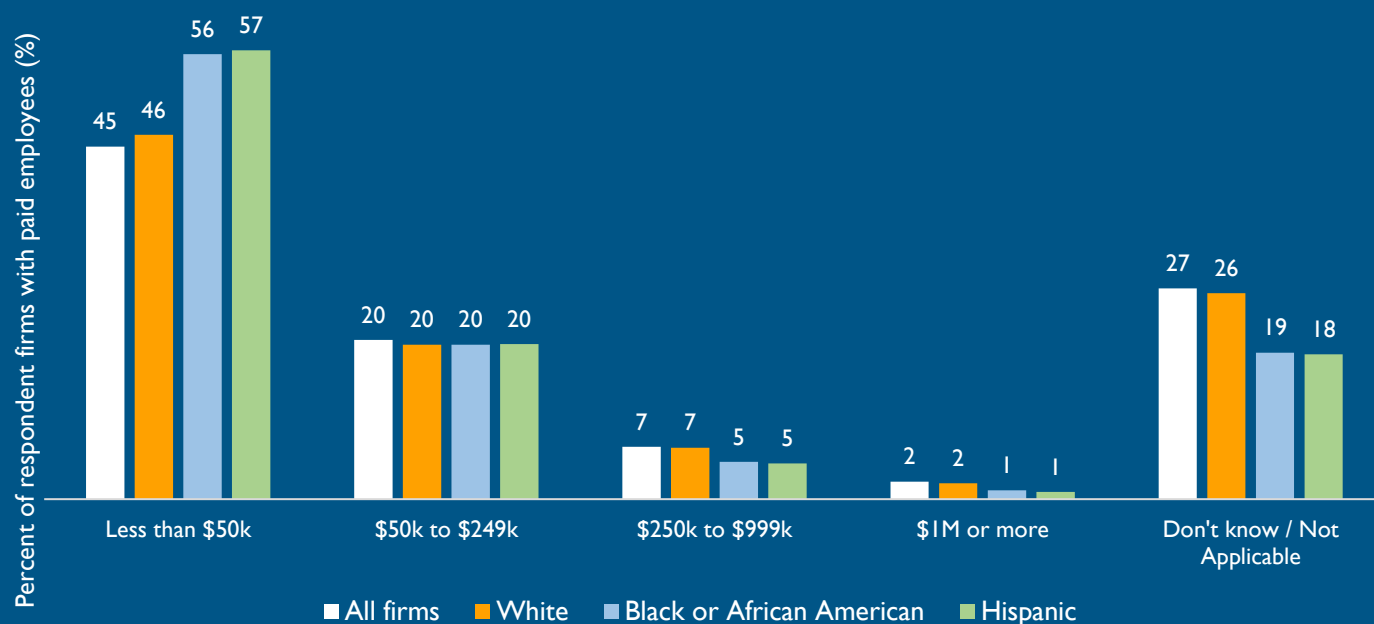
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<sup>19</sup> William D. Bradford, *Minority Businesses in the U.S.: An Economic Review of Scholarly Research since 2000* (July 31, 2013), 4-5, accessed January 11, 2017, <http://www.tabor100.memberlodge.com/Resources/Documents/Kauffman%20report.pdf>.

<sup>20</sup> Timothy Bates and Alicia Robb, “Impacts of Owner Race and Geographic Context on Access to Small Business Financing,” *Economic Development Quarterly*, 30, no. 2 (2016), 161.

<sup>21</sup> See for example: Alicia Robb, *Access to Capital among Young Firms, Minority-Owned Firms, Women-Owned Firms and High-Tech Firms*, (Washington, DC: Small Business Administration, April 2013) accessed January 11, 2017, <https://www.sba.gov/content/access-capital-among-young-firms-minority-owned-firms-women-owned-firms-and-high-tech-firms>.

**Figure 4: Total Amount of Capital Used to Start or Acquire the Business for US Employer Firms, by Race and Ethnicity**



Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

**Table 1: Sources of Capital Used to Start or Acquire the Business for US Employer Firms by Race and Ethnicity**

Sources of capital used to start or acquire the business	Percent of number of respondent firms with paid employees (%)			
	All firms	White	Black or African American	Hispanic
Personal/family savings of owner(s)	63.9	64.5	70.6	72.3
Personal/family assets other than savings of owner(s)	9.8	9.9	11.3	9.9
Personal/family home equity loan	7.3	7.3	7.8	7.7
Personal credit card(s) carrying balances	10.3	10.3	17.6	14.9
Business credit card(s) carrying balances	5.3	5.4	8.1	6
Business loan from federal, state, or local government	0.4	0.4	0.8	0.4
Government-guaranteed business loan from a bank or financial institution	1.9	1.9	2.8	1.3
Business loan from a bank or financial institution	17.9	18.7	15.2	12.9
Business loan/investment from family/friends	5	5.1	3.5	4.5
Investment by venture capitalist(s)	0.6	0.5	0.5	0.5
Grants	0.3	0.2	0.6	0.2
Other source(s) of capital	3.7	3.3	5.1	3.8
Don't know	10.4	9.4	6.1	6.9
None needed	8.9	8.9	7.3	6.1

Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

Lower credit scores, and even lack of a credit score, is another factor that limits the ability of entrepreneurs of color to access capital from financial institutions. Data from the Kauffman Firm Survey, analyzed by Alicia Robb, indicate that black and Latino entrepreneurs had lower credit scores than their white counterparts (Table 2)<sup>22</sup>.

The Kauffman Firm Survey data reflect credit scores of those successful in starting businesses. Credit score data for the broader population also suggest that people of color will face greater challenges in accessing credit. A 2007 report to Congress by the Board of Governors of the Federal Reserve Board found that the median TransRisk credit score for non-Hispanic whites was 55.0, compared to 19.8 for blacks and 33.8 for Hispanics. Similar differences were found in median VantageScores.<sup>23</sup> For example, 27 percent of Latinos and African Americans are either credit invisible (meaning that they lack any files that report to the national credit reporting agencies) or unscorable (in that they lack sufficient recent files to generate a credit score). This compares to only 16 percent of white Americans.<sup>24</sup>

Finally, there is also evidence of discrimination on the part of loan officers with regard to Latino and black entrepreneurs. A study published in 2014 used matched testers — black and Latino individuals who were paired with whites who exhibited similar characteristics in terms of age, gender, personal net worth, and the characteristics of their loan requests. It found that black and Latino testers received differential treatment from whites, in that they were more likely to be asked to

		White	Black / Hispanic
Firm Characteristics	High Credit Score	13.7%	7.2%
	Medium Credit Score	56.1%	52.8%
	Low Credit Score	30.1%	39.5%
	Incorporated	57.1%	51.1%
	Intellectual Property	19.9%	19.8%
	Product Offerings	51.2%	52.1%
	Team Ownership	31.6%	26.8%
	Home Based	50.9%	51.6%
Owner Characteristics	Net Wealth of \$250K+ (2008)	45.4%	20.6%
	Ave. Hours Worked (week)	42.7%	43.5%
	Prev. Years of Industry Experience	12.8%	11.6%
	Owner Age	45.8%	42.8%
	Some College	36.3%	43.2%
	College Degree	32.7%	27.7%
	Graduate Degree+	18.2%	15.7%
Previous Startup Experience	44.3%	38.1%	

Source: Alicia Robb, *Access to Capital among Young Firms, Minority-Owned Firms, Women-Owned Firms and High-Tech Firms*, (Washington, DC: Small Business Administration, April 2013), 11.

<sup>22</sup> Robb, 11.

<sup>23</sup> Board of Governors of the Federal Reserve System, *Report to Congress on Credit Scoring and Its Effects on the Availability and Affordability of Credit*, (August 2007) accessed January 11, 2017, <https://www.federalreserve.gov/boarddocs/rptcongress/creditscore/creditscore.pdf>.

<sup>24</sup> Kenneth P. Breevort, Philipp Grimm, and Michele Kambara, *Data Point: Credit Invisibles*. (Washington, DC: Consumer Federal Protection Bureau Office of Research, May 2015).

provide business financial statements, tax returns, bank information, details regarding personal financial assets, and information on credit card debt. They were also less likely to be offered assistance in completing loan applications and to be provided business cards by the loan officers.<sup>25</sup>

While the inability to access capital at rates and amounts that equal those of white entrepreneurs has challenged entrepreneurs of color for many years, of more recent concern is the effect of rising student debt on rates of business start and growth. Recent studies have found that higher levels of student debt

compared to an average of \$31,367 for whites and \$32,075 for Hispanics.<sup>27</sup>

Many studies have documented and analyzed the impact of lack of access to capital on the growth and success of minority-owned firms. The most recent Annual Survey of Entrepreneurs data affirm these findings, in that employer firms owned by Hispanics and African Americans were more likely to report that their inability to access capital had an important negative impact on their profitability. Indeed, among all the factors having a negative impact on profitability — which included the inability to hire

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***African Americans also hold higher levels of student debt on average, holding \$43,725 in student debt compared to an average of \$31,367 for whites and \$32,075 for Hispanics.***

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appear to have a negative effect on entrepreneurship, as more debt both decreases the incidence of firm starts (particularly among the smallest firms, which are more reliant on the owner's ability to access debt), and limits the success of firms once they have been created.<sup>26</sup> African Americans are particularly affected by rising levels of student debt, as almost 40 percent of African American adults between the ages of 25 and 55 hold student debt, compared to 30 percent of whites and Latinos. African Americans also hold higher levels of student debt, on average holding \$43,725 in student debt

qualified labor, taxes, slow business or declining sales, late- or non-paying customers, unpredictable business conditions, and changes in technology — the factor with the greatest differentials across racial categories was access to capital.

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<sup>25</sup> Research by Bone, Christensen and Williams, as cited in Bates and Robb, 2016, 160.

<sup>26</sup> See Brent W. Ambrose, Larry Cordell and Shuwei Ma, *The Impact of Student Loan Debt on Small Business Formation* (Philadelphia, PA: Research Department, Federal Reserve Bank of Philadelphia, July 2015); and Karthik Krishnan and Pinshuo Wang, *The Cost of Financing Education: Can Student Debt Hinder Entrepreneurship?* (Boston, MA: Northeastern University D'Amore-McKim School of Business Research Paper, October 1, 2015).

<sup>27</sup> Breno Braga, *Racial and Ethnic Differences in Family Student Loan Debt*, (Washington, DC: The Urban Institute, July 2016), 2-4.

**Table 3: Negative Impacts on Profitability of Employer Firms by Race and Ethnicity**

Negative impacts on profitability	Percent respondent firms with paid employees (%)			
	All firms	White	Black or African American	Hispanic
Negative impact from access to financial capital	10.8	10.1	28.4	17.5
Negative impact from cost of financial capital	11.3	10.6	22.6	15.8
Negative impact from finding qualified labor	27.2	27.3	31.3	26.8
Negative impact from taxes	48.8	50.2	50	45.6
Negative impact from slow business or lost sales	43.8	42.9	54.4	48.7
Negative impact from late or nonpayment from customers	30.3	30.9	41.1	34
Negative impact from unpredictability of business conditions	43.9	44	49.1	43.1
Negative impact from changes or updates in technology	15.8	15.2	17.7	15
Negative impact from other	4.5	4.5	4.7	3.8

Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

### Human capital

Business owners draw on various types of human capital as they create, sustain, and grow their firms. Some of this human capital involves occupational or industry skills and knowledge — knowledge about how to produce or deliver the product or service a firm offers. Most entrepreneurs build businesses around this first form of human capital — a skill, service, or product in which they have a strength, developed perhaps in part through formal education, job experiences, or family traditions and knowledge.

To grow and sustain a business, owners must acquire knowledge and skills related to core business functions such as financial management, marketing and sales, operations, quality assurance, and employee management. They also need social and networking skills and connections that support the ability to sell the product or service, maintain high

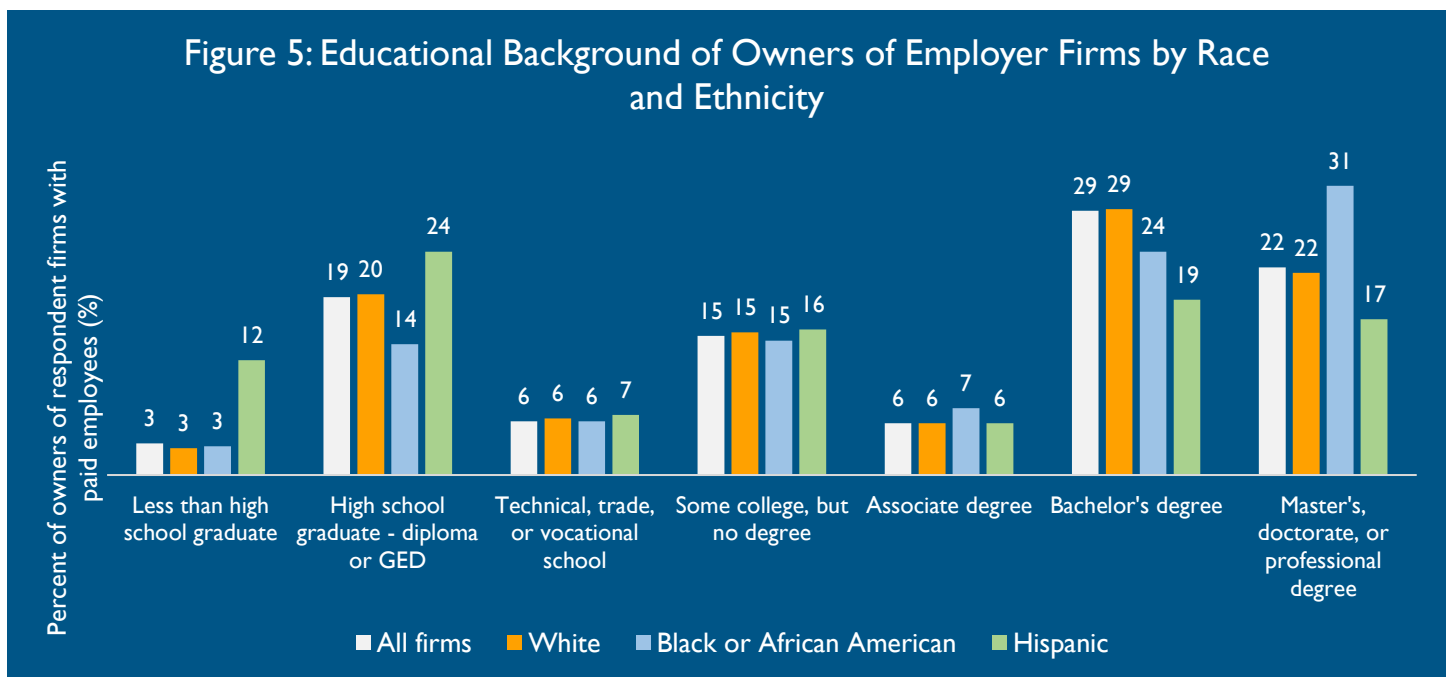
levels of customer service, and lead to relationships that can open opportunities or provide guidance in areas where their knowledge, skills, or other resources are lacking. These core business skills are essential to effectively manage finances and cash flow, price products or services effectively, acquire additional customers, and bring on and manage employees. In the smallest businesses, the owner, their family members, or both take on many of these roles. Business owners with more resources may hire accountants, consultants, and other outside experts until they reach a size where they can support the cost of some of those functions in house.

***African American owners of employer firms have relatively high levels of education: 31.2 percent have graduate degrees, compared to 21.8 percent of white owners of employer firms and 16.8 percent of Hispanic owners of employer firms.***

Examining the human capital of business owners reveals some substantial differences by race and ethnicity. Educational levels and experiences are two areas where differences exist, although the level of disparity with whites differs between blacks and Hispanics. Recent data from the Annual Survey of Entrepreneurs indicate that Hispanic business owners (those with employees) have lower levels of educational attainment than black or white business owners. As Figure 5 reflects, 36.5 percent of Hispanic-owned employer firms have a high school degree or less, compared to 22.4 percent of white-owned employer firms and only 17.2 percent of

African American-owned firms. On the other hand, African American owners of employer firms have relatively high levels of education: 31.2 percent have graduate degrees, compared to 21.8 percent of white owners of employer firms and 16.8 percent of Hispanic owners of employer firms.

Higher levels of education among African American-owned firms bode well for their prospects for achieving higher levels of business growth. Historically, the smaller size of black-owned firms resulted in part from high levels of concentration in personal-service and retail sectors, and also to a



Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

focus on selling to customers with shared ethnic or racial backgrounds. Timothy Bates notes that the high concentration of firms in these sectors has stemmed in part from the educational profiles of the owners.<sup>28</sup> Higher levels of education among African Americans business owners, particularly educational attainment in business and technical fields, widens the range of sectors open to entrepreneurs of color. Still, the challenge of relatively low educational attainment persists for Latinos. And in the case of African Americans, the fact that higher levels of educational attainment are accompanied by higher levels of student debt (as detailed above) may mean

In addition to educational attainment, the human capital that entrepreneurs bring to their ventures is also a function of their work experiences and their experiences with business ownership. Longer work histories presumably mean that entrepreneurs have more industry knowledge and experience to bring to their ventures, as well as more connections and better-developed networks. Previous experience with business ownership yields experiential knowledge. Therefore, the fact that African American and Hispanic business owners are markedly younger than their white counterparts, and are somewhat less likely to bring previous experience with self-

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*In the case of African Americans, the fact that higher levels of educational attainment are accompanied by higher levels of student debt may mean that some of the advantage derived from more education will be offset by limits on their ability to invest or acquire capital to start and expand their businesses.*

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that some of the advantage derived from more education will be offset by limits on their ability to invest or acquire capital to start and expand their businesses.

William Bradford also notes another body of research that suggests that the level of racial segregation in an individual's K-12 education also affects his or her experience with self-employment. In particular, a set of studies conducted by Gregory B. Fairchild indicated that higher levels of segregation reduced the entry into self-employment, and that these effects were particularly strong for black Americans.<sup>29</sup>

employment to their venture likely also plays a part in the smaller size of their firms. Data from the 2015 Annual Survey of Entrepreneurs illustrate the differences among business owners in 2014. Almost 50 percent of white entrepreneurs who owned employer firms were 55 years of age or older, compared to only 41 percent of African American and 32 percent of Latino business owners. Conversely, only 22 percent of white business owners with employees are less than 45 years of age, compared with 27 percent of African American business owners and 34 percent of Latino business owners.

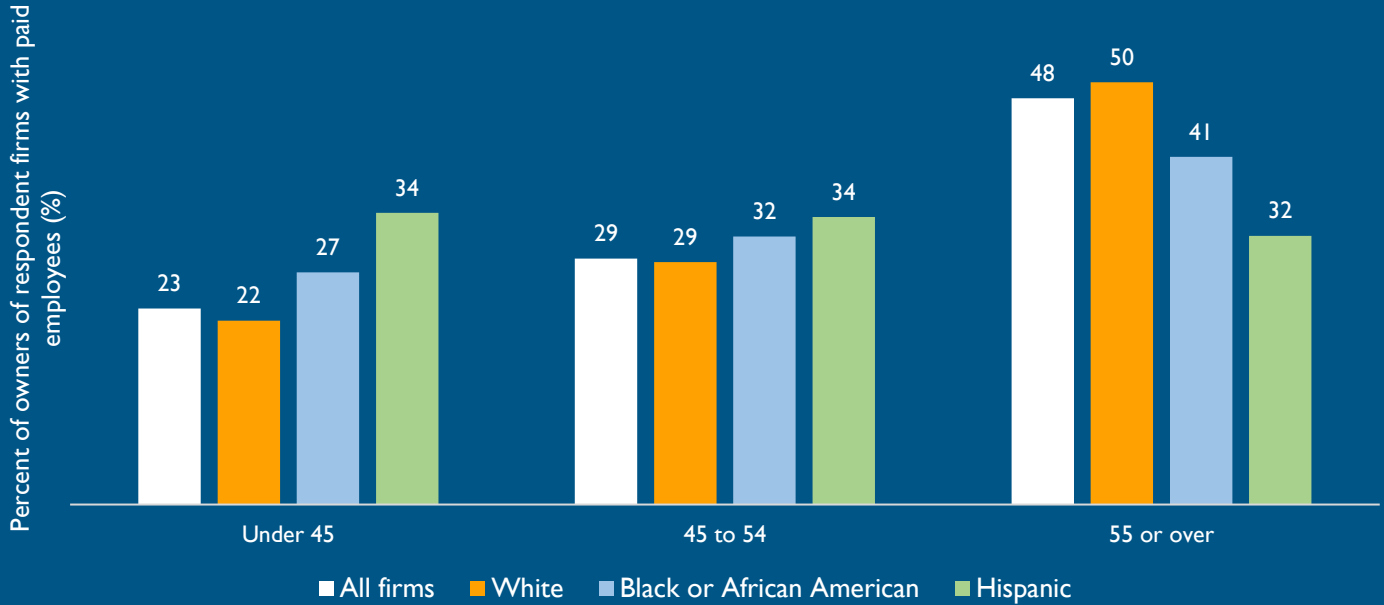
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<sup>28</sup> Timothy Bates, "Minority Entrepreneurship," *Foundations and Trends in Entrepreneurship* 7, no. 3-4 (2011): 163-167. Bates also indicates that a second factor causing the concentration of black-owned firms in certain markets is the unwillingness of whites to patronize these firms, which limited their market scope.

<sup>29</sup> Bradford (2013), 22-25.



Figure 6: Age of Owners of Employer Firms by Race and Ethnicity

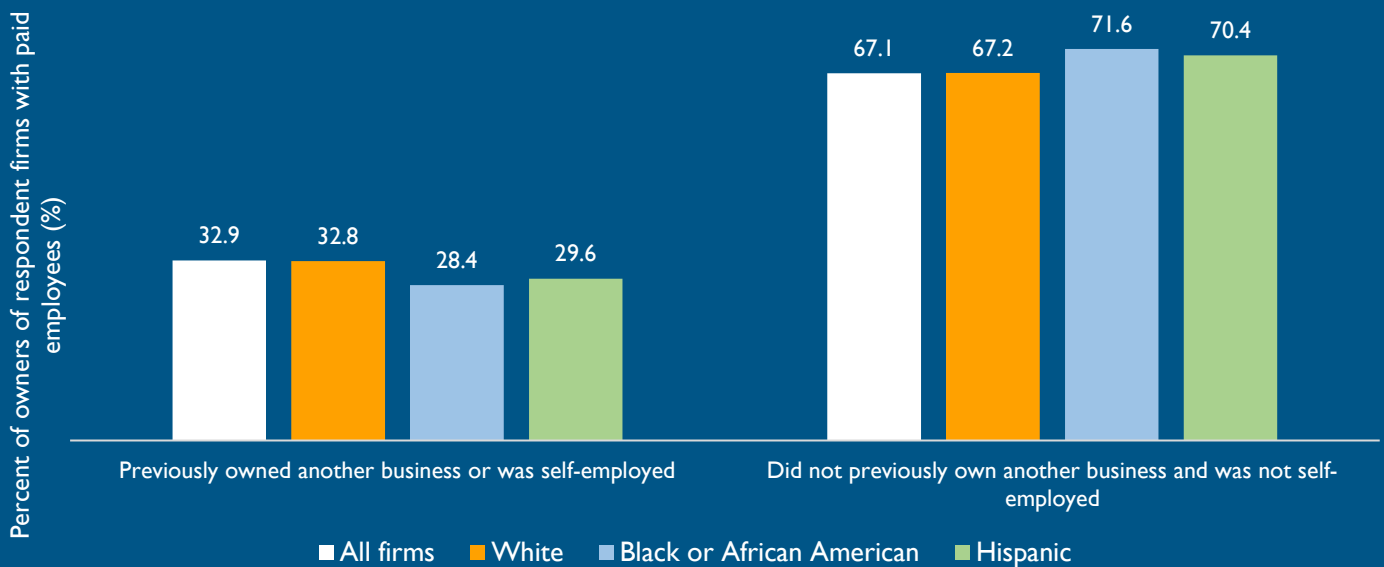


Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

There are smaller differences by race and ethnicity in the level of previous experience with entrepreneurship. Among those with businesses in 2014, 32.8 percent of white business owners had

previous experience with business ownership or self-employment before opening businesses, compared to 28.4 percent of African Americans and 29.6 percent of Latinos.

Figure 7: Previous Ownership or Self-Employment of Owners of Employer Firms by Race and Ethnicity



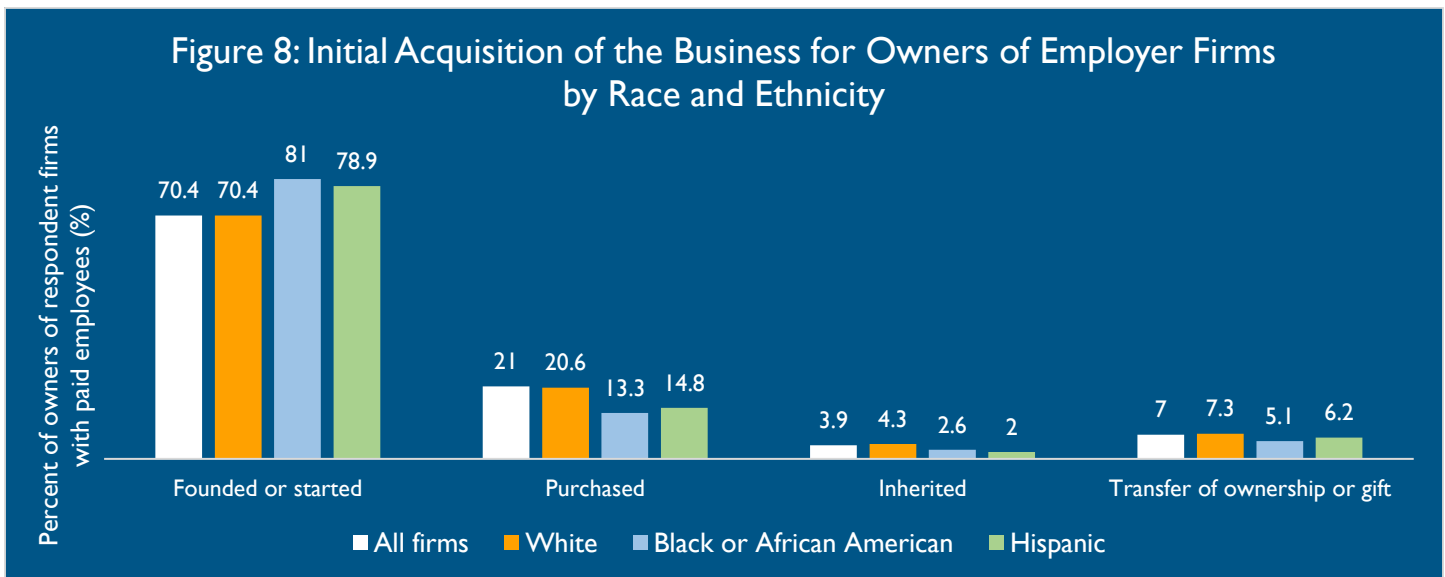
Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

Human capital that is pertinent to business ownership can also come from family knowledge and experiences that are passed down to subsequent generations. Rob Fairlie and Alicia Robb analyzed the correlation between experience in working in a family business and entrepreneurial success, finding business outcomes were between 11 and 38 percent better if the owner worked in a family business prior to starting his or her own firm. They also found that 12.6 percent of black business owners had prior work experience in a family member's business compared with 23.3 percent of white business owners, and that the lack of prior experience in family businesses among blacks limited the success of their businesses.<sup>30</sup> Although the Annual Survey of Entrepreneurs does not capture data on whether business owners had family members who owned businesses, it does collect data on the number of firms that were inherited (presumably most from family members). Although the percentage of firms that were inherited is small across all racial and ethnic groups, it is about twice as high for whites as it is for Hispanics and African Americans.

### Market and industry focus and potential

As noted previously in this paper, the size of African American- and Latino-owned firms has also historically been limited by the industry sectors and the types of markets in which they have operated. As Bates notes in his summary of the literature and research on minority entrepreneurship, a variety of factors — including discrimination, migration, education, and issues of access to capital — limited and shaped minority entrepreneurship, such that through the early 1970s most minority business enterprises were service and retail establishments, many serving low-income and minority communities.<sup>31</sup>

That pattern still remains in place today when one examines the industry profile of all establishments (both employer and non-employer firms). As data from the 2007 and 2012 Survey of Business Owners indicate, relative to all firms, Hispanic-owned firms are relatively concentrated in the construction,



Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

<sup>30</sup> Robert W. Fairlie and Alicia M. Robb, *The Causes of Racial Disparities in Business Performance*, (Ann Arbor, MI: National Poverty Center, Gerald R. Ford School of Public Policy, University of Michigan, Policy Brief #12, October 2008, 2).

<sup>31</sup> Bates, 165-167.

transportation and warehousing, administrative and support and waste management, and personal services industries. African American-owned firms are much more highly concentrated in the personal services and transportation industries.

However, these industry concentrations mask significant growth in the number of Latino- and African American-owned firms in the construction

and business services sectors relative to white-owned firms. Expansion in these industries has come in part through contracting to both government and businesses, with some of the greatest growth coming in the business services industries.<sup>32</sup> Nonetheless, this growth is still somewhat obscured by the even more rapid growth in the number of African American- and Latino-owned personal services firms.

Table 4: Industry Distribution of US Firms by Ethnicity and Race of Owner, 2012

Industry	Percent of all Firms with or without paid employees			
	All firms	White	Black or African American	Hispanic
All Sectors	100.0%	100.0%	100.0%	100.0%
Agriculture, forestry, fishing and hunting	0.9%	1.1%	0.2%	0.5%
Mining, quarrying, and oil and gas extraction	0.5%	0.6%	0.0%	0.1%
Utilities	0.1%	0.1%	0.1%	0.1%
Construction	10.6%	11.8%	5.3%	14.4%
Manufacturing	2.1%	2.3%	0.9%	1.6%
Wholesale trade	2.5%	2.7%	0.9%	1.9%
Retail trade	9.1%	9.4%	6.2%	7.7%
Transportation and warehousing	4.4%	3.9%	7.1%	7.4%
Information	1.4%	1.5%	1.1%	0.9%
Finance and insurance	3.5%	3.8%	1.7%	1.7%
Real estate and rental and leasing	9.7%	10.7%	3.0%	4.3%
Professional, scientific, and technical services	14.1%	15.4%	8.0%	8.4%
Management of companies and enterprises	0.1%	0.1%	0.0%	0.0%
Administrative and support and waste management and remediation services	8.4%	8.0%	11.4%	16.0%
Educational services	2.4%	2.4%	2.6%	1.6%
Health care and social assistance	9.3%	7.7%	19.1%	10.5%
Arts, entertainment, and recreation	4.8%	5.1%	4.8%	3.1%
Accommodation and food services	3.0%	2.6%	2.3%	3.0%
Other services (except public administration)	13.2%	11.1%	25.1%	16.7%
Industries not classified	0.0%	0.0%	0.0%	0.0%

Source: 2012 Survey of Business Owners, calculations by FIELD at the Aspen Institute.

<sup>32</sup> Bates, 238-252.

**Table 5: Percentage Change in Number of Firms by Industry, 2007-2012, by Race and Ethnicity (includes Employer and Non-employer Firms)**

Industry	Firms with or without paid employees			
	All firms	White	Black or African American	Hispanic
All Sectors	2.0%	-4.7%	34.5%	46.3%
Agriculture, forestry, fishing and hunting	-1.1%	-3.6%	25.7%	72.4%
Mining, quarrying, and oil and gas extraction	6.8%	6.5%	s*	108.3%
Utilities	-1.7%	-8.6%	25.1%	70.8%
Construction	-13.9%	-18.9%	8.7%	39.5%
Manufacturing	-4.2%	-5.9%	41.2%	40.3%
Wholesale trade	-3.9%	-5.1%	26.2%	45.7%
Retail trade	-5.7%	-10.0%	8.2%	37.2%
Transportation and warehousing	-3.2%	-14.6%	9.7%	21.2%
Information	2.0%	-0.2%	21.4%	41.4%
Finance and insurance	-5.6%	-6.6%	3.7%	7.1%
Real estate and rental and leasing	2.5%	4.0%	-15.8%	9.5%
Professional, scientific, and technical services	2.9%	0.3%	26.4%	50.0%
Management of companies and enterprises	1.1%	7.9%	0.0%	33.3%
Administrative and support and waste management and remediation services	8.9%	-3.6%	36.1%	68.4%
Educational services	12.6%	7.0%	41.2%	61.4%
Health care and social assistance	8.2%	-3.3%	35.0%	48.2%
Arts, entertainment, and recreation	7.5%	3.2%	43.9%	59.0%
Accommodation and food services	7.4%	1.0%	47.3%	52.7%
Other services (except public administration)	16.6%	-0.9%	81.3%	63.8%
Industries not classified	-29.7%	-30.8%	24.4%	-13.9%

\* The letter "s" indicates that the data have been suppressed by the US Bureau of the Census.

Source: 2012 and 2007 Survey of Business Owners, calculations by FIELD at the Aspen Institute.

The Annual Survey of Entrepreneurs includes questions that relate to the markets served by employer firms and their geographic focus. The resulting data indicate that African American-owned firms are much more likely than other firms to be selling to government agencies at all levels (federal, state, and local). This is not the case for Latino-owned employer firms, which sell to government agencies at roughly the same degree as employer firms as a whole and as white-owned firms in particular.

There do not appear to be substantial differences in the extent to which Hispanic or black-owned employer firms sell to local versus broader markets:

in 2014, 86.3 percent of black-owned firms had 75 percent of their customers in the same region as their business. This compared to 84 percent for Hispanic-owned firms and 83.3 percent of white-owned firms.

### **Age and origin of business**

In assessing the size of minority-owned firms relative to their white-owned counterparts, part of the differential also lies in the age of the firms, and how the owner came into ownership of the business.

Older firms are generally larger and more successful, explained by the fact that all firms start small and take some time to grow (although growth can clearly

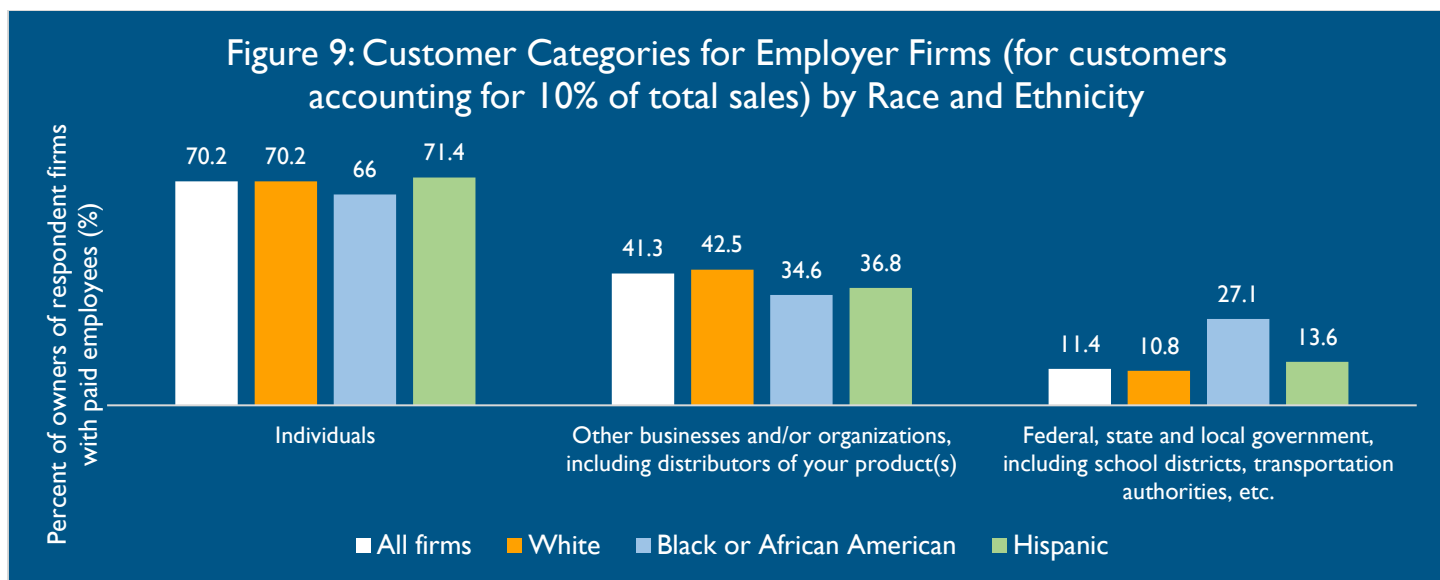
happen at vastly different rates), and those that are unsuccessful close. In addition, some businesses are started by their owners, but others are inherited, purchased, or transferred from the individual who originally started the firm. Unsuccessful or unprofitable firms generally are not purchased (unless they have a technology, product, or customer base that might be valuable to another firm), or are closed down if they are inherited.

The Annual Survey of Entrepreneurs data reveal significant differences in the age of firms owned by African Americans and Hispanics compared to whites. In 2014, more than one-quarter of white-owned firms were more than 30 years old – created in 1980 or before – compared to only 12.5 percent of African American owned firms and 11.1 percent of Hispanic-owned firms. Conversely, 30 percent of Hispanic and African American business owners had young firms (those created in 2008 or later), compared to only 18 percent of whites. One of the reasons that white-owned firms are older may be because they are more likely to inherit, purchase or receive their business as a transfer or gift, rather than founding it themselves. According to the 2014 Annual Survey of Entrepreneurs data, 81 percent of African American-owned and 79 percent of Hispanic-

owned firms were founded or started by their owners, compared to only 70 percent of white-owned employer firms (see Figure 8, above).

### Motivations and aspirations

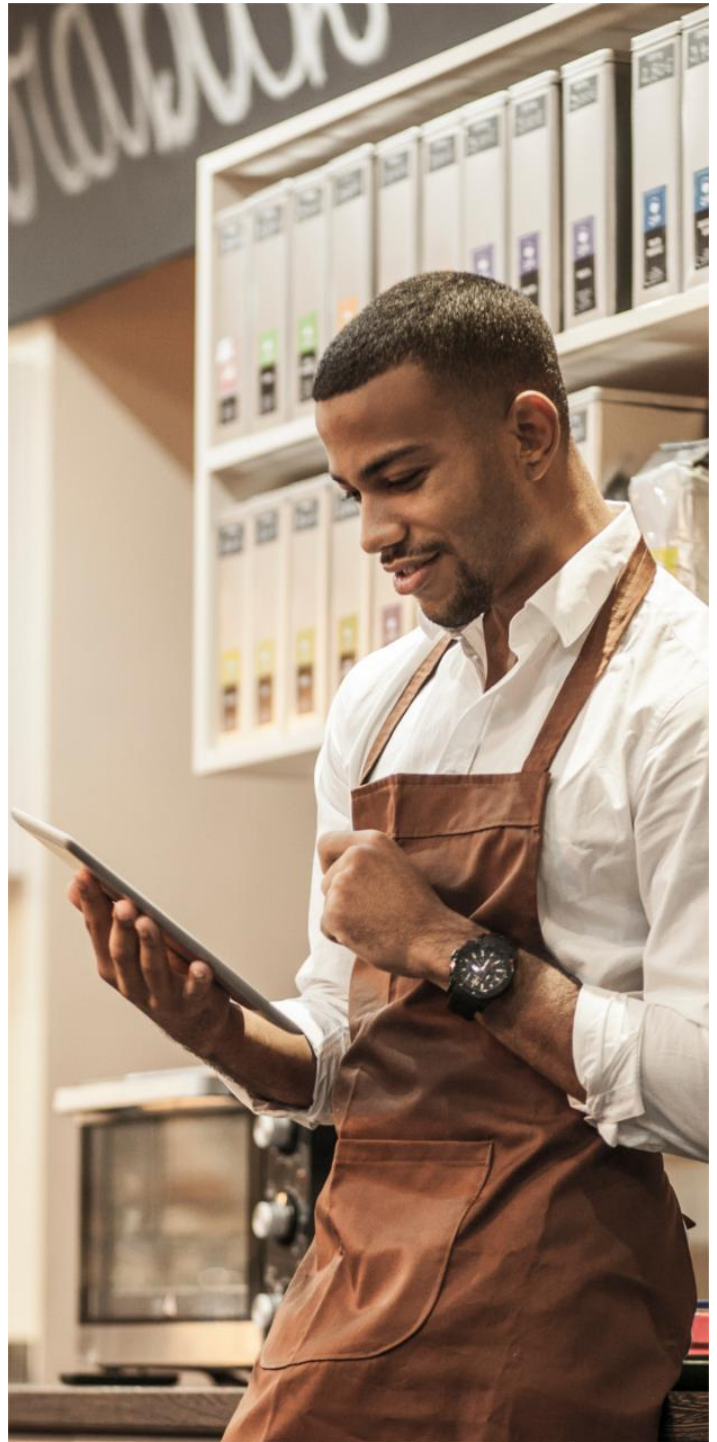
The motivations and aspirations of Latino and black business owners may also affect the size of their firms. The recent Annual Survey of Entrepreneurs data indicate that African American and Hispanic owners of employer firms were more likely to note that flexible hours, balancing work and family, or both were very important reasons for starting their business (see Appendix A for relevant tables from the 2014 Annual Survey of Entrepreneurs). Specifically, 60.2 percent of Hispanic business owners and 54.3 percent of African American business owners said that balancing work and family was a very important reason for owning a business, compared to 45.7 percent of white business owners. Similarly, 51.7 percent of Latino and 51.2 percent of African American business owners said having more flexible hours was a very important factor, compared to 41.7 percent of white business owners. It may well be that the desire for flexibility and balance is tied at least in part to the fact that there are more black and Latino business owners who are at the ages where they are also caregiving for children and parents.



Source: 2014 Annual Survey of Entrepreneurs, calculations by FIELD at the Aspen Institute.

Limited labor market opportunities also seem to be a greater impetus for business ownership for some entrepreneurs of color. Among the business owners surveyed about 2014 for the Annual Survey of Entrepreneurs, 11.3 percent of Latinos and 9.3 percent of African Americans said that not having a job was a very important factor in owning a business, compared to only 6.1 percent of whites. And 63 percent of Latino and 61 percent of African American business owners said that having more income was a very important factor in owning their firm, compared to 53 percent of white business owners. These data suggest that the lack of labor market options may remain a slightly more important factor pushing people of color into business ownership.

While the above data may indicate that Latino and African American entrepreneurs may have more complex challenges to navigate in building their firms, the Annual Survey of Entrepreneur data also suggest that they have strong aspirations for growth. More than 75 percent of African American-owned employer firms and more than 70 percent of those owned by Hispanics wanted their business to be larger in terms of revenues or profits, compared to 64 percent of white-owned firms. This may be a function, in part, of the fact that their firms are generally smaller and less profitable — but it still suggests the desire to grow.



## Recommendations for strengthening the growth of Latino- and African American-owned firms

Our nation's experience in recovering from the Great Recession validates the important role that new and growing firms play in creating jobs. As more and more of new entrepreneurs are people of color, policy makers should be concerned that too many are unable to grow their firms because of the factors documented above. Given the substantial challenge that entrepreneurs of color face because of their lack of wealth, policy solutions will lie in part in longer-term policies that seek to build wealth for people and families of color, and thereby create a stronger base for future generations of entrepreneurs. Thus, the recommendations below identify short-term recommendations that can address the challenges facing the current generation of entrepreneurs of color, as well as long-term recommendations aimed at wealth creation for future business owners.

### *Short-term recommendations*

*Ensure that there is adequate data to inform knowledge about trends and disparities in business ownership.* Lack of sufficient and frequent data on the characteristics and status of business owners has hampered the identification of trends that could inform solutions aimed at reducing the nation's overall decline in entrepreneurship, as well as strengthen entrepreneurship among people of color. Data are particularly important in informing not only the existence of disparities, but also the factors that drive them. Several federal initiatives are particularly important in ensuring sufficient, high quality data on business ownership. The first is newly-created Annual Survey of Entrepreneurs from the US Census Bureau,

which can shed light yearly on the status of employer firms. The second is the recent move by several regional Federal Reserve Banks to conduct a Small Business Credit Survey, which captures the experiences of small business owners in seeking and securing credit. Also highly important is the mandate provided in Section 1071 of the Dodd-Frank Act, which expands the Equal Credit Opportunity Act to require that financial institutions collect and store data on the race and gender of applicants for business credit. Until now, the only nationwide data on the race and gender of business loan applicants was for applicants for SBA loans, which constitute a very small percentage of all business loans. The Consumer Financial Protection Bureau is in the process of developing regulations to implement this new requirement; moving forward to create this nationwide dataset will be important not only in identifying racial and ethnic trends and disparities, but also in understanding broader trends and challenges in small business access to credit.

*Expand targeted efforts to improve access to properly-structured credit for entrepreneurs of color.* In the wake of the recent small business credit crunch, there have been a number of important efforts to expand access to small business credit.<sup>33</sup> These efforts are important, but reaching substantial numbers of entrepreneurs of color with appropriate financing will also require the following:

- *Deliberate and culturally-competent outreach and service to communities of color.* Many small business lending (and service)

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<sup>33</sup> Karen Gordon Mills and Brayden McCarthy, *State of Small Business Lending: Innovation and Technology and the Implications for Regulation* (Cambridge, MA: Harvard Business School Working Paper 17-042, 2016) 119-122.

Also see Michael S. Barr, *Minority and Women Entrepreneurs: Building Capital, Networks and Skills*, The Hamilton Project, Discussion Paper 2015-03 (Washington, DC: Brookings Institution, March 2015), 11-14.

programs have had limited effectiveness in reaching entrepreneurs of color. For example, African Americans received only 4 percent of SBA 7a and 2 percent of SBA 504 loans originated during 2016 (measured in terms of the number of loans); Hispanics received only 9 percent and 8 percent respectively. The percentages of loans received by African Americans and Latinos are even lower when measured in terms of the dollar volume of loans originated under these programs. In contrast, during 2016, 47.3 percent of the loans issued and 33.6 percent of the dollars originated under the SBA Microloan program — which provides funding to mission-driven microlenders that focus on serving women, minorities, and other disadvantaged borrowers — went to minority-owned firms.<sup>34</sup> Although the types of clients served by mission-based microlenders vary according to their missions and the geographic regions they serve, as a whole they serve more entrepreneurs of color because they deliberately develop marketing and outreach strategies, offer services in Spanish and other languages, and adjust their policies and programs in other ways (such as taking a more flexible approach to interpreting credit reports) in order to serve them.

- *Apply loan underwriting and decision-making approaches that address the credit characteristics of many minority-owned firms.* The major quantifiable barriers to credit for African American and Latino borrowers are lower levels of owner equity (net worth) with which to leverage financing, lower levels of collateral (e.g., value of homes) with which to secure loans, and lower credit scores. Community development financial

institutions (CDFIs) have expertise in responsibly underwriting and making loans to businesses with these credit deficiencies. The work of these CDFIs — particularly those that serve entrepreneurs of color — should be encouraged and expanded. There are several initiatives underway that seek to address this issue, including Wells Fargo's Diverse-Owned Small Businesses program, JPMorgan Chase's Small Business Forward program, and the Small Business Administration's Partnerships for Lending in Underserved Markets (PLUM) initiative. Such initiatives should include efforts to document the experience of CDFIs that lend to African American and Latino borrowers in order to encourage others to do so and to document successful underwriting and lending practices.

- *Structuring loans and related services to meet the needs of undercapitalized and low-wealth businesses.* Business owners who lack equity to invest in their firms will be more challenged to succeed, as they will have greater difficulty weathering fluctuations in cash flow, surviving periods of low sales, or dealing with shocks to their businesses. To the extent that lenders underwrite and structure loans so that over the long-term they build the underlying financial structure and health of the business, and provide accompanying services (such as support for financial management and analysis) to support the long-term financial health of the company, low-wealth entrepreneurs of color will be better able to maintain and grow their firms. Mission-based lenders such as CDFIs — and to some extent banks that are making larger small-business loans — invest the time

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<sup>34</sup> Robert J. Dilger, *Small Business Administration Microloan Program*, (Washington, DC: Congressional Research Service, December 6, 2016) 13.



it takes to underwrite and structure deals in this way and to provide ongoing financial advice and support to borrowers. However, financial pressures facing lenders often disincentivize them from doing so. Further, although new technologies that reduce the staff time involved in underwriting and loan decision-making may open access to credit by reducing costs, some of the algorithms that drive loan decisions may not take into account the full financial picture of the applicant's business, which can lead to extending credit on terms and in amounts that may be detrimental to the business's long-term health. Policymakers and funders who seek to stimulate the growth of firms owned by entrepreneurs of color should understand that lending to undercapitalized firms may be more costly and more difficult to automate, and they should create funding streams and incentive structures that support and value the work of CDFIs and other lenders that serve this market.

- *Expanding supports for angel investment in minority-owned firms.* Expanding the level of angel investment, with a particular focus on minority-owned firms, can also help to address the lack of personal wealth that constrains African American and Latino entrepreneurs. Angel investors are individuals who provide capital to young firms, typically in the form of ownership equity or convertible debt. There are a number of efforts underway to strengthen diversity in angel and venture capital investing. These include Pipeline Angels, which holds boot camps for investors and pitch summits for entrepreneurs in the

hopes of connecting female investors to women-owned firms; the Harriet Angels Syndicate led by Maya Ventures Partners, which works to strengthen investment in companies owned by black and Latina women; and the diversity agenda of the National Venture Capital Association. In particular, networks and boot camps that build the knowledge of investors and connect them to entrepreneurs of color seem a promising route to strengthening access to equity capital.

*Build a regulatory framework for non-bank business lenders that balances goals of expanded and equal access to credit with protections against products and practices that undermine the long-term health of businesses.* Developments in financial technology — combined with the vacuum created when banks pulled back from business lending in the wake of the Great Recession — have enabled dramatic growth among online business lenders.<sup>35</sup> While the use of technology offers great potential to address some of the factors that have reduced access to credit for the smallest firms, the lack of a clear regulatory framework and borrower protections that apply to small business loans have also given rise to products and lending practices that undermine the financial health of small business borrowers. There is some evidence that entrepreneurs of color are more likely to apply for online loans.<sup>36</sup> Although there are online lenders that adhere to responsible lending practices, research indicates that applicants for online loans are more likely than applicants for traditional loans to be dissatisfied with the rates, terms, and transparency of the loan products offered. One means to ensure a balance between innovation and borrower protection would be for the Office of the

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<sup>35</sup> Mills and McCarthy, 43-47.

<sup>36</sup> Anne Marie Wiersch, Barbara J. Lipman, and Brett Barkley, *Click, Submit: New Insights on Online Lender Applicants from the Small Business Credit Survey* (Federal Reserve Bank of Cleveland, October 12, 2016), 3.

Comptroller of the Currency to include requirements for borrower protection, truth-in-lending, equal credit access, and financial inclusion as it creates a non-bank charter for online lenders.

*Expand the availability of programs and products that establish and build credit for entrepreneurs of color.*

Enabling more people of color to strengthen their credit profiles is an important complement to efforts to expand access to credit. As documented above, both a lack of credit and relatively lower credit scores for those who do have some established credit are both impediments to accessing affordable borrowed capital to support business expansion. Two strategies can be helpful here:

- *Expand programs that offer entrepreneurs of color credit-building loans as well as credit coaching.* A growing number of community-based organizations offer small loans of several hundred dollars that, when reported to credit bureaus, become a tool for helping individuals to establish and build their credit. Typically loans are coupled with credit coaching that helps the borrowers to establish positive credit behaviors and to address other issues with their credit reports. Additional funding for these products and services will be important in helping more entrepreneurs of color to establish credit profiles that will enhance their ability to secure business credit.
- *Expand the types of payment and credit data that are included in credit scoring models.* This can help reduce the levels of credit invisibility among entrepreneurs and many people of color.

*Further improve programs aimed at enabling entrepreneurs of color to access and succeed in contracting opportunities.* Government procurement has been an important means for entrepreneurs of color to build and grow businesses and to access more lucrative markets.<sup>37</sup> Data from the Annual Survey of Entrepreneurs indicate that Latino and African American business owners are more reliant on government markets than white entrepreneurs. Although contracting programs have been an important tool for helping entrepreneurs of color to access these markets, they can be supplemented or improved in several ways, as follows:

- *Address the capital and cash-flow challenges faced by contractors.* Contracting relationships typically require an upfront investment of capital. For entrepreneurs who lack equity and have limited ability to tap debt financing, this requirement can preclude participation. Some states and cities — including the state of Maryland and the city of St. Louis — have created loan programs and products targeted at minority contractors, but these are not widespread. Furthermore, even if contractors can access the upfront capital needed to deliver on a contract, the longer payment cycles of government agencies can exacerbate the cash-flow challenges often faced by young, minority-owned firms. In 2011, the federal government implemented the QuickPay program, which required government agencies to expedite payments to small business contractors within 15 days. QuickPay was followed in 2014 by SupplierPay, an initiative in which private corporations pledged to speed their supplier payments or identify financing solutions to support the working capital needs of their

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<sup>37</sup> See Aaron K. Chatterji, Kenneth Y. Chay and Robert W. Fairlie, "The Impact of City Contracting Set-Asides on Black Self-Employment and Employment," *Journal of Labor Economics*, 32, no. 3 (July 2014).

suppliers. Similar initiatives on the part of state and local governments could further support the growth of small firms, particularly those owned by entrepreneurs of color.

- *Expand initiatives aimed at expanding procurement relationships between large “anchor institutions,”* such as higher education institutions and hospitals, and minority-owned firms. Several cities, most notably Cleveland, have pursued this strategy,<sup>38</sup> which could also be further expanded to include commercial and residential real-estate developers and other private firms.

*Expand funding for targeted business development assistance for growth-oriented minority-owned firms.*

All entrepreneurs who seek to grow their businesses face challenges as they work to acquire additional capital, build financial and management skills and systems, manage erratic cash flows, acquire new customers, recruit, train, and retain quality workers, and more. For entrepreneurs who lack social and business networks and family members with experience in business ownership, negotiating these challenges is particularly difficult, and finding advisors, coaches, or mentors who can provide trusted and unbiased advice can be key to their success. While many government and nonprofit programs provide training and technical assistance to prospective entrepreneurs, some programs are not well-suited to the needs of growth-oriented entrepreneurs of color. In some cases, small business programs are structured to reward shorter interventions (such as one-day workshops or support for a targeted output such as a marketing or business plan), rather than sustained support as a business navigates the growth process. In others, the

implementing organization or program may not be staffed or structured to provide services that are culturally competent or accessible to entrepreneurs who live in low-income communities. Providing funding to programs that combine targeted ongoing support — through advisors, mentors, coaches, or consultants — for entrepreneurs seeking to stabilize and grow their businesses with a strong intent and focus on service to entrepreneurs of color can play an important role in enabling growth among minority-owned firms.

There is a growing trend within the microenterprise and small business assistance sector to focus business support services on growth-oriented firms. The number of business incubators and accelerators focused on minority-owned firms, or more broadly on “inclusion,” is also growing. It will be important to continue to support these efforts, as well as to invest in evaluation and learning initiatives that identify and document the lessons regarding successful practices.

*Consider short-term strategies for forgiving or reducing the student debt of entrepreneurs who create new firms.* As noted above, there is evidence that high levels of student debt are inhibiting entrepreneurship among millennials, and that African Americans and Latinos carry higher levels of student debt than whites. Efforts to reduce student debt burden for entrepreneurs should be considered. We do not have specific recommendations to offer here, but would note that as policymakers and policy organizations take steps to address the rising levels of student debt and their implications, they should consider the particular needs of entrepreneurs and the impact of student debt on business creation and growth.

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<sup>38</sup> For more on anchor procurement and other community wealth-building strategies, see Marjorie Kelly and Sarah McKinley, with research assistance from Violeta Duncan, *Cities Building Community Wealth* (Takoma Park, MD: Democracy Collaborative, November 2015).

## Long-term recommendations

The above strategies can help in the short-term to strengthen the growth of firms owned by entrepreneurs of color. However, in the longer-term, policies that improve the wealth and education levels of African Americans and Latinos will be needed for these communities to realize their entrepreneurial potential. Stronger and more equal K-12 education systems will be essential in addressing the low levels of wealth held by Latinos and African Americans, as well as policies and programs that support college completion while minimizing student debt, enable higher levels of homeownership and higher housing values, promote financial inclusion and enable savings (including retirement savings), and prohibit wealth-stripping practices. Recent reports and analyses by CFED and the Institute for Assets and Social Policy (IASP) have identified a set of universal wealth-building strategies that could help to narrow the racial wealth gap.<sup>39</sup> Rather than re-enumerating similar policies here, we would simply emphasize that expanded entrepreneurial success will be one valuable outcome from addressing the wealth and educational disparities faced by African Americans and Latinos.

## Conclusion

Our nation faces significant challenges in seeking to address the growing racial wealth gap. Among the potential solutions to this gap, there are reasons to be optimistic that we can expand the role that business ownership plays in building wealth for people of color. Relatively low levels of business assets held by Latinos and African Americans are one of the reasons that they hold lower levels of wealth overall. Yet there are trends in the right direction: rates of business creation among these entrepreneurs are increasing and now exceed those of whites. And particularly among African Americans, higher levels of college attainment combined with expanded contracting opportunities are enabling movement into more lucrative markets and sectors.

While there are positive signs, low levels of personal wealth and challenges in accessing business credit continue to be primary factors limiting the growth of firms owned by Latinos and African Americans. Growing and relatively high levels of student debt further complicate the financial challenges faced by entrepreneurs of color. And the lower levels of education among Latinos constrain their ability to move into higher-growth, higher-revenue sectors, and also affect the skills they bring to businesses they create. Universal policies to narrow the racial wealth gap — such as those aimed at raising the quality of education, building savings, and increasing financial inclusion — will address some of these limiting factors in the long-term. In the short-term, continuing and expanded efforts to increase access to capital, skills, networks, and markets will be needed to realize the promise that business ownership holds for addressing the racial wealth gap.

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<sup>39</sup> See for example Laura Sullivan, Tatjana Meschede, Thomas Shapiro, Dedrick Asante-Muhammed, and Emanuel Nieves, *Equitable Investments in the Next Generation: Designing Policies to Close the Racial Wealth Gap* (Washington, DC: CFED and the Institute for Assets and Social Policy, December 2016).

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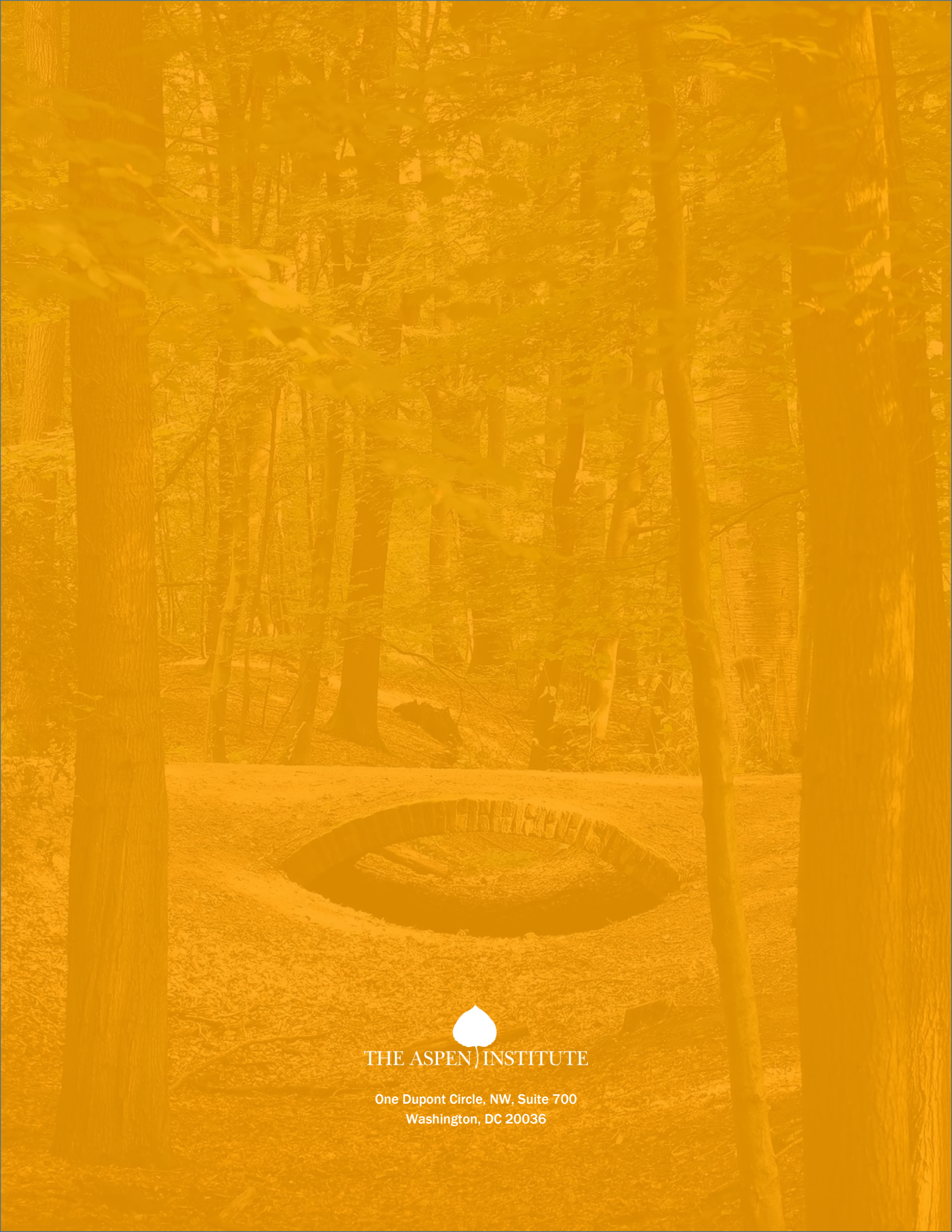
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