Bridging the Wealth Gap

SPECIAL SUMMARY REPORT
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Small Business Growth

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Prepared by:

INTERISE

THE UNITED STATES CONFERENCE OF MAYORS

INTERISE

Jean Horstman
Chief Executive Officer

Nancy S. Lee, PhD
Principal Author
Senior Manager Research and Evaluation

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BRIDGING THE WEALTH GAP THROUGH SMALL BUSINESS GROWTH

EXECUTIVE SUMMARY

Wealth in America has not rebounded from the Great Recession for many and recovery of wealth has been uneven across income, race, and ethnicity. While lower income families have recovered about half of lost wealth, middle-income families continue to see a decline in wealth without signs of abatement. Minority families experience an exacerbated effect due to the racial wealth gap. Wealth gap trends have not escaped the notice of mayors, who cite inclusive economic development as one of several top priorities for American cities.

The racial wealth gap is primarily due to biased historic and current policies, and not due to individual choices. The racial wealth gap must be addressed in order to close the wealth gap that exists across demographic lines. Small business growth is a sustainable solution. Enabling established, employer small businesses to grow supports an ecosystem in which they create jobs and wealth locally. Suggested approaches include mayors and other economic development leaders facilitating capital providers to increase the quantity and types of financial products available to small businesses; increasing procurement opportunities and diversity; and expanding capacity building programs for small businesses that adapt to local economic development strategies and priorities.

A summary of key findings from the report include:

AFFORDABLE HOUSING HELPS SMALL BUSINESSES

The combination of the widening wealth gap and increasing housing costs compounds the challenge for mayors to stimulate their economies. Small business owners often rely on personal savings and wealth, such as equity in their homes, to start or expand businesses. When market conditions and public policies do not support affordable housing, not only are lower wealth individuals and families priced out of their communities, business owners, who cannot afford homes, lose a major source of capital for their businesses.

MINORITY BUSINESS OWNERS RELY ON LIMITED INVESTMENTS

The credit gap, compounded by the trust gap and lending biases, means that the bulk of minority business owners have less access to bank financing and rely more on their own investments. However, due to the racial wealth gap, particularly among African-American and Hispanic/Latino business owners, they have less of their own capital to invest.

SMALL BUSINESSES CREATE WEALTH AND LOCAL JOBS

Building capacity among local small businesses and minority-owned businesses has the potential to close the wealth gap. African-American business owners have 12 times more wealth and have higher levels of wealth mobility than counterparts who are not business owners. Additionally, employers of color are more likely to hire people of color from the community.

BUSINESS GROWTH: A SOLUTION FOR THE WEALTH GAP

Established local and minority-owned businesses create jobs and wealth and invest in their communities by sheer fact that they have chosen to locate there. Mayors and economic development professionals have a role and ability in creating strategies and facilitating collaboration among capital providers, procurement professionals, and capacity builders to create an inclusive and equitable economy.

BRIDGING THE WEALTH GAP THROUGH SMALL BUSINESS GROWTH

> "The extent of and continuing increase in inequality in the United States greatly concern me.... I think it is appropriate to ask whether this trend is compatible with values rooted in our nation's history, among them the high value Americans have traditionally placed on equality of opportunity.... For many people, the opportunity to build a business has long been an important part of the American dream. In addition to housing and financial assets, the SCF [Survey of Consumer Finances] shows that ownership of private businesses is a significant source of wealth and can be a vital source of opportunity for many households to improve their economic circumstances and position in the wealth distribution."
>
> Janet L. Yellen, Former Chair of the Board of Governors of the Federal Reserve System

Wealth in America has not rebounded from the Great Recession for many. The median wealth among all families in 2016 ($97,300) was 70 percent of that in 2007 ($139,700 in 2016 dollars). The recovery of wealth has been uneven across income levels, race, and ethnicity. While lower income families, adjusted for size, have recovered wealth by about half, middle-income families continue to see loss of wealth without signs of abatement. This holds true within white, African American, and Hispanic/Latino families.[1] Between 2007 and 2016, the wealth gap improved somewhat for low-income families overall. The percentage of low-income families that had no wealth or were in debt increased three percent among white families, decreased nine percent among African American families, and decreased eight percent among Hispanic/Latino families. However, the trend worsened over the same period for middle-income families. The percentage of white, African American, and Hispanic/Latino families that had no wealth or were in debt increased by three percent, nine percent, and 13 percent respectively (see Table 1.) For upper-income white families, median wealth increased by 25 percent since the Great Recession.[2]

Table 1. Percentage of Families with No Wealth or Were in Debt

Race/Ethnicity	2007	2016	Difference
	Low-Income		
White	14	17	+3
African American	32	23	-9
Hispanic/Latino	23	15	-8
	Middle-Income		
White	6	9	+3
African American	9	18	+9
Hispanic/Latino	9	13	+4

Source: Kochhar and Cilluffo, "How Wealth Inequality has Changed"

Wealth gap trends have not escaped the notice of mayors. Mayors cited economic development as their number one concern each year between 2014 and 2017 and this concern is consistent among cities of all sizes.[3] The priority of economic development holds across major geographic regions too. It is the top issue in the South and Midwest and second only to budget concerns in the Northeast and public safety in the West.[4] Mayors are witnessing wealth inequality grow between rich and poor and a middle class that is shrinking. The 2016 Menino Survey of Mayors showed that nearly half of surveyed mayors believed that “those living in or near poverty” were the most “excluded” group in their cities; and half of mayors felt that African American communities were among the most marginalized.[5]

Wealth associated with white Americans is ten times higher than those of Hispanic/Latino- and African-Americans.[6] Over 25 percent of African-American households have no wealth or are in debt.[7] In metropolitan areas, the racial wealth gap is wider.[8] This gap has profound implications on minority households’ ability to weather financial challenges and build for their future.[9] By 2046, the wealth of median African-American and Hispanic/Latino households will be less than 0.8 percent of that of median white households.[10] The wealth gap faced by low- and moderate-income families cannot be closed without bringing attention to the racial wealth gap and the historic policies that have exacerbated the impacts on minorities.

Business ownership is a path towards closing the gap. African-American business owners have levels of wealth that are 12 times that of African-American non-business owners.[11] In addition, when comparing the median wealth of white and African-American business owners, the gap decreases to a factor of three.[12]

The next sections of this paper describe the racial wealth gap, followed by a brief descriptive summary of small business development programs that are effective in growing small businesses under the supposition that small businesses create jobs and wealth for their communities. As the policy makers closest to communities, mayors seek policy shifts and programs that would lead to economic development. Advancing the success of small businesses is one of many avenues mayors can take to create inclusive and equitable local economies that help alleviate the wealth gap.

WHAT IS WEALTH?

What exactly is wealth? Wealth is comprised of a person’s or household’s individual assets, like a house or a bank account, minus any debt, like student loans or mortgage debt. The racial wealth gap refers to differences in wealth between different racial groups.[13] Wealth can provide a safety net in periods of crisis, like unemployment or medical emergencies. It can also allow people to take risks like starting or growing a business.[14] With lower levels of wealth, people have less access to education, opportunities, homeownership, and economic security. They also have less to pass on to the next generation, which leads to constraints on intergenerational mobility.[15]

Income, which refers to the cash flowing to a person, usually from their wages, impacts that person’s wealth but does not show the whole picture. Many people are aware of income inequality, but as the wealth gap grows over time, it has more profound effects on people’s ability to weather financial challenges or take risks. Lower levels of income limit people’s lifetime wages and increase the wealth gap over time, thereby inhibiting the ability of entrepreneurs in particular to start or grow a business. Figure 1 shows the difference between income inequality and the racial wealth gap. While median income for whites is nearly twice that of income for African-Americans and Hispanics/Latinos, median wealth is over ten times higher.

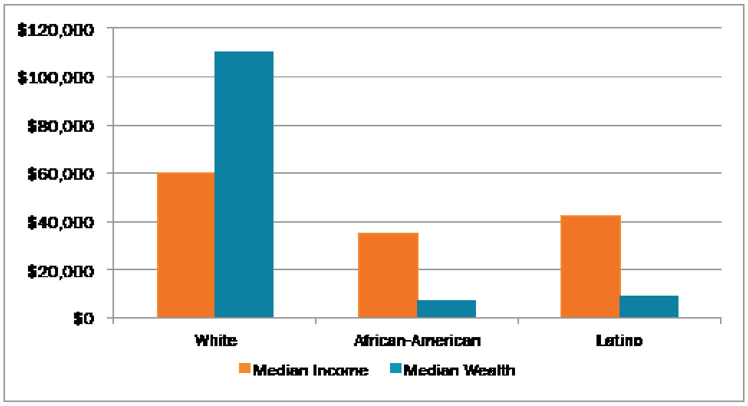

Figure 1. Comparison of Median Income and Wealth among Whites, African-Americans, and Hispanic/Latino Households.

Source: Sullivan, et al, *Equitable Investments in the Next Generation*, 6.

Lower income also reduces a person's chances of owning a house, especially as affordable housing is increasingly difficult to find in cities, and homeownership is the most common way that people build assets.[16] Housing equity comprises about two-thirds of the median household's wealth.[17] Since housing has traditionally been how people build wealth, racial differences in homeownership play a key role in the racial wealth gap. Sixty-eight percent of whites own homes, compared to only 43 percent of Hispanics/Latinos and 42 percent of African-Americans.[18] Despite being less likely to own homes, African-Americans and Hispanics/Latinos are 86 percent and 36 percent more likely to be underwater in their mortgages, respectively, than whites are.[19] In addition, homes in African-American neighborhoods do not appreciate as much as those in white neighborhoods.[20] Houses are often the source of equity for a business, so the racial disparity in homeownership impacts small business owners. Race and place intersect, and both are factors that compound the wealth gap.

While African-American and Hispanics/Latinos have had distinct experiences, this paper focuses on their common challenges, particularly with regard to business ownership.

Increasing house prices and rising rents exacerbate the challenge of building wealth through homeownership, which individuals can convert to capital to open or expand small businesses. In 2017, mayors identified the lack of affordable and appropriate housing as their top concern for their cities on the Menino Survey of Mayors. About 40 percent of mayors want to increase the availability of affordable rental units and about 35 percent want to focus on increasing homeownership.[21] The combination of the widening wealth gap and increasing housing costs redoubles the challenge for mayors to build a strong and inclusive local economy.

WEALTH AS A SOURCE OF CAPITAL FOR SMALL BUSINESS OWNERS

The pervasiveness of the wealth gap affects minority small business owners in particular. Most business owners turn to their own wealth or that of their friends and family when starting and operating a business.[22] Minorities who have lower levels of wealth on average therefore have less of their own capital to invest in their businesses.[23] They also are less likely to be able to rely on housing equity from themselves or their networks.

Aggravating the problem, minorities have less access to other types of capital. When it comes to loans, "minority-owned businesses are more likely to be declined a loan, receive smaller loan amounts, and often pay higher interest rates than white-owned businesses."[24] This leads to a "trust gap," where many minority business owners do not ask for capital from financial institutions and banks because they think they will be turned down.[25] Compared to white business owners, African-American business owners are almost three times as likely to report lower profits because of a lack of access to capital.[26] Figure 2 demonstrates the extent of the trust gap.

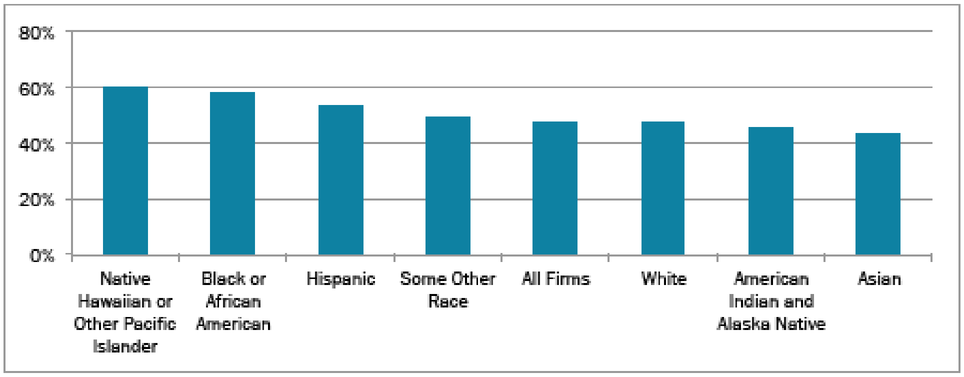

Figure 2. Trust Gap: The Extent of White, Minority, and Hispanic/Latino Entrepreneurs Avoiding Small Business Financing Because They Thought the Loan Would Not Be Approved.

Source: Morelix et al, *Zero Barriers*, 16.

This credit gap, created by the trust gap and lending biases, means that the bulk of minority business owners have less access to bank financing and rely more on their own investments.[27] Due to the wealth gap, particularly among African-American and Hispanic/Latino business owners, they tend to have less of their own capital to invest.

THE WEALTH GAP HAS INFLUENCED THE DEVELOPMENT OF MINORITY-OWNED BUSINESSES

Given that wealth and access to capital are crucial for small business owners, the wealth gap has influenced the development of minority-owned businesses.[28] While the number of minority-owned businesses is growing, there are 1.1 million "missing businesses" in the US due to historical discrimination against certain minority groups and present-day discrimination in accessing loans and credit. These "missing businesses" could contribute 9 million more jobs and

$300 billion in national income.[29] African-Americans are more likely to start businesses than the average individual,[30] but African-American- and Hispanic-owned businesses are more likely to fail, since less managerial and prior family business experience and lower access to capital make these owners more likely to enter industries with lower barriers to entry and thus higher failure rates.[31]

Not only do minority-owned businesses start and stay smaller, as shown in Figure 3, the revenue divide grows with the age of the business. This may be explained by the restricted access to credit and the fact that historically, minority-owned businesses have been limited to their own communities for customers.[32] The smaller size of Hispanic/Latino- and African-American-owned businesses, and the lower rates of business ownership, means that there is less business wealth overall among people of color.[33]

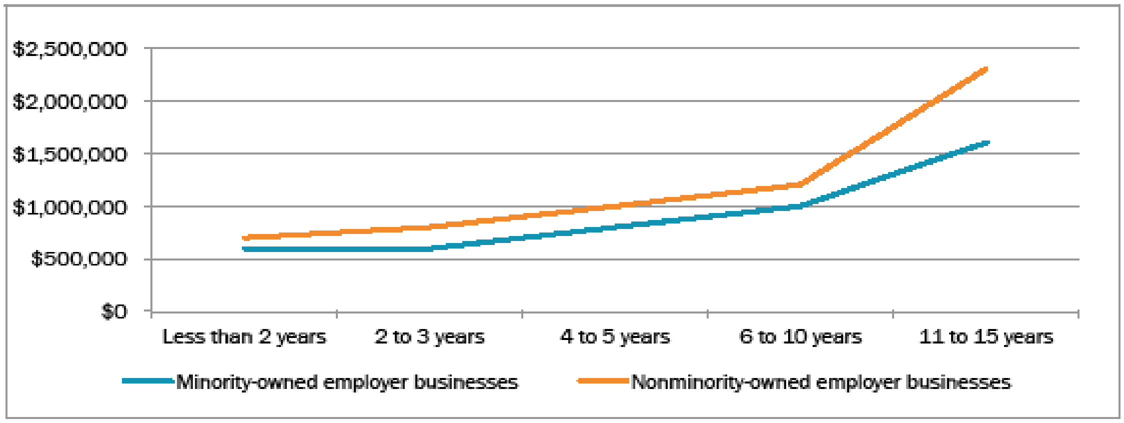

Figure 3. Revenue Gap For Employer Businesses

Source: Morelix et al, *Zero Barriers*, 14.

Employer small businesses that have paid employees can have much more economic impact on their communities than those that do not,[34] and are more able to scale. However, the vast majority of businesses do not have employees, especially those owned by women and/or African-Americans and Hispanics/Latinos.[35] Employer firms account for three percent of all firms owned by African-American women, five percent of those owned by Hispanic women, six percent of those owned by African-American men, and 11 percent of those owned by Hispanic men. However, 24 percent of all firms owned by white men have employees.[36] Minority-owned businesses have smaller revenues and average payroll,[37] which inhibit their opportunity to support economic development through job and wealth creation in their local communities.

The wealth gap and contributing factors like income inequality and the trust gap are consequential barriers to entry into business ownership for minority business owners. Minorities earn less money overall and they likely have much less wealth, including assets like houses. Their networks are also less likely to have housing equity or assets that the business owners can borrow. Minority business owners cannot rely on lending institutions, and even if they open businesses, their businesses start and stay smaller.

THE GREAT RECESSION'S EFFECT ON WEALTH AND CAPITAL

The Great Recession, in particular, affected housing wealth in communities of color and therefore the main source of equity for minority business owners. Leading up to the Great Recession, lenders were shown to have targeted minorities for predatory mortgages.[38] High-income African-Americans were nearly twice as likely to receive subprime loans as low-income white borrowers.[39] African-American and Hispanic/Latino borrowers were almost 50 percent more likely than white borrowers to face foreclosure.[40] The Center for Responsible Lending found in 2006 – before the Great Recession – that "for many types of loans, borrowers of color in our database were more than 30 percent more likely to receive a higher-rate loan than white borrowers, even after accounting for differences in risk."[41] The Center made a prescient observation about the importance of mortgage costs: "Whether or not families receive fairly priced home loans is a major factor in their fundamental financial security. Higher loan costs will both dissuade some potential borrowers from investing in homeownership and increase the risk of foreclosure for those who do."[42] And since it reduced overall capital, the housing crisis and accompanying loss in financial security reduced access to capital for would-be or existing entrepreneurs.

The Great Recession had a disproportionate impact on communities of color. African-American and Hispanic/Latino families who owned homes, in particular, were negatively impacted by loss in home equity.[43] Figure 4 demonstrates the range of impacts of the recession on different minority groups. In proportion to their total wealth, Hispanic/Latino homeowners lost over four times as much as white homeowners, and African-American homeowners lost over three times more.

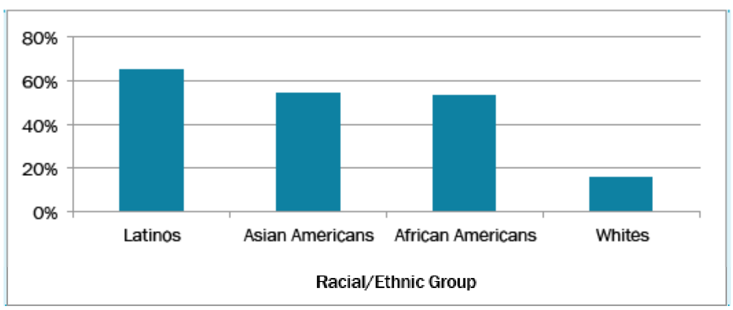

Figure 4. Percentage of Wealth Lost Following the Great Recession, 2005 to 2009.

Source: Tippett et al, *Beyond Broke*, 14.

Asian-American homes tended to be concentrated in urban areas with rising home values, which accounted for their high median net worth ($176,225 in 2005, as opposed to over $142,000 for white households, $19,228 for Latino households, and $12,840 for African-American households). This also helps to explain why Asians as a group lost the most wealth in terms of dollars rather than percentage change. See figure 4.

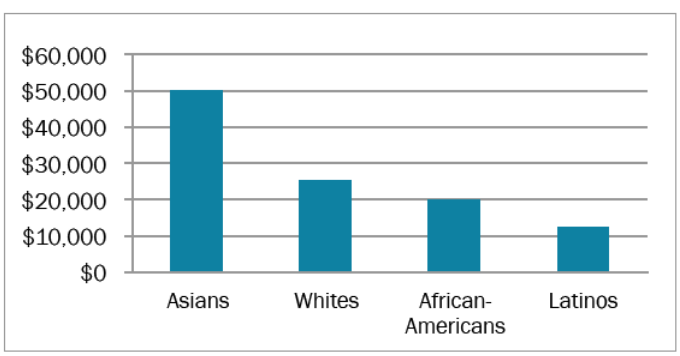

Figure 5. Median Business Equity Among Business Owners.

Source: Tippett et al, *Beyond Broke*, 17.

In addition, since minorities have less asset diversity than whites, they were hurt more by the housing crisis. For example, home equity is 92 percent of African-Americans' net worth and only 58 percent of whites' net worth.[44] Asset type matters because "business and financial assets provide greater diversification and higher average returns over time than tangible assets such as homes."[45] Lower rates of business equity in particular mean that businesses have less capital to grow with. Therefore, affected business owners would have less of their own capital for start-up or growth, and business owners in these communities would have less access to capital as well. Figure 5 shows Asians have the highest level of business equity, followed by whites, African-Americans, and Hispanic/Latinos.

WEALTH GAP IS NOT DUE EXCLUSIVELY TO INDIVIDUAL CHOICES

The "pull yourself up by your bootstraps" vision of the American Dream attributes the wealth gap to individual choices, and claims that the gap can be solved with education, marriage and family structure, full-time employment, and spending habits. As important as these factors are to the foundation of a strong economy and to the fabric of society, none can fully close the wealth gap,[46] as demonstrated by the following graphs.

Figure 6 shows a white household with less than a high school degree has 1.7 times as much wealth as an African-American household with at least some college. A white single-parent household has 2.2 times as much wealth as an African-American two-parent household, and a white two-parent household has levels of wealth 10 times higher than that of African-Americans and 8.6 times higher than that of Hispanic/Latinos.[47]

A typical white family with an unemployed head of household has more wealth than a typical African-American family with a head of household with full-time work.[48] In addition, regarding spending habits, "the average white household spends 1.3 times more than the average African-American household of the same income group."[49] The Federal Reserve Bank of Boston found that "inheritances, bequests, and intrafamily transfers account for more of the racial wealth gap than any other demographic and socioeconomic indicators, including education, income, and household structure."[50] Given the history of asset development for whites, the report continued, "explanations that attribute the lack of assets among minority groups to a relative deficiency in current savings behaviors are at the very least an oversimplification [of] the problem."[51]

Median Wealth for...

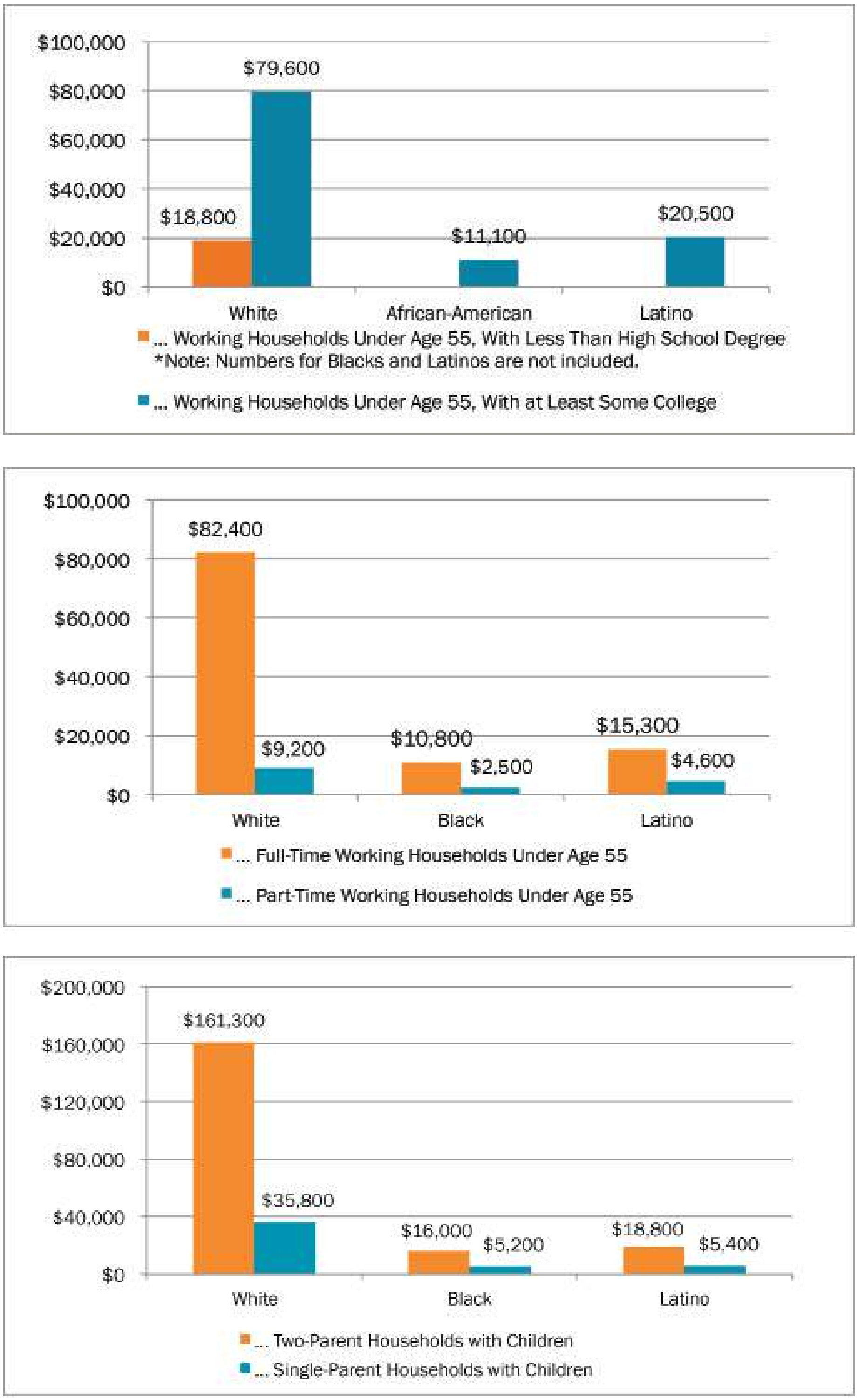

Figure 6. Comparisons of Median Wealth among White, African-American, and Hispanic/Latino Households

Source: Traub et al, *The Asset Value of Whiteness*, 5, 8, 10.

STUDENT DEBT

Higher education comes at a higher cost for low-wealth families, and does not result in similar returns in wealth. Student loan debt has increased by 84 percent since 2008,[53] and minority families are more likely to be affected by student debt. More than four out of five African-American students graduate college with student loan debt, while the same is true for less than three out of five white students. College degrees do not have the same level of positive impacts for minority graduates. A 4-year degree is associated with a median return of $55,900 in wealth for white households, but only a median of $4,800 and of $4,200 for African-American and Hispanic/Latino households, respectively. [54] This is equivalent to white graduates realizing a median return that is 11.5 times that of an African-American graduate and 13.3 times that of a Hispanic/Latino graduate. A 2017 report by Demos and the Institute on Assets and Social Policy at Brandeis University described this as a "wealth feedback loop": wealth determines who can get a degree, how much student debt they will have, and therefore whose children will be able to afford a degree too.[55]

SMALL BUSINESS AS A SUSTAINABLE SOLUTION

There is good news. Small business growth is a sustainable, long term solution to the wealth gap and an inclusive local economy. Resources for small business development already exist. They are often centered on access to capital, supplier diversity, technical assistance, and capacity building. The microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD) at the Aspen Institute proposes policies related to developing resources for small businesses:

- Assist small businesses with capital and cash flow issues,[55]
- Improve and expand programs for minority business owners to access contracting and procurement opportunities, especially with anchor institutions,[56] and
- Increase funding for business development programs for minority-owned businesses that are ready to grow to the next level.[57]

Programs that support minority-owned businesses and businesses located in low- to moderate-income communities, as part of any comprehensive city strategy for inclusive economic development, would have a particular contribution to helping close the wealth gap. Compared to African-American non-business owners, African-American business owners have 12 times more wealth[58] and have higher levels of wealth mobility.[59] In addition, small businesses are important job creators for other members of their communities[60]; and employers of color are more likely than white employers to hire people of color.[61]

U.S. POLICIES THAT CONTRIBUTED TO RACIAL WEALTH GAP

The housing crisis and the Great Recession had a disproportionate impact on communities of color and exacerbated the effects of policies enacted throughout US history that created and developed the racial wealth gap. Slavery itself kept most African-Americans from accruing wealth for the almost 250 years that slavery existed in the US. After slavery ended, the Homestead Act of 1862 gave land for free to overwhelmingly white settlers and thus helped them to build assets.[62] During the Great Depression, FDR's New Deal built an American middle class but largely excluded African-Americans; legislation for the minimum wage, Social Security, unemployment insurance, and workers' compensation excluded agriculture and domestic work, thereby excluding most African-Americans.[63] Post-World War II, the GI Bill of Rights helped to further develop the white middle class, including paying for tuition and low-interest mortgages. But the GI Bill largely excluded African-Americans: of 67,000 mortgages insured by the GI Bill in New York and part of New Jersey, fewer than 100 went to minorities, and as for accessing secondary education, there simply was not enough room for African-American veterans at historically black colleges and universities.[64] African-Americans have also been subject to redlining and other discriminatory lending practices.[65] These policies had a real effect on African-Americans' ability to build assets: in 1910, African-Americans owned 16-19 million acres of land in the US; as recently as 1999, they owned only 7.8 million acres.[66]

BUILDING MORE INCLUSIVE ECOSYSTEMS FOR SMALL BUSINESSES

Access to Capital

Capital providers that understand the needs of small businesses and that are willing to work collaboratively with them are essential resources to support growth and operations. Community development financial institutions (CDFIs) provide access to capital and technical assistance at the community level, including low-income and minority business owners.[67] The Federal Reserve Bank of New York found that applicants for loans and lines of credit had a 77 percent approval rate for CDFIs, which was the highest approval rate for businesses with less than $1 million in revenue.[68]

Cities have a role in facilitating creative solutions between capital providers and small businesses. For example, New York City has established the Contract Financing Loan Fund (CFLF), a revolving loan fund for women-owned, minority-owned, and other small businesses contracting with the City. The Department of Small Business Services administers the loan fund and it is open to prime and subcontractors bidding on and executing contracts with the City or the New York City Economic Development Corporation (NYCEDC). The fund offers a three percent interest rate on loans up to $500,000 and flexible repayment schedules that coincide with City payment schedules, thus allowing contractors to better manage cash flow.[69] Several CDFIs and commercial banks participate in the loan fund, which as of early 2018, made $60 million available for revolving loans and tripled the City's initial investment of $20 million.[70]

A second New York City program, the Bond Collateral Assistance Fund, focuses on construction related businesses. It is a bond collateral assistance fund for minority- and woman-owned businesses and local small businesses required to obtain surety bonding for construction projects with city agencies and the NYCEDC. Collateral assistance of up to $500,000 is available to assist businesses in obtaining surety bonds.[71]

Procurement and Supplier Diversity

Diversifying the pool of qualified businesses for government, anchor institution (e.g., universities, medical centers), and corporate procurement not only makes the contractors more competitive, it can also keep more of the millions and billions dollars of procurement and contracting spend in the local economy. Supplier diversity resources are available in communities and at various levels of government. The Minority Supplier Diversity Council and regional affiliates allow certified Minority Business Executives access to executive education, training, technical assistance, and networking and business opportunities with each other and with prospective buyers. They also provide corporate members and anchor institutions connections to minority-owned businesses and tools to enhance their supplier diversity programs.[72]

The US Department of Commerce runs the Minority Business Development Agency (MBDA), which conducts research to promote minority-owned businesses in public policy and advocate for their growth.[73] MBDA connects minority business owners with technical assistance, access to capital, and contracting opportunities.[74] The Small Business Administration's (SBA) 8(a) Business Development Program provides business assistance to small businesses that are majority-owned by both socially and economically disadvantaged individuals, including access to sole-source contracts and a Mentor-Protégé Program to learn from more experienced businesses.[75] The SBA also works with local Small Business Development Centers, which provide new and existing businesses with business consulting and training services.[76]

Non-profit and philanthropic organizations offer programs that support cities individually or in a cohort fashion to design and implement supplier diversity programs. For example, the City Accelerator is a joint initiative of Living Cities and the Citi Foundation that offers coaching, technical assistance, and grant funding to cities to implement strategies that will help diversify the vender and contractor base.[77] Members of the 2017 City Accelerator cohort are focused on the following aspects of supplier diversity:

City of Charlotte – improve access to information for minority-owned businesses seeking contracting opportunities with the city and its anchor institutions.

City of Chicago – develop a universal procurement platform and contract compliance system across the city agencies, including the Department of Procurement Services.

City of Los Angeles - institutionalize inclusive procurement practices across city agencies, starting in partnership with the South Los Angeles Transit Empowerment Zone.

City of Memphis - pursue data driven policy reform and process improvements to identify industry sectors with minority vendors that are underutilized in procurement.

City of Milwaukee - build partnerships with business owners, lenders, and business development organizations and use data to identify promising sectors for contracting and business expansion.

Capacity Building Programs

Along with capital, small businesses that have access to procurement opportunities and capacity building realize an organic and exponential effect in their ability to grow. Capacity building is different from technical assistance. Where technical assistance focuses on a particular situation and is short term, capacity building requires sustained determination to continual improvement over time. Effective capacity building focuses on both business systems and operations; and focuses on the business owner's expertise in management and strategy.

The Five Forward Initiative lead by Chicago United builds the capacity of minority-owned small businesses as suppliers so that they are equipped to grow in scale (providing more of the same goods services) and scope (providing additional goods and services).[78] Through Five Forward, Chicagoland corporations commit to doing business with and mentoring five local minority-owned firms over five years. Capacity building occurs through mutually identified annual goals that build to increase breadth and depth. For example, first-year goals may revolve around initial contracting between the corporation and the small businesses. Subsequent year objectives may include status as preferred suppliers, growth strategies in expanded offerings of products and services, and/or expanded geographic footprint of markets. As the minority-owned firms grow and build capacity to compete for larger and more complex procurement opportunities beyond Five Forward, the corporate community benefits from a more competitive pool of diverse businesses in their supply chains and more procurement dollars stay within the Chicago regional economy.

The Business Equity Initiative (BEI) is a capacity building effort funded by Eastern Bank and implemented in partnership with the Greater Boston Chamber of Commerce.[79] The BEI is initially focused on working with Black- and Latino-owned businesses because that is where the wealth disparity is greatest. The initiative aims to build capacity on several integrated fronts: matching strategic advisors to business owners; providing direct service advisors for professional services within the businesses; and offering preferred access to a dedicated growth equity fund. The procurement component of the initiative comes from a partnership with the Greater Boston Chamber and Pacesetter corporations. Pacesetter members are middle market corporations and regional anchor institutions that have committed to significantly expanding the number and spend on procurement opportunities for minority-owned businesses.

Interise offers a cohort-based, executive education program, known as the StreetWise 'MBA'™. It builds

CAPACITY BUILDING

Capacity building is not a one-time effort to improve short-term effectiveness, but a continuous improvement strategy toward the creation of a sustainable and effective organization. For businesses at the second stage of growth in the business life cycle, effective capacity building requires a dual focus on the evolution of the business and the business owner because of the interconnectedness of system and process changes and the owner's management and leadership styles.

Source: "What is Capacity Building?" National Council of Nonprofits, June 18, 2017, accessed October 19, 2017, https://www.councilofnonprofits.org/tools-resources/what-capacity-building.

capacity by providing business knowledge and know-how, access to peer networks, and access to business and capital networks. Over seven months, small business owners build trusting and transformative relationships, and move from isolation to integration into a network of growth focused business owners and subject matter experts. The program focuses on established, employer businesses with annual revenues between $250,000 and $10,000,000 and helps bring businesses to scale. A distinguishing characteristic of the StreetWise 'MBA'™ is its focus on creating behavioral change in the business owner, moving the owner from working in business operations, to leadership behaviors that require trust, delegation, and strategy. Owners transform from working "in" their businesses to working "on" their businesses.

Many cities have adopted the StreetWise 'MBA'™ program and customized it to meet local needs whether supporting small businesses with an industry focus, focusing on disadvantaged business owners, or providing a comprehensive small business capacity building resource. Examples of cities that are using the StreetWise 'MBA'™ include:

> **City of Houston – BuildUp Houston** aims to build the capacity of minority-owned small businesses in the construction service industry.[80]
>
> **City of Springfield (Massachusetts) – RiseUp Springfield** aims to build the capacity of local and minority business owners to advance their long-term business growth strategies.[81]
>
> **City of New York - Strategic Steps for Growth** comprises three programs, each with an industry focus. Participants in the Minority- and Women-owned Business Enterprises (M/WBE) program tend to be in construction and procurement; Media, Entertainment, and Technology Industry Program targets participants in the program's namesake industries, or an allied industry; and the Independent Physicians Program serves independent healthcare providers.[82]

Impact assessment data from Interise's StreetWise 'MBA'™ (collected through an online survey of program alumni) have demonstrated that growing established small businesses can increase jobs and revenue for alumni businesses and their communities. Sixty percent of respondents across the Interise alumni network created new jobs in 2015, with an average salary of $52,466 and an average of 5.8 new jobs among businesses that added jobs. Minority-owned companies that created jobs did so at an average rate of 7.2 jobs per business. White-owned businesses reported a lower average salary ($50,554) than minority-owners ($56,136).[83] These jobs, with good salaries, create local employment, keep more money in the local economy, and build a healthier and more inclusive small business ecosystem.

Procurement related outcomes for StreetWise 'MBA'™ alumni are positive as well. In 2015, 33 percent of alumni secured contracts with an average size of $171,000 per contract; 23 percent of white-owned businesses secured contracts with an average size of $275,127. Forty percent of minority-owned businesses and Hispanic/Latino-owned businesses secured contracts, with an average size of $143,829 and $156,135, respectively. By building their technical capacity and increasing their contract readiness, small businesses are more able to enter the business-to-business arena and minority-owned firms are better positioned to participate in supplier diversity programs.

Supporting small businesses to achieve scale, especially the established, employer firms, creates an on-ramp to inclusive economic development that helps narrow the growing wealth gap in the middle-income class and the racial wealth gap. Building capacity among these firms is an investment in businesses already committed to one's community. As they grow revenues and create jobs, they are likely to reinvest in their businesses and support the enterprises of their family and friends, creating a feedback loop that strengthens local economies.

Small business ownership is increasingly diversifying. According to the Minority Business Development Agency, the number of white-owned firms declined by six percent from 2007 to 2012, but those owned by minorities increased by 38 percent.[84] In that same time period, the National Women's Business Council reports, the number of African-American women-owned businesses and Latina women owned businesses grew by 67 percent and 87 percent, respectively.[85] Hispanic/Latino, African American, white, and Asian immigrants are all more likely to be self-employed than their respective peers born in the US, due to higher levels of education, resources, and willingness for risk-taking.[86] Through capacity building programs that are customizable for local needs, cities are able to meet an array of their small business owners where they are in growing their businesses and implementing specific economic development strategies that lead to inclusive and equitable local and regional economies that work for all.

DISCUSSION AND NEXT STEPS

This paper draws attention to the experiences of small businesses and their ability to help close the wealth gap across demographic lines—income, race, and ethnicity. The Great Recession erased wealth that many low- and middle-income families have yet to fully recover. It intensified the deleterious impacts of the disappearing middle class and the racial wealth gap. Because most small business owners rely on personal savings, home equity, and wealth to start or expand a business, the Great Recession significantly reduced that resource base. In particular, minority business owners face a wealth gap compounded by biased historic and current polices that further limit their ability to accumulate wealth and to access capital.

A sustainable solution to the wealth gap is to provide means for established, employer small businesses to grow. These businesses are poised to grow with access to capital, procurement and contracting opportunities, and capacity building. Mayors and economic development professionals have the ability to create ecosystems in which small businesses have access to these resources by

- Engaging lending institutions, including community banks and CDFIs, to provide products that support small business operating needs, address capital needs, and enable entry into business-to-business markets through procurement and contracting with anchor institutions, corporations, and government.
- Engaging anchor institutions and corporations to expand procurement and contracting opportunities for local small businesses and to extend supplier diversity goals; and likewise, examining how the city may extend supplier diversity programs and goals.
- Engaging capacity building programs that provide the type of executive training that creates sustainable and persistent positive outcomes for small business owners; and that can be customized to complement local economic development strategies and priorities.

Cities and their leaders must continue the conversation on inclusive and equitable economic development through innovative financing, procurement diversity, and capacity building. By committing to and implementing actions needed to focus on small businesses already located in and invested in their communities, these businesses become a more powerful driving force in creating an inclusive and equitable economy.

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The United States Conference of Mayors

1620 Eye Street, NW
Washington, DC 20006
Tel: 202.293.7330
Fax: 202.293.2352
usmayors.org

The Council on Metro Economies and the New American City

1620 Eye Street, NW
Washington, DC 20006
Tel: 202.861.6712
Fax: 202.293.2352
newamericancity.org