SUPPORTING GROWTH OF BLACK-OWNED BUSINESSES

WASHINGTON EMPLOYERS FOR RACIAL EQUITY

In December 2020, a coalition of CEOs and senior private sector leaders came together to launch **Washington Employers for Racial Equity** (WERE), a statewide coalition committed to building a racially equitable future.

All WERE members start by signing the **Commitment to Progress**, committing their company or institution to collective goals and work necessary to advance racial equity in their workplaces and communities. This work begins with a focus on equity for Black Washingtonians, with the ultimate goal of equity for all.

WERE members work to examine the impacts—positive or negative, intended and unforeseen—of company and institutional processes, policies, and systems that influence the development and advancement of Black talent and Black businesses in Washington state. WERE seeks to learn from Black-owned businesses and Black workers about the intentional actions that companies can take to accelerate equity and share examples of best and promising practices.

SPOTLIGHT: ACCESS TO CAPITAL FOR BLACK BUSINESS OWNERS

TWENTY PERCENT OF ALL NEW BUSINESSES IN THE U.S. FAIL IN THEIR FIRST YEAR. BY COMPARISON, 80% OF BLACK-OWNED BUSINESSES FAIL IN THEIR FIRST 12-18 MONTHS,[1] AND 4% OF BLACK-OWNED BUSINESSES MAKE IT PAST THE START-UP STAGE.[2] LISTENING SESSIONS WITH BLACK BUSINESS OWNERS IN THE SUMMER OF 2022 MADE CLEAR THAT GETTING ACCESS TO CAPITAL IS ONE OF THE BIGGEST CHALLENGES THEY FACE IN STARTING OR GROWING A BUSINESS IN WASHINGTON STATE. IN THIS REPORT, WERE HIGHLIGHTS PRACTICES THAT PRIVATE SECTOR EMPLOYERS OUTSIDE THE FINANCIAL SECTOR ARE DEPLOYING TO INCREASE ACCESS TO CAPITAL FOR BLACK BUSINESS OWNERS AND SUPPORT THEIR GROWTH.

BARRIERS BLACK BUSINESS OWNERS FACE IN ACCESSING CAPITAL

Nationwide, approximately 16% of Black- and minority-owned businesses report their profits are negatively impacted by the cost and lack of access to capital, whereas 10% of white-owned businesses report the same.[3] More than half of Black business owners are turned down for loans, a refusal rate that is twice as high as what white business owners experience.[4] One in four Black business owners forgoes applying for credit, with 60% believing they would be turned down if they did apply.[5] The belief that they will be rejected is so strong that Black business owners with credit scores above the 75th percentile are more than twice as likely as their white counterparts not to apply for a loan.[6]

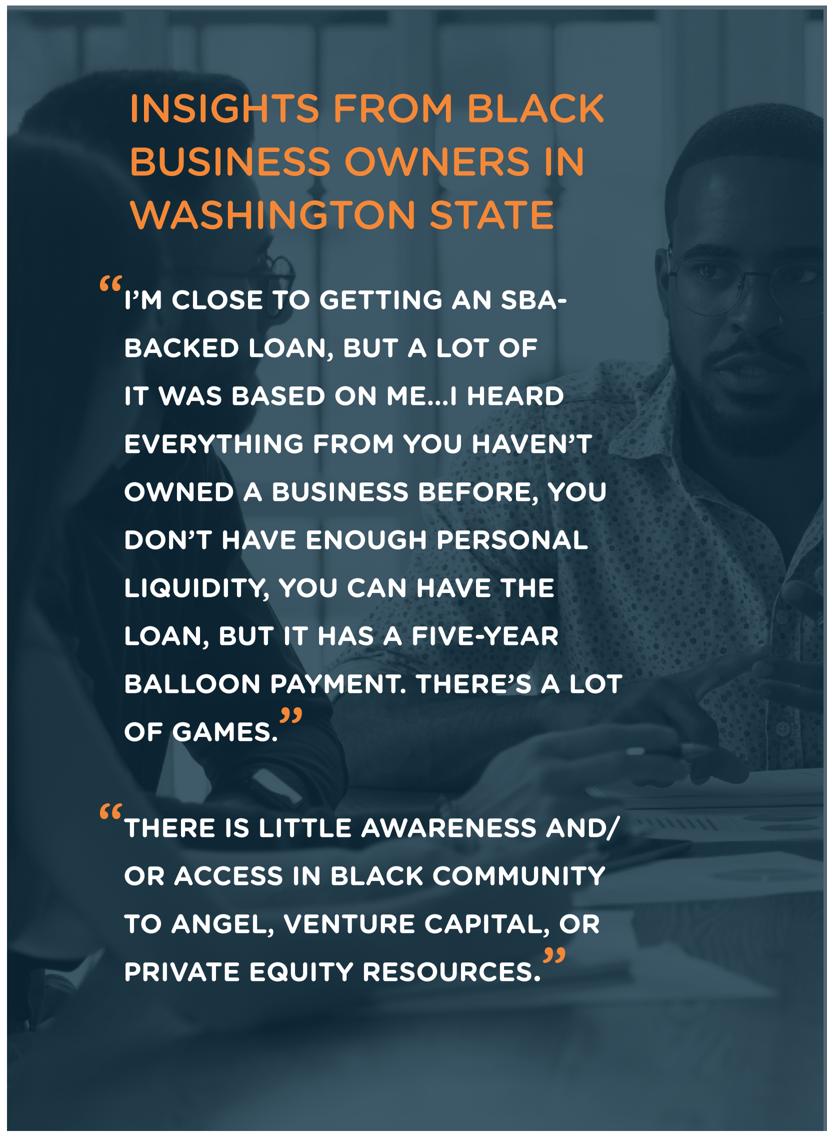
A review of publicly available data, national research, and insights from focus groups with Black business owners showcases the impacts of historic discrimination and systemic inequities that create multiple and compounding barriers for Black business owners seeking capital to build and grow their businesses.

1. DUE TO SYSTEMIC INEQUITIES, BLACK BUSINESS OWNERS OFTEN HAVE LOWER CREDIT, LOWER NET WORTH, AND LACK THE ASSETS NEEDED TO SUPPORT INSTITUTIONAL LOAN APPLICATIONS OR FUNDING REQUESTS.

In the United States, the average Black and Hispanic or Latino/a household earns about half as much as the average white household.[7] According to the Federal Reserve, in 2019, the median net worth of white families was $188,200—7.8 times that of their Black peers, at $24,100.[8] The racial wealth gap translates to many other disparities, including business ownership, which is heavily influenced by individual and family wealth. Black and Latino/a business owners disproportionately rely on personal and family savings, credit cards, and other sources of capital to start their businesses as compared to all business owners.[9]

2. BLACK-OWNED BUSINESSES RECEIVE LESS INSTITUTIONAL FUNDING.

According to the Federal Reserve, 80.2% of white business owners receive at least a percentage of the funding they request from a bank, compared to 66.4% of Black and minority business owners.[10] Black-owned businesses are less than half as likely as white-owned firms to be fully approved for loans. This is true even for applicants categorized as low-risk.[11] The average loan size for small white-owned businesses is more than $30,000 higher than for small Black- and minority-owned businesses.[12]



INSIGHTS FROM BLACK BUSINESS OWNERS IN WASHINGTON STATE

"I'M CLOSE TO GETTING AN SBA-BACKED LOAN, BUT A LOT OF IT WAS BASED ON ME...I HEARD EVERYTHING FROM YOU HAVEN'T OWNED A BUSINESS BEFORE, YOU DON'T HAVE ENOUGH PERSONAL LIQUIDITY, YOU CAN HAVE THE LOAN, BUT IT HAS A FIVE-YEAR BALLOON PAYMENT. THERE'S A LOT OF GAMES."

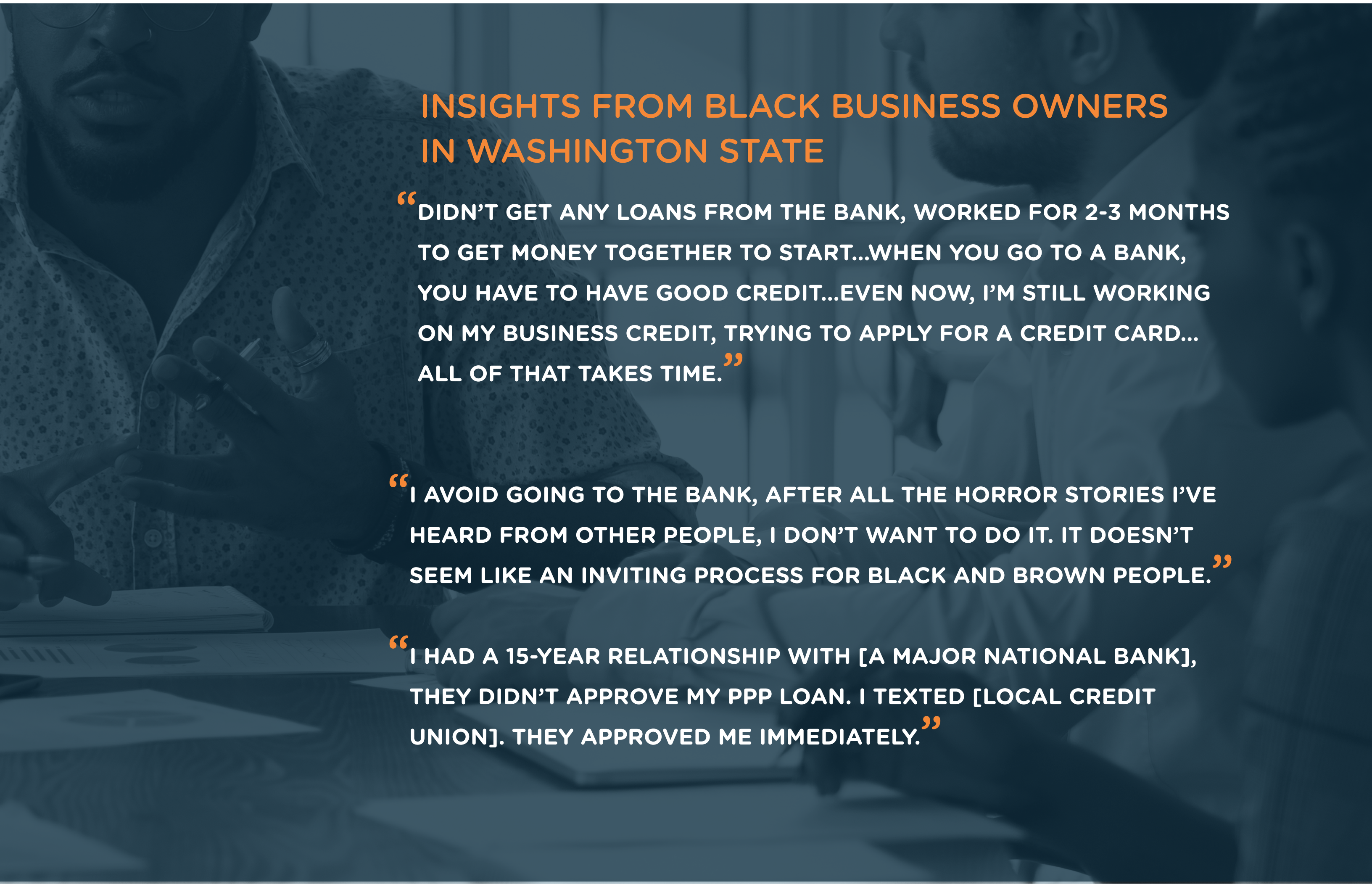
"THERE IS LITTLE AWARENESS AND/OR ACCESS IN BLACK COMMUNITY TO ANGEL, VENTURE CAPITAL, OR PRIVATE EQUITY RESOURCES."

3. WHEN APPLYING FOR LOANS, BLACK-OWNED BUSINESSES ARE SUBJECT TO GREATER SCRUTINY AND HIGHER INTEREST RATES.

Black- and Latino/a-owned businesses with low credit risk are approved for loans at roughly the same rate as white-owned businesses at higher credit risk.[13] When they do receive loans, the average interest rate is 22% higher for Black-owned businesses than it is for white-owned businesses.[14]

4. BLACK-OWNED BUSINESSES RECEIVED LESS OUTSIDE EQUITY.

Lack of diversity in venture capital poses a hurdle for Black-led startups seeking funding. In the U.S., 5.1% of private-equity firms are owned by minorities, a category including Blacks, Latinos, and Asians.[15] In 2020, Black founders received less than 1% of all venture capital dollars invested in the U.S.[16] On average, white-owned start-ups receive $18,500 in outside equity compared to $500 for Black-owned startups.[17]



INSIGHTS FROM BLACK BUSINESS OWNERS IN WASHINGTON STATE

"DIDN'T GET ANY LOANS FROM THE BANK, WORKED FOR 2-3 MONTHS TO GET MONEY TOGETHER TO START...WHEN YOU GO TO A BANK, YOU HAVE TO HAVE GOOD CREDIT...EVEN NOW, I'M STILL WORKING ON MY BUSINESS CREDIT, TRYING TO APPLY FOR A CREDIT CARD... ALL OF THAT TAKES TIME."

"I AVOID GOING TO THE BANK, AFTER ALL THE HORROR STORIES I'VE HEARD FROM OTHER PEOPLE, I DON'T WANT TO DO IT. IT DOESN'T SEEM LIKE AN INVITING PROCESS FOR BLACK AND BROWN PEOPLE."

"I HAD A 15-YEAR RELATIONSHIP WITH [A MAJOR NATIONAL BANK], THEY DIDN'T APPROVE MY PPP LOAN. I TEXTED [LOCAL CREDIT UNION]. THEY APPROVED ME IMMEDIATELY."

THE ROLE OF FINANCIAL INSTITUTIONS

Large and multi-state banks, Community Development Financial Institutions (CDFIs), and the federal government each have a distinct role to play in both providing and improving access to capital for Black business owners and other business owners of color.

LARGE BANKS

Progress

Catalyzed by the murder of George Floyd in 2020, several large, national private banks made explicit commitments to improve their practices around equitable investments. These commitments include resources to scale impact through low-cost loans and equity investments to support immediate needs and long-term growth.

Challenges

Large banks are highly regulated, which limits the speed of change and internal flexibility. Black business owners report having more adverse experiences with large banks and are more likely to leverage credit unions and smaller local banks.[18]

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Progress

Community Development Financial Institutions (CDFIs) can leverage multiple funding sources—including private, philanthropic, and public funds—to provide business capital.[19] CDFIs focus on making loans to suppliers who cannot get loans elsewhere because of credit or capital issues. They also invest time in developing business owners and providing business advising. In addition, CDFIs are more flexible and can typically take more risks than larger financial institutions.

Challenges

Because CDFIs are often smaller, they may lack access to industry-leading technology, which makes their lending practices more labor-intensive and minimizes their ability to scale. In addition, their smaller size makes the lending process very relationship-based and requires more time investment from and with business owners seeking funding. CDFIs also lend at higher interest rates than traditional banks, a reflection of the increased risk they are willing to take on with potential clients.

FEDERAL GOVERNMENT

Progress

The federal government has capacity to deploy large amounts of capital quickly when needed (consider the Paycheck Protection Program, or PPP, created during the COVID-19 pandemic as one example). In addition, it is the originator of much of the funding loaned out by other institutions, including the Small Business Administration (SBA), Federal Housing Administration (FHA), and others.

Challenges

Financing through the public sector can be uneven, with most requiring an existing banking relationship. It can be good for emergency use (i.e., the PPP program), but isn't a reliable mechanism for business owners to support regular, steady growth needs. These systems also often require complex navigation and are dependent on federal policy, which can be inflexible.

THE ROLE OF PRIVATE-SECTOR EMPLOYERS

There is opportunity for private-sector employers to play a larger role in catalyzing equitable access to capital. WERE's research with Black business owners and an examination of strategies being deployed by private-sector employers nationwide spotlights three strategies that employers outside the financial sector can explore to improve access to capital for Black and minority business owners.

1. EXPEDITE DIRECT FUNDING AND PAYMENTS TO BLACK-OWNED SUPPLIERS

Historically, large businesses have used their purchasing power to negotiate advantageous terms that benefit them rather than smaller suppliers. Employers have the opportunity to reverse this paradigm and better help their Black-owned suppliers secure capital to execute contracts. Activities could include accelerating payment terms, enabling loans against cash receivables, and subsidizing upfront costs.

Additionally, supply chain finance has become increasingly common among large businesses as a way to boost working capital for suppliers. In 2020, an estimated 23% of organizations relied on supply chain finance to increase available cash flow to businesses facing pandemic-driven economic headwinds.[20] This practice can be extended to focus specifically on Black and minority business owners. Several companies are already putting this into action.

CONCEPT IN PRACTICE:

- **C2FO** is an early payment marketplace used by corporate clients to accelerate payment to suppliers. Recently, corporations including **Walmart**, **Sam's Club**, **Dick's Sporting Goods**, and others have partnered with C2FO to offer accelerated payments to Black- and minority-owned suppliers to help improve their cash flow at interest rates lower than the cost of borrowing short-term working capital.

  Through C2FO, purchasing firms can pay suppliers in as little as 24 hours with no fees assessed to the supplier. The C2FO platform provides a secure portal to request early invoice payments on demand. Registration is free for suppliers and only requires that they be previously registered in the purchasing firm's existing electronic payment system. The relationship, contracting, invoicing, and payments are still controlled directly between the supplier and purchasing firm.[21] Walmart is independently funding this technology at the outset, with plans to team up with global and minority-owned banks to provide additional funding capabilities in the future.

- **Google's Black Founder's Fund** provides non-dilutive cash awards to Black-led startups that have participated in their Black Founders programs or have been nominated by a community partner or previous recipient. In 2022, Google welcomed 50 new Black entrepreneurs through this program. The selected founders received $100,000 in capital along with $100,000 in Google Cloud credits, hands-on support to help their startup grow, and access to mental health and business coaching at no cost.

- **Target's media company, Roundel**, established the **Roundel Media Fund** for diverse owners and founders to offset the cost of marketing programs at Target through paid media. This initiative plans to award more than $25 million in media for Black and minority business owners by 2025. Black- and minority-owned businesses can access the Roundel marketing program for $5,000 as compared to the normal cost of $50,000 to $75,0000. While testing this opportunity in 2021, Target saw a 40% average sales lift for more than 20+ diverse-owned brands that participated.

2. MAKE STRATEGIC EQUITY INVESTMENTS

Venture capitalists have long invested in smaller suppliers and emerging businesses within their sectors, but the venture capital industry has yet to prioritize investment in Black and minority business owners at scale.[22] An overwhelming majority (83%) of venture capitalists say that they are able to prioritize investments in companies led by women and minority entrepreneurs and maximize returns, but only 13% do so currently.[23] Research indicates that venture capitalists could be leaving as much as $4 trillion in value by not investing more in diverse founders.[24]

Venture capitalists and employers can expand their role in supporting Black and minority business owners by forming more joint ventures or providing private equity for growth capital to these businesses. A shift to prioritize investments in Black-owned ventures could provide catalytic results for both suppliers and employers.

CONCEPT IN PRACTICE:

- **Amazon's Catalytic Capital** aims to provide more startups led by underrepresented founders access to capital, mentorship, and collaboration opportunities to help bring their ideas to fruition. This dedicated investment program started with an initial $150 million in funding to invest in venture capital (VC) funds, accelerators, incubators, and venture studios that have a track record of and commitment to investing in startups with underrepresented founders. In addition to this, Amazon provides funding, one-on-one executive mentorship with Amazon executives, partnerships that can provide technical support, and product collaboration and insights to help startups scale.

- **JP Morgan Chase** partnered with the Consulting and Business Development Center at the University of Washington's Foster School of Business to launch **Ascend**, a national network of business schools, nonprofit lenders, and suppliers focused on the goal of accelerating the growth of businesses owned by people of color, women, and military veterans. Ascend businesses receive high-quality management education, access to loans, and other investment from non-profit financial institutions, and market access through contracts with universities, hospitals, government agencies, and large corporations. Since 2016, the program has helped more than 200 businesses raise $23.7 million in capital, generate $360 million in revenue, and create more than 2,500 jobs. Businesses participating in the Seattle program acquired $1.7 billion in new contracts in 2022.

- **JP Morgan Chase** invested $15 million in the Small Business Flex Fund, a $100 million loan fund supported by the Washington State Department of Commerce, involving six participating CDFI lenders, and operating across Washington State. In 2022, the Flex Fund provided loans totalling more than $66 million to 778 small businesses. Of this total, $50.9 million went out in loans to 604 minority, woman, veteran or LGBTQ-owned small businesses, including $7.5 million to 109 Black-owned small businesses.

3. INVEST IN MINORITY DEPOSITORY INSTITUTIONS (MDIs)AND COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIs)

Investing in mission-driven banks provides a vehicle for employers to channel private capital and other resources into MDIs and CDFIs. These banks can help minority business owners raise capital, weather the effects of economic downturn and speed recovery; access technical expertise to grow their business; acquire, deploy, and maintain technology solutions; and build capacity to scale.

CONCEPT IN PRACTICE:

- **Kaiser Permanente** and nine other public corporations have partnered with **LISC** to raise $250 million in capital to invest in Black-owned financial institutions, businesses, real estate developers, and anchor institutions across the US. Some of the first projects announced include building capacity at Black-owned banks and making loans to community-based real estate developers to help support economic opportunity in Black communities and close the racial wealth gap

- **Microsoft** committed $100 million to provide flexible capital to MDIs and enable increased deployment of capital in the communities they serve.[25] Since 2020, Microsoft has more than doubled the percentage of transactions it conducts with Black- and African American-owned financial institutions, which included almost doubling the number of Black-owned institutions with which they bank.[26] These long-term deposits can support increased lending in the communities in which these banks operate and increase the opportunity for these firms to attach more capital.

- **Microsoft** was the first investor in the **Entrepreneur Backed Assets Fund** (EBA Fund), a startup nonprofit that provides the first scalable capital solution for CDFI microlending. Microloans (<$50,000 in size) are extraordinarily important to small business owners. However, these loans are hard to deliver at scale. The EBA Fund creates a secondary market for the loans, delivering reliable capital to CDFIs so they can expand lending while also generating premiums from the sale of loans to banks for regulatory benefit. Premiums are donated back to the originating CDFI to help grow their impact.

REMOVING BARRIERS TO CAPITAL

There are many roles employers can play in addressing the barriers Black and minority business owners face in accessing capital to start and grow their businesses. Through procurement practices, employers can invest in early payment options or provide upfront funding to their Black suppliers. Through strategic equity practices, employers can directly invest in companies run by Black entrepreneurs and be a catalyst of their growth. Within the finance department, employers can diversify where they bank to ensure they are placing money in banks that have a double bottom line, focusing not only on financial performance but positive social impact as well.

Employers have the power to invest their money in ways that advance their business, create positive change across communities, and drive equity for all. Through such investments, employers can interrupt the legacy of discrimination and systemic racial inequity experienced by Black and other communities of color. It is up to each employer to prioritize racial equity and move from promise to action in ways that deliver amplified impact.

WASHINGTON EMPLOYERS FOR RACIAL EQUITY

WERE focuses its pursuit of racial equity in the area where we can have the most impact—the workplace. Follow our efforts & download additional policy and practice resources at **EMPLOYERS4EQUITY.ORG/RESOURCES**.

This report was built in partnership with social impact consulting firm **Kinetic West**.

KINETIC WEST

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