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Minority and Women Entrepreneurs: Building Capital, Networks, and Skills

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The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.

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NOTE: This discussion paper is a proposal from the author(s). As emphasized in The Hamilton Project's original strategy paper, the Project was designed in part to provide a forum for leading thinkers across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The author(s) are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agrees with the specific proposals. This discussion paper is offered in that spirit.

BROOKINGS

Abstract

The United States has an enviable entrepreneurial culture and a track record of building new companies. Yet new and small business owners often face particular challenges, including lack of access to capital, insufficient business networks for peer support, investment, and business opportunities, and the absence of the full range of essential skills necessary to lead a business to survive and grow. Women and minority entrepreneurs often face even greater obstacles. While business formation is, of course, primarily a matter for the private sector, public policy can and should encourage increased rates of entrepreneurship, and the capital, networks, and skills essential for success, especially among women and minorities. In particular, this discussion paper calls for an expanded State Small Business Credit Initiative and an enlarged and permanent New Markets Tax Credit to encourage private sector investment in new and small businesses. These capital initiatives should be complemented with new federal support for local business networks, and for local skills acquisition initiatives, to make it more likely that small businesses will form, survive, and grow. For the United States to continue to grow, to innovate, and even more importantly to generate jobs, we need to expand our rate of business formation and improve the prospects for survival and growth of young and small businesses. Increasing the rate of minority and female entrepreneurship may help to reduce the race and gender wealth gaps, to reduce income and wealth inequality, and to increase social mobility. With the United States becoming more heterogeneous, increasing business formation by minority and female entrepreneurs is critical to improving the rate of entrepreneurship overall. Thus, if we are to grow as a country, create jobs, and make progress on correcting income and wealth inequality, we need to help minority and female entrepreneurs succeed.

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Chapter 1. Introduction

The United States has an enviable entrepreneurial culture and a track record of building new companies. We also have deep and sophisticated lending and equity markets that facilitate the growth of firms across the size spectrum. New businesses are critical to creating more jobs: 40 percent of net new jobs created in the past two decades were the result of hiring by new businesses (U.S. Small Business Administration [SBA] 2014a).

Increasingly, new businesses—especially small businesses—are being created by women and people from minority backgrounds. From 1997 to 2007 the number of minority-owned small businesses, defined as any business with fewer than 500 employees and in which the majority of owners do not identify as white non-Hispanic, increased by more than 25 percent. Specifically, Asian-, American Indian–, and Pacific Islander–owned small businesses collectively increased by approximately 35 percent, while African American– and Hispanic-owned small businesses grew by 14 and 17 percent, respectively. The number of white-owned businesses, meanwhile, grew by only 6 percent. In addition, there was a near-perfect switch in the composition of firm ownership by gender, with the number of women-owned businesses increasing by 7 percent while male-owned businesses fell by 7 percent (U.S. Census Bureau 2001, 2007, n.d.).

Not only are minority and women business owners a growing segment of the entrepreneur population, but their businesses also tend to be relatively dynamic. From 1997 to 2007 total gross receipts—defined as sales, receipts, and values of shipments—from minority firms grew much faster than the total gross receipts of nonminority firms (U.S. Census Bureau 2001, 2007, n.d.; U.S. Bureau of Economic Analysis 2015). Total gross receipts from women business owners also grew faster than the total gross receipts of male business owners over the same period (U.S. Census Bureau 2001, 2007, n.d.; U.S. Bureau of Economic Analysis 2015). In addition, between 1997 and 2007 minority and women business owners increased their payroll counts by 26 and 6 percent, respectively (U.S. Census Bureau 2001, 2007, n.d.; U.S. Bureau of Economic Analysis 2015). These numbers support the view that helping minority and women business owners will expand employment opportunities and economic growth for these groups as well as others.

New businesses are critical to creating more jobs: 40 percent of net new jobs created in the past two decades were the result of hiring by new businesses.

Starting a new business can be a challenge. Would-be entrepreneurs may face a number of hurdles, including lack of access to capital, insufficient business networks for peer support, investment, and business opportunities, and the absence of the full range of essential skills necessary to lead a business to survive and grow. There is reason to think that racial and ethnic minorities and women are particularly likely to face such hurdles. For instance, minority- and women-headed households generally have lower levels of household wealth, which in turn can make internal investment and external borrowing more difficult. Other barriers that may reduce rates of business formation among minorities include lower average credit scores and educational attainment; geographic or societal isolation from other communities and persistent discrimination may also impede entrepreneurship among women and minorities.

While business formation is primarily a matter for the private sector, public policy can encourage higher rates of minority and women entrepreneurship. Recognizing the opportunity for wide benefits to the economy at-large, this paper offers three proposals to address the challenges often faced by both minority- and women-owned businesses.

ACCESS TO CAPITAL

While U.S. capital markets are robust, small businesses have critical borrowing needs that would not be met absent government assistance. Guaranteed loan programs with the Small Business Administration (SBA) provide an important source of private lending to small businesses. Two additional initiatives should be expanded to help meet the capital needs of small firms, including women- and minority-owned firms. The State Small Business Credit Initiative (SSBCI), authorized by Congress on a bipartisan basis in 2010, provides flexible support to state- and locally run programs that use public funds to leverage private funding for small businesses. The SSBCI should be reauthorized at $3 billion, double its current funding. The New Markets Tax Credit (NMTC), authorized on a bipartisan basis in 2000, over the past fourteen years has helped to attract more than $60 billion in private sector funding to build businesses in economically distressed communities and for minority entrepreneurs across the United States. It should be enlarged to permit $5 billion per year in new tax credit allocation authority and should be made permanent, so that investors, businesses, and communities can count on it over the long term. Several modest changes to the structure of each program will also be proposed.

ACCESS TO BUSINESS NETWORKS

Business networks can help any firm to build its customer and supplier base, improve access to debt and equity finance, and provide useful advice and support. Such networks can be especially beneficial for new and smaller firms, which because of their size often have a narrower range of contacts. Moreover, peer networks may be particularly valuable for entrepreneurs facing similar problems, or located in the same communities. Women- and minority-owned businesses often cannot effectively access business networks even though they might benefit the most from them. Congress should appropriate an additional $500 million to the SSBCI to permit state and local governments to support regional- and sector-specific business networks. As part of the grants, recipients would agree to rigorous evaluation of different network models.

ACCESS TO SKILL DEVELOPMENT

Many entrepreneurs and small business owners need access to skills, but often training initiatives are not focused enough on their actual needs and time constraints. There are a range of possible training approaches, from extensive, formal teaching in a classroom, to simply providing a few general guidelines. Training can also be provided in person, online, or in some combination of the two. Some entrepreneurs may seek help in how to hire employees with needed skills, or effectively use consulting services, instead of entrepreneurial training. The question of what kinds of skill acquisition will work best in what circumstances, and for minorities and women in particular, is ripe for research. Congress should appropriate a further $500 million through the SSBCI, on top of the additions mentioned above, to be used to finance skills acquisition initiatives. The funds would also include competitively allocated grants to develop an app for entrepreneurs that uses a mix of professionally developed just-in-time information, and peer-to-peer just-in-time advising.

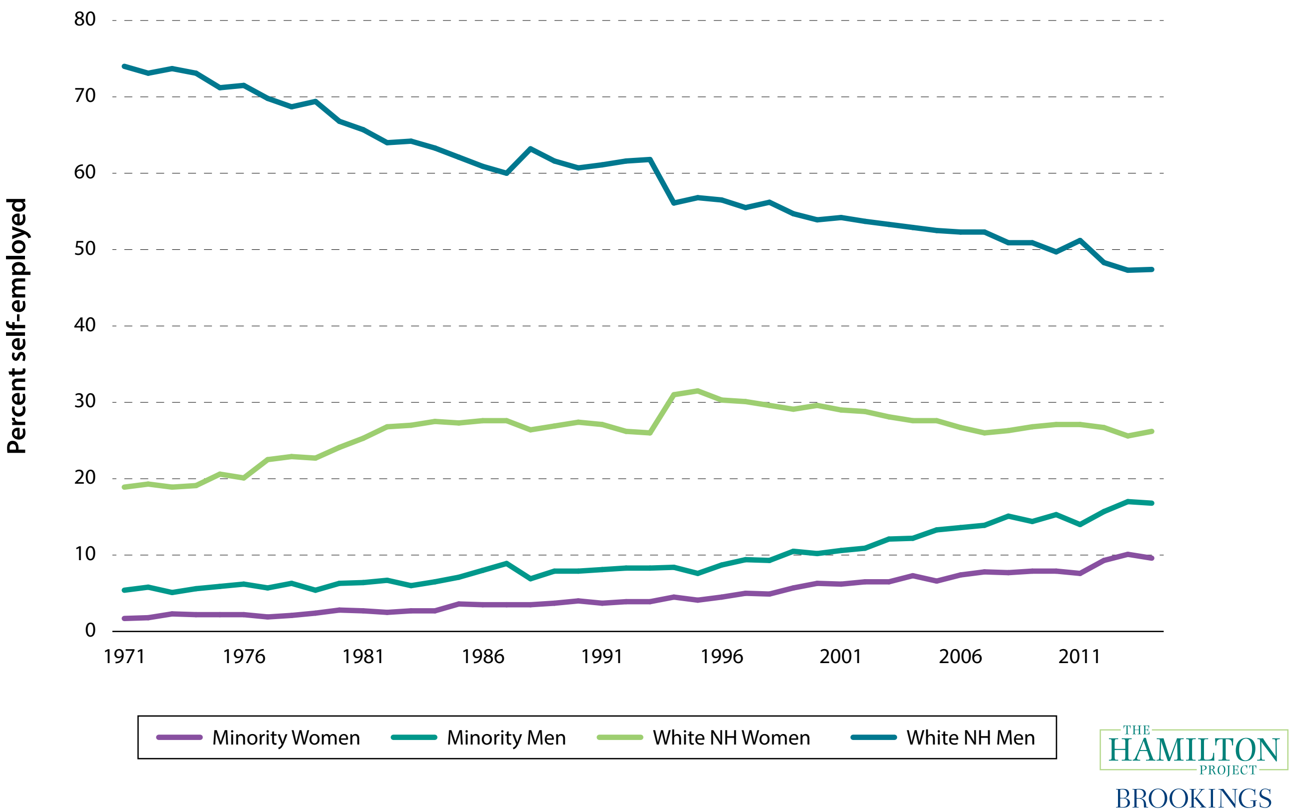
Together, these proposals can assist individuals who are eager to start new businesses but may lack the financial and knowledge resources to do so. They can help ensure that women and minorities in particular are able to more fully take part in entrepreneurship that supports the creation of new jobs, innovative ideas, and economic growth.

Chapter 2. The Importance of Increasing Entrepreneurship Rates among Minorities and Women

New businesses, small businesses, and entrepreneurship offer a number of benefits for individual business owners as well as for society. Some small businesses tend to stay small, such as owner-operated service, retail, or hospitality businesses. These firms can still be important generators of jobs and economic security in their local communities. Of the roughly 11 percent of workers who are self-employed, most fall into this group. Other small businesses have greater growth possibilities, and can in some instances help to promote large-scale job creation and expansive economic growth. After all, every large business was once a small business. The policy and research literature does not consistently describe "small businesses," "new businesses," and "entrepreneurship" as separate concepts, and I use the terms somewhat interchangeably in the discussion here. The differing types of entrepreneurs—for example, those who start a new business, run a business that will stay small, or grow a small business into a larger one—may vary in their economic objectives, roles in the economy, and skills and resources (Schoar 2009). This is particularly likely to be the case with minorities and women, whose rates of self-employment lag behind that of white, non-Hispanic men—although those rates have been growing over the past two decades (see figure 1). In addition, with racial and ethnic minorities—and women—a growing

FIGURE 1.

Distribution of Self-Employed Workers by Demographic Group, 1971–2014



Sources: U.S. Census Bureau (2015); and author's calculations based on the Current Population Survey.

Note: NH = non-Hispanic. Starting in 1988, the survey question regarding self-employment separately asked about incorporated and nonincorporated self-employment. Previously, some of the incorporated self-employed reported as wage and salary workers. The term "minority" refers to men and women of African American, Asian, Native American, Alaska Native, Native Hawaiian, and Pacific Islander racial descent, as well as men and women of Hispanic descent. The term also includes multiracial Americans.

share of the U.S. workforce, fostering business formation among these groups will play an increasingly important role in contributing to the rate of entrepreneurship overall. If our country is to continue to foster economic opportunity, create jobs, and make progress on income and wealth inequality, we ought to help women and individuals from racial and ethnic minority groups start businesses and succeed as entrepreneurs.

THE STATE OF MINORITY AND WOMEN ENTREPRENEURSHIP

Although the United States has long collected demographic and earnings data on workers, detailed data on business owners and their businesses have become regularly available only relatively recently, and they come with a sizeable time lag. The most recent data available are from 2007, and thus predate the Great Recession. With that caveat, table 1 shows how the size of non-publicly traded firms, in terms of employees, varies by the race, ethnicity, and gender of the owner.[1]

While the vast majority of non-publicly traded businesses consist of a single owner with no employees, as of 2007 minority-owned businesses were nonetheless considerably smaller on average than nonminority-owned businesses in their number of employees, as were businesses owned by women relative to businesses owned by men. These size differences also carry over in terms of revenue. In 2002 average gross receipts for minority-owned businesses were approximately $167,000, compared to $439,000 for nonminority-owned businesses; receipts were particularly low for African American–owned businesses, at just $74,000 (Fairlie and Robb 2010). A separate and more recent (postrecession) survey of businesses headed by women showed that their annual revenues were approximately $154,000 (American Express 2014), although it is hard to compare this number to those above because the recession disproportionately affected women and minority business owners.[2]

PERSONAL BENEFITS OF ENTREPRENEURSHIP

Providing assistance to entrepreneurs can potentially provide several sets of social benefits: first, to the business owners themselves, including their income and social mobility, and second, to the workers they employ. Finally, assistance to entrepreneurs provides macroeconomic benefits related to the spread of innovation. However, it is challenging to draw a clear cause-and-effect relationship from being an entrepreneur or running a small business to improved economic outcomes: after all, people with the drive, skills, and organizational ability to run their own business might also have earned more and accumulated more wealth if they had been working as employees. Geographic areas with a greater share of people who have the qualities it takes to be successful entrepreneurs might also have stronger economic outcomes if those people worked inside companies, rather than starting companies of their own. That said, a considerable body of evidence suggests the importance of small and new businesses to individual economic outcomes.

TABLE 1.

Distribution of Non-Publicly Traded Firms by Size and Demographic Group, 2007

		By Number of Employees (Percent)				
	# firms (millions)	Owner only	1 to 4	5 to 19	20 to 49	50 or More
Race						
African American	1.9	95.2	3.1	1.3	0.3	0.1
Asian/Other	1.9	79.7	12.5	6.3	1.1	0.4
White	22.6	81.7	10.5	5.8	1.3	0.7
Ethnicity						
Hispanic	2.3	90.4	6.0	2.9	0.5	0.2
Non-Hispanic	23.8	81.7	10.5	5.8	1.3	0.6
Sex						
Men	13.9	79.3	11.6	6.6	1.6	0.9
Women	7.8	89.7	6.4	3.0	0.6	0.2
All firms	**26.4**	**82.4**	**10.1**	**5.6**	**1.3**	**0.6**

Sources: U.S. Census Bureau (2007).

Note: As Hispanic Americans can be of any racial background, their share of business owners is computed separately from the race categories. "Owner only" includes (1) firms with paid employees but that reported no employees were paid during the reference period of the survey, and (2) firms without paid employees. "Asian/Other" includes Asian, American Indian and Alaska Native, Native Hawaiian, and Other Pacific Islander business owners, as well as business owners who identify as Some Other Race. Firms reporting equal minority/nonminority (race) ownership, equal male/female, and equal Hispanic/non-Hispanic are excluded from the demographic categories but show up in the total, so categories will not sum to the total for all firms.

Despite the high risks of business failure, successful entrepreneurship is correlated with wealth, savings, job satisfaction, and economic mobility. Small businesses serve as an important store of wealth for individuals from all income levels. For example, Janet Yellen reports that the Survey of Consumer Finances shows that for households in the bottom half of the wealth distribution the average value of business equity was only $20,000, but that represented 60 percent of those households' net worth (Yellen 2014).

Business ownership can catalyze social mobility. A study using the Panel Study of Income Dynamics and the Survey of Consumer Finances found that families who owned a business at the end of a five-year period but not at the beginning of that period were more likely to have moved into a higher income group than were other families over the same period; in fact, families who did not acquire or start a business over the survey period were more likely to either stay in their income category or to fall into a lower one (Quadrini 2000). Another study using data from the Panel Study of Income Dynamics, this time from 1999 to 2009, showed that, controlling for a host of demographic and economic variables, African American entrepreneurs are both more likely to move into higher income groups than are African American nonentrepreneurs, and as likely to do so as are white entrepreneurs (Bradford 2014). The author of that study argues that a higher level of African American entrepreneurship can help to reduce disparities in wealth between white and African American families (Bradford 2014, p. 255). The gender wealth gap, which actually expanded between 1998 and 2011, could also narrow as women gain access to capital, skills training, and networks for business creation and growth (Chang 2010).

ENTREPRENEURSHIP'S BENEFITS TO THE U.S. ECONOMY

The SBA (2014a) estimates that small businesses accounted for 63 percent of net new jobs created from 1993 to 2013. However, recent academic literature has emphasized that the size of the firm matters less than the age of the firm, which should not be surprising, as many small businesses do not really seek to expand. Indeed, a well-regarded recent study demonstrates that young firms, which by their nature tend to be small, are responsible for most net new job creation (Haltiwanger, Jarmin, and Miranda 2013). Though start-up firms in their first year of existence account for only 3 percent of employment in the United States, they constitute 20 percent of total hires. Furthermore, though many of these firms fail, surviving firms generate jobs at a significantly higher rate than older firms do.

A variety of studies have pointed out reasons that small businesses can make an outsized contribution to innovation and economic growth. Small businesses often lead the market to embrace new processes, different incentives, and alternative organizational models, which may lead to increased efficiency and subsequent economic growth (Carree and Thurik 2005; Edmiston 2007). An increase in the number of small businesses may also lead to more variety in the supply of products and services, thus offering a greater range of niche products and services, and may produce new methods of research and development. (Priest 2003; Thurik and Wennekers 2004). The opportunity for new firms to break away from existing firms can lead to the spillover and commercialization of knowledge that might otherwise have remained dormant or uncommercialized in the incumbent firm generating that knowledge (Audretsch and Keilbach 2007). Patenting small businesses produce sixteen times as many patents per employee as do large patenting businesses (SBA 2014b).

In short, supporting business growth offers a number of benefits to entrepreneurs themselves and to the economy more broadly. In the remainder of the paper, I recommend three specific policy proposals to assist would-be minority and women business owners seeking to start new businesses and/or to improve their existing business ventures.

Chapter 3. The Proposals

As part of a comprehensive strategy to help minority and female entrepreneurs receive the support they need to succeed, this paper outlines three complementary proposals: expand access to capital, expand access to business networks, and expand skills development and training programs.

EXPAND ACCESS TO CAPITAL FOR MINORITY AND FEMALE ENTREPRENEURS

Inadequate access to financial capital is an important constraint on the growth of minority- and women-owned businesses. This paper proposes that Congress extend funding and support for two federal programs in particular: the SSBCI and the NMTC.[3] This section first outlines the extent to which minority and women entrepreneurs and small business owners lag behind in access to capital, and then discusses the proposals in more detail.

The Need for Loans and Equity

Minority-owned businesses rely significantly more on investments of personal and family wealth than on external debt or equity; this source of capital is often constrained relative to nonminority-owned businesses by the low household wealth of the entrepreneur, as well as to the low wealth of her friends and family (Robb 2013). Some minority entrepreneurs can raise capital for their small businesses from family members and the ethnic community; Smith and Tang (2012), for example, document this occurrence in Arab American communities in Detroit. Minority entrepreneurs also tend to rely on social capital, such as advice and assistance, from friends in their communities. Nonetheless, minority-owned businesses as a group have less internal capital—and, as it turns out, less external capital from banks and other lenders as well.

Studies that have analyzed data from a survey conducted by the Ewing Marion Kauffman Foundation, a nationally representative cohort of businesses that began operations in 2004 and were followed until 2010, have found that African Americans, Hispanics, and women all began their businesses with about half the financial capital of white men, with these differences actually widening as their businesses matured. Furthermore, minority- and women-owned start-ups received less in loans and equity capital in their early years (Fairlie and Robb 2010; Robb 2013).

One reason that minority-owned businesses employ less capital may be partly attributed to their owners being less likely to apply for bank loans than nonminority business owners because of their fear of rejection. According to one survey, among minority businesses expressing a need for credit, over half reported not applying for loans because they feared being denied (Bates and Robb 2013). Surveys show that African Americans are 37 percent more likely and Hispanics are 23 percent more likely than nonminorities to avoid applying for credit for fear of rejection. Among women entrepreneurs, data show that between 2007 and 2010 they were slightly more likely than men not to apply for credit for fear that their loan applications would be denied (Bates and Robb 2013).

The fear that minorities have of being turned down is well-founded: when they do seek loans, they are significantly less likely to be approved than nonminorities. Minority business owners are more likely to be located in low- or moderate-income or minority-concentrated urban areas, and to be involved in retail businesses; each of these factors is associated with lower return on investment, which partly limits their ability to raise financial capital (Fairlie and Robb 2010).

The personal wealth of the entrepreneur is also an important factor in whether she can obtain credit (Cavalluzzo and Wolken 2005). Estimates from the U.S. Census Bureau indicate that wealth among nonminorities is between eleven and sixteen times the level among African Americans and Hispanics (Fairlie and Robb 2007). Women similarly suffer from the wealth gap, owning only 36 percent as much wealth as men. Never-married women own only 6 percent of the wealth of never-married men. Furthermore, racial and gender inequalities are intertwined: single African American and Hispanic women own a fraction of a penny for every dollar owned by white men (Chang 2010). Low levels of wealth and liquidity create a substantial barrier to entry for minority entrepreneurs, who cannot use personal wealth as collateral to obtain business loans. A 2006 study found that lower levels of assets among African Americans account for more than 15 percent of the difference between the rates of business creation among African Americans and whites (Fairlie 2006). The lack of personal wealth constrains the ability of minorities to invest directly in their businesses or to acquire other businesses.

Yet even after controlling for business and owner characteristics, researchers using 1998 Survey of Small Business Finances data found that minority-owned businesses are approximately three times as likely to be denied loans as are comparable nonminority businesses (Cavalluzzo and Wolken 2005; Fairlie and Robb 2008). Furthermore, minorities who are approved for loans tend to receive lower loan amounts and pay higher interest rates than nonminorities. Data from the 2003 Survey of Small Business Finances shows that whereas the average loan amount for minority-owned small businesses was about $9,300, the nonminority average was more than twice this amount, at $20,500. The same survey found that minority businesses pay, on average, 7.8 percent for loans, compared with 6.4 percent for nonminority businesses (Fairlie and Robb 2010). These differences may be driven in part by lenders' stereotypes about the ability of African American– and Hispanic-owned businesses to succeed under certain circumstances (Blanchard, Zhao, and Yinger 2008).

As a result of these intertwined factors, minority-owned businesses rely less than nonminority-owned businesses on external debt. Among businesses with annual gross receipts under $500,000, 17 percent of minority-owned businesses received loans compared to 23 percent of nonminority-owned businesses. Among businesses with annual gross receipts over $500,000, 41 percent of minority-owned businesses received loans compared to 52 percent of nonminority-owned businesses (Fairlie and Robb 2010).

Minority-owned and women-owned firms have less access to equity financing, too. Fairlie and Robb (2010) found that the average amount of new equity investment in a minority-owned business was about $3,400, which was 43 percent of the average equity investment in a nonminority business. The same limited access to equity capital exists for businesses owned by women as compared to those owned by men. In 2001 women-owned businesses drew only 5 percent of all U.S. venture capital investments—although even this low level was higher than it had been in previous decades (Rubin 2010). Some researchers argue that the lack of external equity is the primary driver of capital disparities by gender, even compared to women's lack of access to external debt (Robb 2013).

Minority entrepreneurs start off with less financial capital than nonminority entrepreneurs, and women entrepreneurs start off with less financial capital than their male counterparts. A lack of access to debt and equity finance perpetuates and worsens these differences. When a segment of the market is underserved by private finance, using some form of publicly subsidized finance can help to fill the gap—and can do so profitably. Two such forms of public subsidy that have been used with some success in the past are the State Small Business Credit Initiative and the New Market Tax Credit. Both of these initiatives use public funds to leverage private capital to support small businesses, but are relatively small in scale. I propose increasing the funding for both programs and targeting them to better serve minority- and women-owned businesses.

Expanding the State Small Business Credit Initiative

The SSBCI was enacted in 2010 with the goal of strengthening state capital access programs and other initiatives that support lending to small businesses and manufacturers. Under the SSBCI, the U.S. Department of the Treasury (Treasury) lends federal funds to states for specific programs that leverage private lending and equity markets to help finance small businesses and manufacturers. Funding allocations to each state are determined by a formula, which is based on loss of jobs and employment levels per state, but with each state receiving a minimum allocation of 0.9 percent of the total funding. The SSBCI was expected by its supporters to spur up to $15 billion in new private sector lending to small businesses and manufacturers by leveraging $10 in private capital for every $1 of federal support by SSBCI's end (Treasury 2014c). As of June 30, 2014, Treasury had disbursed over $1 billion overall (Treasury 2014b).

Minority-owned businesses are approximately three times as likely to be denied loans as are comparable nonminority businesses.

Of course, making loans is not an end in itself and the goal is ultimately to provide businesses with the critical help that they need to grow and flourish. Business owners reported to Treasury that the expenditure of SSBCI funds will lead to the creation and retention of 95,600 jobs, with 32,600 jobs created and 63,000 jobs retained. A survey based on predictions of those hoping to receive a loan is not a project evaluation, and even projected numbers may duplicate job estimates for loans reported under other federal programs. Moreover, although Treasury released this information in its 2013 *Annual Report*, it does not validate or audit the estimates (Treasury 2013). As discussed below, a critical component of reauthorization should be data collection and rigorous evaluation.

To receive SSBCI funds, states currently must submit a plan to Treasury detailing how their program will expand credit to small businesses, particularly in underserved communities (Lewallen 2014). States choose from five basic types of programs: Loan Participation Programs, Loan Guarantee Programs, Collateral Support Programs, Capital Access Programs, and Venture Capital Programs. See box 1 for details.

A state may use an existing program or develop a new one. If a state does not have an existing program in place, Treasury may provide technical assistance to officials in establishing one (Treasury 2014a). The SSBCI permits states to tailor their programs to local needs (Treasury 2014c), which is one of the strengths of the program. States with existing programs need not upend existing arrangements in order to participate in the SSBCI, and states launching new programs can select the risk-profile, risk-sharing, and administrative approaches that best meet their local needs. While the variation in SSBCI programs is beneficial overall by allowing states and localities to tailor their programs to fit their specific needs, and should be continued, it also created a barrier to large bank participation. Large banks typically design programs that can be implemented consistently throughout the country, and they therefore may be reluctant to tailor processes to each state's program (Harras 2014).

Loan participation programs and venture capital programs accounted for 63 percent of the total allocation of SSBCI funds through 2013. Capital access programs, which accounted for just 8 percent of total SSBCI fund allocations, had the highest ratio of increased private sector lending, supporting more than $25 in private sector lending for every $1 in SSBCI funds. In capital access programs, financial institution lenders and small

BOX 1.

Types of Programs in the State Small Business Credit Initiative

To receive SSBCI funds, states can choose from the following program types:

1. **Loan Participation Programs**, including two subtypes that are economically the same but entail different staff skills and administrative costs:
   (a) Direct companion loan, in which the state makes a direct loan that closes at the same time as a larger private sector loan
   (b) Purchased participation, in which the state purchases a portion of a loan after it has been made by the lender
2. **Loan Guarantee Programs,** in which a state guarantees a portion of the loss on a loan
3. **Collateral Support Programs,** in which a state pledges cash collateral to a lender when the borrower's collateral does not meet the lender's requirements
4. **Capital Access Programs,** in which the borrower, bank, and state contribute to a loan loss reserve account held by the lender to cover its losses until the account is depleted
5. **Venture Capital Programs,** with four subtypes:
   (a) Direct investment funds, in which state program managers serve in the role of venture capital fund managers
   (b) Coinvestment funds, in which state venture capital invest alongside private sector investors
   (c) Fund-of-funds, in which state venture capital program managers allocate capital to more than one private venture capital fund
   (d) Third-party managed funds, in which the state contracts with a single external firm that may or may not comingle private funds

Sources: Descriptions of loan programs quoted from Center for Regional Economic Competitiveness (2014). Descriptions of venture capital programs paraphrased from Cromwell Schmisseur LLC (2013).

business borrowers both contribute a small percentage of the loan amount to a reserve account held by the lender, which is matched by participating states. The high leverage ratio is a result of the small state contribution required for each small business loan (Treasury 2014b).

For SSBCI programs as a whole, funds have been dispersed from the federal government to states and then to recipient businesses fairly rapidly. Between 2011 and 2013 participating states reported expending $590 million in SSBCI funds, which, in turn, supported $4.1 billion in private sector lending to more than 8,500 small businesses. Thus, state programs have supported roughly $7 in private sector loans or investments for every $1 in SSBCI funds. At least nine states have already surpassed the SSBCI goal of 10:1 private sector leverage by the end of the program. Deployment of SSBCI funds also increased every quarter between June 2011 and June 2014. As businesses repay their loans, SSBCI funds will be recycled into new loans or investments. SSBCI funds are not loans to states; the funds will continue to recycle, thereby increasing the amount of private sector funding that they have attracted, unless they are dissipated by loan losses (Treasury 2014b).

The distribution of loans or investment is spread across industry sectors. Manufacturing accounted for 27 percent of the total SSBCI-supported loans or investments, but a variety of other industries have received that support, ranging from professional, scientific, and technical services, to construction, accommodation, and food services (Treasury 2014b).

Furthermore, SSBCI funding has been channeled to various entrepreneurial businesses that need access to credit most, including young businesses, very small businesses, and businesses in underserved communities (see box 2). The 2013 *Annual Report* states that more than half of all SSBCI loans or investments went to businesses less than five years old (Treasury 2013). As noted earlier, recent evidence suggests that young firms contributed disproportionately to job creation (Haltiwanger, Jarmin, and Miranda 2013). Research suggests that young businesses may be more likely to create jobs than are more mature businesses. Eighty percent of SSBCI-supported loans or investments went to businesses with ten or fewer full-time employees. Approximately 40 percent of total loans or investments went to businesses operating in low- or moderate-income communities, including 47 percent of loans or

BOX 2.

Case Study in Local Implementation of the State Small Business Credit Initiative: Detroit Development Fund and Detroit Microloan Collaborative

The Detroit Microloan Collaborative (the Collaborative) is a private–public partnership that plans to offer small loans to Detroit-area businesses that do not qualify for traditional lending. The Collaborative expects that the majority of its portfolio will comprise loans to minority-owned lifestyle companies—companies that typically do not have significant growth potential, but that provide sufficient annual revenue to support a family and often a small number of employees, including auto shops, beauty parlors, and restaurants. The program's primary source of funding is a $5 million line of credit each from Ohio-based Huntington Bank and Goldman Sachs. The Michigan Economic Development Corporation, a quasipublic agency that works to attract businesses to the state, will provide the program an initial loan-loss reserve account. This account, funded by the SSBCI, can be called on to offset loan losses caused by the default of one or more of the Collaborative's borrowers.

The Collaborative comprises several nonprofits that have a history of successful lending in this space. The program's line of credit is being offered to the Detroit Development Fund, a nonprofit with substantial experience lending to Detroit entrepreneurs.[5] Over the past decade, the Detroit Development Fund has invested over $27 million in Detroit businesses and neighborhoods, 64 percent of it to minority-owned businesses. Its portfolio has suffered a default rate of only 3.9 percent. The Collaborative also comprises the Michigan Women's Foundation and the Detroit Micro-Enterprise Fund, two organizations with experience making smaller loans to women- and minority-owned businesses.

With a grant from the New Economy Initiative, the Collaborative has contracted Detroit-based LifeLine Business Consulting Services (LifeLine) to help prepare and process loan applications. LifeLine will help candidates with business and financial plans, and provide candidates a preliminary assessment of their creditworthiness. If LifeLine believes candidates are not ready, it will attempt to connect them with training programs offered by area nonprofits. During the life of the loan, LifeLine will provide a coach to mentor funded entrepreneurs.

Sources: Haimerl (2014); Office of Governor Rick Snyder (2013). Descriptions of loan programs quoted from Center for Regional Economic Competitiveness (2014). Descriptions of venture capital programs paraphrased from Cromwell Schmisseur LLC (2013).

investments from capital access programs and 30 percent from venture capital programs. Many of the loans and investments made to businesses in these communities were made by Community Development Financial Institutions (CDFIs). CDFIs typically provide financial services to underserved communities with the goal of community development. These institutions made more than 3,660 loans or investments supported by SSBCI funds, totaling $231.3 million, through 2013 (Treasury 2014b).

State Small Business Credit Initiative Reauthorization

The SSBCI should be reauthorized from its current $1.5 billion in funding and be expanded prior to termination in 2017. In the absence of reauthorization, Treasury would no longer administer the program, and participating states would no longer be obligated to report on their progress in distributing the funds (Treasury 2014a). President Obama's FY 2015 budget proposes extending the program with an additional $1.5 billion in funding (Treasury 2014c). The evidence on the existing SSBCI program—the 10:1 ratio of private to public funds, the focus on underserved markets, and the prospect for job gains—is sufficient to make the case for this program. Additionally, most of the $1.5 billion has already been dispersed, well ahead of the 2017 deadline, indicating strong qualified demand among small businesses. It would also be worthwhile to double the amount of funding for the proposal to $3 billion so that states can reach sufficient scale to implement the programs efficiently and to be able to measure the extent to which the programs have a meaningful economic impact. The additional money should be linked to conditions of program testing and evaluation, however.

In addition to allocating some second wave funding according to formulas based on economic conditions, most second-round funding should be awarded to states operating programs that have: successfully reached out to and served minority and female entrepreneurs; successfully leveraged federal funding with private resources; collected and published data on program metrics; and committed to rigorous evaluation of results. For example, SSBCI-participating programs should continue to work with a network of partner organizations and advocacy groups to reach small minority- and women-owned businesses at the local level. The programs in different states are building up their own track records, and the bulk of funding should go to the programs that have proven most effective. It may also be useful to provide funds to programs that experiment with focusing on certain types of firms—new firms, small firms with low growth potential, or small firms with large growth potential. In addition, priority should be given to programs that link capital provision with appropriate skills acquisition and access to business networks.

However, the two biggest conditions for additional funding of the SSBCI involve information and evaluation. Within the $3 billion appropriation, Congress should set aside funds for Treasury to improve data collection and for evaluation of the program at both the federal and state levels. Collecting data on demographics of borrowers should be eased significantly once the Consumer Financial Protection Bureau writes new federal regulations requiring providers of business loans to report demographic data. Such data will allow Treasury to determine how well minority and female entrepreneurs are being served. It should be straightforward to collect data on how quickly loans are being made, on how much private funding is being leveraged by public money, and on default rates. Over time, as research demonstrates the relative effectiveness of different states' models, the overall reach and efficiency of the program will likely improve. Treasury should also work with the SBA to make more small business loan and performance data available to the public to increase the efficiency of both SBA-guaranteed as well as private lending markets for small businesses.[6]

These data should be collected with future evaluations of the programs in mind. Treasury, through state programs, should follow up with businesses on several dimensions, including actual future jobs, revenue growth, and firm survival. There should also be data collected on useful comparison groups: for example, if data are kept on firms that were just barely denied funding under the criteria of the program, those firms can be compared to the presumably very similar firms that were just barely granted funding under the program. Of course, this step requires collecting data on firms that were not funded. Another approach is to build up a data set of firms that are comparable in observable ways to those that receive SSBCI funding, but perhaps were in areas not served by the program. This matched group can then serve as a comparison group. There are many reasonable methods of program evaluation, and these should be built into future program design from the start.

Making the New Markets Tax Credit Permanent

Early Success of the New Markets Tax Credit

The NMTC was established in 2000 as an investment mechanism to support job creation and bolster living standards in low-income communities (Internal Revenue Service [IRS] 2010). Administered by agencies within Treasury, the NMTC program allows individual or corporate entities to receive tax credits against their federal income tax liability in exchange for making equity investments in community development entities (CDEs), which are private organizations recognized by the IRS as providing investment capital in low-income communities. CDEs, in turn, use the funds to make debt or equity investments in qualified for-profit or nonprofit entities in their community. Investments take the form of term loans, lines of credit, equity investments, grants, donations, or other transactions. The NMTC program allows CDEs to invest in businesses in a variety of sectors, including commercial, industrial, retail, manufacturing, cultural enrichment, child care, and educational services. Investments can be made in any geographic area, as long as the area meets the program's definition of low-income community. Since its inception, CDEs have made 8,060 investments in 3,849 businesses. Approximately 45 percent of CDE investment dollars went to operating businesses, and slightly more than half of the funds went to real estate development or leasing activities (CDFI Fund 2014).

Studies suggest that these investments have had beneficial outcomes for recipient businesses and their communities. Researchers at the Urban Institute surveyed early-year projects, those that received investments and were initiated before the end of 2007, which meant that sufficient time had passed to evaluate the outcomes of the investments. The study reported that the smallest investment by a CDE, in terms of total project costs, was only $8,000, and the largest was $1.8 billion (Abravenel et al. 2013). Based on data collected through 2007, 13 percent of recipient projects were minority owned or controlled, and 10 percent were women owned or controlled. Furthermore, although investment in start-up enterprises was not a required focus of the NMTC program, 10.2 percent of early NMTC projects financed the start-up of a for-profit or nonprofit entity.

The Urban Institute evaluation concluded that between 30 and 40 percent of investments would likely not have proceeded without NMTCs, and another 10 percent would have proceeded in a different (perhaps less economically distressed) location or on a delayed schedule (Abravenel et al. 2013). The study also found that 76 percent of NMTC projects saw a growth in their annual revenue or operating budget of more than 5 percent between the date of project initiation and 2011. The vast majority of projects that grew did so through natural growth rather than acquisition. Small start-up businesses appear to have been successful under the program. More than 78 percent of recipient start-up businesses experienced revenue growth of greater than 5 percent by 2011, which is comparable to the growth in non-start-ups. Start-up entities also generated 9.1 percent of all new jobs created by the program, although they accounted for only 5.8 percent of project dollars (Abravenel et al. 2013). The strong job performance recorded by start-up firms suggests that CDEs should focus greater investment activity on start-up businesses in future rounds of their funding.

Permanently Extending the New Markets Tax Credit

There is a real if still incomplete body of evidence that the NMTC has been working as intended. It should be continued in the future, with the following changes.

The NMTC should be reauthorized, and allocation authority should be expanded to leverage $50 billion over ten years, or $5 billion per year. Given the consistent high demand for CDE investments and their strong performance, Treasury estimates that making the tax credit permanent will cost taxpayers $10.1 billion (Treasury Green Book [FY2016] 2015). Congress should also pass legislation to make the NMTC permanent, providing stability to the program and its participants, facilitating greater investor interest in the program, and providing ongoing investments to low-income communities.

Second, the IRS should continue to pursue measures that make the NMTC easier to use for small businesses, in part by reducing the complexity of the tax compliance requirements of the program. Going forward, the CDFI Fund, which allocates grants to CDEs, should also refine its application procedures by, for example, experimenting with an approach under which applications supporting equity investments in small businesses receive more-favorable treatment than debt provided to real-estate transactions. Applications that are likely to serve minority and women entrepreneurs and small business owners should receive more-favorable treatment, too.

Finally, the CDFI Fund should continue to refine its data collection, research, and evaluation programs. The CDFI Fund's Community Investment Impact System should be expanded to include annual information describing the demographics of business owners, the types of firms served (new start-up, small firm in usually low-growth sector, small firm in potentially high-growth sector), default rates, and firm revenue and payroll growth. There should also be data collected on comparable groups of firms that did not receive assistance, so that a serious evaluation of benefits is possible.

Summing Up

The rapid growth in revenues and payrolls at minority-owned firms in the years leading up to 2007 (the most recent data) suggests that this segment of the economy has considerable potential for future growth. State-run capital access programs have had long success in expanding the reach of lending to new, small, minority-owned, and women-owned businesses (Barr 2002, 2008; Treasury 1998, 1999, 2001), and the SSBCI and NMTC are no different. The SSBCI should be expanded to $3 billion, and the NMTC should be permanently expanded to permit $5 billion annually in new tax credit allocations, which Treasury estimates will cost $13.1 billion over ten years.

EXPAND ACCESS TO BUSINESS NETWORKS FOR MINORITY AND WOMEN ENTREPRENEURS

Business networks can help any firm build its customer and supplier base, improve access to debt and equity finance, and provide useful advice and support. Such networks can be especially beneficial for new and smaller firms that, because of their size, often have a narrower range of contacts. Moreover, peer networks may be particularly valuable for entrepreneurs who face similar problems or are located in the same communities. Women- and minority-owned businesses often are cut off from business networks even though they might benefit the most from access to them. While participants in these networks suggest that they are worthwhile, systematic evidence is lacking on how best to structure them and what payoffs are likely to result. Congress should appropriate $500 million as an add-on to the SSBCI to permit state and local governments to support regional and sector-specific business networks. As part of the grants, recipients would agree to rigorous evaluation of different network models. SSBCI-funded initiatives would help to build networks of different sizes, memberships, skill distributions, and methods of communicating, with the goal of providing evidence for proven models that could be applied on a larger scale.

Many networking initiatives tend to operate through meetings and seminars based around key issues of common interest, such as particular business techniques or opportunities. When entrepreneurs network, they can often help each other with information and advice that will increase their social capital, knowledge of business, and confidence to overcome business challenges or to take greater advantage of business opportunities (Organisation for Economic Co-operation and Development 2005).

Evidence on the extent and importance of networks is hard to find, but some suggestive evidence appears in studies of venture capital. One likely reason that minorities are disproportionately underserved by institutional sources of venture capital may be an information failure that results from a lack of common networks. This hypothesis is supported by the growth in venture capital investment for women-owned businesses as the number of women-owned businesses has increased (Rubin 2010). Similarly, because angel networks are often built informally between investors with a history of doing business together, minorities may not have as much access to this form of capital. Venture capital networks also tend to be geographically based. To the extent that minority entrepreneurs seek to launch businesses in areas of high minority concentration and not in areas where venture capital investors are concentrated, geographic isolation may reinforce exclusion from these networks (Jones 2007).

While business networks should be based in the business community and led by business people, the federal government can play a role in fostering these networks, especially for minority and female entrepreneurs and for businesses in low-income communities. One example was the BusinessLINC (Learning, Information, Networking, and Collaboration) partnership, which was launched in 1998 by the Clinton administration, and has since operated under several different names and incarnations. The Bush administration bolstered and renamed the program the “Urban Entrepreneurship Partnership” in 2004, under which name it operated until 2012, when it entered into a new partnership with the Center for Transformation and Strategic Initiatives, a program that still operates on a localized level (Ewing Marion Kauffman Foundation 2014). The Urban Entrepreneurship Partnership finds local start-up champions to lead the coalitions, along the same lines as the original BusinessLINC concept; however, the Urban Entrepreneurship Partnership is much more focused on peer-to-peer entrepreneurial connections, and is less focused on economically distressed communities. The Obama administration reimagined these types of partnerships as part of its Startup America initiative, launched in 2011.

BusinessLINC was initially led by the SBA and Treasury (Office of the Vice President 1998) and was then handed off to private sector leaders. Partnerships such as BusinessLINC are designed to encourage large businesses to work with small business owners and entrepreneurs, and to bolster peer-to-peer entrepreneurial connections at the local and regional levels. Small businesses are able to obtain critical advice, enhance management development, leverage core strengths, assess sources of financing, increase marketplace credibility, and enter subcontracts and joint ventures. At the same time, larger companies are able to leverage relationships with smaller companies to penetrate local markets with untapped buying power, find new strategic market niches, and diversify supplier bases. This multifaceted strategy encourages development of business networks through one-on-one consulting, group training, peer groups and advisory boards, subcontracting and supplier development programs, and sales channel development programs, among other approaches. While networking can be mutually beneficial, setting up and maintaining a network often requires both a local champion and outside resources, if the benefits of the network are to extend to other firms and the broader community as well.

The BusinessLINC approach was flexible enough to assume various forms. The usual structure of a BusinessLINC coalition was to have a CEO of a major corporation serve as chair, while the coalition was hosted by community, civic, or business organizations. One example of a well-functioning local coalition was in Washington, DC. The BusinessLINC coalition partnered with local government and community development organizations to match neighborhood small business owners with a mentor from the Washington Area Board of Trade. As a result of the collaboration, local businesses reported increased revenue. The Washington, DC local coalition also conducted workshops for entrepreneurs on tax incentives (Jones 2002). Other coalitions were formed around the country, including in Atlanta, Boston, Chicago, Cleveland, Dallas, Flint, Houston, the Mississippi River Delta, Nashville, New York City, Richmond, and San Francisco.

Expanding Business Networks

As part of the SSBCI, Congress should appropriate $500 million that would be used by the states to finance locally based business networks. Each of these would be tailored to local circumstances. Some networks might form around local chambers of commerce, while others might be built around local CDFIs. Still others might be based on Small Business

Development Centers and Women's Business Centers run by the SBA or by the Minority Business Development Agency supported by the Department of Commerce. Networks might be aimed at entrepreneurs at different stages of the process: those just starting a business, those with a small but low-growth business, and those with a small business that has potential for rapid growth. The Marathon Foundation, discussed in box 3, provides an example of a model that might work for some supported networks.

Improving on past programs, the SSBCI should allocate resources to administer data collection and conduct program evaluations of funded networks. Some potential design strategies may, for example, call for funding only a select number of participants in a network; if these participants are randomly chosen from a larger pool of applicants, it may be possible to have a useful comparison group. Other methods of quasi-experimental variation and well-designed control groups are possible, with the goal of developing evidence for proven models of business networking that could be applied on a larger scale.

EXPAND ACCESS TO SKILLS DEVELOPMENT FOR MINORITY AND WOMEN ENTREPRENEURS

Studies consistently find that the education level of a business owner is positively correlated with entrepreneurship and entrepreneurial success. Businesses with highly educated owners have higher sales, profits, and survival rates, and hire more employees than businesses with less-educated owners (Fairlie and Robb 2010). They also are more likely to apply for credit (Robb 2013). A 2014 study by the National Women's Business Council suggests that education has a greater effect on women entrepreneurs than on their male counterparts (SAG Corporation 2014). The study found that women with postgraduate education were nearly 50 percent more likely to be self-employed than other women, while men with postgraduate education were only about 8 percent more likely to be self-employed relative to other men.

Lower levels of education and experience among racial minorities may be a barrier to entrepreneurship. One report estimated that 6 percent of the gap in self-employment entry rates between African Americans and whites was explained by differences in education levels. Over 30 percent of the same gap between Hispanics and whites was explained by differences in education levels (Fairlie and Robb 2010). Women

BOX 3.

Case Study in Entrepreneurial Networks: The Marathon Foundation

The Marathon Foundation (TMF) is a professional member organization whose mission is to facilitate deal making between TMF's aspiring entrepreneurs and TMF's corporate members. Privately funded and admittedly not a broad-based entrepreneurship network, the organization was originally piloted by the Harvard Business School Alumni Angels of Greater New York, and now counts experienced entrepreneurs, Fortune 500 companies, and leading consumer information service companies among its members. TMF connects minority entrepreneurs to networks of professionals primarily by hosting regional and national networking events, as well as by maintaining a database of deal opportunities for its members. TMF also incorporates networking into its other minority entrepreneur programs, including its access to capital and entrepreneur education programs.

The core of TMF's deal-making program is its networking events and Deal Flow Database. TMF's signature networking event is its annual DealMakers Summit, which provides panels focusing on specific industry and regional issues, networking receptions, and a pitch competition. TMF also sponsors and cosponsors a number of regional networking events throughout the year. Most of TMF's events are organized by industry or geography to increase the likelihood that entrepreneurs participating in these events will interact with corporate members who are either in the same industry or who are geographically nearby.

TMF's entrepreneur education programs are also designed to facilitate deal making. Like TMF's networking events, its education programs are organized around specific industries and geographies so that entrepreneurs participating in these programs interact and learn from professionals in their fields or regions. TMF's case study sessions are particularly helpful examples of such opportunities. During these sessions TMF entrepreneurs present their business proposals to a group of entrepreneurs and corporate professionals who react to the case. In so doing, corporate members share their expertise with entrepreneurs, and entrepreneurs can identify for corporate members the barriers facing their businesses.

Source: TMF (n.d.).

business owners tend to have fewer years of industry and start-up experience compared with men. African Americans and Hispanics have slightly lower average industry experience and significantly less start-up experience compared with nonminorities (Robb 2013). Furthermore, one study has found that minority business owners are less likely to use technology than are nonminority business owners, which may be another factor in the skills gap (Fairlie and Robb 2010).

We have a long way to go in understanding the skills required to start and grow a small business, and an even longer way to go in understanding whether (and how) to successfully provide training or other skills acquisition for such entrepreneurs. Perhaps certain core attributes of a successful entrepreneur cannot be taught. However, it seems clear that certain business skills can improve the chance of success for a small business: for example, skills in finance and accounting, business planning, business start-up, general management, marketing, advertising, and pursuing government contracts. Given the need for entrepreneurial and small business skills acquisition—through training, consulting, or hiring—small business initiatives should include a skills component that is flexible enough to meet the needs of a range of entrepreneurs and small businesses.

There is some evidence that training can raise the chances of success for entrepreneurs. In the United States, for example, the SBA offers training in these areas, both through an online module and through its 1,100 Small Business Development Centers across the country (for locations, see SBDCNet.org). There is substantial variation in the length, content, and structure of these training programs, as well as the types of entrepreneurs and businesses that participate. A Kauffman-RAND report reviewed studies of various forms of small business assistance (Gu, Karoly, and Zissimopoulos 2008), and fourteen of these studies considered the benefits of business counselling services offered by the SBA's Small Business Development Centers. The Kauffman-RAND study notes that all fourteen studies find "a positive relationship between SBDC services and business outcomes and several studies claim the services are a cost-efficient way to promote entrepreneurship" (pp. 22–23). Indeed, one of the studies "estimated that the program outcomes generated approximately $2.61 in incremental tax revenue for every dollar spent" (p. 23). Another of the studies found that "clients benefit more from administrative and operating assistance than from strategic assistance [and that assistance with] a comprehensive approach [serves clients the best]" (p. 44). These findings, however, should be taken as suggestive rather than definitive. The Kauffman-RAND report also notes that "none of these studies use a very rigorous methodology to ensure that causal program impacts are measured. Twelve of the fourteen studies use a weaker mean comparison or simple descriptive methodology. Only two use multivariate regression to control for potential confounders, and in those cases no comparison group is included" (p. 22).

The GATE (Growing America Through Entrepreneurship) Project study of training for self-employment, run by the U.S. Department of Labor, covered a much smaller group, but with a more rigorous methodology. GATE was implemented through One-Stop Career Centers, also called American Job Centers. There are about 3,000 brick-and-mortar centers around the country that provide employment services, particularly for unemployed workers. GATE added services to support people in seeking self-employment—the first stage of starting a business.

In the GATE study potential participants—both employed and unemployed—were offered the chance to attend an informational session, and then if they wished to participate, were asked to provide a business plan. All who submitted a plan in a timely fashion were accepted into the sample—without any evaluation of whether the plan was likely to work. Of the roughly 4,200 individuals who entered the program in this way, half were randomly selected for a program including a session with an advisor, various kinds of classroom training, one-on-one business counseling, and assistance in applying for business financing. The results of the study showed short-term gains in self-employment and wages. Although these gains faded over time, the study concluded that, overall, "the benefits of Project GATE exceed its costs" (Benus et al. 2010, p. ix). The gains were especially substantial for those who were receiving unemployment benefits, because the additional jobs not only benefited participants, but also allowed the government to save money on unemployment benefits it would otherwise have paid.

McKenzie and Woodruff (2014) provide an extensive survey of the range of research on the subject of entrepreneurial training globally. They observe that training has a positive impact on educating entrepreneurs generally, but many entrepreneurs do not appear to implement practices taught in training. Training often seems to improve business practices and help entrepreneurs launch new businesses more quickly; with a few exceptions, however, the effects of training on business profitability and survivorship are often unclear or only modest. (For studies of additional training programs conducted internationally, see box 5.)

One theme that emerges in this research is that the type of training may matter considerably. For example, Drexler, Fischer, and Schoar (2014) suggest that inundating anyone, including entrepreneurs, with a mass of complex information fails to take into account the psychological or behavioral barriers that prevent people from making better decisions. Instead, they argue that policy interventions should concentrate on developing, testing, and disseminating simple but effective rules of thumb. For example, individuals who simply take the basic steps of calculating monthly revenues and separating their home and business books may be better able to quickly diagnose periods of bad sales and proactively respond to them by adjusting business practices. The question of what kinds of

BOX 4.

Building Skills: The Kauffman Foundation's Entrepreneurial Training Initiatives

The Ewing Marion Kauffman Foundation, named after the founder of the Marion Laboratories pharmaceutical company, is a nonprofit devoted to enhancing education and fostering entrepreneurship. Among its many initiatives, it has two important programs aimed at training entrepreneurs. The first is Kauffman FastTrac, launched in 1993. FastTrac provides training that equips entrepreneurs with necessary business skills and insights, tools, resources, and peer networks. Through the FastTrac website (http://fasttrac.org/), entrepreneurs can search for programs best suited to their location or business type. FastTrac then provides a list of available live workshops and online courses. FastTrac also aims to facilitate a strong network among participants, providing contact information for local affiliates, encouraging "graduates" to join FastTrac's LinkedIn group, and offering targeted courses for women and veterans.

The training programs are delivered by a variety of affiliate organizations—academic and non-academic, for-profit and not-for-profit—including chambers of commerce, business development centers, local and regional economic development councils, colleges and universities, microenterprise organizations, and consulting firms. FastTrac also serves a diverse group of start-up, emerging, and growth entrepreneurs at a variety of socio-economic levels across the world. As of late 2013, the Kauffman Foundation estimated that FastTrac had provided training to approximately 350,000 entrepreneurs globally (MorningSky 2013).Its website features a number of success stories from entrepreneurs who have increased sales, revenue, and payrolls since participating in FastTrac.

The second program is the Kauffman Founder's School (KFS), a free, on-demand educational resource dedicated to providing entrepreneurs with skills and tools for growing their businesses (Ewing Marion Kauffman Foundation 2015a). The KFS curriculum includes online lectures on managing finances, sales, leadership, board structure, and intellectual property, among other topics. The material is presented through lectures by subject experts, including well-known academics and heads of business. These lectures are embedded in modules designed to engage entrepreneurs in discussion questions and application of the material. Entrepreneurs are encouraged to discuss questions with their teams, mentors, investors, and financial or legal advisers. KFS emphasizes application of the material, providing an "Impact Guide" that challenges entrepreneurs to think critically about implementation of the knowledge and skills acquired through KFS (Ewing Marion Kauffman Foundation 2015b).

KFS launched in October 2013. It grew its content considerably in 2014 and continues to add new topics and experts. In addition to the online content, KFS recently introduced "Founder's School LIVE." Founder's School LIVE invites entrepreneurs to attend live presentations in a variety of locations, allowing them to learn from experts in person, engage with other founders, and ask questions.

skill acquisition will work best in what circumstances, and for minorities and women in particular, is ripe for research.

Supporting Skills Acquisition for Business Owners

Congress should appropriate $500 million as part of the SSBCI to finance skills acquisition initiatives. Three components figure prominently in the plan:

- One component would include challenge grants to develop an app for entrepreneurs that uses a mix of professionally developed just-in-time information and peer-to-peer just-in-time advising.
- A second component would run rigorous experiments on the best methods to assist in skills acquisition.
- A third component would support local Small Business Development Centers and Women's Business Centers run by the SBA, Minority Business Development Agency Business Centers supported by the Commerce Department, and community college entrepreneurial training initiatives. The projects would offer various curriculum choices and then follow-up with participants to collect evidence to help determine which models could be applied on a larger scale. States would receive bonus points in the SSBCI capital program for rigorous program evaluation.

Under this model, several different approaches to skills acquisition would be considered. Some training programs might implement just-in-time consulting services, while others might focus on heuristics or rule-of-thumb training models. Others might compare online and classroom methods of building skills, or in-person versus telephone or Web-based methods. Still others would focus on helping entrepreneurs acquire necessary skills by efficiently hiring employees with the right skill set. Programs might be aimed at entrepreneurs in different stages: those just starting a business, those with a small business already, and those with a small business that has a chance to grow dramatically. Programs should also be aimed at different types of participants, including those with substantial shares of minorities and women. These programs would compete for federal funds, with some preference going to programs that include rigorous research design—laying out either a randomized or a quasi-experimental approach with a clear comparison group. Programs would be required to submit extensive annual program information, so that outcomes in terms of employment, earnings, growth of business receipts, and payroll, as well as user satisfaction with the program, could be successfully tracked.

Evaluations of these programs would be used to establish a workable method that could be replicated in other states and jurisdictions. Furthermore, the exact number of training programs and allocations for each program would be flexible in order to give applicants of varying scales the opportunity to test different skills-building approaches. For example, ideas42, a nonprofit behavioral design firm that collaborated with Drexler, Fischer, and Schoar on their heuristics study in the Dominican Republic, is currently exploring ways to implement the heuristics approach through a mobile platform.[7] In October 2014 the organization was awarded over $1 million by the Development Innovation Ventures at the U.S. Agency for International Development (USAID DIV) and the Consultative Group to Assist the Poor to create a mobile phone push-notifications tool that would deliver heuristics-based training and information to microentrepreneurs in developing countries. ideas42 hopes that the mobile tool will also benefit microfinancers due to its customizability and low cost of use (ideas42 n.d.), and intends to pilot the program in India and the Philippines over the next three years. It will explore how heuristics training can effectively be delivered via mobile phones; the optimal format, length, and frequency of messaging; to what extent heuristics messaging must be adapted across countries; and the scalability of mobile heuristics (Consultative Group to Assist the Poor 2015).

A portion of federal funding should be used for a challenge grant modeled after the USAID DIV (2014) program that funded the ideas42 project. USAID DIV holds a year-round grant competition seeking innovative ideas and then awarding tiered funding to selected projects. Like the ideas42 project, the grant should be used to develop a mobile app that can be used by entrepreneurs to access just-in-time, heuristics-based training and information. The mobile app should then be tested with entrepreneurs across the country, with a particular focus on minority and women entrepreneurs who would benefit most from a narrowing of the skills gap. As mentioned above, this is but one of many examples of innovative approaches that can and should be taken to experiment with skills acquisition for entrepreneurs.

BOX 5.

International Experience with Business Training

Some of the more prominent examples of training programs have occurred internationally, and may offer important lessons for training initiatives in the United States:

- The International Labor Organization's Start and Improve Your Business program has trained over 4.5 million people in over 100 countries since its launch in 1977.
- The Competency-Based Economies through the Formation of Enterprises program is a German program that provides training courses to target groups on various aspects of entrepreneurship, including marketing, finance, production, and organizational management.
- Empretec is a United Nations program that provides training workshops to a variety of small- and medium-sized enterprises in member states.
- The International Finance Corporation's SME (Small- and Medium-Sized Enterprise) Toolkit that partners with IBM provides globally relevant free content and local Web sites with information on business topics.
- The Fountain Enterprise Program targets microfinance clients with a curriculum addressing credit administration, savings, financial negotiation, budgeting, and bank services.
- An entrepreneurship training program for unemployed workers in France provides a form of downside insurance for unemployed individuals who are starting new businesses.

Source: Hombert et al. (2014).

Chapter 4. Questions and Concerns

Are there other programs that could also be useful in improving access to capital for minority and women entrepreneurs?

Yes. This proposal is not meant to be an exhaustive list of programs for small businesses. For example, the SBA offers several services to small business owners, including a guaranteed loan program. Additionally, section 1071 of the Dodd-Frank Act amends the Equal Credit Opportunity Act to improve the collection and dissemination of data on small businesses.[8] Specifically, the provision requires commercial loan applicants to report the race, gender, and other details of the business owner, which were previously optional. This is a welcome improvement, as information regarding those communities that have substantial women and minority entrepreneurs and those that do not is lacking. This makes it difficult to target these groups with the limited funding currently available. Section 1071 will help to solve this information problem. Moreover, the government can make these data widely available to advance the ability of the private sector to serve small businesses, along the lines of recent efforts by the Department of Commerce and the SBA. The proposals discussed in this paper are meant to complement and reinforce these initiatives.

These proposals seek to promote business creation among women and minorities. What about business success?

It is often difficult to know in advance which businesses will succeed and which will fail. Government policies should increase the opportunities for women and minorities to open new businesses and to increase the likelihood of success of these firms. However, their ultimate success or failure, and their ability to generate job growth, is a result of factors far beyond any capital access, networking, or skills programs.

Isn't there a worry that these programs will encourage people to start businesses who would be better off working for a company rather than for themselves?

Entrepreneurship and small business ownership is not for everyone. But it is still likely the case that even some relatively marginalized, formerly unemployed workers could benefit from opportunities to open a small business (see Hombert et al. 2014), and many wage workers could usefully supplement their income with self-employment or small business ownership. Furthermore, removing barriers for women and minority entrepreneurs to open and grow their businesses is likely to benefit those who have the drive and ambition to become business owners. Even if many new businesses were to fail—as many do now—those that do succeed would benefit our economy as a whole.

Chapter 5. Conclusion

Minority and women entrepreneurs—and those who would become entrepreneurs—are increasingly important in the United States, but many of them face critical barriers. Access to capital, business expertise, and connections to networks of peers and to market opportunities are essential for entrepreneurs to succeed. In this paper, I have offered specific policy proposals in three areas. First, to build access to capital I propose that Congress expand funding for the SSBCI and increase and make permanent the NMTC. Second, I call for new federal funding for local networking initiatives through the SSBCI. Third, I suggest new federal funding for local skills acquisitions programs, also through the SSBCI. These proposals are based on recognition that increasing access to capital, building business networks, and expanding access to business skills must rely on local, community-based initiatives, but that these can and must be bolstered and supported at the national level.

For the United States to continue to grow and to innovate, and even more importantly to generate jobs, we need to expand our rate of business formation and improve the prospects for survival and growth of young and small businesses. Expanding business formation may help to contribute to reduction of income and wealth inequality and to greater social mobility. Increasing the rate of minority and female entrepreneurship may help to reduce racial and gender wealth gaps. With the U.S. population becoming increasingly diverse, fostering business formation among minority and female entrepreneurs is critical to improve the rate of entrepreneurship overall and to develop employment opportunities in the United States.

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Endnotes

1. The U.S. Census Bureau's Survey of Business Owners, performed once every five years, provides the most comprehensive data on the demographics of businesses and business owners by gender, ethnicity, race, and veteran status. It includes all nonfarm businesses with annual receipts of $1,000 or more that file tax forms as individual proprietorships, partnerships, or any type of corporation. Business ownership is defined as a 51 percent or greater stake by one of the demographic categories used in the survey. Though the most recent survey was conducted in 2012, the Census Bureau does not plan to release any findings from the 2012 survey until June 2015. The U.S. Senate Committee on Small Business and Entrepreneurship has called for data on the subject that are more accurate and current (Cantwell 2014), and the Census Bureau announced in February 2015 that it will begin collecting such data annually (Harrison 2015).
2. Minority-owned businesses were disproportionately affected by the Great Recession in a number of ways. The subprime housing crisis severely affected urban minority neighborhoods. To the extent that minority business owners depended on home asset values as collateral for business loans, the crisis put those businesses at risk (Jarmin, Krizan, and Luque 2014). As banks and lending institutions tightened lending standards and increased loan costs during the recession, the literature suggests that banks were reluctant to lend to minority-owned firms because of concerns about their ability to repay loans. Fairlie and Robb (2010) state that business trade organizations and Minority Business Enterprise Centers anecdotally reported lending institutions cutting off credit lines of viable minority-owned businesses.
3. The author helped to lead the development and enactment of both programs, as well as the BusinessLINC (Learning, Information, Networking, and Collaboration)-initiative described later in the text, while serving in the Clinton and Obama Treasury Departments.
4. Municipalities were also able to apply for an allocation if their state did not submit a notice of intent to apply for funds or complete an application prior to June 27, 2011. Treasury awarded allocations to municipalities in Alaska, North Dakota, and Wyoming. All other states are operating SSBCI programs. Treasury has also allocated funds to five territories. For simplicity, we refer to participating states, territories, and municipalities as "states."
5. The author is involved with a foundation effort to expand the Detroit Development Fund's capacity to lend to small, minority-, and women-owned businesses in Detroit.
6. On February 10, 2015, the SBA announced the launch of LINC (Leveraging Information and Networks to access Capital), an online marketplace that will match small businesses with bank lenders across the country. LINC, which will be available on the agency's website, will ask individuals seeking small business loans to complete a short online form that will be distributed to lenders. Within forty-eight hours, interested lenders respond to the prospective borrower at no cost (SBA 2015). LINC is part of a growing industry of digital marketplaces that match borrowers and lenders (Quittner 2015). Later in 2015, the SBA plans to roll out a program that automates its general small business loan application process (GCN 2015).
7. The author is on the advisory board of ideas42.
8. The Dodd-Frank Wall Street Reform and Consumer Protection Act, HR 4173 (2010); Equal Credit Opportunity Act 15 USC (1974).

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Highlights

Michael Barr of the University of Michigan offers three proposals to lower the barriers for minority and women entrepreneurs, who represent a dynamic subset of business owners and a growing share of the workforce.

The Proposal

Access to Capital. The federal government would expand two of its vehicles for providing financing to small businesses—the State Small Business Credit Initiative (SSBCI) and the New Markets Tax Credit. Both of these programs would have their application procedures adjusted to focus further on minority- and women-owned small businesses, and both would require rigorous data collection and evaluation as a condition for funding.

Access to Business Networks. Congress would allocate an additional $500 million as a part of the SSBCI to create and expand business networks in states and local jurisdictions. These networks would link small business owners with established business leaders, providing opportunities for exchange of knowledge and information about new business opportunities. Funded networks would be subject to rigorous evaluation.

Access to Skill Development. Congress would allocate an additional $500 million as a part of the SSBCI to fund locally administered skills-building programs. These training initiatives would be designed with a focus on the needs and constraints of small business owners and aspiring entrepreneurs. Funded skills-building programs would be subject to rigorous evaluation.

Benefits

Small businesses provide benefits to their owners and to the economy as a whole. Ownership of a small business can provide financial stability and economic mobility, and can reduce income inequality. Small businesses, especially young businesses, foster job growth and facilitate innovation. By removing obstacles to entrepreneurship, these proposals would unlock all these benefits and promote economic growth.

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