

[Created for Oct, 29 2020 Presentation in Dickinson Law Race & Equal Protection in Capitalism 1L Course.]

CHALLENGES FOR BLACK ENTREPRENEURS: ACCESS TO CAPITAL, PAYCHECK PROTECTION PROGRAM, & THE PANDEMIC

Rachel Tunney & Samantha Prince

Discussions of Black business owners must begin with a reminder that while we refer to Black entrepreneurs as a group, entrepreneurship is more personal than that. We need to see each Black business owner or aspiring owner as an individual who wishes to be a successful entrepreneur and deserves the same opportunities in the journey of business creation as whites.

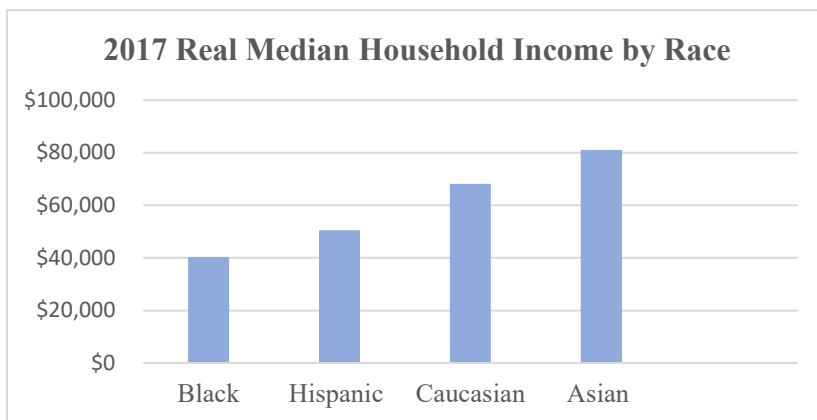
Studies show that Black entrepreneurs face systemic challenges in raising capital for their business needs. Loans have been historically difficult for Black entrepreneurs to obtain, and because Black households statistically have less income, Black entrepreneurs have less ability to raise funds from family. In 2020, money for start-ups, research and expansion was already in need, and then COVID-19 came on to the scene making money all the more critical for a Black entrepreneur's survival. The pandemic has worsened conditions for all business owners but has created greater challenges for Black business owners. The Paycheck Protection Program ("PPP"), a program designed to protect both workers and businesses during the pandemic, has not prevented Black businesses from being the hardest hit.

ISSUES WITH RAISING CAPITAL FOR BUSINESS NEEDS

Accessing capital and money is imperative for a new business owner, but “..has always been an issue with respect to Black enterprise, that’s nothing new,” says Rev. Horace Sheffield, the head of the Detroit Association of Black Organizations. He says that, “[t]he pandemic has exposed or exacerbated that disparity.”

Black business owners have difficulty in funding their business’s startups, research, and expansion. Much of the difficulty comes from the lack of access to traditional advisor and investor networks, which reflects decades of systemic discrimination. The inability to acquire proper capital for business needs and the discrimination of Black and people of color in general, has led to lesser acquisition of wealth when compared to white peers.

- According to the [U.S. Census Bureau](#), the average Black household income is the lowest of all races, at \$40,258 per year
- Compare this value with Hispanic, White, and Asian households in the chart below.



LACK OF NETWORK CONSEQUENCES FOR BLACKS: ACQUIRING BANK LOANS

Capital usually comes from an entrepreneur's own pocket, friends and family, or a bank. But with Black business owners having less access to traditional advisor and investor networks, a "[friends and family](#)" gap in funding is created. Many white entrepreneurs can rely on their own friends and family networks for seed funding and funding to expand, but Black entrepreneurs are often foreclosed from doing so. This disparity creates a vicious cycle for the Black entrepreneur. They have less collateral to use for guaranteeing loans and a more difficult time showing ability to pay.

For example, a new business owner must typically co-sign for a business loan. Banks will do credit checks on the business owner to be assured of payment if the business defaults. The problem is that checking someone's creditworthiness requires looking at their income, (which, as indicated in the chart above, is lowest for Blacks), money in the bank, and one's ability to pay bills. Looking at one's ability to pay a loan involves an inquiry into mortgage, car loans and credit cards. Additionally, Black homeowners are fewer in number than white homeowners; the housing bust was particularly hard on Blacks. And Black Americans, statistically, have lower rates of car ownership.

When you have *all* of these drivers working together, a system is created that makes it much more difficult for a black entrepreneur

to get a loan for a business. Denial rates are high, which is serious; if an individual gets denied for a loan or a credit card, the credit score is impacted negatively. And when Black entrepreneurs *are* granted a loan, it is perceived as a higher “risk” loan. As a result, Black entrepreneurs receive lower amounts at higher interest rates compared to their white counterparts.

THE BLACK ENTREPRENEUR: PRE AND IN THE PANDEMIC

As noted above, Black-owned businesses tended to enter the pandemic with weaker financial positions than white-owned companies. Only a small minority of Black-owned businesses had a recent borrowing relationship with a bank, [according to the New York Fed report](#). One in four Black-owned businesses with employees had a recent borrowing relationship with a bank prior to the pandemic, while only one in ten Black-owned businesses with no employees did. Black-owned small businesses are highly concentrated in retail, restaurants, and other service industries most affected by shutdowns and social distancing measures. In November, 2020, 40% of Black business receipts were concentrated in 30 U.S. counties, and 2/3rds of these counties were COVID-19 hotspots.

As COVID-19 forced businesses to shut their doors almost overnight, the government responded with hopes of saving them by rolling out the PPP. But the PPP Loans were very hard to come by, particularly for Black-owned business owners. In fact, only 5% of Black-owned businesses received PPP assistance. Why? Black

businesses were either denied or could not apply due to these main issues: (1) the complexity of the application, (2) eligibility requirements, and, (3) limited banking relationships as some banks were told to only provide funds to current customers.

In addition to the complicated and chaotic nature of the PPP process and the lack of banking relationships, a business owner tied to criminal justice involvement is ineligible for a PPP loan as well. Unfairly, business owners who are only charged with a crime, but not convicted, are permitted to be excluded from PPP assistance. Given the history of racism that manifests in the criminal justice system, one can see how tying PPP loans to the criminal justice system perpetuates disparate treatment of Black entrepreneurs.

THE FUTURE OF THE BUSINESS OWNER: POST PANDEMIC

Jena McWilliams is the Chairman of the FDIC. The FDIC is putting several programs in place to address the discrimination of Black-owned business owners and their access to capital. In a recent webinar, McWilliams discussed the FDIC's desire to address the measure of an applicant's creditworthiness. She said that people use other avenues to pay bills now, particularly online, and because of this, whether someone is likely to be able to make a loan payment should be determined by looking at these other methods of payment. "Big thinkers" like McWilliams extend a necessary hand to Black business owners, a hand we should all extend in some way. Here are other examples of "big thinkers" seeking to fix the system:

- The U.S. Chamber of Commerce “Equality of Opportunity Agenda” included improving Black entrepreneurs’ access to capital, launching pitch competitions for underrepresented communities and increasing the presence of minority-owned businesses in corporate supply chains
- Numerous bills have been presented to Congress that address the race-based opportunity gap
- Big banks are setting aside billions to address lending and wealth gaps faced by Black entrepreneurs
- Pennsylvania Department of Community & Economic Development and Pennsylvania Bureau of Diversity, Inclusion, and Small Business Opportunity provide programs and funding for minority and women owned businesses.

It will be difficult for *all* businesses to recover from the pandemic but more so for Black-owned businesses. The good news is that there are some “big thinkers” trying to improve the system. A long road ahead awaits, and not any one of these fixes will solve the systemic discrimination completely. But it is a start.

Sources:

- Federal Reserve Banks, Small Business Credit Survey, 2019 <https://www.fedsmallbusiness.org/media/library/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf>
- Federal Reserve Bank of New York, “Double Jeopardy: Covid-19’s Concentrated Health and Wealth Effects in Black Communities” August 2020 https://www.newyorkfed.org/media/library/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses

- Katanga Johnson & Jonnelle Marte, “Why some black-owned U.S. businesses are hardest hit by coronavirus shutdowns,” Reuters, June 16, 2020 <https://www.reuters.com/article/us-usa-economy-blackbusiness/why-some-black-owned-u-s-businesses-are-hardest-hit-by-coronavirus-shutdowns-idUSKBN23N34A>
- MetLife & U.S. Chamber of Commerce Special Report on Race and Inequality on Main Street, August 4, 2020 <https://www.uschamber.com/report/august-2020-special-report-race-and-inequality-main-street>
- Elizabeth Hinton, LeShae Henderson, & Cindy Reed, “An Unjust Burden: The Disparate Treatment of Black Americans in the Criminal Justice System,” Vera Institute of Justice, May 2018 <https://www.vera.org/downloads/publications/for-the-record-unjust-burden-racial-disparities.pdf>
- Ewing Marion Kauffman Foundation, “Leveraging Entrepreneurship to Close Racial Wealth Gaps, October 20, 2020, https://www.kauffman.org/currents/leveraging-entrepreneurship-to-close-racial-wealth-gaps-living-cities/?utm_source=newsletter&utm_medium=email&utm_campaign=currents-newsletter10_23_2020
- Rachel Tunney & Samantha Prince, “Black Entrepreneurs – We All Need to Support them Through Covid-19 and Beyond” June 22, 2020 <https://sites.psu.edu/entrepreneurshiplaw/2020/06/22/black-entrepreneurs-we-all-need-to-support-them-through-covid19-and-beyond/>