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## **Introduction**

Chairman and honorable Members of the Committee, thank you for the opportunity to present strategies to combat the racial wealth divide and to support minority-owned firms. I am honored to be asked to provide input into your consideration of policies to grow and accelerate the success of businesses of color.

My comments draw on my many years of work in this field, including leadership in the CDFI movement, as a founding member of the African-American Alliance of CDFIs CEOs, the BlackBusiness Credit Initiative, and the Black Vision Fund. Additionally, I served as president of the Metropolitan Economic Development Association (MEDA), one of the highest performing minority business development centers in the country according to The U.S. Department of Commerce's Minority Business Development Agency for 4 consecutive years. I also operated the Federal Procurement Center pilot for MBDA providing technical assistance and trusted guidance to businesses of color seeking federal contracts. More recently, I served as President and CEO of Prosperity Now, a national organization focusing on racial and economic inequalities.

I am board chair of Momentous Capital and board member of the Association for Enterprise Opportunity, the largest microenterprise membership organization in the country. I also am a member of the Treasury Advisory Committee on Racial Equity.

Currently I am senior advisor to the Institution on Race, Power and Political Economy at The New School. Where we advance research and understanding of structural inequalities to identify innovative ways to promote equity and create a world that works equally well for everyone.

Today, I stand here proudly on the shoulders of my ancestors – the Black Freedmen of the Muskogee Nation in Oklahoma. The Black Creek Freedman who were in part responsible for the creation of Black Wall Street in the Greenwood District of Tulsa. Their resilience and entrepreneurial spirit in the face of systemic racism and exclusion laid the groundwork for what would become a symbol of Black economic empowerment and excellence. Despite the tragic destruction of Black Wall Street in 1921, the legacy of the Freedmen and their descendants continues to inspire our efforts to uplift entrepreneurs of color. Their struggles and triumphs underscore the importance of our work to ensure that entrepreneurs of color have the support and resources they need to thrive. As we discuss strategies to empower minority firms, let us remember the

enduring spirit of the Creek Freedmen and the vital role that Black entrepreneurship has played in our nation's history.

We are at a critical juncture in our nation's history, where many hard-fought gains toward creating a more inclusive union, where everyone—regardless of their background—can pursue the American Dream, are under assault. The American Promise is founded on the idea that through hard work and dedication, anyone can climb the economic ladder of success. I would argue that this is not only an economic imperative for our country, but that opening up doors of opportunity through small business and entrepreneurship for communities of color is key to sustaining our American democracy.

Our journey through a complex legal and socio-economic landscape underscores the urgency of our commitment to fostering an equitable business environment, which is crucial for the prosperity of our nation.

## Historical Context of Minority Entrepreneurship

The history of minority entrepreneurship in the United States reflects a complex tapestry of resilience, innovation, and persistence against the backdrop of racial discrimination, segregation, and economic exclusion. Spanning diverse communities—African Americans, Asian Americans, Latinos, and Native Americans—each group's entrepreneurial journey has been uniquely shaped by its distinct challenges and contributions to the economic landscape.

This narrative of minority entrepreneurship is not just a chronicle of business development but also a profound testament to the enduring spirit of communities that have navigated systemic barriers. Whether facing overt policies of exclusion or subtler forms of bias, these entrepreneurs have consistently demonstrated remarkable ingenuity and determination. Their contributions enrich our understanding of the American economic story, highlighting the pivotal role of diversity in fostering a vibrant, inclusive marketplace.

## Post-Civil War Era and African American Entrepreneurship

African American entrepreneurship has its roots in the period following the Civil War. During Reconstruction, African Americans began to establish businesses. However, the end of Reconstruction marked the beginning of the Jim Crow era, which imposed severe restrictions on African American life through enforced racial segregation and discriminatory laws. Despite these barriers, African Americans created thriving business districts, famously known as "Black Wall Streets" in several cities, such as the Greenwood District in Tulsa, Oklahoma.

The Jim Crow laws not only segregated African Americans but also limited their economic opportunities, forcing them to start and patronize their own businesses due to

racial exclusion from white-owned establishments. This period saw the rise of Black-owned banks, insurance companies, and other institutions as a response to exclusion from white-dominated financial services.

Redlining, a practice that began in the 1930s, systematically denied mortgage and business loans to residents in predominantly minority neighborhoods. This practice, along with other forms of economic discrimination, significantly hindered the ability of Black entrepreneurs to acquire capital and grow their businesses. The effects of redlining are still evident today, as minority communities continue to face significant disparities in business ownership and access to business resources.

## **Asian American Entrepreneurship and Immigration Challenges**

Asian Americans have also faced significant hurdles due to discriminatory laws and practices. Early Asian immigrants, particularly the Chinese and Japanese, came to the United States in significant numbers during the 19th and early 20th centuries. They were met with hostility and legal barriers, such as the Chinese Exclusion Act of 1882, the first significant law restricting immigration based on nationality.

These restrictions curtailed their rights to own property and businesses. Nevertheless, Asian Americans managed to establish ethnic enclaves where they started businesses that catered primarily to their own communities. Over time, these enclaves became pivotal in nurturing the growth of Asian American businesses, which expanded beyond ethnic boundaries as legal and social hurdles were gradually dismantled.

## **Latino Entrepreneurship and Sector Concentration**

Latino entrepreneurship has been shaped by both immigration patterns and the socio-economic conditions of Latino communities in the U.S. Historically, Latino businesses have been concentrated in sectors like agriculture, retail, and service industries. These businesses often emerged within tightly-knit communities, providing goods and services not only to fellow Latinos but also to other minority groups. The challenges faced by Latino entrepreneurs include language barriers, access to capital, and navigating legal frameworks for business, which were often compounded by racial and ethnic discrimination.

## **Native American Entrepreneurship and Economic Development Efforts**

Native American entrepreneurship, often overlooked, has been hindered by systemic marginalization and land dispossession. Recent efforts have focused on tribal enterprises, including ventures like casinos that have become significant Native American business endeavors. Despite challenges, Native entrepreneurs engage in

various sectors such as agriculture, tourism, and crafts, contributing to the diverse landscape of entrepreneurship.

## **Current State of Minority-Owned Businesses in the U.S.**

In examining the current landscape of minority-owned businesses in the United States, it becomes evident that these enterprises play a vital role in driving economic growth and innovation across diverse sectors. According to the US census, there are approximately 8 million minority-owned businesses contributing over \$1 trillion annually to the economy, their impact underscores the entrepreneurial spirit and resilience within minority communities. Despite significant contributions, disparities persist relative to demographic proportions, highlighting challenges that hinder the full potential of these businesses. For example, Black Americans comprise approximately 12.4% of the US population, but represent only about 2.4% of all employer firm owners.

## **Growth Trends and Economic Contributions**

Over the past decade, minority business enterprises have been at the forefront of new business creation, accounting for more than 50% of the two million new businesses started in the U.S. These ventures have created 4.7 million jobs, showcasing their substantial role in job creation and economic vitality. While there has been notable growth, disparities persist, especially concerning the representation of Black-owned businesses compared to their population share, indicating the need for targeted support and interventions to address underlying barriers.

Black owned businesses, in particular, have shown notable growth. Between 2017 and 2020, the number of Black owned businesses increase by 13.64% significantly more than the 0.53% increase in all businesses combined.

In addition, the revenue and employment figures for Black owned businesses have also seen significant increases from 2017 to 2021, Black firms' gross revenues soared by 43% and these businesses employed over 1.4 million people.

## **Sector-Specific Challenges and Opportunities**

A substantial portion of minority-owned businesses are concentrated in low growth sectors like health care and social assistance. However, these businesses face systemic financial barriers that hinder their expansion and competitiveness in the market. Addressing these challenges requires a nuanced understanding of the sector-specific dynamics and the unique hurdles minority entrepreneurs encounter in accessing capital and resources.

## **Challenges Faced by Minority-Owned Businesses**

The history of minority entrepreneurship in the U.S. is marked by resilience and innovation in the face of systemic racism and economic exclusion. Each group, while

facing unique challenges, has developed strategies to sustain and grow their businesses. The legacy of these entrepreneurial efforts is a testament to the crucial role that minority businesses play in the American economy, contributing not only to the economic diversity but also to the social and cultural richness of the nation.

Minority-owned businesses across various groups encounter persistent challenges in accessing capital, with disparities in loan approvals, funding amounts, and interest rates affecting their financial stability. Entrepreneurs of color face obstacles in securing adequate financing, limiting their capacity for investment and growth. Additionally, disparities in equity investments and venture capital further compound the financial challenges faced by minority-owned businesses, restricting their ability to scale and innovate within their industries.

**Access to capital:** Surveys, such as one conducted by Goldman Sachs, revealed that 37% of black small business owners report significant difficulties in accessing new capital – 14% higher than their non-Black peers, underscoring systematic bias.

**Loan denial rates:** reports from institutions like Intuit QuickBooks illustrate that 57% of Black business owners have been denied bank loans at least once during their start up phase. Rates are also significantly higher than experienced by their non-Black counterparts.

**Cost disparities and business startups:** on average, Black entrepreneurs face a higher initial financial burden, costing them approximately \$5000 more to start a business compared to their non-Black peers.

Recent studies by the Federal Reserve have highlighted persistent disparities in financing approval and amounts between minority and non-minority-owned small businesses. According to the 2021 Report on Firms Owned by People of Color, based on the 2020 Small Business Credit Survey, Black- and Latino-owned firms applying for non-emergency financing were less than half as likely to receive full approval compared to their white counterparts, even when categorized as low credit risks. Specifically, while 48% of low-risk white-owned firms received all the financing they sought, only about 25% of similarly situated Latino-owned firms did.

Furthermore, a 2016 Federal Reserve study found that even among businesses approved for some level of financing, only 40% of minority-owned firms received the full amount they sought, compared to 68% of non-minority-owned firms. This data points to a broader trend where minority-owned businesses face not only higher hurdles in securing initial loan approvals but also receive lesser amounts than requested, underscoring the challenges these businesses encounter in accessing capital.

The Federal Reserve's findings suggest that these disparities are due in part to weaker banking relationships and structural barriers that disproportionately affect minority-owned firms.

## Market Access and Growth Limitations

In addition to financial barriers, minority-owned businesses encounter significant obstacles in accessing markets, expanding their customer base, and penetrating established networks. Limited networking opportunities, geographic constraints, and sector concentration pose challenges to market diversification and growth opportunities. Overcoming these obstacles requires targeted initiatives to enhance market access, address customer biases, and provide resources for effective marketing strategies, enabling minority-owned businesses to compete and thrive in a competitive business environment.

The current state of minority-owned businesses in the U.S. reflects a dynamic landscape of growth, innovation, and resilience, tempered by persistent disparities and challenges. By understanding the unique contributions and obstacles faced by these enterprises, policymakers can implement tailored solutions to foster an inclusive economic environment where minority entrepreneurs can flourish, drive economic progress, and contribute meaningfully to the nation's entrepreneurial ecosystem.

Business owners of color, despite facing systemic challenges and biases, are making a substantial impact. Various studies support the assertion that Black entrepreneurship can significantly impact the racial wealth gap. However, the effectiveness and extent of this impact remain subjects of ongoing research and debate.

## **The Role of Entrepreneurship in Reducing the Racial Wealth Gap**

The racial wealth gap in the United States is a significant and persistent issue, marked by substantial disparities in wealth between Black and white households. This gap has historical roots and has been exacerbated by systemic inequalities and discriminatory practices over centuries. Recent data shows that the median wealth for white households is significantly higher than for Black households, with the gap amounting to approximately \$164,000. The median white household has about \$189,000 in wealth, while the median Black household has around \$24,000.

Addressing this racial wealth gap requires substantial economic investment. McKinsey & Company projects that closing the racial wealth gap, including supporting Black-owned businesses to achieve revenue parity with white-owned businesses, could potentially add between \$1 trillion and \$1.5 trillion annually to the U.S. economy by 2028. This projection accounts for the negative effect of the wealth gap on consumption and investment, suggesting that addressing it could significantly boost economic activity and growth.

Despite systemic challenges and biases, business owners of color are already making significant contributions. In his study "The 'Myth' That Black Entrepreneurs Can Reduce the Gap in Wealth between Black and White Families," William D. Bradford from Washington University argues that African American entrepreneurs can bridge the racial income gap. His research, published in "Economic Development Quarterly" in August 2014, analyzed family income data from 1999 to 2009 and showed that African American entrepreneurship significantly reduces income disparities between African

American and white families. Bradford found that African American entrepreneurs experience similar upward income mobility to their white counterparts. He also noted that self-employed entrepreneurs, regardless of race, tend to have higher income levels and upward mobility than those employed in the labor force.

Supporting this view, the Brookings Institution noted that the racial wealth gap in the United States widened during the COVID-19 pandemic, underscoring systemic challenges facing Black entrepreneurs and households. A study from Springer emphasized that entrepreneurial success is crucial for reducing the racial wealth gap. It highlights that improving the success rates of Black entrepreneurs by increasing access to capital, markets, and technical assistance is critical for the sustainability and growth of Black-owned businesses. The St. Louis Federal Reserve has highlighted that Black entrepreneurs face unique challenges that contribute to a racial entrepreneurship gap. Addressing these challenges could help Black entrepreneurs build wealth and strengthen their communities.

While entrepreneurship is not a panacea for closing the racial wealth gap, it can play a crucial role in addressing the issue. However, broader systemic challenges must also be addressed to fully unlock the potential of entrepreneurship in reducing racial wealth disparities.

## **Broadening the Spectrum of Financial Support**

To address these challenges, it is crucial to broaden the spectrum of financial support available to minority-owned businesses beyond traditional loans. This can include equity investments, grants, and innovative funding mechanisms that are more inclusive and accessible.

### **Equity Investments**

Minority entrepreneurs often face significant barriers in accessing venture capital and equity investments. Programs like Backstage Capital and Founders First Capital Partners are specifically designed to support underrepresented entrepreneurs by providing not just funding but also strategic advice and networking opportunities. These initiatives recognize the value of diversity in driving innovation and are committed to correcting the underrepresentation of minority-owned businesses in venture funding.

### **Grants**

Grants provide an essential source of funding for minority-owned businesses because they do not require repayment, which can alleviate financial pressure. Numerous grants are available specifically for minority entrepreneurs, such as those offered by the U.S. Small Business Administration and private entities like the Pepper Start Up Grant for Blackwomen business owners. These grants can support various business needs, from startup costs to expansion efforts, without the burden of debt.

## Community Development Financial Institutions (CDFIs)

CDFIs play a pivotal role in supporting minority-owned businesses by offering loans, investments, financial services, and technical assistance to underserved populations and communities. These institutions often provide more favorable terms compared to traditional banks and are more likely to understand and support the unique challenges faced by minority entrepreneurs.

## Digital and Fintech Solutions

The rise of fintech has introduced new avenues for accessing capital. Digital platforms can offer alternative lending options that bypass traditional banking barriers. For instance, the Opportunity Project's initiative to develop digital tools helps minority businesses understand and access alternative business capital options, enhancing their ability to secure necessary funding.

## Government and Nonprofit Programs

Several government and nonprofit programs are designed to facilitate access to capital for minority-owned businesses. For example, the Minority Business Development Agency (MBDA) offers various resources to help minority entrepreneurs secure capital and navigate the financial landscape. Additionally, programs like the SBA's 8(a) Business Development program provide business assistance, training, and support for government contracts, which can be a crucial growth area for these businesses.

Expanding the types of financial support available to minority-owned businesses is crucial for fostering an inclusive economic environment where diversity is seen as an asset rather than a barrier. By supporting a range of funding options—from equity investments and grants to innovative fintech solutions—stakeholders can help address the systemic barriers that have long hindered the financial success of minority entrepreneurs. This comprehensive approach not only aids in the immediate growth of minority-owned businesses but also contributes to the long-term vitality of the broader economy.

### **Remedying Persistent Discrimination**

Diversity and inclusion business development programs transcend merely addressing historical injustices; it actively combats ongoing discrimination that still affects minority entrepreneurs today. Discriminatory practices in lending, barriers to networking, and unequal access to business opportunities continue to undermine minority business owners. These support programs provide essential support to these entrepreneurs, leveling the playing field and enabling true competition based on merit and innovation.

### **Economic Benefits Extend Beyond Beneficiaries**

The economic justification for diversity and inclusion extends well beyond the immediate benefits to minority businesses. By fostering diversity in the business community, these



programs enhance innovation, stimulate competition, and drive economic growth. The success of minority-owned businesses leads to job creation and revitalizes economically underserved areas, yielding benefits for the economy at large.

### **Ethical Imperatives and Social Integration**

From an ethical standpoint, diversity and inclusion is crucial for correcting deep-seated imbalances in a society that professes to value fairness and equal opportunity. Socially, these programs contribute to a more inclusive and diverse business landscape that mirrors our multicultural society. Diversity in business precipitates varied perspectives and solutions, essential for catering to a broad spectrum of consumer needs and addressing societal challenges.

### **Enhancing National Cohesion and Stability**

Diversity and inclusion programs play a pivotal role in fostering national cohesion and social stability by mitigating economic disparities that can lead to social tension and conflict. By ensuring equitable economic opportunities, these programs promote inclusivity and fairness, foundational to societal harmony and long-term prosperity.

As legal interpretations and societal contexts evolve, the continued support and refinement of divers programs are imperative. These programs are vital not only for rectifying historical injustices but also for proactive equity in opportunity distribution. By steadfastly supporting and enhancing these initiatives, we ensure that minority-owned businesses flourish, thereby enriching our nation's economic landscape and forging a more just and equitable society.

In light of the challenges and opportunities outlined in the landscape of minority-owned businesses in the United States, it is imperative to ensure targeted policies that can effectively support and empower these enterprises. The following recommendations aim to enhance the growth, sustainability, and competitiveness of minority-owned businesses through strategic interventions and proactive initiatives:

## **Expansion of Federal Programs**

1. **Increased Funding for Minority Business Development:** Allocate additional resources to programs like the Minority Business Development Agency (MBDA) to expand outreach, provide comprehensive business consulting services, and facilitate market expansion opportunities for minority entrepreneurs.
2. **Enhanced Access to Federal Contracts:** Implement initiatives that streamline the procurement process for minority-owned businesses, ensuring fair and equitable participation in government projects. Strengthening programs like the 8(a) Business Development program can enhance contracting opportunities and promote the growth of minority enterprises in federal projects.

## **Implementation of Lending Supports**

1. **Targeted Financial Instruments:** Develop specialized financial products, including grants and low-interest loans tailored for minority entrepreneurs. These

financial instruments should address the specific needs and challenges faced by minority-owned businesses, providing crucial support for capital investments and business development.

2. **Increase Federal Partnerships with Minority Depository Institutions and Minority led CDFIs:** Foster collaborations between federal agencies and Minority Depository Institution and CDFIs to increase access to capital (not just debt capital) for minority businesses. Establishing lending partnerships can facilitate easier loan approvals, lower interest rates, and enhanced financial services tailored to the unique requirements of minority entrepreneurs.

## Increased Contracting Opportunities with the Government

1. **Diversification of Supplier Networks:** Encourage government agencies to diversify their supplier networks by actively seeking contracts with minority-owned businesses. Implementing inclusive procurement policies can create more opportunities for minority entrepreneurs to engage in government projects and access a broader market for their goods and services.
2. **Capacity Building for Minority Contractors:** Provide capacity-building programs and training initiatives to enhance the competitiveness of minority contractors in bidding for government contracts. Offering technical assistance, mentorship, and resources can empower minority-owned businesses to navigate the contracting process effectively and secure lucrative opportunities.

## Comprehensive Mentorship and Networking Programs

1. **Establish Mentorship Networks:** Create mentorship programs that connect established business leaders with aspiring minority entrepreneurs. These initiatives can provide valuable guidance, industry insights, and networking opportunities to support the growth and development of minority-owned businesses.
2. **Industry-Specific Networking Events:** Organize industry-specific networking events and conferences that facilitate connections between minority entrepreneurs, potential investors, and key stakeholders. Promoting collaboration and partnerships within sectors can catalyze innovation, growth, and market expansion for minority-owned businesses.

## Tailored Support Programs for High-Growth Sectors

1. **Sector-Specific Support Initiatives:** Develop sector-specific support programs that cater to high-growth industries where minority businesses are prevalent. These initiatives should offer targeted resources, training, and financial incentives to foster innovation, competitiveness, and sustainability within key sectors.

- 2. Technology and Innovation Grants:** Introduce grant programs that encourage technological advancement and innovation in minority-owned businesses. Providing funding for research and development, digital transformation, and technology adoption can enhance the competitive edge of minority enterprises in the evolving business landscape.

By implementing these policy recommendations, policymakers can proactively address the systemic barriers, financial constraints, and market challenges that hinder the full potential of minority-owned businesses. Empowering these enterprises through targeted support, inclusive programs, and strategic partnerships will not only drive economic growth and job creation but also foster a more equitable and vibrant entrepreneurial ecosystem that benefits diverse communities and advances the collective prosperity of the nation.

## Conclusion

In reflecting on the rich tapestry of insights surrounding minority-owned businesses in the United States, it becomes evident that these enterprises embody resilience, innovation, and the enduring spirit of communities striving for economic empowerment. From the historical contexts of African American, Asian American, Latino, and Native American entrepreneurship to the challenges faced in accessing capital, navigating discriminatory laws, and expanding market reach, the journey of minority entrepreneurs is marked by both triumphs and obstacles.

As we navigate the current landscape of minority-owned businesses, marked by growth trends, sector-specific challenges, and financial disparities, it is imperative to recognize the substantial contributions and untapped potential of these enterprises. Policy recommendations aimed at enhancing support through targeted financial instruments, federal programs expansion, and comprehensive mentorship initiatives are crucial steps towards fostering an inclusive economic environment that empowers minority entrepreneurs.

The importance of continued support for agencies like the Minority Business Development Agency (MBDA) and programs such as the SBA 8(a) Business Development Program cannot be overstated. These entities play critical roles in leveling the playing field, providing minority business owners with access to much-needed resources including capital, contracts, and markets. The MBDA, for instance, serves as a dedicated advocate for minority entrepreneurs, offering technical assistance and fostering partnerships that amplify growth opportunities. Similarly, the SBA 8(a) program specifically helps small, disadvantaged businesses compete in the marketplace, enhancing their viability and capacity to grow.

In conclusion, the imperative of implementing effective policies to support minority-owned businesses aligns with national values of equity, justice, and economic sustainability. By embracing proactive interventions, advocating for equitable opportunities, and fostering an environment conducive to growth and innovation, we not only bridge the racial wealth gap but also catalyze overall prosperity and diversity within the American economic landscape. The journey of minority entrepreneurship is a

testament to the enduring spirit of entrepreneurship, the resilience of diverse communities, and the transformative power of inclusive economic policies. These efforts are essential not just for the success of minority entrepreneurs, but for the health and competitiveness of the entire U.S. economy.