

# Racial Economic Equity In Small Business Funding

A Playbook

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# Introduction

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The California Small Business Coalition for Racial Justice is a collaboration of 17 community development lenders and nonprofits throughout California who have expertise in:



Working with small businesses – especially those run by Black and Brown entrepreneurs, and



Serving those who are chronically underserved by the financial marketplace

Hosted by national community development financial institution Self-Help, the Coalition includes community-oriented lenders, small business technical assistance providers, community-based anchor institutions, organizations leading racial justice initiatives, and others.

**The Coalition's mission is to:**

- Identify barriers facing Black and Brown entrepreneurs and small businesses
- Expand access to capital directly, and in partnership with other efforts in California
- Document learnings regarding how to restructure risk
- Engage in policy discussions at municipal and state levels to lay the foundation for structural change in the community development lending system



This Playbook comes from the work of the Coalition's Subcommittee for Advocacy, Policy, and Communications.



# About this Playbook

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## Who is it for?

This Playbook is for community development financial institutions (CDFIs), community-based lenders, small business technical assistance providers, and others involved in mission-led finance.

The Playbook can also help funders, banks, policymakers, and legislators build their understanding of racial economic equity, and inform their programs and policymaking.

## How to use it

The Playbook will give you strategies for:

- How to discuss racial equity and social justice with funders and banks, and policymakers and legislators; and
- How to advocate for a racial equity framework in their programs and policymaking

## What is Racial Economic Equity?

The term **racial economic equity** is used to discuss different economic manifestations of racism, racial inequality, and unequal outcomes between different racial groups. It includes, but is not limited to, income, employment, lending, homeownership, and wealth, among other things. Racial economic equity aims to tailor policies and programs to communities historically excluded from access to resources.

**Racial Equity** is a process that addresses racial inequity. Most often, racial inequity is assumed not to derive from individual or personal prejudice or deficiency. Rather, it is produced and reproduced through structures, systems and institutions, thus requiring processes that transform those structures, systems and institutions to advance racial equity.

Source: [Prosperity Now](#) 







1.8 million or 43 percent of California small businesses are owned by a Hispanic or a racial minority



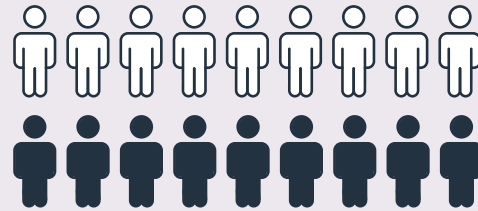
There are 4.2 million small businesses in California



Source: [US Small Business Administration, Office of Advocacy](#)



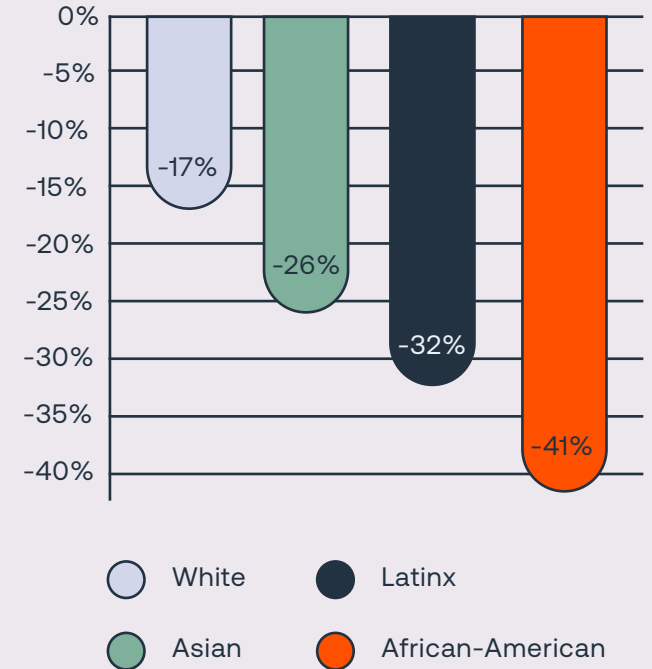
California's small businesses employ almost 50% of the state's workforce



Racial minorities (excluding Hispanic) account for more than a third of workers and own over a quarter of small businesses



Between February and April 2020, percentage drop in business ownership:



Source: [National Bureau of Economic Research/ Robert W. Fairlie](#)



The COVID-19 pandemic and the racial reckoning within the United States have revealed vast disparities in investment and support for businesses and entrepreneurs of color in our communities.

International Economic Development Council




# Understanding Racial Economic Equity

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## Background

The wealth gap between Black and white Americans has persisted over four centuries, highlighting accumulated effects of a long history of institutional racism.

The median white household has a net worth 10 times that of the median Black household. If Black households held a share of the national wealth in proportion to their share of the US population, it would amount to \$12.68 trillion in household wealth, rather than the true sum of \$2.54 trillion. The total racial wealth gap therefore adds up to \$10.14 trillion, that if closed would increase GDP by 44 percent.

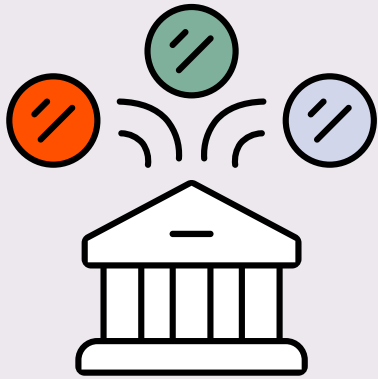


The total racial wealth gap therefore adds up to \$10.14 trillion, that if closed would increase GDP by 44 percent.



# Persistent issues

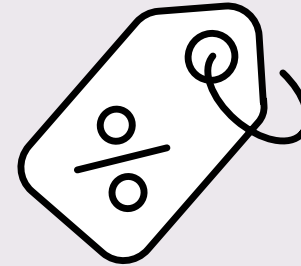
CDFIs were born out of the Community Reinvestment Act (CRA), as a response to the inequities brought about by bank redlining. The CRA was born out of the Civil Rights movement to abolish institutional racial segregation, discrimination, and disenfranchisement.



Structural racism has been perpetuated throughout policies, laws, practices, institutions in society. Therefore the financial institution system and CDFIs within that system are not neutral and tend to reflect disparities.



While most CDFIs tend to be not-for-profit, mission-focused financial services providers, some are for profit. Critics could argue that some CDFIs charge non-refundable fees and use risk-based pricing that is also extractive.



Because CDFIs must work closely outside of the margins of a traditional finance system, they tend to be concerned with investors' perception of products and practices, especially as it pertains to innovative, restorative justice capital.





# Timeline

Over its 114 year existence, the Homestead Act led to about 10 percent of all land being taken from Native Americans and given to 1.6 million homesteaders. Not only did this deplete much of Tribal lands and resources, but this disproportionately benefited white homesteaders as former African American slaves were blocked from becoming property owners.



## 1862

## 1865

Jim Crow era's "Black Codes" essentially legalized racial segregation and strictly limited economic opportunity – denying Black people the right to vote, hold jobs and get an education.



Nearly 250 years of chattel slavery preceded congressional mismanagement of the Freedman's Savings Bank in 1874, which left 61,144 depositors with losses of nearly \$3 million.



## 1874

## 1882

The Chinese Exclusion Act put a 10-year ban on Chinese workers immigrating to the US and naturalizing, excluding them from land-owning opportunities.



The violent massacre at Tulsa's Greenwood District (also known as "Black Wall Street") left hundreds of Black residents dead and thousands of properties destroyed, ruining what was the epicenter of Black business and culture.



## 1921



# Timeline

A bank practice called “redlining” excluded many communities from the credit boom of this era, where banks would draw red lines on maps around neighborhoods that were deemed risky.



## 1934

## 1935

The Social Security Act excluded a range of workers, including those who worked in agricultural or domestic settings who were mostly Black.



The GI Bill legislation paved the way for veterans to receive an education and purchase homes. Black veterans, however, were largely unable to utilize these housing provisions as banks generally wouldn’t make loans for mortgages in Black neighborhoods.



## 1944

## 2008

The 2008 Housing Crisis and subsequent Great Recession, marked by subprime mortgage lending and financial predation, resulted in Black and Latino families losing nearly 600,000 homes between 2007 and 2009.



The Tax Cuts & Jobs Act promised to provide a boost to middle-class families but research shows it focused benefits on the wealthy and didn’t support households of color.



## 2017

## 2020 –21

Inequities in the Paycheck Protection Program resulted in entrepreneurs of color and small businesses not being prioritized despite the congressional intent.



## Recent developments

### CFPB Small Business Lending Data Collection

Issued in October 2021, this proposed rule to implement Section 1071 of the Dodd-Frank Wall Street Reform and Protection Act would collect data on women-owned, minority-owned, and small businesses applying for financing to ensure that fair lending standards are being met and survey the needs of these underinvested groups.

### State Small Business Credit Initiative – SSBCI 2.0

Created through federal legislation during the Great Recession, the initial SSBCI program was funded with \$1.5 billion to strengthen state programs that support financing of small businesses. California received \$168 million, which was shared between two state agencies focused on small business support – the California Infrastructure and Economic Development Bank’s (IBank) [Small Business Finance Center](#) and the California Pollution Control Financing Authority’s (CPCFA) [California Capital Access Loan Program](#), housed inside the State Treasurer’s Office. The American Rescue Plan Act of 2021 included \$10 billion for the reauthorization of SSBCI, commonly known SSBCI 2.0, of which California is expected to receive at least \$895 million.

### California Rebuilding Fund

This program supports the state’s smallest businesses as they adapt, reopen, and recover from the effects of COVID-19. Several Community Development Financial Institutions (CDFIs) are currently participating in the Fund to process loan applications.

## Coming soon?

### Small Business Lending Disclosure Act

Introduced in November 2021 in the U.S. House and the Senate, this bill aims to protect small business borrowers from predatory lenders and loans carrying unfair terms and conditions and would ensure safeguards already required in consumer lending, through the Truth in Lending Act.

By the end of 2022, lenders in California will have to be more transparent about their financing offerings, something that is required in consumer lending through the Truth in Lending Act. The state’s Small Business Truth in Lending Act is the first of its kind in the country.

### SB 625

Introduced in February 2021, this bill would establish the California Investment and Innovation Program to provide grants to qualified community development financial institutions. It specifies uses of grant funds, including providing loans, grants, equity investments, or technical assistance within low-income communities or for purposes that have a direct and substantial benefit to lower income households.



# Building A Racial Economic Equity Future

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## Why Do Policies Have To Change?

CDFIs have worked for decades to increase access to capital, and they largely have been effective. But changes are needed for them to have a more effective and equitable reach.

- The CDFI field needs policy and investment that prioritizes innovative and flexible products. Historically, they have looked to financial products from traditional lending institutions as a starting point for their own. But more innovation, and stronger public and private partnerships, are needed to reach those still outside the margins of CDFI products.
- CDFIs are positioned at the intersection of social policy and financial systems. This means both policy and strengthening of cross-sector partnerships are key to advancing racial equity in the CDFI field.
- CDFIs were designed to fill the gap between traditional financial services and the government; however, they cannot do it alone. CDFIs need capital with long terms and lowest possible cost to be able to deploy that capital to more economically disadvantaged markets. This can only be accomplished with public and private collaboration.
- CDFI lending is small compared to need. Predatory online lending is meeting that need which isn't good for small businesses.





## What Would More Equitable Wealth Distribution Look Like?



A stronger, more resilient economy, with huge GDP growth

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A larger and more robust middle class

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Better health outcomes and education attainment, particularly for people of color

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More homeowners (homeownership is both an obstacle and a solution to the racial and generational wealth gaps that persist in America)

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More start-up small businesses, generating wealth for people of color



Small businesses owned by people of color tend not only to be smaller but also to have lower cash reserves and are more financially fragile than white-owned businesses.

[CRL/NALCAB/CAPCAD Submission](#) ↗





Over half of all US small businesses had more than two weeks of cash reserves. 94% of small businesses in majority Black communities and 89% of small businesses in majority Hispanic communities had *fewer* than two weeks of cash reserves.

Small businesses with fewer than two weeks of cash reserves

Majority Black communities



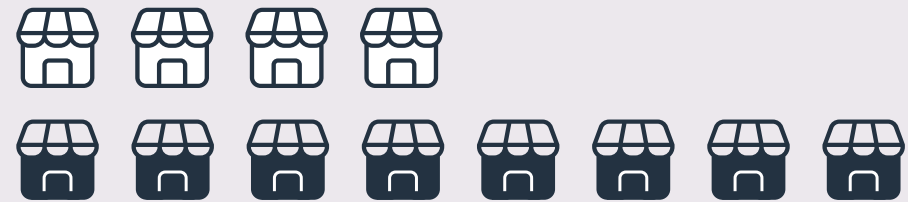
Majority Hispanic communities



Source: [JP Morgan Chase & Co](#)



Black-owned and immigrant-owned businesses have closed at more than double the rate of white-owned businesses during COVID, followed closely by Latinx-owned businesses. Asian-owned and woman-owned businesses have closed at 1.5 times the rate of white-owned businesses.



Source: [National Bureau of Economic Research](#)



# What You Can Do: Laying The Groundwork

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## 1. Evaluate The Landscape

Start by putting together a clear picture of what the situation is and who are the players involved.

Think about the following:

- What's happened so far?
- Who's currently working on this? If you're a small organization, find out who's leading and how you can help.
- Are there existing campaigns that you could join? Look for potential partners who are already working in this area. Think about who or what you bring to the campaign.
- What legislation or other changes are on the horizon?
- What resources and further reading exists?

## 2. Bring The Community Voice

Having your community's opinions and voices behind you will strengthen your message and ask. It will also help you to engage with the constituencies you want to support.

Consider the following:

- Find ways to engage the communities or clients that you want to advocate for. You need to capture their lived experiences and their authentic voices in stories and examples. This is a critical part of your work and will strengthen your case.
- Translate policy ideals into questions that you can ask stakeholders about, e.g. Do you have responsibilities as a caregiver? What do you need in place to help you become an entrepreneur?
- Identify local business people or community leaders who can bring their unique voice to meetings or events.
- Support community members through informal coaching or media training.
- Understand the cultural and geographic location of the community you want to serve. Understand who they are, where they go, who already interacts with them.



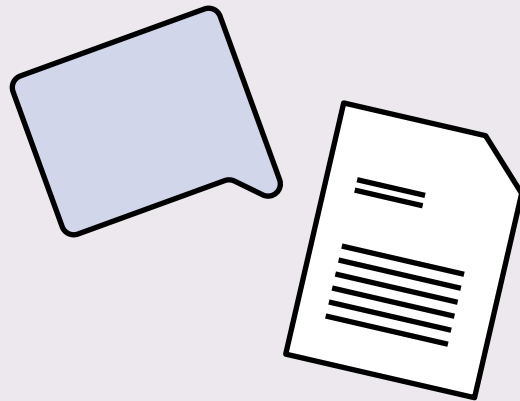
- Recognize that community members are busy people and compensate them for their time if possible.
- Think about other non-business groups who can bring their important community voices to your table, e.g. a cultural group for Native American people.
- Define populations carefully. What are you good at / exactly who do you want to reach, e.g. Caribbean restaurants with less than 50 employees?

### 3. Gather Data

Knowledge is power. Use data to demonstrate need, highlight problems and show solutions.

Ask yourself the following questions:

- What historic practices and policies have affected communities of color?
- How are these having an impact today?
- What impact could changes in policies or practice bring?
- Who is doing this already?
- Collect data, using common descriptions, and set definitions around information that you're capturing, e.g. full addresses.



### 4. Develop Your Partnership Base

Collaboration is key. Think about who you can work with to make your message as powerful as possible.

Start with the following:

- Identify allies and allocate roles/responsibilities.
- Seek out unlikely partners who can bring a different perspective and voice to your work.
- Agree how and when to come together, and on ways of sharing information.
- Decide on how you want to work as a group. What will be the process for everyone to input, discuss, and give feedback?
- Stay nimble – discuss how to iterate and pivot as your discussions progress.



## Using Data

Start with public data from [the Census](#), collected every 10 years.

The following tools can make the official Census data easier to mine and use for your research and presentations.

- [Census Reporter](#) will allow you to download census data for any geography and time period.
- [Census Mapper](#) is based on the 2020 Census and shows population change by different racial and ethnic groups.
- The [Common Knowledge Project](#) pulls together all public data sets for every city in the US.
- The [Southern Poverty Law Center](#) produces detailed reports on many aspects of racial equity and justice.



**The findings are alarming. The number of African-American business owners [in the U.S.] plummeted from 1.1 million in February 2020 to 640,000 in April. The loss of 440,000 black business owners representing 41 percent of the previous level is disconcerting.**

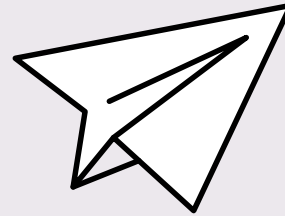
Robert Fairlie, UC Santa Cruz Economics Professor



# Checklist: Messaging

Whether you're talking to a program manager or a policy maker, your message has to be well-researched, clear and actionable. Use this checklist to start the process.

- Be clear about the community you are advocating for.
- Gather research and data to illustrate how existing policies negatively affect communities of color.
- Gather research and data to show how changing or introducing new policies can positively impact the lives of communities of color.
- Frame how these policies can have multiple benefits e.g. to the target community, to the city/state as a whole.
- Develop a clear message that identifies inequities, their causes and links them to policy priorities.



- Develop a variety of narratives for different groups. Different populations will have different timelines, e.g. a seasonal business like a gelato shop.
- Identify a few specific solutions or interventions that can address these inequities, backed by data.
- Identify champions for your cause in the arena you are working in, e.g. legislature or financial services.
- Think about meaningful ways to cement wins, e.g. opportunities to amplify your target community's voice.
- Be honest about who you're serving and why you haven't done so before.



Immigrants play an increasingly pivotal role in the U.S. economy, in part due to the fact that they are much more likely to start businesses than the U.S.-born.

International Economic Development Council



# What You Can Do: Making The Ask – Policymakers & Legislators

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## Who To Approach

- Identify policymakers and legislators at the state and city level.
- Investigate different roles, e.g. economic development (jobs) and financial services (banking).
- Research regional bodies, chambers of commerce etc who might be interested in working with the community you are advocating for.
- Even if a legislator has opposed you in the past, continue to engage them. They may be open to change or may find some areas of agreement on your agenda.



## How To Have The Conversation

- Do some research on the person you're meeting. Know how they voted in the past. What did they do before public service? This will help you form a connection with them.
- Set up individual meetings or briefings.
- Send letters and make telephone calls.
- Attend council meetings and table agenda items.
- Invite policymakers to visit businesses and meet owners.
- Host town halls and community listening sessions.
- Adapt your language to your audience. Racial justice in small business lending should sound like common sense, not a political hot potato. Prepare messages about predatory lenders and communities of color alongside messages about increasing economic activity, fair competition and a more transparent marketplace for all.

## Case study

### Truth-in-Lending law

California's 'Truth in Lending' Act is the first of its kind in the country, with the state leading the way to ensure that small business borrowers have more transparency and clearer information when considering online and alternative financing options.

A broad coalition of more than 60 private sector and nonprofit organizations worked together to support this legislation, which sets clear and consistent disclosure standards that provide small business owners with better transparency during the loan process and was passed by overwhelming bi-partisan support.

The coalition worked with the California Department of Financial Protection and Innovation (DFPI) during the regulatory process to represent the interests of its small business borrowers. Final small business disclosure rules will be issued in 2022.

Coalition member CAMEO spokesperson Heidi Pickman says: "The effort came together because we worked together to build a coalition and bounce strategy off each other. It was a huge team effort."

# What You Can Do: Making The Ask – Banks & Other Funders

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## Who To Approach

- Identify program managers and other officials in traditional banks who are tasked with working on lending to communities of color, community development, or the Corporate Social Responsibility (CSR) Officer.
- Make contact with small business technical assistance providers and other organizations leading racial justice initiatives.
- Foundations are starting to address the racial wealth gap with their economic and community development activities.

## How To Have The Conversation

- Set up individual meetings or briefings.
- Send letters and make telephone calls.
- Prepare information about your issues and how the bank can assist or change practices.
- Research and prepare case studies about lending to your target community, including outcomes.

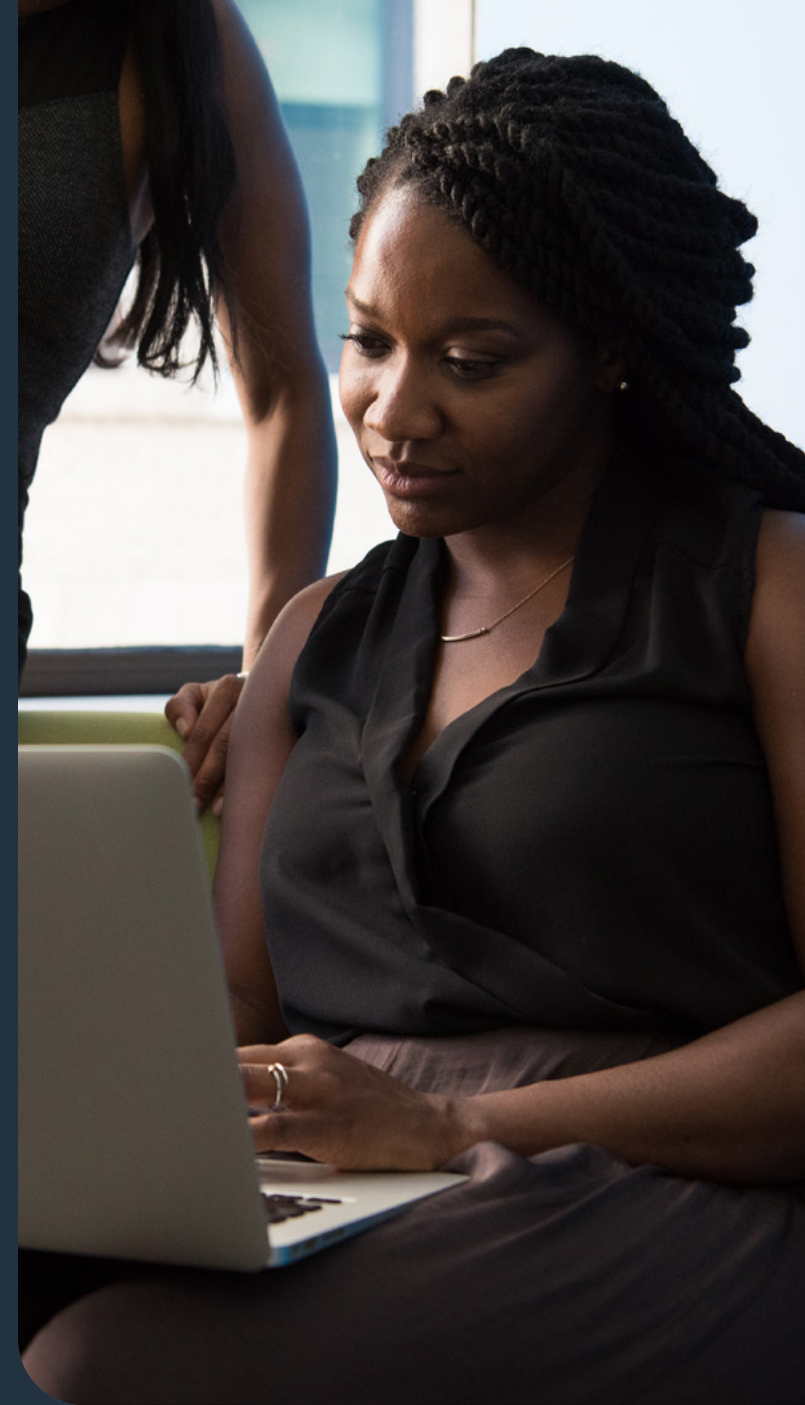






Weaker cash positions, weaker bank relationships, and pre-existing funding gaps left Black firms with little cushion entering the crisis: even the healthiest Black firms were financially disadvantaged at the onset of COVID-19.

Federal Reserve Bank of New York



# Sample Agenda

## Background

What's the current situation? Who is missing out?  
What do you think needs to be done?

## Your role

What do you bring to the table? Who do you represent?  
Who are your partners?

## Case studies

Examples of how racial economic equity can improve outcomes for your local community.

## Data

What statistics and other information can you use to support your argument?

## Asks

Set out what you're looking for and how you'd like to work with them to achieve this.

## Follow up

Capture feedback/responses to your ask. Share with your partners. What else is needed to make your requests become reality?

## Case study

### JPMorgan Chase and Entrepreneurs of Color Fund

In early 2021, JPMorgan Chase announced their investment of \$42.5 million to expand the Entrepreneurs of Color Fund (EOCF). The EOCF provides low-cost financing for Black, Latinx, and women-owned small businesses. This funding will be deployed by CDFI partners across five major U.S. cities. These private funds from JPMorgan Chase enhance the work that CDFIs are already doing, allowing them to make loans with lower interest rates for longer terms.

The EOCF is a program managed by the Local Initiatives Support Corporation (LISC). EOCF is designed to get much-needed capital directly into the hands of African American, Latinx, and other small business owners. It also provides critical support such as coaching, operational guidance and training. The program leverages LISC's work as a leading nonprofit community development financial institution to help local CDFIs do more to finance loans and provide participating business owners a critical boost.

# Checklist: Policymaking

- The policy should have a universal goal (e.g. increasing the number of small businesses in a particular area) with strategies to achieve the goal of targeting people of color (incentives for new small businesses, especially in underserved communities).
- The policy should explicitly address disparate outcomes based on race, and provide mechanisms to reduce those disparities.
- The policy should ultimately increase access to both public and private resources for people of color who were previously denied equitable access to those resources.
- The policy should allow for people of color to fully express themselves both culturally and spiritually.
- The policy should increase civic participation for people of color, and/or remove any barriers to participation.
- People of color should be involved in the process of developing the policy.

With thanks to the [Grassroots Policy Project](#) via Creative Commons



Fewer than one in four Black-owned employer firms has a recent borrowing relationship with a bank

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This number drops to one in 10 among Black non-employer firms, compared with one in four white-owned non-employers

Source: [Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities](#), New York Fed [↗](#)



# Next Steps

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## Following Up

- Debrief, harvest learnings, and share feedback.
- Capture information and disseminate to your partnership base.
- Plan for continued engagement. Building rapport and trust takes time.
- Remain flexible. Be prepared to pivot, change tack or partner to get what you want.
- But stick to your principles. Don't make compromises that will hurt your constituency.
- Be politely persistent. If you aren't passionate about your policy, no one else will be.
- Communicate outcomes via press release or blog to keep momentum going.
- Use social media (e.g. Facebook page, Instagram feed) to keep stakeholders updated and involved.

## Action Checklist

- Evaluate the landscape.
- Gather data.
- Involve constituents and communities.
- Develop your partnership base.
- Identify key contacts.
- Develop appropriate engagement strategies.
- Identify who is leading this work and include in their job description.
- Capture and share responses with your partners.
- Consider wider communication channels e.g. social media, press releases to local media etc.



# Resources

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## Coalition organizations

[Access Plus Capital](#)  
[Accion Opportunity Fund](#)  
[AmPac Business Capital](#)  
[Arcata Economic Development Corporation](#)  
[CDC Small Business Finance](#)  
[California Association for Micro Enterprise Opportunity](#)  
[California Capital Financial Development Corporation](#)  
[California Farm Link](#)  
[California Reinvestment Coalition](#)  
[Center For Responsible Lending](#)  
[Fresno Metro Black Chamber of Commerce](#)  
[Inclusive Action For The City](#)  
[La Cocina](#)  
[Local Initiatives Support Corporation](#)  
[Main Street Launch](#)  
[MicroEnterprise Collaborative of Inland Southern California](#)  
[Mission Economic Development Agency](#)  
[Self-Help Credit Union](#)  
[Self-Help Federal Credit Union](#)

## Other organizations

[California Asian Pacific Chamber of Commerce](#)  
[California Black Chamber of Commerce](#)  
[California Hispanic Chambers of Commerce](#)  
[California SBDC](#)  
[GO-Biz](#)  
[Small Business Majority](#)

## Research & reading

[A New Era of Racial Equity in Community Development Finance](#)  
[Fintech, Racial Equity, and an Inclusive Financial System](#)  
[Report on Employer Firms Based on the 2020 Small Business Credit Survey](#)  
[Exploring Racial Economic Equity In Policy & Advocacy](#)  
[Communicating on Race and Racial Economic Equity](#)  
[The Impact of Covid-19 on Small Business Owners](#)  
[Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities, New York Fed](#)



# Acknowledgements

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[www.calendow.org](http://www.calendow.org)

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