

Building Equitable Local Ecosystems for Small Business

Collaboration is the Key

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LSC

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COVER PHOTO:
Kevin Gordon (left) and Natasha Jackson (center), camp directors of Camp Kupugani in Leaf River, IL, with their son, Miles (right).



Introduction

At the core of LISC’s mission as a community development intermediary is the promotion of economic opportunity and mobility for all people, in every community.

Supporting entrepreneurs as they launch and grow their businesses is a critical part of this work. Small businesses employ some 47 percent of America’s private workforce. They form the backbone of business districts and Main Streets across the country, and provide an important onramp to wealth-building for families and communities.

To foster the kind of inclusive economic growth we envision, it’s imperative that entrepreneurship—that engine of economic activity—be inclusive as well. That requires forethought and deliberate work to dismantle the systemic barriers that prevent people of color, immigrants, refugees, women, and those with low or moderate incomes from successfully starting and growing a business.

Across our work in 2020, the majority of LISC’s economic-development and small-business financing, technical assistance, and grants went to businesses and entities owned and operated by persons of color.



ABOVE AND OPPOSITE PAGE:
Paul Ahn, My Daughter’s Wedding Shop,
Philadelphia, PA

In 2018 LISC adopted a strategic **framework** that focuses on equity in its support of economic development and small business. Last year, for example, a time of complex crisis for small entrepreneurs, LISC deployed \$215 million in small grants to over 12,000 individual businesses, and put \$4.8 million to work supporting some 130 business development organizations (BDOs) that provide technical assistance to entrepreneurs. Even more crucially, LISC’s equity-first agenda allowed us to begin **targeting those resources** *overwhelmingly* to the very populations and places that historically have been left behind, locked out of the opportunities that may flow from entrepreneurial genius and effort. Across our work in 2020, the majority of LISC’s economic-development and small-business financing, technical assistance, and grants went to businesses and entities owned and operated by persons of color.

As we’ve put all hands on deck to help businesses survive the unprecedented challenge of Covid-19, we’ve learned a great deal about how to build a better, more inclusive, fairer world for entrepreneurs over the long run. Perhaps our most important takeaway: In order to establish an equitable local ecosystem for small entrepreneurs, local stakeholders must come together to build it. Without that collaboration and concerted effort, too often, equity doesn’t happen.

The Small-Business Ecosystem

What do we mean by the word “ecosystem”? Simply a set of *conditions* and *supports* that all entrepreneurs need to thrive—to launch and expand their businesses, and to sustain them in the face of impediments to growth and economic shocks.

These conditions may include:

- Access to capital.
- Access to technology—for managing operations, accounting, marketing, finding information and resources, etc.
- Access to a customer base, and opportunities to build customer awareness.
- Access to business supports—training, technical advice, professional services, incubation, and targeted programs like joint marketing/branding campaigns.
- Access to affordable retail, office, incubator, and maker spaces.
- Access to qualified employees and workforce development supports.
- Access to a community of businesses that can form supportive peer networks and also act as suppliers and customers.

Notice that word, access. Even when a particular asset is technically available in a given market, access may in fact be limited for certain entrepreneurs by factors that have nothing to do with their talent or commitment—factors such as language barriers, lack of culturally competent service providers, or a baseline dearth of the financial wealth and social capital that readily link bigger, richer companies to expert advice and capital. Even a lack of transportation can be important, hampering physical access to needed services.

To build an *equitable* ecosystem for small business means actively identifying and addressing structural barriers that curtail access and opportunity for business owners, particularly business owners of color, women entrepreneurs, people with low incomes, and businesses located in under-invested neighborhoods.

That’s where the small-business support network comes in.

The Small-Business Support Network

The small-business support network is a set of *people and organizations* that bring relevant skills and resources to the work of building an equitable small-business ecosystem.

In addition to business-owner representatives themselves, these stakeholders may include:

- Lenders, both for-profit and nonprofit—banks, community development financial institutions (CDFIs), area loan funds, credit unions, municipal finance agencies.
- Business support organizations and associations that provide technical assistance and training, a context for mutual peer support, access to resources, and incubation space, with a focus on BDOs that are culturally competent to serve business owners facing structural inequities.
- Other community-rooted organizations that bring community-organizing skills along with cultural competence, advocacy, and representation for underserved constituencies.

BELOW:
Jamee Yocum with
dog, at Bark on Main,
Jacksonville, FL



- Jobs centers and workforce development organizations that prepare and recruit employees.
- Government entities—local, city, state, and federal agencies, to include economic-development, workforce, and small-business departments.
- Elected officials representing local and regional constituencies.
- Anchor institutions such as hospitals and universities that can shape procurement strategies and other initiatives to support local small businesses.

Connecting the Network to Boost Equitable Opportunity

For entrepreneurs affected by deeply rooted inequality of opportunity, perhaps the most critical disparity is in access to traditional sources of capital. For example, in a recent [study](#) by BE NYC and the New York City Department of Small Business Services, Black entrepreneurs overwhelmingly cited access to capital as their top challenge in starting or growing their business. Among survey respondents who'd sought loans from small-business lenders or banks to launch their enterprise, more than two-thirds had been denied financing.

This drag on the entrepreneurial aspirations of certain groups reflects a set of disadvantages that are themselves the result of entrenched inequity. Low income and personal, family, and community wealth; lack of established credit track records; segregation and limited social connections to powerful institutions; and historic and ongoing direct discrimination in lending all play a role.

Our experience has shown that just about every local market includes some sources of capital for small business that are nontraditional, with criteria for assessing creditworthiness and terms for repayment that are more flexible than those provided by a typical for-profit bank loan. These may include, for example, local venture capital pools or prize competitions. But whether individual business owners can avail themselves of these limited resources depends largely on their personal networks and ability to navigate an often bewildering and fragmented landscape.

BELOW, LEFT:
Lisa Spicer (right),
owner of Dimensions
in Hair, Minneapolis,
MN, with her father,
Michael Spicer (left)

BELOW, RIGHT:
Spicer's daughter, nail
tech Seioné Kimbrough



To increase opportunity for businesses owned by women, people of color, and others facing historic structural inequities, these sources of flexible, nontraditional capital need to be robustly augmented *and* tied to a suite of culturally competent services. No single organization can do it alone. When stakeholders come together to build a fairer small-business ecosystem, this should be a key goal.

Local business development organizations (BDOs) can play a critical role in fostering equitable small-business environments. Many of the [BDOs LISC partners with](#) are relatively small operations with special expertise and commitment to serving a particular place or population of entrepreneurs (Black-owned businesses, for example, or microenterprises launched by immigrants or refugees), a particular industry sector (child-care or food-business operators, for instance), or businesses in a particular stage of development (from startups to businesses ready to diversify or scale up). These BDOs are very effective at what they do, but their small scale often means that, operating in isolation, they lack organizational capacity; support from regional government and economic development leaders; resources for staff training, expansion, and peer learning; and again, linkages to flexible, affordable capital.

The antidote, we've learned, is not growing one huge BDO that does all things for all entrepreneurs, but instead joining BDOs in a high-functioning local network of allied organizations. When business owners need a referral for different or additional services—a loan, say, or legal assistance—BDOs embedded in such a network can provide a “warm handoff” rather than ineffectual advice to check out a certain website and “figure it out.” That connectivity represents a very meaningful increase in capacity, and positions these BDOs to tap into economic development funding that would not be accessible to a single small group.

The actors listed above as potential stakeholders in a business-support network can become builders of a local small-business ecosystem that's fair and inclusive. They can do this by creating communities of practice that jointly raise resources, learn and implement best practices, train new staff, share client tracking systems, and advocate for new policies that better support the local small-business infrastructure.

The State of Play Today

While organized coordination of this kind seems an obvious step to advance equity in local business ecosystems, here's another thing we've learned: it's not occurring to anywhere near the extent it can and should. What's more, Covid-19 has thwarted progress that was underway in some parts of the U.S., with individual organizations hard-pressed to meet sharply increased need in their own spheres of operation, let alone to advance collaboration. Communities that *did* have well-established organizational partnerships in place before the pandemic [proved far more successful](#) at ensuring relief resources and advice reached the small businesses that, historically, have been underserved.

LISC, for its part, has begun to draw on its local capacity-building experience to rapidly strengthen inclusive small-business ecosystems in several cities. Three years ago, for example, Los Angeles LISC began convening with local small-business lenders, CDFIs, and technical-assistance providers to help grow their collective impact, capacity, and reach. This has already resulted in very substantial benefits during the pandemic—*more* flexible capital, *more* culturally

If the pandemic set back progress toward collaborative business-support networks in many locations, it also has laid bare the importance of diverse small businesses to our local economies and everyday lives.

competent technical assistance—for BIPOC and immigrant entrepreneurs. Key local anchor institutions are in turn launching more targeted procurement opportunities for business owners located in under-invested neighborhoods.

LISC offices are similarly stepping up to convene collaboratives of local small-business lenders and technical-assistance providers across rural America and in places such as Boston, Chicago, Indianapolis, Jacksonville, Kalamazoo, New York, Philadelphia, Phoenix, and Richmond.

BELOW:
Julius “Eddie” Lofton,
of JC Lofton Tailors,
the oldest Black-owned
tailor shop in
Washington, DC,

If the pandemic set back progress toward collaborative business-support networks in many locations, it also has laid bare the importance of diverse small businesses to our local economies and everyday lives—and exposed the deep, troubling inequities that leave some vital small businesses more vulnerable than others in hard times, less amply supplied with the assets needed to grow in boom times.

In the first few months of the pandemic, U.S. businesses owned by Black, Latinx, and Asian people were forced to close their doors at significantly higher rates than businesses owned by white people.

Local communities are now anxious to redress these inequities, and looking for opportunities to reset the table for collaborative action.

Getting Started

As a general rule the first priority is to mobilize public will and gather participating stakeholders. These stakeholders will need to study current conditions, get the lay of the land. This sets the basis for working together to identify barriers, gaps, and leverage points related to achieving inclusive prosperity. From there, partners can develop a framework to implement improvement strategies and align resources toward achieving priority goals.

The following elements are integral to a successful and sustainable effort.

- **Organize Stakeholders.** Start with the above list of potential stakeholders, especially any organizations that have earned community trust by demonstrating commitment to equitable small-business support. Include community-based, citywide, and even regional actors. Recruit and assemble these actors to begin building mutual



awareness of participants' interest, organizational assets, and challenges. It's helpful, even critical, to assign a lead entity and staff person as coordinator, charged with facilitating engagement and onboarding new participants.

- **Set Shared Intentions.** The ideal approach requires early commitment to co-designing cohesive frameworks for action, informed by local priorities and built on local assets that can be leveraged to access regional opportunities. Everyone needs to be committed to achieving inclusive economic outcomes. Address power dynamics within the group and discuss how this group will work together going forward. To foster trust and cohesion, consider creating early “wins” and achievable near-term milestones.
- **Map the Small-Business Ecosystem.** This means sponsoring research on local dynamics as the basis for formulating strategies. Begin with an analysis of existing conditions in the local small-business environment—how business owners assess their needs, the landscape of business-support organizations, and the landscape of access to capital. Assess the current status of inclusive entrepreneurship through data, focus groups, and strategic interviews; then engage partners to digest this information and use it to identify specific goals for creating a more effective support system.
- **Mobilize Targeted Action.** Outline next steps and recommended action for change. Include key players and their specific roles, estimated costs and potential sources of funding, an implementation timeline, and a recommended coordination structure (meetings frequency and location, decision-making procedures, a system for managing information). This action plan will need to be adapted and added to over time; building an equitable small-business ecosystem is an ongoing, iterative process without an end date.
- **Build Capacity of Key Implementation Organizations.** Specific local small-business lenders and BDOs will need to grow their own service capacity in order for locally identified ecosystem improvement goals to be met. This often means mobilization of funding, training, consulting, and peer learning focused on meeting specific performance improvement goals to achieve scale.
- **Foster and Manage a Community of Practice.** Strong referral and support networks that stand the test of time rely on channels of constant communication among partners. It takes extensive initial outreach and an ongoing commitment to convening to build a true community of practice joining different kinds of actors, from BDOs to lenders to elected officials to community-based nonprofits.

The community-of-practice lead coordinator often helps to organize, staff, and manage commitments in the implementation process, support collective action across the local ecosystem, and address specific shared challenges as they arise.

- **Develop Shared Accountability Systems.** One of the greatest roadblocks to more coordinated support of local small businesses is the lack of a standardized system for gathering and sharing timely data on the nature and status of small businesses, locally and nationally. In order to measure progress, learn together, and course-correct, partners will need to commit to build, maintain, and support data collection over time. Some collaboratives, for example, have created shared client intake portals and tracking systems.

With equity as the leading goal, partners will need to disaggregate data by size, type, and location of business as well as by business proprietors' race and gender. They'll want to use these data to accurately report outputs (e.g. we collectively provided

training to [X] small businesses last year) and impacts (financing for BIPOC-owned businesses in our community increased from X percent to Y percent last year) to local users, funders, and advocacy leaders.

- **Develop Capital Partnerships.** The adequate and equitable provision of capital to entrepreneurs, from ideation through growth stages, requires the participation of leaders in government, economic development, philanthropy, business, and banking. Initially mapping the local ecosystem will identify capital needs and gaps (including a specific audit assessing equity in capital access and deployment), along with a recommended program for reform and enhancement. This entails a commitment to diversify the types and sources of capital available to small businesses to match their needs and stages of business growth.

A key piece in the puzzle: to bolster small- and micro-business lenders (often CDFIs) that are effective but may be capital constrained. This can significantly increase the focus, volume, and effectiveness of equitable lending. Partners will need to help recruit funders for organizational capacity-building programs, and mobilize new sources of capital for projects, programs, and organizations.

- **Integrate the Work with Broader Economic Development Efforts.** Inclusive small-business development will be most impactful and sustainable if it is integrated into broader citywide and regional economic-development partnerships and strategies. Ensure that activities, programs, and policies of stakeholders and important external players are known across the group. Advocate for favorable regulatory and fiscal policy, as well as access to economic development funding for ecosystem activities, through sustained communication with civic and political leadership. This will foster mutually reinforcing action.

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For its part, the LISC National Economic Development team is documenting and drawing lessons from collaborative efforts across the country for shared learning. With the [Brookings Institution](#), LISC recently created a strategic action [playbook](#) on community-rooted economic inclusion that's highly relevant to supporting place-based small-business ecosystems. Next up, LISC, together with [Next Street](#), is creating a playbook focusing specifically on business ecosystem-building, a more detailed how-to that will help communities conduct a comprehensive analysis of their local business ecosystems and prepare a set of implementable strategies to improve equity and inclusion.

Building healthier, more inclusive small-business ecosystems is a subject for study and conversation across the fields of economic and business development. For more, check out these contributions from the [Kauffman Foundation](#), [Living Cities](#), the [Initiative for a Competitive Inner City](#) (also [this](#) from ICIC), [Forward Cities](#), and [Main Street America](#), along with these explorations of local markets in [Chicago](#), [Indianapolis](#), [Los Angeles](#), [St. Louis](#), and [San Antonio](#).

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