San Antonio
Small Business Ecosystem Assessment

Building a more inclusive, resilient San Antonio

WINTER 2020

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Executive Summary

San Antonio is one of the fastest growing cities in the United States. Over its 300-year history since its establishment as a series of Franciscan missions, San Antonio has grown to house and employ a diverse population with a large local military presence, local tourism industries and attractions, and a well-diversified economy. As the former capital of Spanish Texas, San Antonio is a "majority minority" city, with its Hispanic population representing more than half of the population of the city and the surrounding Bexar County. In spite of the region's rich cultural influences, deep socioeconomic disparities persist along racial and ethnic lines. Addressing these disparities requires solutions that build wealth across all communities in the city, among which are solutions that present equitable avenues to entrepreneurship and business ownership.

The advent of the COVID-19 pandemic and mounting civil unrest in response to acts of racial injustice has worsened these existing inequities and magnified financial distress among small businesses owned by people of color (POC).[1] Since the start of the pandemic, Black-, Hispanic-, and Asian-owned businesses have had higher closure rates than White-owned businesses nationwide.[2] Over the same time period, POC-owned firms have faced larger cash balance and revenue declines compared to non-Hispanic, White-owned firms. The impact of the crisis has been particularly severe among Black- and Asian-owned businesses.[3]

At this critical moment, this report examines San Antonio's unique historical context and the current state of play of the region's small business communities and supporting ecosystem, with a specific lens on businesses owned by POC and the COVID-19 response and recovery. This assessment culminates in a set of recommendations and a proposed path forward aimed at narrowing racial gaps across several dimensions – including business ownership, revenue, and employment – throughout San Antonio and Bexar County over the next five years.

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1   Note: In this report, 'people of color' refers to demographics outside of non-Hispanic. White populations, with a focus on Black, Hispanic, and Asian populations
2   Source: National Bureau of Economic Research, 2020
3   Source: JPMorgan Chase Institute, 2020

This report highlights the barriers that entrepreneurs and small business owners of color in San Antonio face and the additional support they and those serving these entrepreneurs need to succeed, as gathered from data analysis, interviews, and local stakeholder convenings.

MAJOR TAKEAWAYS INCLUDE:

1

Industries hardest hit by COVID-19 are overrepresented by Black-owned businesses, while Hispanic-owned businesses operate in industries that are impacted but surviving. Since the start of the pandemic, total small business revenue and the number of small businesses open in San Antonio decreased by 45% and 35%, respectively.[4] During this crisis, Black-owned businesses in San Antonio, overrepresented in deeply impacted, neighborhood-based industries such as food services, laundry services, and retail, were among the most affected by the adverse economic effects of the pandemic. Meanwhile, Hispanic-owned businesses were also significantly impacted, heavily represented in industries like construction, merchant wholesale, and truck transportation that have struggled due to lower consumer and nonessential business spending.

2

There has been a historic unmet demand of $8.3 billion in capital for small businesses in San Antonio annually, with disproportionately low rates of traditional and alternative lending in Hispanic and Black neighborhoods on the South and East sides and less than 10 equity investments made across the region annually. This unmet demand has been magnified through the COVID-19 crisis, as illustrated through the inequitable access to the Paycheck Protection Program (PPP) funding via the U.S. CARES Act.

3

Business owners of color in San Antonio, facing a loss of community identity and commercial displacement, lack access and awareness to the services they need to survive, sustain, and scale their business. The city's multilingual populations are spread across many neighborhoods; however, organizations committed to these populations lack adequate funding and have a geographic focus that is too broad. This has created challenges in successfully providing hyper-local, place-based strategies to garner the trust of the communities, provide corridor management and improvement, and connect business owners with the appropriate services to support their growth and resilience.

4

The San Antonio small business ecosystem lacks coordination and the corresponding resources across the city and county needed to best serve the region's small businesses. Across the region, few formal coalitions exist across stakeholder groups, stemming from limited collaboration between city and county government to advocate for regional small business priorities, coordinate ecosystem initiatives, and facilitate referrals across local providers. This has led to redundancies and inefficiencies in the small business ecosystem that, for local business owners, lacks financial and technical assistance capacity and is difficult to navigate.

There are disparities in small business ownership, revenue, and employment in San Antonio that persist for entrepreneurs of color. While Hispanic and Black residents make up 60% and 9% of the population, respectively, they only own 24% and 2% of all employer small businesses.[5] Furthermore, Hispanic- and Black-owned employer businesses in the region employ fewer staff and generate less revenue than non-Hispanic, White-owned businesses.

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4   Source: Opportunity Insights, 2020, as measured from January 15, 2020 to September 29, 2020
5   Source: U.S. Census American Community Survey, 2016; U.S. Census Survey of Business Owners and Self Employed Persons, 2012

In response to these challenges, the research identified critical needs in equitable access to capital, customers, and services that were reaffirmed by local stakeholders. There is an opportunity to meet small businesses owned by POC where they are, provide them with services that have a transformational impact on their businesses, and create wealth and vibrancy in their communities. To do this, the small business ecosystem will need to focus on the following ecosystem pillars:

Access to Flexible Capital: Enhance availability and access of flexible debt and equity capital to strengthen businesses, community financial institutions, and responsible investors

Sustainability and Resiliency: Form and sustain collaboratives of capital and service providers to build more resilient businesses and communities of color

Access and Networks: Expand access to networks for business owners of color seeking growth opportunities and peer-to-peer networks

Ecosystem Coordination: Form coalitions that bring together small businesses, capital and service providers, funders, and other stakeholders to coordinate and advocate for ecosystem priorities

San Antonio and Bexar County's diverse economy, wealth of business resources and momentum from recent small business relief initiatives leave it well equipped to create a stronger, more equitable small business ecosystem. The collection of leaders gathered throughout this project are committed to significantly narrowing ethnic and racial gaps in business ownership, revenue and employment across San Antonio and Bexar County within the next five years, with the long-term goal of narrowing all ethnic and racial disparities and strengthening the overall economy, by focusing on the ecosystem pillars detailed later in the report.

Introduction and Context

An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.[8]

Small businesses are core to the national economy.

In the U.S., over 30 million small businesses employ nearly half of the national workforce and create approximately two-thirds of new jobs. [6,7] In communities across the country, small businesses serve as a critical means to build community and individual wealth. An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.[8] Small business families also have an estimated median net worth between four to six times higher than that of families that do not own a small business.[9]

Despite their critical role in communities, small business owners of color face institutional and systemic barriers in accessing capital and customers and encounter services gaps that stifle their businesses' sustainability and growth. Loan denial rates are twice as high for small business owners of color compared to White business owners, and loan sizes are 39% smaller for business owners of color approved for loans.[10] Moreover, while there are many public and private sector supplier diversity programs, business owners of color report that they continue to struggle to access large contracts due to lack of access to networks and marketplace discrimination. Non-native English-speaking entrepreneurs also face barriers in finding culturally and linguistically competent support services; 22% of Asian and Pacific Islander entrepreneurs report not knowing where to find free help in their language.[11]

6   Source: Small Business Administration, 2020
7   Source: Big Ideas for Small Business, 2020
8   Source: Civic Economics, 2004
9   Source: Federal Reserve, 2007
10   Source: U.S. Department of Commerce Minority Business Development Agency, 2010
11   Source: National CAPACD, 2019

The COVID-19 pandemic has amplified the challenges facing small business owners of color.

An estimated 6 million small businesses closed through the first six months of the crisis - representing over 19% of small firms nationally — and approximately 60% of these firms are expected to stay closed permanently.[12,13,14] Between March and June 2020, businesses owned by POC faced even higher closure rates, with 41% of Black-owned businesses, 32% of Hispanic-owned businesses, and 26% of Asian-owned businesses permanently shuttered nationwide.[15] Over the same time period, cash balances of Black-owned firms and revenues of Asian-owned firms declined by over 25% and 60%, respectively, while Hispanic-owned firms experienced larger cash balance and revenue declines than that of non-Hispanic), White-owned firms.[16] Even as businesses begin to recover through the reopening of local economies, disparities persist in the recovery. Altogether, this crisis has dramatically exacerbated existing inequities and financial distress among small businesses owned by POC.

To develop a more equitable small business environment nationwide, Next Street and Common Future partnered to conduct research and drive a community-centric process to develop solutions for businesses owned by POC. Next Street is a mission-driven consulting firm revolutionizing how its clients provide capital, customers, and services to small businesses, with national expertise in equitable small business ecosystems. Common Future is a network of leaders (re)building an economy that includes everyone. Through leadership and field building, capital aggregation and deployment, project incubation, and strategy consulting, Common Future connects and empowers wealth holders and wealth builders who believe in the power of entrepreneurship, business, and asset ownership to restore community wealth. These organizations brought their collective strengths to the work – Next Street's expertise in small business and data analysis and Common Future's insights in community building and uplifting voices – to conduct a rigorous analysis, shaped and grounded by local communities. The research and process will span across nine cities and localities across the U.S., including San Antonio, and are centered around community engagement and fostering a network of relationships among local community organizations and leaders to catalyze solutions focused on racial equity and recovery from the COVID-19 pandemic.

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12   Source: Opportunity Insights, 2020; SBA, 2019; Yelp Local Economic Impact Report, 2020
13   Source: SBA, 2019
14   Source: Yelp Local Economic Impact Report, 2020
15   Source: National Bureau of Economic Research, 2020
16   Source: JPMorgan Chase Institute, 2020

How We Approached the Research

From July to October 2020, Next Street and Common Future studied the local economic and social context of San Antonio, the core capital and service needs of local entrepreneurs and small business owners of color, and the gaps present in the small business support ecosystem. The research was then synthesized and shared with a coalition of local stakeholders to inform strategies co-created to address the historical inequities for small businesses owned by POC, deepened by the COVID-19 crisis. This project balanced quantitative and qualitative data analysis with community engagement to deepen the network among local businesses, community organizations, and economic development and civic leaders by presenting a common language and set of facts for the ecosystem. Drawing on first-person data collection and engagement with those directly impacted by local conditions and leveraging publicly available datasets, webinars, and virtual events, this work aimed to elevate locally relevant insights that inform a better way forward for San Antonio's small business communities.

KEY FOCUS AREAS AND DEFINITIONS

Through the course of the research for this project, several key definitions were used about the type of businesses focused on this work:

Defining "Small Business Ecosystem"

This report defines a "small business ecosystem" as a system of interdependent actors and relations directly or indirectly supporting the creation, sustenance, and growth of new ventures in a city or locality. Key elements of a strong ecosystem, as defined by the Kauffman Foundation and drawing from Next Street's and Common Future's collective experiences in regions across the U.S., include expertise that can help businesses grow, knowledge and resources to help small businesses, champions and conveners, access points and stories that help understand how to interact with the ecosystem, and robust social capital. Critical elements required to make an ecosystem inclusive include conversations about entrenched racism and inequities across a diverse network of key actors, systems that are designed to change beliefs, values, and priorities and alter power structures, and processes for decision-making that results in more equitable outcomes and access to opportunity for underserved groups.

Defining "Small Business"

This report defines "small businesses" as firms with 50 full-time employees or fewer, including micro-businesses, mom-and-pop businesses, and sole-proprietors or non-employer businesses. For cases in which data on this definition of small businesses is unavailable, the category of "employer businesses" is used. Employer businesses are defined as businesses with at least one, but fewer than 50 full-time employees.

Defining Geographic Focus

Based on the availability of quantitative data, most of the content in this report defines San Antonio at the county level (Bexar County). Broader geographic areas are referenced where county-level data is not available.

Demographic Breakdown

This report specifically focuses on businesses owned by POC, defined as populations outside of the non-Hispanic, White population — with a specific focus on Black, and Hispanic business owners. Census definitions are used for these demographic groups throughout the analysis performed.

RESEARCH ACTIVITIES

This report uses relevant data and insights from several sources, including prior reports, publicly available datasets, and insights from local stakeholders and small businesses. Potential data limitations that should be considered in the context of the overall research findings can be found in Appendix I.

RESEARCH TRACK	ACTIVITIES
Interviews and focus groups	Interviewed and hosted focus groups with over 20 local economic development stakeholders, capital and service providers, and business owners to understand their perspectives on the San Antonio small business ecosystem and the needs of local businesses owners of color.
Secondary research	Aggregated, analyzed, and synthesized nearly 30 different sources, including relevant studies, local strategic plans, surveys, webinars, events, and other analyses to inform the analysis of San Antonio's historical economic and social context and its small business communities (listed in Appendix).
Small business landscape	Analyzed census and other publicly available data to understand the current small business landscape in San Antonio, including business size, industry, location, and ownership information among POC.
Business support landscape	Analyzed data collected from a sample of 36 business support organizations, including data on specialization and breadth of services, leadership demographics, and funding.
Capital landscape	Analyzed publicly available data and surveys on the flow of debt and equity capital to measure the current supply of capital available to small business in San Antonio and to estimate and forecast small business capital demand before and during the COVID-19 pandemic.
Broad stakeholder engagement	Convened coalitions of over 40 local stakeholders that leveraged their knowledge of the San Antonio small business landscape to provide project and strategic direction and co-create strategies to create a more inclusive small business ecosystem.

KEY STAKEHOLDERS

To ensure that this effort is built upon the collective knowledge of individuals throughout our small business ecosystem, we brought together a variety of stakeholders who informed our approach and findings. A list of all stakeholders can be found in the Acknowledgements section. These include:

- **Project leads:** Two local small business ecosystem leaders – Alex Lopez of the Economic Development Department for the City of San Antonio and Leilah Powell of LISC San Antonio –played a critical role in shaping and executing the work. The project leads served as primary points of connection between the project team and communities and worked directly with the project team to support and execute key elements of the research.

- **Working Group:** A group of 16 local stakeholders with expertise in the needs of business owners of color and an understanding of and connections to the local small business ecosystem. The Working Group provided feedback on project direction on a monthly basis and helped us draw connections and find synergies across the ecosystem.

- **Advisory Council:** A steering committee of 41 local leaders and small business owners across the small business ecosystem. Members included small business owners, business support organizations, capital providers, government representatives, philanthropic organizations, and anchor institutions. The Advisory Council helped shape the project direction, provided on-the-ground insights, co-developed and prioritized solutions, and advocated for the work within their networks.

- **Research team:** An integrated team of advisors from Next Street and Common Future with collective expertise in community-led, small business development. The research team led the quantitative and qualitative research and project management with the Working Group and Advisory Council and facilitated the workshops across local stakeholder groups.

What We Found

HISTORICAL CONTEXT OF SAN ANTONIO

San Antonio is the seventh most populous city in the U.S. and is characterized by its high population growth and as a "majority minority" city due to the city's large Hispanic population. San Antonio sits in Bexar County, which houses nearly two million residents spread across over 1,200 square miles and 15 cities. From 2010 to 2019, Bexar County's population experienced a 1.7% per annum (p.a.) growth. This growth was driven by Hispanic and Black populations that increased at 2.1% p.a. and 2.6% p.a. respectively, while the non-Hispanic White population only grew at 0.4% p.a.[17] Today, 60% of the county's population is Hispanic, while non-Hispanic POC represent 19% of the county's population.

Fostering San Antonio's economic and social activity are the region's strategic assets, including its large military presence and a diversified economy that includes significant roles in tourism, transportation, education, and healthcare industries. One in eight people in Bexar County are associated with the Joint Base San Antonio, and the military presence around the Joint Base San Antonio generates an estimated $30 billion impact on the local economy and employs over 200 thousand workers.[18,19,20] San Antonio is also home to USAA, the Fortune 500 financial services and insurance company whose members have served in the military. USAA is the largest private company in San Antonio and employs 19 thousand workers in the city.[21] In addition, San Antonio's tourism industry has played a significant role in the city's economic health in recent years. The city's attractions, including the Alamo and the San Antonio River Walk, draw over 30 million visitors annually and contribute over $15 billion to the economy through lodging, entertainment, and food services industries.[22] Meanwhile, the region's transportation, education and healthcare industries have grown to employ over a quarter of the city's working population in 2017.[23]

Despite the region's economic strengths, prosperity has not been felt equitably among the city's communities of color. Hispanic and Black residents have long experienced segregation in San Antonio; outside of the higher income neighborhoods on the North Side, poverty and inequity still closely mirror redlined neighborhoods that were labeled in the 1930s as "hazardous for lending" due to their make-up as communities of color.[24] Residents of redlined neighborhoods were denied access to mortgages and in turn, homeownership.

Over time, residents of these neighborhoods have experienced widening income inequality, lower educational attainment, and limitations in online access. Income inequality in the city has risen over the past several years, resulting in uneven economic hardships and access to opportunity across neighborhoods; the median hourly wage in Bexar County is $16 for POC compared to $23 for their White counterparts.[25] Furthermore, the proportion of adults who have earned a bachelor's degree is lowest among Hispanic and Black residents.[26] These economic and educational gaps have been worsened by a lack of digital access; one in four San Antonio households lack a computer with broadband connection. This lack of access felt most among the region's Hispanic and Black households.[27]

Today, with new affluent residents flocking to the city, these communities have experienced rapid gentrification, positioning the city "on the cusp of widespread displacement," as characterized by San Antonio's Mayor Ron Nirenberg.[28] This displacement is only expected to accelerate past trends, as the population of low-income residents of color living within five miles of San Antonio's downtown has declined from 2000 to 2015.[29]

Communities of color disproportionately face challenging socioeconomic conditions in San Antonio, pointing to a need for increased economic opportunity through means like small business ownership.

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17   Source: U.S. Census, 2019
18   Source: Visit San Antonio, 2020
19   Source: City of San Antonio, 2012
20   Source: Texas Comptroller, 2019
21   Source: USAA, 2018
22   Source: Butler & Stefl, 2020
23   Source: U.S. Bureau of Labor Statistics, 2019
24   Source: UTSA, 2020
25   Source: National Equity Atlas, 2020
26   Source: City of San Antonio, 2020
27   Source: City of San Antonio, 2020
28   Source: San Antonio Current, 2019
29   Source: Federal Reserve Bank of Dallas, 2019
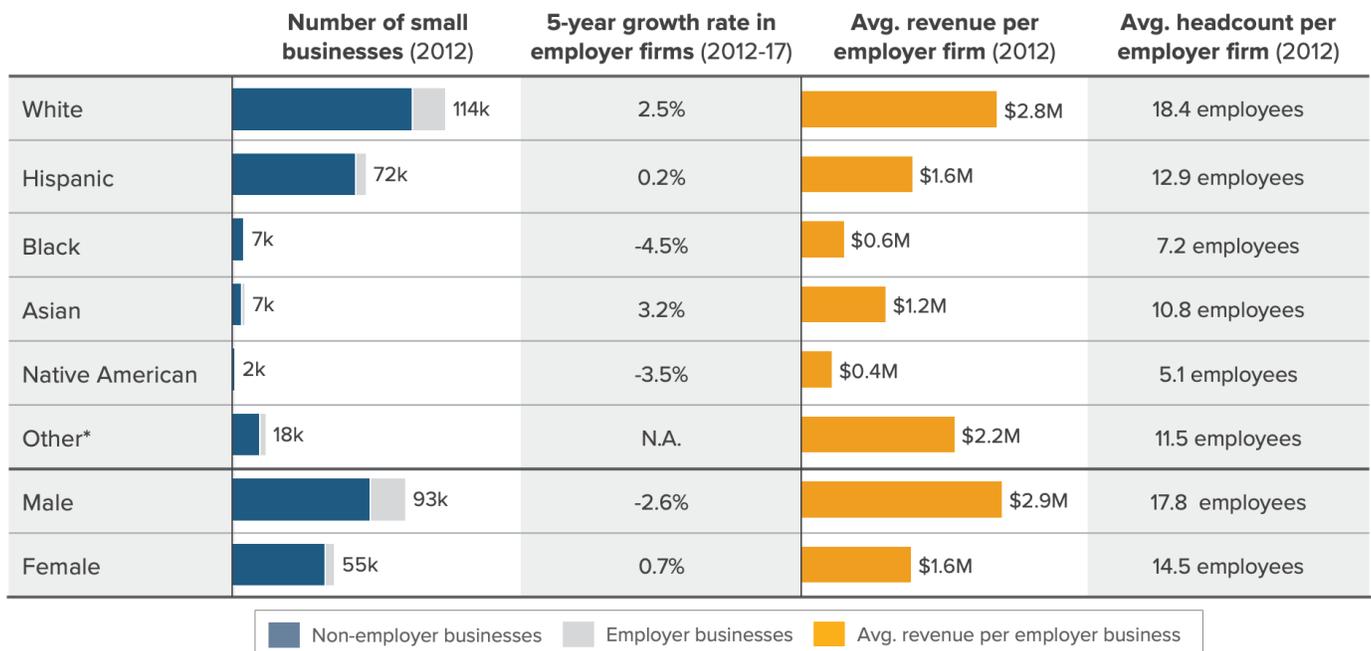
SMALL BUSINESS LANDSCAPE

Small businesses are a critical driver of the economy in San Antonio and Bexar County. However, the region's residents of color own disproportionately fewer and smaller businesses when compared to their White counterparts, compounding the inequities described previously in this report.

San Antonio and Bexar County house a robust small business ecosystem with approximately 34,000 employer small businesses in 2016 that accounted for 93% of all employer businesses in the region. Separately, there were also approximately 145,000 non-employer sole proprietorships in the region. These small employer firms and sole proprietorships accounted for 34% of the local workforce.[30]

These local small businesses have been historically clustered in neighborhood-based industries, including Retail Trade (14%), Healthcare and Social Assistance (14%), Professional Services (12%), and Accommodation and Food Services (10%). Meanwhile, emerging, high-growth sectors—including Biosciences, Technology, Cybersecurity, Aerospace and Financial Services—have experienced notable growth in the region.[31]

In San Antonio and Bexar County, 49% of employer small businesses were "micro businesses" that employ between 1 and 4 employees. This micro business rate is lower than other cities with robust small business ecosystems—including Los Angeles and New York City, both with over 60% of employer businesses employing between 1 and 4 employees.

Figure 1: Small business ownership, revenue, and employment by race and ethnicity

	Number of small businesses (2012)	5-year growth rate in employer firms (2012-17)	Avg. revenue per employer firm (2012)	Avg. headcount per employer firm (2012)
White	114k	2.5%	$2.8M	18.4 employees
Hispanic	72k	0.2%	$1.6M	12.9 employees
Black	7k	-4.5%	$0.6M	7.2 employees
Asian	7k	3.2%	$1.2M	10.8 employees
Native American	2k	-3.5%	$0.4M	5.1 employees
Other*	18k	N.A.	$2.2M	11.5 employees
Male	93k	-2.6%	$2.9M	17.8 employees
Female	55k	0.7%	$1.6M	14.5 employees

■ Non-employer businesses   ■ Employer businesses   ■ Avg. revenue per employer business

Note: * Other includes populations of Native Hawaiian and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau
Source: U.S. Census Survey of Business Owners (2012); U.S. Annual Business Survey (2017)

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30   Note: Figures assume sole proprietorships serve as primary form of employment for self-employed individuals
31   Source: U.S. Census American Community Survey, 2016; U.S. Census Survey of Business Owners and Self Employed Persons, 2012
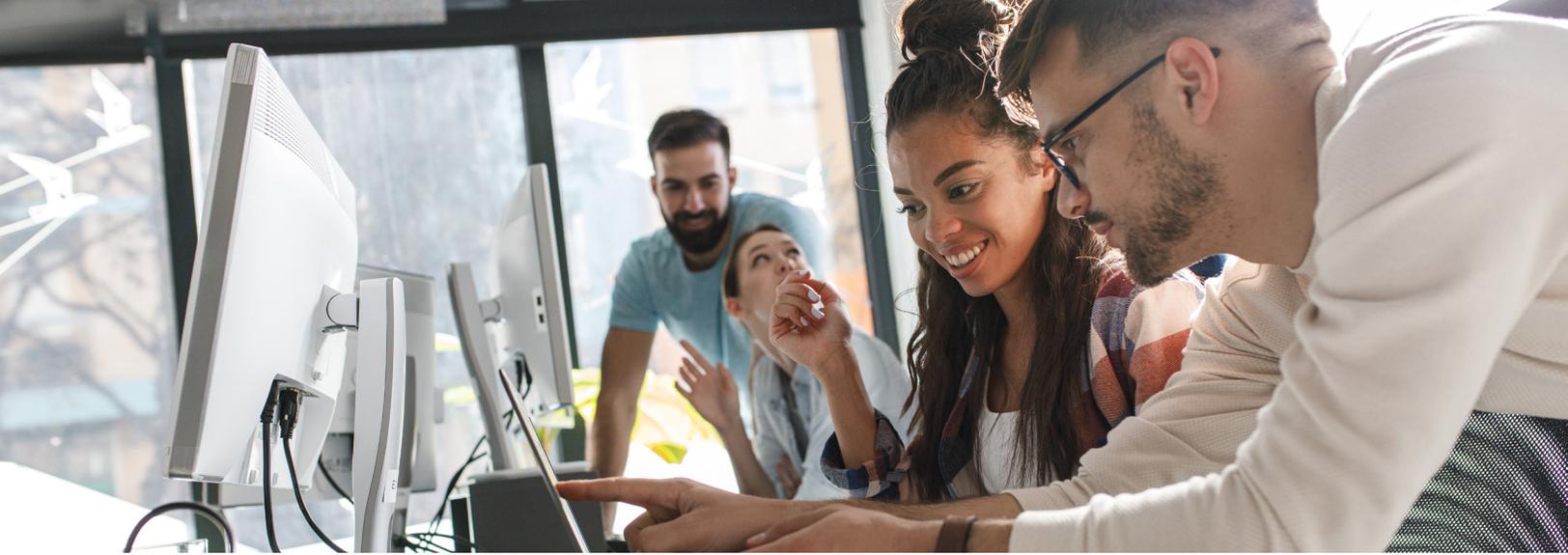
While San Antonio has a diverse population, disparities in business ownership have persisted for businesses owned by POC. While Hispanic and Black residents make up 60% and 9% of the population, they only own 24% and 2% of all businesses, respectively.[32] These ownership disparities also have been paired with revenue and employment imbalances, with Hispanic and Black owned businesses historically earning less revenue and hiring fewer employees than their White-owned counterparts, as shown in Figure 1.[33] Furthermore, over 90% of Hispanic and Black-owned businesses in the region are non-employer, sole proprietorships. In interviews with local economic development stakeholders conducted for this assessment, it was revealed that this concentration is not due to a lack of desire to become an employer, but rather barriers, such as a lack of documentation and legal support to register as an employer business and less available startup capital and personal financial reserves, which limit these businesses from becoming employers. According to Veronica Sanders of the YWCA, the paperwork to register as an employer business can be overly burdensome, especially for non-English speakers. Additionally, Andrea Ramos from the Texas Business Immigration Coalition stated that the financial commitment associated with becoming an employer can be too big a hurdle for POC in San Antonio given racial income disparities.

Local business owners in San Antonio further expanded on the drivers behind ownership and revenue disparities through feedback provided in focus groups. Among the 10 small business owners engaged for this assessment, all cited difficulty in accessing working capital and managing their cash flow, bookkeeping, and accounting. Moreover, focus group participants stated that access to customers was also a barrier to growth, citing lack of formal networks among the city's entrepreneurs of color—particularly among Black entrepreneurs—and procurement opportunities and tailored customer acquisition support in the industries these small businesses operate within.

> *"The Spanish [speaking] business owners couldn't fully take advantage of the [Paycheck Protection Program]. In my case, I didn't realize there were certain things I had to manage better, like my taxes – taxes I didn't even know were due."*
>
> *- Owner and Operator, Local Café*

It is important to note that the small business statistics highlighted in this report are a snapshot in time, and that during this COVID-19 pandemic, numerous small businesses have been and will be forced out of operation. The full impact of this crisis on the total number of establishments in the county is still unknown and will not be fully measured in this report.

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32   Source: U.S. Census American Community Survey, 2016; U.S. Census Survey of Business Owners and Self Employed Persons, 2012
33   Source: U.S. Census Survey of Business Owners and Self-Employed Persons, 2012

Impact of the COVID-19 pandemic

The public health measures adopted to reduce the spread of COVID-19, including the state's stay-at-home order in place during April 2020, and the other restrictions on local business practices, have devastated small businesses across the region. During this period, many small businesses were forced to temporarily close or reduce operations, incurring significant revenue losses and others permanently shuttering. In San Antonio, total small business revenue and the number of small businesses open decreased by 35% and 45%, respectively, from January to September 2020.[34]

To better understand current and emerging needs of small businesses during this pandemic, this analysis focused across three main segments that were adapted from a segmentation developed by the Brookings Institution.[35] Industries were grouped across segments based on immediacy and severity of the impact felt by businesses, as shown in Figure 2.

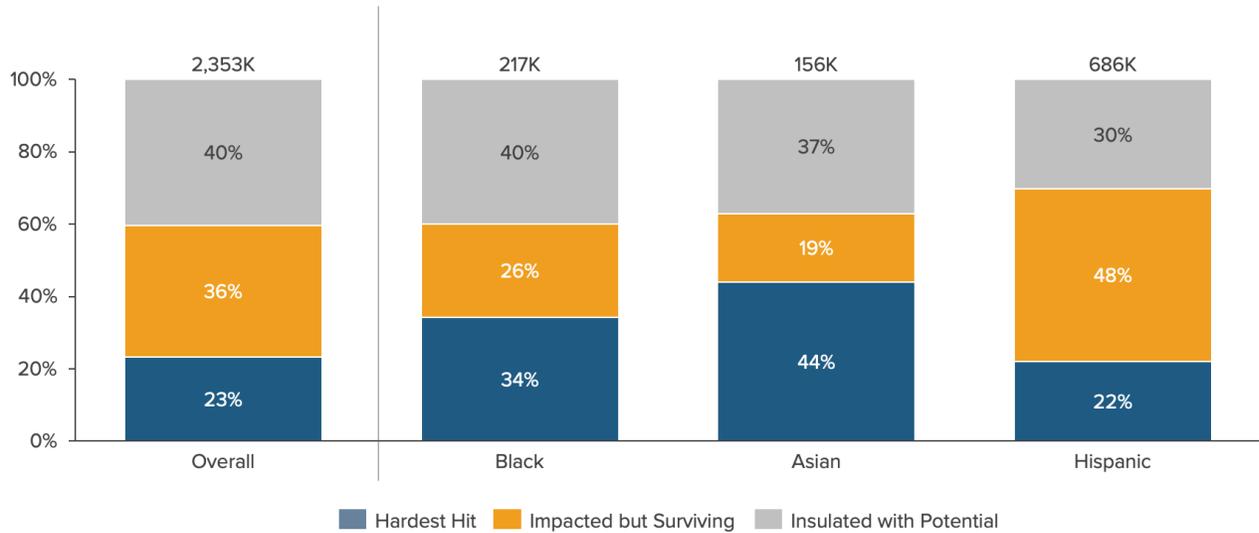**Figure 2: COVID-19 risk segmentation by industry**

	Hardest Hit *"How do I stay in business?"*	Impacted but Surviving *"How can I pivot or evolve?"*	Insulated with Potential *"How can I maintain and grow?"*
Description	Non-essential businesses that have had to close or significantly adjust operations and face high risk of closure	Essential businesses that have lost revenue due to reduced spending from consumers and non-essential businesses	Essential businesses that have been able to continue operations and supply critical goods and services
% of small businesses^ in Bexar County (2017)	28%	25%	47%
Key industries	• Food services and drinking places • Personal and laundry services • Clothing and accessories stores • Motor vehicle and parts dealers • Gasoline stations • Misc. store retailers	• Specialty trade contractors • Admin. and Support Services • Real Estate • Merchant wholesalers, durable goods • Construction of buildings • Truck transportation	• Social assistance • Prof. and technical services • Ambulatory and health services • Repair and maintenance • Insurance carriers and related activities • Securities, commodity contracts, investments

Note: Segments adapted from an industry segmentation framework developed by the Brookings Institution; ^ Includes businesses with between 1 and 49 paid employees
Source: Brookings Institution; Moody's Corporation; U.S. Census County Business Patterns (2017)

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34   Source: Opportunity Insights, 2020
35   Source: Brookings Institution, 2020

Using historical surveys of owner demographics in Texas, Black-owned businesses operated more in the Hardest Hit industries, while Hispanic-owned businesses operated more in Impacted but Surviving industries, as shown in Figure 3.[36] Accordingly, this indicates that the region's small businesses owned by POC have been disproportionately represented in the most affected industries. POC-owned businesses have long been concentrated in industries such as leisure, hospitality, and retail due to systemically rooted racial disparities leading to lower education and capital barriers to entry.[37] The COVID-19 pandemic has compounded many entrenched barriers in accessing capital, customers, and services existent prior to the crisis that have kept these businesses from sustainability and growth.

Figure 3: COVID-19 risk segmentation breakdown of Texas-based businesses, by race and ethnicity

	Overall (2,353K)	Black (217K)	Asian (156K)	Hispanic (686K)
Insulated with Potential	40%	40%	37%	30%
Impacted but Surviving	36%	26%	19%	48%
Hardest Hit	23%	34%	44%	22%

Legend: ■ Hardest Hit   ■ Impacted but Surviving   ■ Insulated with Potential

Source: Brookings Institution; Moody's Corporation; US Census Bureau, County Business Patterns (2016)
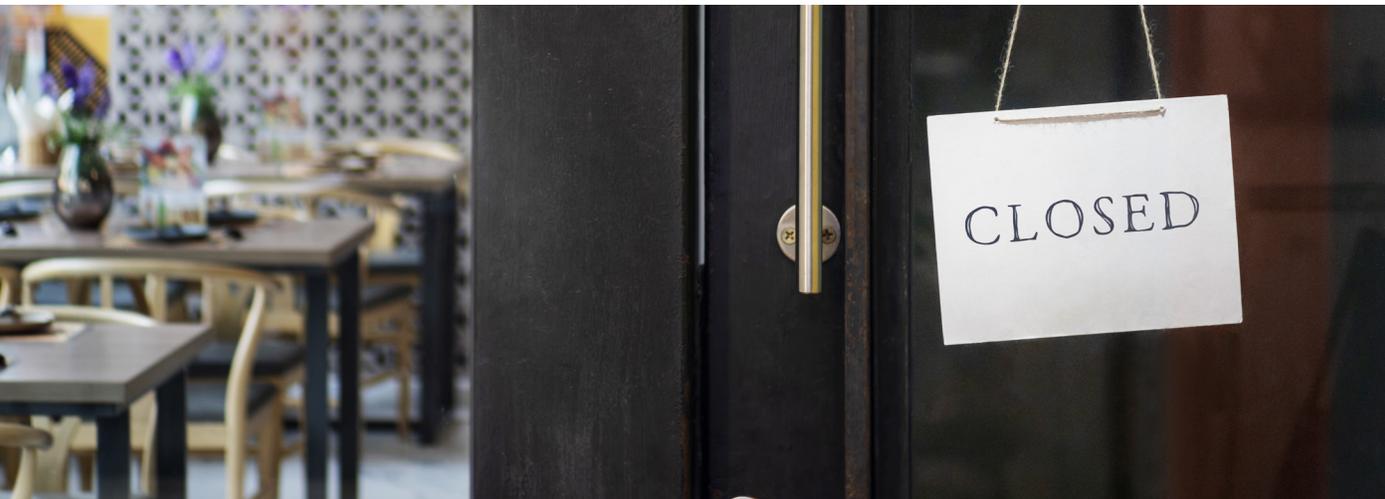
36   Source: U.S. Census County Business Patterns Data, 2017
37   Source: U.S. Census Bureau Center for Economic Studies, 2013

CAPITAL SUPPORT LANDSCAPE

The San Antonio small business capital landscape is characterized by a significant shortage of capital to meet small business needs, a concentration of capital supplied by national and regional commercial banks, and disproportionately low rates of traditional lending for microenterprises and neighborhood-based businesses in Hispanic and Black neighborhoods on the South and East Sides. To understand the dynamics of the capital support landscape in San Antonio, the research team examined the capital demand and supply for small businesses within the region.

Debt and equity capital demand in San Antonio declined between 2016 and 2019, as illustrated in Figure 4. This decline was, in part, driven by small business tax relief resulting from the 2017 Tax Relief Bill and by declining trust in traditional financial institutions among some demographic groups.[38,39] Over this period of time, estimated demand dropped most significantly for the region's Black small business owners.[40]

Concurrently, small business capital supply in San Antonio has increased modestly in the years prior to the pandemic, driven by growth of the region's supply of commercial bank lending. From 2012 to 2017, total capital supply grew by 4.7% per annum (p.a.) to an estimated $1.3 billion, with the supply of debt and equity capital growing to $1.2 billion and $0.1 billion in 2017, respectively. Of the debt capital supplied, non-SBA guaranteed community bank lending grew by 4.6%. to $1.1 billion in 2017, with most capital supplied by national and regional banks. Meanwhile, San Antonio has comparatively high levels of CDFI lending and low levels of SBA lending compared to other localities with similar numbers of small businesses, such as Indianapolis or Dallas. To service the approximately 34,000 small employer businesses and 145,000 sole proprietors in the region, traditional, non-CDFI lenders made $110 million in SBA loans in 2017, while CDFIs made an additional $5 million in SBA and non-SBA lending; CDFI lending has historically been concentrated between LiftFund and People Fund, two nonprofit lenders with long histories in San Antonio and the State of Texas.[41]

Although the gap between capital demand and supply has declined incrementally in recent years, capital supply has not met the significant demands in the region. In 2017, there was an estimated $8.3 billion gap between small business capital supply and demand.[42] Examining debt capital, there was a dearth in the supply of small (under $100,000) and mid-sized loans (between $100,000 and $250,000) [43] which are essential to the growth of the region's micro businesses. This was consistent with national trends—for capital providers across the country, small-to-mid sized loans have the same fixed expenses to process and underwrite of larger loans but result in lower loan revenues, making them less profitable for lenders. While the philanthropic community has subsidized microlending activity and made smaller loans more financially viable to an extent, further investment is needed for CDFIs to serve as vehicles that narrow the tremendous gap in supply and demand for small and mid-sized loans. Partnerships like the LiftUP program—a loan fund designed to provide accessible debt capital for underserved small businesses in San Antonio that is operated by LiftFund and supported by JPMorgan Chase—present an example of vehicles to build upon in the region.

"Many Hispanic micro business owners are used to being denied access to capital. This can be attributed to redlining — business owners tried accessing capital a long time ago, were denied, so they aren't revisiting the option. In many instances, Hispanic-owned businesses are also debt-averse due to cultural factors. The thinking is that if you need a loan, you must be in trouble."

- Chief Executive Officer, Westside Development Corporation

Moreover, with fewer than ten equity investments made annually, the number of equity investments in San Antonio was limited across all series, creating challenges for businesses seeking growth capital to scale their business.[44,45] While San Antonio's burgeoning tech startup ecosystem has brought interest among equity investors, entrepreneurs of color in the city are concentrated in low-to-moderate growth industries, such as Construction and Food and Accommodation and thus have limited access to newer equity investment opportunities. To best orient these business owners to sustain and grow their businesses, there is a need for more low-cost, flexible products across the continuum of capital.

Figure 4: Estimated small business capital demand in San Antonio

Small business capital demand in San Antonio
By race, in billions of USD (2016-19)

	CAGR% ('16-19)
Total	-1.3%
Other*	-1.2%
Black	-6.2%
Asian	0.9%
White	-1.7%

| Demand among non-employers | $7B | $5B | $5B | $7B |

Small business capital demand in San Antonio
By ethnicity, in billions of USD (2016-19)

	CAGR% ('16-19)
Total	-1.3%
Non-Hispanic	-1.7%
Hispanic	-0.8%

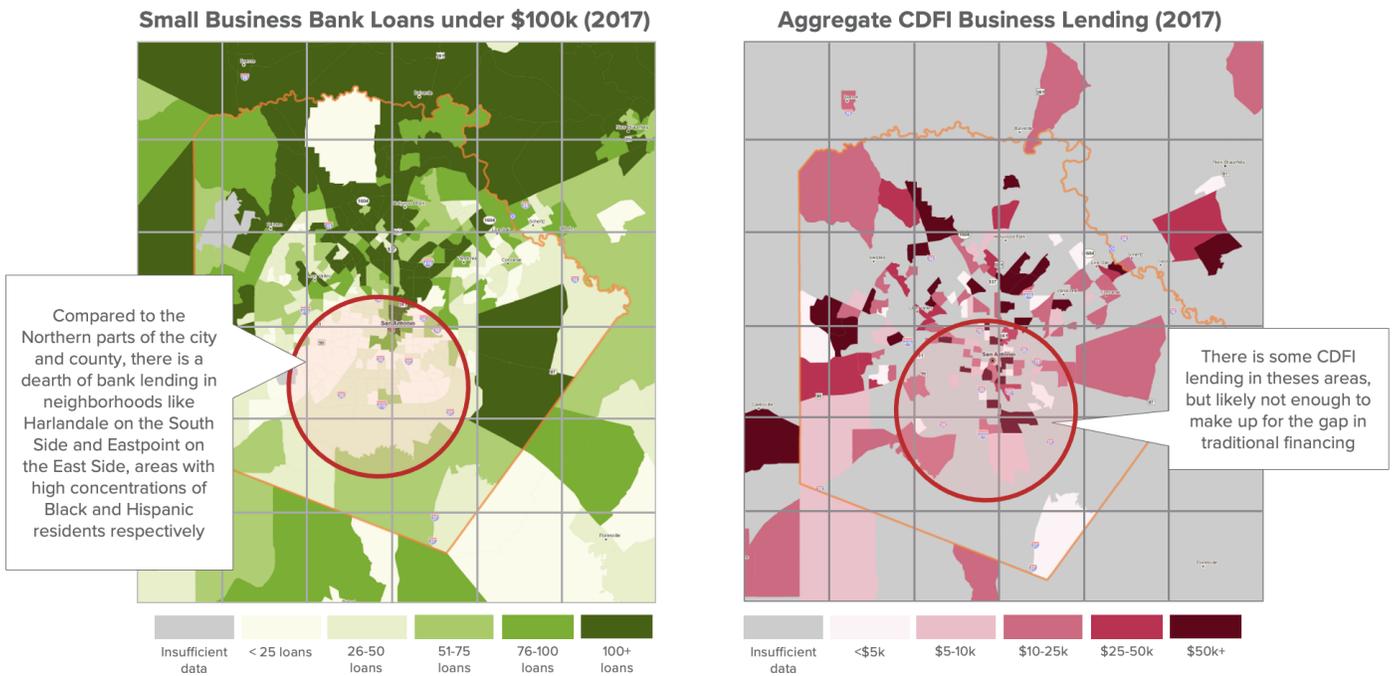| Demand among non-employers | $7B | $5B | $5B | $7B |
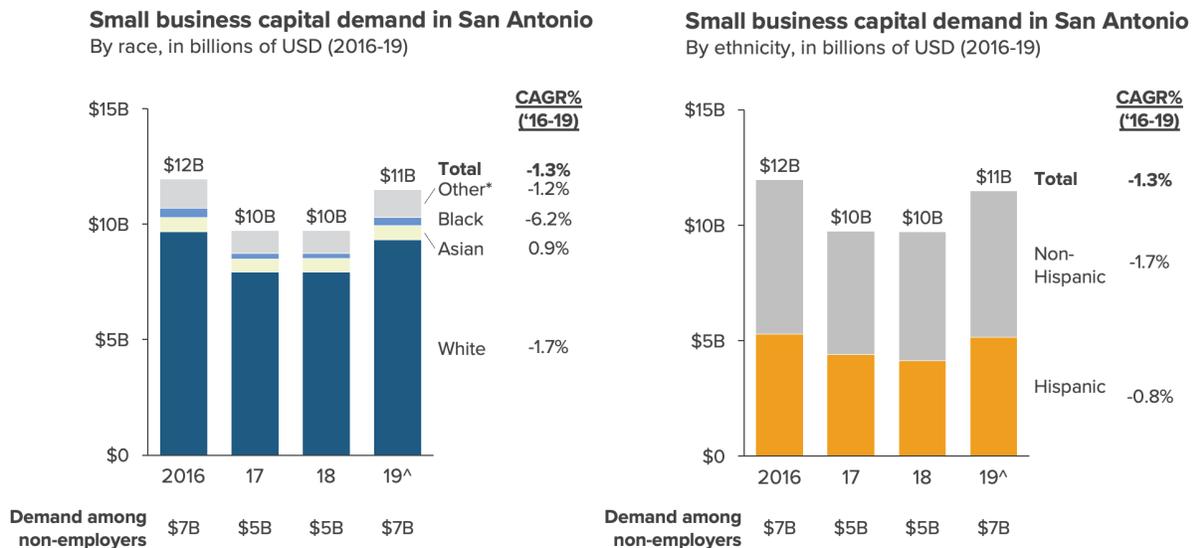
Source: U.S. Census County Business Patterns, U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

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44   Note: Series funding aligns to a company's expansion stage — while there is no standard funding threshold for Series A or Seed funding, an analysis over 38 Series B deals in June 2020 indicated the median Series B median was $26 million
45   Source: Fundz Database, 2020

When examining small business owners' ability to access capital geographically, there were disproportionately low rates of commercial bank lending in neighborhoods with high concentrations of Hispanic and Black residents, as evidenced in Figure 5. This is most pronounced on the South and East Sides in neighborhoods such as Harlandale and Eastpoint.[46]Although CDFI lending has filled some gaps, an overrepresentation of predatory payday lenders make up for the dearth in lending in these areas.[47] There is a need to grow the pool of responsible lending to meet the significant unmet demands in these areas. Furthermore, there is a need to further connect existing capital providers in the region with community-based organizations in these neighborhoods to create greater awareness of financing options among local providers and increase connectivity across the hyper-localized ecosystems.

Figure 5: Bank and CDFI lending in San Antonio by census tract

Small Business Bank Loans under $100k (2017)

Compared to the Northern parts of the city and county, there is a dearth of bank lending in neighborhoods like Harlandale on the South Side and Eastpoint on the East Side, areas with high concentrations of Black and Hispanic residents respectively

| Insufficient data | < 25 loans | 26-50 loans | 51-75 loans | 76-100 loans | 100+ loans |

Aggregate CDFI Business Lending (2017)

There is some CDFI lending in theses areas, but likely not enough to make up for the gap in traditional financing

| Insufficient data | <$5k | $5-10k | $10-25k | $25-50k | $50k+ |

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46   Source: CRA and CDFI Fund data for Bexar County, accessed through PolicyMap
47   Source: Asset Funders Network, 2019

In this crisis, while some small businesses in San Antonio have adapted to position themselves for growth, most small businesses have tried to offset lost revenue, creating short-term increased demand for emergency funding at the start of the COVID-19 pandemic, and long-term reduced demand for traditional financing. Many businesses were largely unprepared to weather a disruption in business lasting more than a few weeks—prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.[48] As such, many businesses sought flexible, emergency financing from federal, state, and local sources, including loans made available by the Paycheck Protection Program (PPP) of the U.S. CARES Act and relief grant funds of $6.5M and $25M from Bexar County and the City of San Antonio, respectively, both administered by LiftFund. Funding was difficult for businesses owned by POC to access as PPP lenders prioritized existing and larger borrowers, while the distribution of relief grants was constrained by local capacity constraints. As a result, in the months after the advent of the pandemic, median small business cash balances fell 12.7% compared to pre-pandemic levels.[49] In the months after the onset of the pandemic and amidst the following recessionary environment, it is expected that there will be a subsequent decrease in capital demand driven by fewer small businesses able to take on additional debt or seeking investment capital given expectations that fundraising will be more difficult due to tighter underwriting and investment policies.

In numeric terms, the research team estimated an initial surge of capital demand in San Antonio peaking at $3.6-$4.1 billion in the second quarter of 2020, with demand decreasing through a 'recovery' period between $1.3-$2.2 billion through the end of the calendar year. Subsequently, a 'post-recovery' period with stabilized and flattening demand is expected, rising slowly each quarter to an estimated $1.8-$3.2 billion by the end of 2021.[50]

With the research team's forecast, it was important to note that small business capital demand can serve as a proxy of the small business ecosystem's health, while higher longer-term demand for traditional financing correlates with a more robust ecosystem. To ensure that capital demand reaches levels prior to the COVID-19 crisis, an integrated small business ecosystem response among capital and service providers should serve as a method to promote the overall health of small businesses and the supporting ecosystem and accelerate recovery.

Prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.[48]
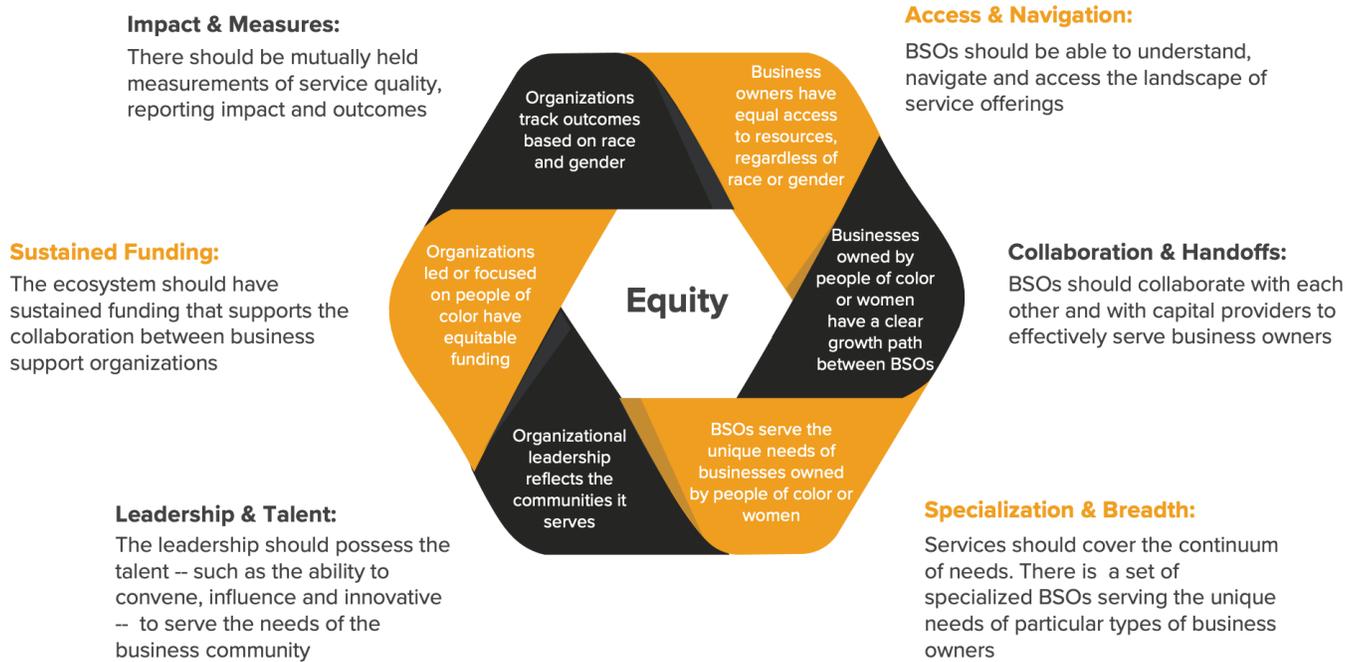

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48   Source: JPMC Institute, 2019
49   Source: JPMC Institute, 2020
50   Note: Detailed capital demand and supply methodology can be found in the appendix, p. 33-34

BUSINESS SUPPORT LANDSCAPE

The San Antonio business support landscape is characterized by services clustered in central downtown districts and provided by entities covering larger regions in the city and county, with a city government historically playing a large role as a direct provider of resources and guidance and as the catalyst of several larger service providers. Across the ecosystem, there are few formal coordinating bodies and shared goals among the service providers. Moreover, there is a lack of awareness of available services among business owners of color—especially Black business owners, who report being disengaged from both the ecosystem and each other.

The analysis of the BSO landscape was informed by research on a sample of 36 providers based in San Antonio, examining the critical elements of a BSO ecosystem across the following areas depicted in Figure 6.

Figure 6: Critical elements in the local business support landscape

Impact & Measures:
There should be mutually held measurements of service quality, reporting impact and outcomes

Access & Navigation:
BSOs should be able to understand, navigate and access the landscape of service offerings

Sustained Funding:
The ecosystem should have sustained funding that supports the collaboration between business support organizations

Collaboration & Handoffs:
BSOs should collaborate with each other and with capital providers to effectively serve business owners

Leadership & Talent:
The leadership should possess the talent -- such as the ability to convene, influence and innovative -- to serve the needs of the business community

Specialization & Breadth:
Services should cover the continuum of needs. There is a set of specialized BSOs serving the unique needs of particular types of business owners

Diagram labels: Organizations track outcomes based on race and gender · Business owners have equal access to resources, regardless of race or gender · Organizations led or focused on people of color have equitable funding · **Equity** · Businesses owned by people of color or women have a clear growth path between BSOs · Organizational leadership reflects the communities it serves · BSOs serve the unique needs of businesses owned by people of color or women
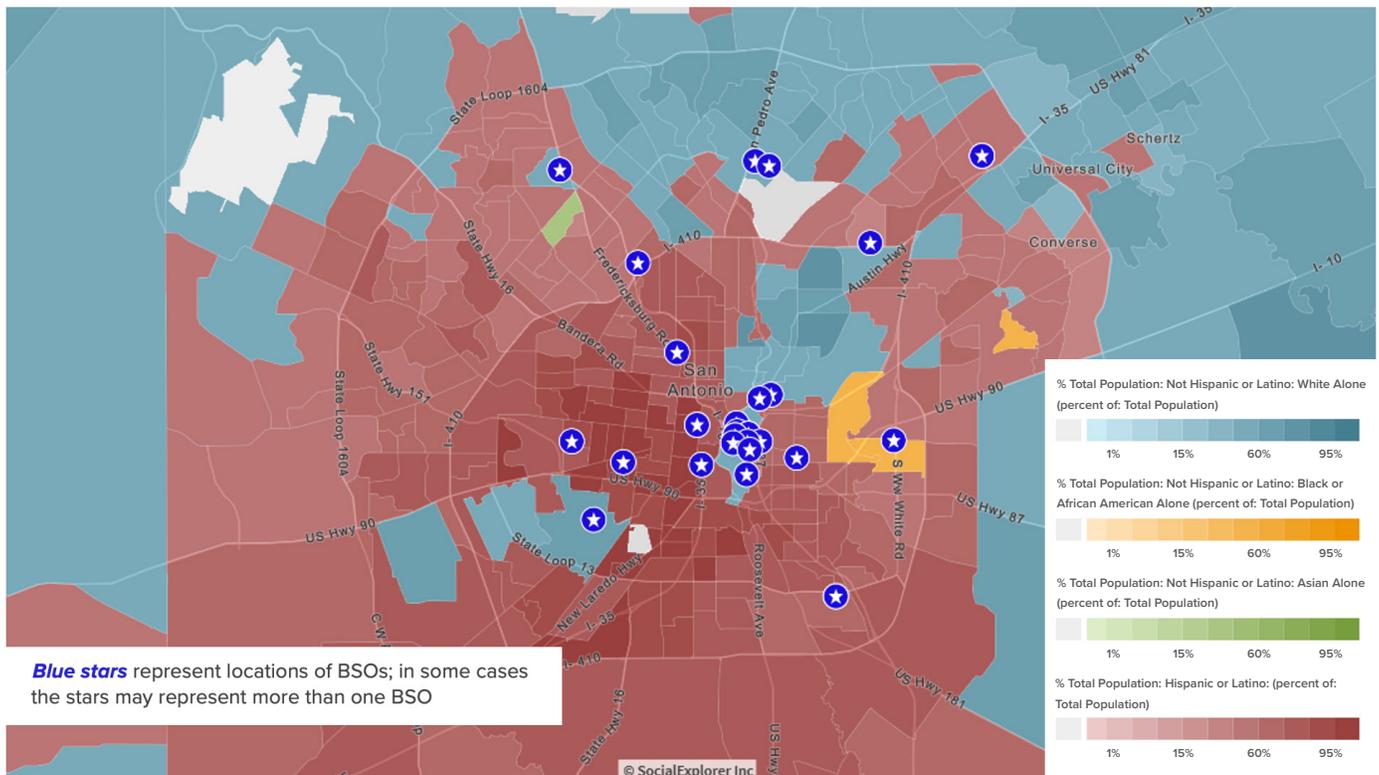
Access and Navigation

As shown in Figure 7, most BSOs are clustered in central downtown districts and cover large regions of the city and county, with less business support farther out and at the corridor and neighborhood levels. Organizations such as Westside Development Corporation and San Antonio for Growth on the Eastside (SAGE), which provide support for entrepreneurs outside of central neighborhoods, lack sufficient resources to effectively engage in hyper-local, place-based strategies over the large coverage areas they serve. Additional funding and partnerships across the ecosystem are needed to adequately provide tailored, corridor-level strategies for commercial district revitalization such as co-tenancy, business support, and corridor marketing.

Moreover, with 43% of Bexar County's population speaking Spanish at home and 7% of households having limited English proficiency, outreach and services need to be broadly provided in Spanish and through channels that engage Spanish speakers, at the neighborhood level where trusting relationships can be established.[51] As such, there is a need to ensure that neighborhood-level organizations have enough capacity and that all city and county business support materials—including licensing and permit applications, S/M/WBE (Small, Minority and Women-owned Business Enterprises) certifications, and educational materials—are available in Spanish. Black and non-Spanish speaking immigrant populations are also geographically dispersed, so culturally sensitive outreach needs to be available widely.[52]

Figure 7: Geographic distribution of BSOs in San Antonio

Analysis of local Business Support Organizations (n = 36)

Blue stars represent locations of BSOs; in some cases the stars may represent more than one BSO

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51   Source: City of San Antonio, 2018
52   Source: U.S. Census Bureau American Community Survey, 2013-2018

Specialization and Breadth

Available business services in the ecosystem should cover the needs of small businesses across all business stages. In San Antonio, the business support landscape offers startup assistance, but the supply of services may not be adequate to fill the growing need for start-up support in the wake of COVID-19 related job losses.

The ecosystem offers accelerated growth services for businesses in engineering, science, and technology industries. However, business owners engaged for this study indicated business support landscape does not adequately provide culturally competent support for business owners of color seeking to sustain or grow their businesses outside of traditional, moderate growth industries (e.g., health and beauty, retail, restaurant and food service, and personal and health services). In interviews conducted for this report, it was revealed that there are also not enough resources in Spanish to support growth-minded businesses.

Furthermore, smaller, "Main Street" businesses owned by POC in San Antonio report having limited experience managing their business financials including financial planning, bookkeeping and document management. Coupled with lower credit scores, limited or non-existent credit history, and language barriers, these businesses face an uphill battle in accessing capital. These businesses need one-on-one counseling to grow their financial acumen and financial planning skill sets to become more financially prepared for capital. This need, particularly support offered in Spanish, has only magnified during the COVID-19 pandemic, as having accurate financial statements was vital to accessing emergency funds and keeping businesses in operation.

The greatest need expressed by small business owners who participated in the focus groups was marketing and customer expansion; 80% of the focus group attendees named marketing and customer expansion as one of their three biggest current needs for their business. While many BSOs offer marketing support, as shown in Figure 8, the city's recent initiatives that have increased procurement from S/M/WBEs provides rich opportunities to help smaller businesses with customer expansion and access to more contracting dollars.[53] In addition to assistance with understanding how to navigate the procurement system, the BSO ecosystem should provide smaller firms with technical assistance and capital to grow their capacity to fulfill contracts and grow from subcontractors to prime contractors. There is also a need to deliberately foster relationships between procurement officers in the public and private sectors and business owners of color to establish trust and open opportunities.
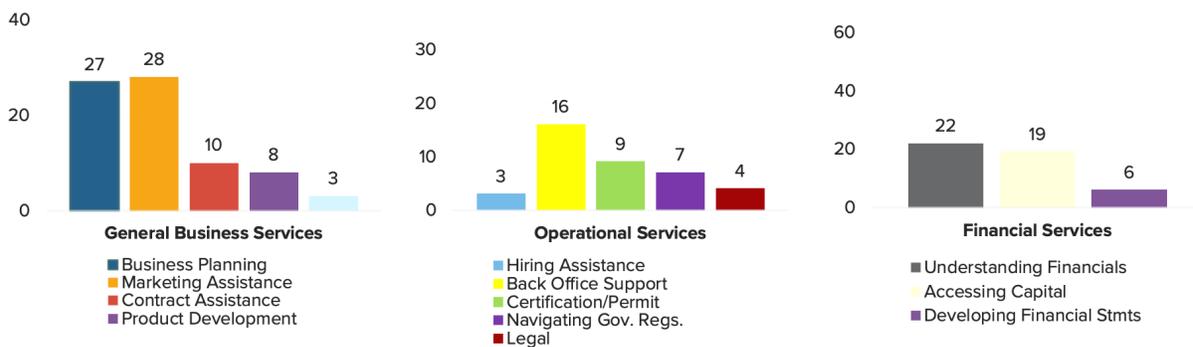
In focus groups, there was a perception that services aimed at "minority-owned" businesses in San Antonio tend to be aimed at the Hispanic community solely.

> *"[Regarding business support services] I would like to see 'minority' redefined. Right now, because the Hispanic community is so big, they get all the resources. There needs to be a lot more networking for African Americans."*
>
> *- Founder and Owner, Transportation Logistics Company*

Black business owners report feeling disengaged from small business resources, opportunities, and from each other; networking and infrastructure for Black business owners is needed to fill these gaps. Entrepreneurial networks are critical to expand awareness of business opportunities, services, and capital, along with mentorship and peer support.

Figure 8: Concentration of business service categories in San Antonio, Number of Business Support Organizations inventoried (n = 36)

General Business Services
- 27 Business Planning
- 28 Marketing Assistance
- 10 Contract Assistance
- 8 Product Development
- 3

■ Business Planning
■ Marketing Assistance
■ Contract Assistance
■ Product Development

Operational Services
- 3 Hiring Assistance
- 16 Back Office Support
- 9 Certification/Permit
- 7 Navigating Gov. Regs.
- 4 Legal

■ Hiring Assistance
■ Back Office Support
■ Certification/Permit
■ Navigating Gov. Regs.
■ Legal

Financial Services
- 22 Understanding Financials
- 19 Accessing Capital
- 6 Developing Financial Stmts

■ Understanding Financials
■ Accessing Capital
■ Developing Financial Stmts

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53   City of San Antonio Economic Development Department, 2019

Leadership and Talent + Sustained Funding

Leadership of BSOs should possess the talent, cultural competency, and funding to effectively support the needs of the business communities they serve. In San Antonio, of 36 BSOs inventoried for this research, leadership of local BSOs was largely representative of the proportion of POC in San Antonio.

Despite this diversity, all surveyed BSOs[54] believe that the presence of racial bias in the business support ecosystem has led to inadequate funding. Inadequate funding characterizes not only BSOs led by POC but is universal across the BSOs serving small businesses in San Antonio. 100% of surveyed BSOs stated that they need additional funding over other needs. From the BSO inventory scan, 50% of the BSOs with publicly available tax documents had budgets less than $500 thousand per year[55]. The average budgets for BSOs serving small businesses in San Antonio skew smaller than in the other cities studied in comparable small business ecosystem assessments; the average budget size of local BSOs in St. Louis, for example, is $3.7 million, as compared to the average budget size in San Antonio of $2 million. This disparity can be partially attributed to limited funder commitments to small business service providers. Of the BSOs inventoried for this report, 35% of their funding is from grants and private contributions.[56] To further the reach of local BSOs, philanthropy must align on and prioritize the region's small business development.

The city has seen a significant amount of investment and economic growth in recent years, but there is a perception that, in terms of resources allocated, the city government has tended to prioritize outside corporate attraction over retention and start-up of smaller, local businesses. There is also a perception that the philanthropic community has not been sufficiently engaged in supporting the small business ecosystem. To build on the existing infrastructure within the city, there is an opportunity to further engage public and private funders to ensure that business support organizations have the appropriate resources to effectively support the small business owners they serve.

Collaboration and Support

Business support organizations should collaborate with each other, neighborhood-level community organizations, and with capital providers to serve business owners effectively and equitably throughout the city and county and develop joint goals in metrics. In San Antonio, business support resources lack ongoing, structured coordination. In addition, the business support landscape lacks a centralized "quarterback" in the ecosystem to coordinate and keep track of long-term priorities. Neighborhood-level organizations often have greater access to the communities they serve but are not adequately integrated into the business support landscape, nor are they adequately funded. According to longtime ecosystem stakeholders, in the 1990s, there existed an informal Small Business Coordinating Council which provided an effective forum for business support providers to collaborate and share resources. However, without ongoing funding, the administrative functions depended on individual volunteers, and the effort did not last. A resourced ecosystem "quarterback" would promote formal modes of collaboration among business providers and neighborhood level organizations to bridge past divides and gaps in awareness of resources.

Through interviews, it surfaced that collaboration between city and county governments has been limited due to differences in politics and management. Furthermore, frequent turnover in key government and other positions has limited the follow through on San Antonio's past small business assistance plans and agendas.

Past collaborative efforts have resulted in a multitude of plans to improve the small business ecosystem; however, implementation has not been sufficiently budgeted to support results. There is an opportunity for a more collaborative and inclusive business support landscape that capitalizes on the ecosystem's strengths and resources small business assistance plans and agendas.

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54   Note: Five business support organizations were surveyed for assessment
55   Note: 16 business support organizations were inventoried with public budgets
56   Note: 30 business support organizations were inventoried with measured funding sources

"We frequently hear that "San Antonio specializes in making POT: Plans On The Shelf." One reason might be the rapid turnover of elected officials, which can interfere with long-term planning work. Former City Manager Sheryl Sculley used to point out that she had served under more than 40 City Council members during her tenure at the City of San Antonio. That can be a whipsaw for groups that are organizing and working in community because you develop an agenda and 18 months later, there's a new agenda to adapt to."

- Executive Director, LISC San Antonio

Impact and measures

Mutually held measurements of service quality that report impact and outcomes help BSOs hold one another accountable, foster learning and continuous improvement and make for a more efficient ecosystem by providing common goals and agreed-upon roles. In San Antonio, there is a perception that the city lacks data on small businesses. There is a need to increase the practice of reporting impact and outcomes to align efforts towards shared, measurable goals and ensure that services are having desired impacts.

Furthermore, business owners and other local stakeholders emphasized the importance of tracking impact metrics by business owner race and ethnicity. These demographic indicators were not largely tracked across the ecosystem, and a targeted approach to serving Hispanic- or Black-owned businesses will become necessary to move towards a more equitable ecosystem. Finally, one of the most critical factors for a city's success in creating more equitable outcomes for POC is a citywide, holistic commitment to doing so and agreed-upon goals and metrics of success. Demographic indicators were not largely tracked across the ecosystem and Working Group and Advisory Council members reflected that equity has not been sufficiently prioritized as a value in San Antonio, nor has it been integrated throughout city plans and budgets. A more targeted, deliberate approach will be needed to move towards a more equitable ecosystem.

"San Antonio's commitment to equity is still in the infancy stage."

- Senior Vice President, WestCare Foundation

GAPS AND NEEDS IN THE ECOSYSTEM

From the research and insights from local stakeholders, it is clear that San Antonio and Bexar County's small businesses owned by POC face significant barriers in accessing capital, customers, and services. Extensive quantitative and qualitative research surfaced 28 challenges impeding the success of small businesses owned by POC. The research team worked with 16 local leaders of the small business ecosystem in the Working Group and 40 leaders in the Advisory Council, representing a broader cross-section of the region's small business ecosystem, to refine the long list of gaps into a shorter list of priority focus areas. Through two initial workshop sessions, the groups discussed and further developed the gaps analysis and then completed a survey to prioritize the final 10 high-priority needs (see Figure 9). Afterward, the groups came together in two additional working sessions to brainstorm strategies to address those needs – drawing on the region's assets and unique dynamics of the existing San Antonio small business ecosystem.

Local leaders aligned on the most significant challenges facing business owners of color in accessing capital, customers and services, and the greatest infrastructure needs at the ecosystem level. The highest priority needs to address in accessing capital included few flexible capital options, low awareness of community financial institutions, and limited experience managing bookkeeping and financial planning needed to acquire capital. Local leaders prioritized the need for businesses to have access to larger peer-to-peer networks and tailored, growth-oriented services to facilitate greater access to customers that would help scale businesses. At the ecosystem level, stakeholders aligned on the need for a more coordinated business support landscape at both the city- and neighborhood-level, and a need to integrate community development initiatives with small business development.

The COVID-19 pandemic further entrenched these institutional barriers and disproportionately affected POC-owned businesses. In particular, this crisis exposed the greater need for flexible capital and access to and availability of technical assistance to support the recovery and resiliency of businesses over the course of the pandemic.

Figure 9: Prioritized small business and ecosystem needs

Small Business Needs
Needs among small businesses in accessing financing, technical assistance, and markets

Access to Capital
Financing for small businesses to start, survive, sustain, or scale

1. Need for flexible capital for entrepreneurs of color to start up and sustain their businesses
2. Need increased awareness of and access to community financial institutions
3. Need shared resources for commercial space among business owners of color

Access to Customers and Services
Avenues for small businesses to reach customers and maintain and grow revenue; Technical assistance support for small businesses to start, survive, sustain, or scale

1. Need for loan readiness and financial health training programs for business owners of color
2. Need for growth-oriented services to support higher growth businesses
3. Need more peer-to-peer networks and coalitions among business owners of color to share resources and build collective action
4. Need to establish new and build upon existing locally based technical assistance programs to support businesses to adapt and shift business models during and post COVID-19

Ecosystem Infrastructure Needs
Needs among ecosystem stakeholders to better support small businesses with capital, customers, and services

1. Need to integrate small business development within City and County workforce and community development initiatives
2. Need formal modes of city- and county-wide collaborations and/or communities of practice with shared metrics and a collective policy agenda
3. Need formal modes of neighborhood-level collaboration and engagement among providers and with business owners

Emerging Solutions

This research culminated in a set of ecosystem strategies designed to move San Antonio and Bexar County towards a shared vision of creating a more equitable small business environment that narrows the racial wealth gap in the region. The research team worked with the Working Group and Advisory Council through an iterative and collaborative process to advance a robust collection of solutions to address the priority ecosystem gaps. Throughout the solutions design process, the Working Group and Advisory Council developed strategies that recognize and harness the region's size, diversity, and existing assets. Strategies were designed to address root causes and create the enabling infrastructure to respond to the prioritized gaps. The strategies were developed from local stakeholder input and national best practices for place-based ecosystems and build from local momentum and existing initiatives that can be further formalized and expanded. A few select examples of local momentum are highlighted below.

These solutions are organized under four key strategic pillars and recommended to address the broad set of capital, customer, and services needs among small businesses owners of color in San Antonio and Bexar County:

ECOSYSTEM COORDINATION

Form coalitions that bring together small businesses, capital and service providers, funders, and other stakeholders to coordinate and advocate for ecosystem priorities. Ecosystem coordination efforts should build off emerging momentum created by existing collaboratives and convening bodies (e.g. San Antonio Small Business Advocacy Council, Bexar County SMWBE Advisory Council) and integrate with the region's existing network of local chambers of commerce.

Ecosystem coalition building: Establish and sustain a formal coalition of ecosystem stakeholders to coordinate ecosystem-wide initiatives, collective policy agendas, and track and report city- and county-wide metrics, led by designated "ecosystem champions"

Advocacy platform: Advocate for and integrate small business ecosystem priorities in city and county community development plans, highlighting role of small business in neighborhoods and job creation

ACCESS TO FLEXIBLE CAPITAL

Enhance availability and access of flexible debt and equity capital to strengthen businesses, community financial institutions, and responsible investors. In San Antonio and Bexar County, this work should integrate within the region's network of community financial institutions with longstanding history in the market (e.g. LiftFund, River City Federal Credit Union), including capital access programs and emergency relief funds administered before and during the COVID-19 pandemic.

Capital aggregation: Engage local public and private funders to seed new fund formations to deploy flexible growth capital to entrepreneurs of color

Community crowdfunding: Engage a national crowdfunding provider to bring an established platform that enables community members to invest into neighborhood-based businesses

Digital access to capital: Develop a streamlined deal origination platform ("common app" for small businesses) to connect to local banks, credit unions, and community financial institutions

Loan loss reserves: Establish new or enhance existing loan loss reserve funds and credit enhancement programs to expand lending through community financial institutions

SUSTAINABILITY AND RESILIENCY

Form and sustain collaboratives of capital and service providers to build more resilient businesses and communities of color. Continued COVID-19 recovery efforts should draw from emergency efforts created in the immediate response to the pandemic, including the grant and loans programs offered by the City and County governments. Meanwhile, work to support business owners of color to prevent commercial displacement and financial instability should integrate with existing initiatives led by local capital and service providers (e.g., LiftFund, West Side Development Corporation, San Antonio for Growth on the Eastside) with deep histories in the neighborhoods they serve.

Innovative land ownership models: Implement innovative land ownership models (e.g., community land trust, revenue bonding, public land leasing) to support shared ownership and maintain affordability in target neighborhoods at risk of commercial displacement

Financial health and credit building: Create partnership between local capital and service providers to pair credit-building capital with one-on-one counseling to help business owners of color improve financial health

Resiliency Collaborative: Build a COVID-19 resiliency and recovery collaborative that coordinates resilience programming and increases the capacity of capital and service providers

ACCESS AND NETWORKS

Expand access to resources by creating networks of business owners of color and developing corridor-level business services. Work to bolster access and quality of these networks should integrate and refine existing initiatives such as accelerator programs through Maestro Entrepreneur Center and Launch SA and corresponding entrepreneurial networks cultivated by initiatives like Be San Antonio and those through the region's chambers of commerce.

Accelerators for tailored growth strategies: Build upon and sustain accelerators to provide tailored advising, coaching and mentorship to help business owners of color develop a strategy, secure capital, and form connections

Small business networks: Create and sustain network of small businesses owned by POC with a shared advocacy agenda, coalition structure, and programs for entrepreneurs to engage and connect

Corridor level supports: Localize access to support services and create vibrant neighborhood commercial districts that offer favorable environments for small businesses to thrive

These community-informed solutions point to the necessity to take immediate action to support small business owners of color and the supporting ecosystem, with actionable steps towards addressing prioritized needs surfaced in this report. To illustrate how these solutions can be actualized, the following callouts on the Ecosystem Coalition Building and Financial Health and Credit Building programs provide additional context on local assets to build on and comparable examples of similar solutions in other peer American cities.

Envisioning
'Ecosystem Coalition Building'

The Need:

In San Antonio and Bexar County, the region's size and diversity lend itself to a robust but disconnected small business ecosystem that lacks ongoing, structured coordination. Several initiatives, including the San Antonio Small Business Council in the early 1990s, convened local stakeholders around San Antonio on small business and entrepreneurial development but were eventually dissolved due to a lack of sustained leadership and funding commitments. More recently, regional small business development initiatives have been led by city and county government, which, while producing results in public procurement and service coordination, position such programs as subject to shifting government priorities and frequent turnover. As a result, few sustained modes of formal city- and county-wide collaboration exist that connect ecosystem stakeholders. This amounts to a disconnected and less effective network of stakeholders in service of local business owners.

The Solution:

To create a more inclusive, connected small business ecosystem, San Antonio stakeholders can establish and sustain a formal coalition of ecosystem stakeholders to coordinate ecosystem-wide initiatives, collective policy agendas, and track and report city- and county-wide metrics. This coalition should be governed by democratically appointed leaders tasked to promote ecosystem priorities, secure sustained funding, and regularly convene ecosystem stakeholders and local small business owners to foster long-term success of the region's small business communities.

To activate this solution, there are opportunities to integrate with existing efforts while engaging a broader set of representatives from all communities in the region to create a more equitable small business ecosystem. Existing groups, such as the San Antonio Economic Development Foundation (SAEDF) and the San Antonio Small Business Advocacy Council (SBAC), serve in this capacity. By forming this integrated network of business support organizations, neighborhood-level organizations, capital providers and local government, this coalition can enhance how local business owners access advice, opportunities, and resources by facilitating hand-offs, improving service offerings through collective resource sharing, and creating system-wide change by aligning on and tackling long-term ecosystem-wide priorities.

Example Models:

In the U.S., cities and regions across the country have adopted numerous coalition models to facilitate small business ecosystem collaboration. The Chicago Inclusive Growth Coalition (CIGC), a Chicago-wide coalition led by two "Ecosystem Builders" to work collectively to convene ecosystem stakeholders and coordinate initiatives to advance equitable and inclusive growth for underserved businesses, operates as a network of local stakeholders without formal legal governance and funded through long-term commitments by three local philanthropies. Other coalitions, like the D.C.-based Coalition for Nonprofit Housing and Economic Development (CNHED) and the Atlanta Wealth Building Initiative (AWBI) have formal governance and financing structures, with appointed boards of directors and sustained membership revenue models.

Envisioning
'Financial Health and Credit Building'

The Need:

Across San Antonio and Bexar County, business owners of color historically have struggled to access affordable, flexible capital to grow and sustain their businesses. Many local business owners of color, particularly those who own and operate neighborhood-based businesses, report having less formal experience managing their business financials (including financial planning, bookkeeping, and documentation management). This impacts their ability to raise capital through banks and other mainstream sources. Meanwhile, lower credit scores, limited credit history, and language barriers further hamper fundraising success, resulting in low banking rates among Hispanic and Black business owners, and concurrently, higher usage of payday lenders and other high-cost alternative financial services.[57]

At the start of the COVID-19 pandemic, these dynamics were highlighted in the inequitable distribution of emergency funds among the region's business owners of color, with fewer Hispanic and Black business owners successfully approved for the Paycheck Protection Program loans available through the U.S. CARES Act. Moreover, while local COVID-19 relief programs—including Bexar County's Small and Micro Business COVID-19 Relief Grant Program—offered emergency grants paired with technical assistance, additional financial education and credit building programs are needed to support the region's business owners of color through the pandemic and beyond

The Solution:

To support business owners of color to successfully secure the capital that they need for their businesses, capital and service providers in San Antonio and Bexar County can form integrated partnerships to pair credit-building capital with one-on-one counseling designed to enhance acumen and expertise of financial management and fundraising. Prior to COVID-19, local BSOs offered in-person financial management and education training but had few formal partnerships with local community financial institutions. A consortium of capital and service providers can be created and sustained to develop and deliver quality financial acumen training coupled with capital products, enabled local businesses to build greater resilience and financial stability.

Example Models:

Across the country, there are credit building and financial health models that serve as examples to learn from in San Antonio. In New York City, the Department of Consumer Affair's Financial Empowerment Centers offer a range of financial and credit counseling programs. The Financial Empowerment Centers' partnerships with 11 local banks and credit unions have been critical in offering safe and affordable starter bank accounts to business owners.

The Detroit Community Loan Fund's (DCLF) BizLoan Fund also offers a model that pairs loan capital with technical assistance for businesses that have typically had limited access to capital sources. DCFL, which is co-managed by CDFIs, Detroit Development Fund and Invest Detroit, partnered with seven local BSOs to source businesses as well as provide loan recipients with pre- and post-funding technical assistance to support in compiling documents, and effectively managing their capital.

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57   Source: Asset Funders Network, 2019

Conclusion and Call to Action

The time to act is now.

As part of a broader national initiative across the nine cities and localities, the San Antonio small business ecosystem is at a crossroads with the opportunity to lead, learn from, and coordinate with other cities to build a more equitable small business ecosystem across the U.S.

The research team recommends immediate action on the strategies articulated in this report, starting with the steps below to fulfill the vision of closing racial gaps in business ownership, revenue, and number of employees across San Antonio and Bexar County. The below priority measures will provide a strong foundation to drive execution and capitalize on existing local momentum across the other recommendations articulated in the report.

1

Organize a coalition of funders.
Bring together groups of funders to resource the next two phases of work – planning and implementation – and coordinate an immediate infusion of local funding to curtail further closures of small businesses owned by POC.

2

Identify Ecosystem Builders.
Designate between one and four local organizations with the influence and capacity to drive regional collaboration efforts forward. Ecosystem builders will be responsible for ensuring execution across the region and activating impact tracking across different initiatives.

3

Formalize the Advisory Council and align on priorities with responsibilities for execution.
Continue gathering people involved in this work and include others to foster collaboration, allow initiatives currently underway to expand and deepen, and develop implementation plans that are driven by and represent the needs of small businesses and the organizations that support them.

4

Take immediate action on any "low hanging fruit" solutions or areas where the businesses need support urgently.
With businesses continuing to face instability due to the COVID-19 pandemic, implement programs to provide immediate relief as quickly as possible.

Acknowledgements

San Antonio Small Business Ecosystem Advisory Council

Members denoted in bold were also members of the Working Group

About the Research Team

Appendix

APPENDIX 1: DATA ANALYSES AND POTENTIAL LIMITATIONS

Small Business Landscape

The quantitative analysis combined data from several national, publicly available sources. Multiple data sources originate from the U.S. Census, but pose some minor inconsistencies in the data between sources.

Seven primary data sources were used to analyze the small business landscapes.

- U.S. Census Survey of Business Owners and Self-Employed Persons (SBO), 2012 data (latest available, provides business owner demographics / business characteristics by 2-digit NAICS code)
- U.S. Census American Community Survey (ACS) Public Use Microdata Sample (PUMS), 2018 5-year data set (provides workforce data by 2-6 digital NAICS code)
- U.S. Census Longitudinal Employer-Household Dynamics (LEHD) Quarterly Workforce Indicators (QWI), 2017 data (provides business data by 2-6 digit NAICS code)

- U.S. Census County Business Patterns (CBP), 2011-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Business Survey (ABS), 2017 data (latest available, provides business revenue and employee data by business owner demographics)
- U.S. Census Non-employer Statistics (NES), 2007-2017 data (provides non-employer firm data)
- Opportunity Insights Womply Dataset, 2020 data (provides small business revenue and closure data)

The most recent publicly available data consistently available from all datasets is from 2017 at this study occurred (apart from SBO); given the disparity in year that data was collected, it is possible that the data does not accurately represent current business dynamics.

Capital Landscape

Capital Supply Methodology

Four primary data sources were used to analyze the small business and capital landscapes.

- Federal Financial Institution Institutions Examination Council (FFIEC) Community Reinvestment Act (CRA) report data made available from the Freedom of Information Act, 2008-2017 data
- Small Business Administration 504 and 7(a) lending databases made available from the Freedom of Information Act, 2008-2017 data

- CDFI Fund Program Awardee Data Release, 2008-2017 data
- PwC and CB Insights MoneyTree Report, Series A or Series B or Series C or Series D or Growth Equity or Seed / Angel or Convertible Note or Other, 2008-2017 data

The data provided in this report is representative, but not necessarily comprehensive, of the capital providers located and operating in Bexar County. There are some limitations and considerations that should accompany any analysis of this capital landscape dataset:

- FFIEC CRA data does not fully represent bank loans to small businesses, as only banks above a certain asset threshold are required to report CRA loans. Banks are also required report all loans under $1 million to businesses, indicating that some loans may actually be to businesses with more than 50 employees

- CDFI Fund data underrepresents loans to small business because not all CDFIs in Bexar County report full loan data. As a result, the research team adjusted the data to estimate CDFI loans by scaling up estimates in this report to increase accuracy

- Equity data publicly available from the PwC and CB Insights MoneyTree Report is aggregated across the San Antonio-New Braunfels, TX metropolitan area, which may overrepresent equity deals made specifically to businesses located in Bexar County

Capital Demand Methodology

The research team used a bottoms-up methodology that to directly estimate the historical demand for financing from small businesses across demographic groups in the Bexar County, as shown in Figure 10.

Applying this methodology to forecast capital demand in 2020 and 2021, the research team made key assumptions to three forecast scenarios that measure the degree of impact the COVID-19 pandemic and resulting economic recession, shown in Figure 11.

Figure 10: Methodology to estimate historical small business capital demand
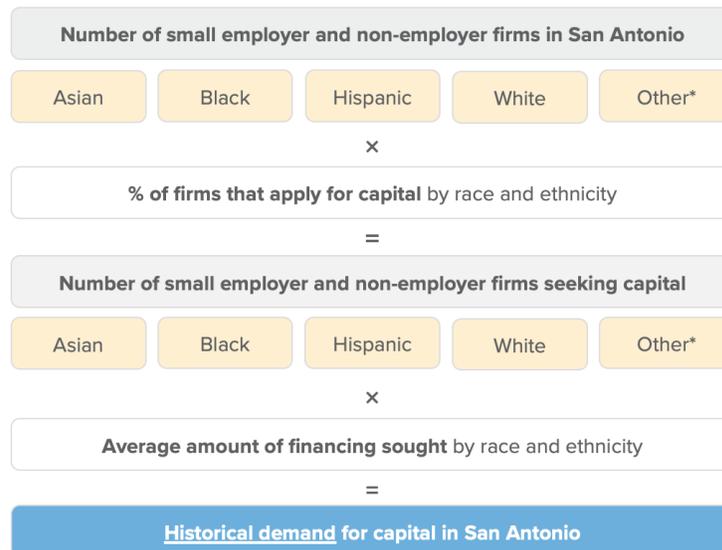
Note: * Other includes populations of American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau

Figure 11: Forecast assumptions for small business capital demand

	Number of small businesses	% of firms that apply for capital	Avg. amount of financing sought
Base case Expected scenario with assumptions that analysts deem most likely to occur	• Net growth in employer and non-employer firms equal to median growth rates during financial crisis (2007-10)[58]	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[59] • From 20Q4-21Q4, proportion seeking financing assumed to decline due to lower revenue expectations[60]	• Amount sought to decline relative to lower expected revenue, assuming a direct relationship between revenue and capital demand[61]
Optimistic forecast Scenario based on a moderately severe recession due to C-19	• Net growth in employer and non-employer firms equal to growth rates during the latter years of the financial crisis (2008-10)[58]	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[59] • From 20Q4-21Q4, proportion seeking financing assumed to decline due to moderate revenue expectations[60]	• Amount sought to decline relative to moderate expected revenue, assuming a direct relationship between revenue and capital demand[61]
Pessimistic forecast Scenario where C-19 recession results in conditions seen at the height of Great Recession	• Net growth in employer and non-employer firms equal to growth rates at the height of the financial crisis (2007-09)[58]	• Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[59] • From 20Q4-21Q4, proportion seeking financing assumed to decline due to significantly lower revenue expectations[60]	• Amount sought to decline relative to significantly lower expected revenue, assuming a direct relationship between revenue and capital demand[61]

Four primary data sources were used to estimate historical and estimated small business capital demand.

- U.S. Census County Business Patterns (CBP), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)

- U.S. Census Nonemployer Statistics (NES), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code

- U.S. Census Annual Survey of Entrepreneurs (ASE), 2016 data (latest available, business owner demographics / business characteristics by 2-digit NAICS code)

- Federal Reserve Small Business Credit Survey, 2016-2019 survey results (latest available, provides data on capital demand trends by demographics / business characteristics)

The data sourced to estimate capital demand in this report provides a directional representation of capital demand but may not precisely account for capital demand among all small businesses operating in Bexar County. There are some limitations in the datasets used to estimate capital demand that require additional considerations and assumptions:

- U.S. Census County Business Patterns and Nonemployer Statistics data is available up to 2016. To estimate the baseline number of small employer and non-employer firms following 2016, the research team scaled the total firms reported in 2016 by the annualized growth rate from 2014 to 2016

- U.S. Census Annual Survey of Entrepreneurs data is available up to 2016. To estimate the business ownership demographic breakdown by race and ethnicity across the historical and forecast period, the research team assumed that the breakdown remains fixed at 2016-levels.

- The Federal Reserve Small Busines Credit Survey measured capital demand among small businesses across the U.S. As a result, the small business capital demand dynamics measured in the annual surveys may not fully represent the small business sentiments in Bexar County.

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58   Note: Estimated based on historical data sourced from U.S. County Business Patterns and Non-Employer Statistics
59   Source: Goldman Sachs 10,000 Small Businesses, 2020
60   Note: Based on a logistic regression model assessing the relationship between the percentage seeking financing and the aggregate small business debt-to-income ratio
61   Note: Revenue decline expectations are based on the relative levels compared to estimated 2019 revenues, with expectations ranging from 25% to 90% of 2019 levels

APPENDIX 2: RESEARCH SOURCES

Interviews

- Director of Small Business & Entrepreneurship, Bexar County
- Business Owner, Books and Bibs Childcare and Learning Academy
- Consul for Community and Political Affairs, Consulate of Mexico in San Antonio
- Chief Executive Officer, Culturingua
- Chief Operating Officer, Culturingua
- Business Owner, Jarvis Moore, Inc. / Get Right City
- Executive Director, Najim Center for Business Innovation and Corporate Social Responsibility, St. Mary's University
- Consul for Economic, Promotion and Cooperation Affairs, Mexican Consulate
- Business Owner, Roosevelt

- Vice President of Economic Development, San Antonio Chamber of Commerce
- Director, Small Business and Entrepreneurship Department, Bexar County
- Director, St. Mary's University Harvey Najim Center for Business Innovation & Social Responsibility
- Business Outreach Manager, Texas Business Immigration Coalition
- Business Owner, The Arizona Cafe
- Senior Business Advisor, UTSA SBDC COVID Business Recovery Accelerator
- Manager of Empowerment and Economic Advancement, YWCA San Antonio

Inventory of Business Support Organization in San Antonio

- African American Chamber of Commerce of San Antonio (AACCSA)
- Alamo Asian American Chamber of Commerce
- Alamo City Black Chamber of Commerce
- Alamo Heights Chamber
- BE San Antonio
- Black Contractors Association (BCA) - San Antonio
- City of San Antonio- Small Business Economic Development Advocacy Program
- Geekdom
- InCube Labs
- LaunchSA
- LiftFund
- Local Initiatives Support Corporation (LISC) - San Antonio
- Maestro Entrepreneur Center (MEC)
- North San Antonio Chamber of Commerce
- Port San Antonio
- RealCo
- San Antonio - SCORE
- San Antonio Chamber of Commerce
- San Antonio for Growth on the Eastside (SAGE)
- San Antonio Minority Business Development Agency Business Center
- San Antonio Minority Business Development Agency Export Center

- SBA-San Antonio
- South San Antonio Chamber of Commerce
- Southside First Economic Development Council
- The Bexar County Small Business & Entrepreneurship Department: Small, Minority, Women, and Veteran Owned Business Enterprise (SMWBE) Program
- The Harvey Najim Center for Business Innovation and Social Responsibility at St. Mary's University
- The Hispanic Contractors Association de San Antonio (HCA)
- The San Antonio Economic Development Foundation (SAEDF)
- The San Antonio Hispanic Chamber of Commerce
- The San Antonio Women's Chamber of Commerce
- The South Central Texas Regional Certification Agency
- The West San Antonio Chamber of Commerce
- University of Texas – San Antonio Institute for Economic Development
- University of Texas – San Antonio Small Business Development Center
- UTSA New Venture Incubator
- Westside Development Corporation (WDC)

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