A GAME PLAN TO ATTACK THE GAP

HOW CAN MINNEAPOLIS/ST. PAUL REVERSE A LONG HISTORY OF RACIAL INEQUITY? START BY FOLLOWING THE MONEY.

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The killing of George Floyd has spurred a reawakening of American society to reflect on its racist past and present. This self-reflection has led to more calls for police reform, and it has sparked a renewed effort to battle racial wealth inequality.

In the Twin Cities, where gaps between white residents and people of color in educational attainment, employment, income, and homeownership are among the worst when compared to other large cities, there's also a sizable gap in business ownership.

Less than 3% of Asian, Latino and Black adults in the Minneapolis/St. Paul metro area own businesses, according to St. Paul-based Center for Economic Inclusion. Not only are business ownership rates among people of color far below the rate of business ownership among white adults in the metro, which stands at 7%, they're also lower than the national average for each group. Because business ownership is widely regarded as a way to build wealth in a community, it's a part of the solution in addressing the wealth gap.

While the state has many successful businesses owned by people of color, the largest companies on the Business Journal's List of Ethnic Minority-Owned Businesses (see page 11) rank low on lists that include all private companies, according to Business Journal research.

Entrepreneurs of color encounter numerous barriers that stem from systemic racism. Chief among those barriers is a lack of capital needed to start and grow a business. Experts also pointed to a lack of technical assistance such as legal support, representation in the upper echelons of large companies across industries, and social factors that shape the environment within and outside of workplaces.

The business community should play a role in removing those barriers, often held in place by public or corporate policy, experts said.

"We've upheld policies that have kept people far on the margins of the economic spectrum for far too long," said Tawanna Black, founder and CEO of the Center for Economic Inclusion.

It's not a new conversation. However, in meetings with corporate leaders in the Twin Cities in recent weeks, Black said she's seeing people take the matter seriously and commit to the cause beyond police reform.

"Our business community feels the pain and the strain of the murder of George Floyd," she said. "His murder is not only a reflection on the Minneapolis Police Department but on the level of racism that is systemic in our region and in our country and requires action on the parts of all of us."

Access to capital

With equitable access to capital, entrepreneurs of color would likely see their businesses thrive. Which would be a key step toward shrinking the Twin Cities' wealth gap between white residents and people of color, experts said. However, there are a number of barriers preventing that from happening.

One of those barriers has been discriminatory lending. A 2015 study by University of Minnesota Professor Samuel Myers and other academics looking at lending data from 2008 to 2013 found that people of color were more likely to be denied home and small business loans from top banks in the Twin Cities — even when relevant economic factors like income and estimated credit risk were controlled for.

Though the data is dated, Myers's other academic work on lending disparities throughout American history leads him to believe discriminatory lending in the Twin Cities hasn't changed much.

If regulators could fix discriminatory lending in the Twin Cities, "there would be an..."
increase in the access to capital among Black businesses and among minority homeowners,” Myers said. “The immediate benefit of having higher Black homeownership rates, higher business ownership rates, higher Hispanic homeownership rates — we would have a growth in wealth within our communities, and that wealth would be able to be transferred from one generation to the next, and within 25 years we wouldn’t be having the same conversation.”

Kenya McKnight Ahad, CEO of the Black Women’s Wealth Alliance, wants to see banking reform. She said banks are morally obligated to invest in African American-owned businesses because of their role in historically oppressing African Americans. Banks ought to ease their criteria for lending to African Americans and provide African American entrepreneurs technical support and help with credit.

The police killing of George Floyd has spurred some banks to address the racial wealth gap and other barriers. For one, U.S. Bancorp put $15 million into a grant fund dedicated to addressing systemic inequalities and has promised to double its partnerships with African Americans in the next 12 months. Additionally, it will award $100 million to African American-owned businesses annually.

Aside from discriminatory lending, a number of other barriers limit the ability of some entrepreneurs of color to access capital. Leaders of groups promoting businesses of color in the Twin Cities described a cultural wall that segregates entrepreneurs of color from the predominantly white business community and puts them at a disadvantage for growing their businesses.

For example, Yao Yaj, executive director of the Hmong Chamber of Commerce, and Henry Jimenez, executive director and president of Latino Economic Development Center, each said many of the entrepreneurs affiliated with their organizations face language barriers. Not only does this limit these entrepreneurs’ ability to communicate with the greater business community, it can make it difficult to properly navigate legal or government documents.

This has been particularly punishing for these entrepreneurs during the Covid-19 crisis, as they’ve had to navigate a flurry of new regulatory documents and try to apply for government aid.

“Getting new, updated information on PPP was a disaster,” Yaj said. News and guidance changed so quickly that it was difficult for small businesses to stay on top of because Hmong business owners aren’t well-connected and don’t have a team, like a government affairs division, dedicated to the task. “You’re trying to figure out how you’re going to pay yourself and pay the rent.”

Immigration status can also hinder capital gains. Undocumented business owners, many of whom are Latino, must run their businesses without access to any kind of federal assistance requiring a Social Security number. During Covid-19, these entrepreneurs would have benefited tremendously from PPP, but they’ve missed out, Jimenez said.

On the other hand, undocumented business owners are often wary of applying for government support programs even when they’re eligible for them because they either think they...
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aren’t eligible or they don’t want to attract unnecessary attention to themselves.

The way forward
In the weeks since George Floyd’s death, business leaders have responded in various ways to communicate solidarity and commit to change.

Aocoa Ellis, senior vice president for community with Greater Twin Cities United Way, said responses from companies outlining specific steps they’re taking and acknowledging a need for systemic changes have been the most meaningful. “I have been incredibly encouraged by the speed with which I have seen corporate social responsibility leaders provide leadership,” Ellis said.

Companies should follow Black leadership in setting goals that can be measured, Black said. The Center for Economic Inclusion is one organization showing the Twin Cities’ predominantly white business community where to go from here.

New corporate programs or initiatives won’t go far enough to solve these problems, Black said. In an action plan, the center calls on corporate leaders to dig into their policies, practices and behaviors that perpetuate exclusion and inequity.

In addition to guidance on hiring practices, the plan outlines steps that would have companies invest more intentionally in businesses owned by people of color through procurement and other partnerships.

Black pointed to commitments from retail companies to reserve 15% of shelf space for goods from Black-owned brands as one example of a measurable goal. The creator of the 15% pledge, Aurora James, a creative director in New York, chose the figure because Black people make up 15% of the U.S. population.

The same goal could be part of a company’s purchasing policies or a bank’s lending policies, Black said. However, that’s a minimal step, and she would want to see Minnesota companies go further, since, in many significant ways, disparities here are worse than they are nationally. For example, the income gap between white workers and Black workers is 15 points wider in Minnesota than the national average.

“Our goal is likely to need to be higher, given the gaps we have here,” Black said.

The center also calls on companies to overhaul hiring and human resources to attract, retain, engage and promote workers of color across all ranks, as well as eliminate wage gaps. While it’s tangential to starting or growing a business, this would impact entrepreneurship in underrepresented communities since building a network and gaining experience are key to launching an enterprise.

Lastly, the plan offers a roadmap for companies that engage in philanthropy and advocacy, advising corporate leaders to invest in organizations and rally around lobbying efforts led by people of color.

Since social factors — including education, housing and policing — play a role in perpetuating wealth inequality, Black leaders and organizers want to see corporations and white business leaders use their political might to demand change outside the usual scope of business-specific policy issues.

“If corporations and businesses in general showed up with legislators with the same fervor on issues that are tangential to their work but impact the environment of their customer base as they do on issues that are core business issues, I think it would really mean a lot,” said Ellis, who noted she’s seen an increased interest from corporate partners in United Way’s advocacy work.