Big Ideas for Small Business

A Five Step Roadmap for Rebuilding the U.S. Small Business Sector, Reviving Entrepreneurship, and Closing the Racial Wealth Gap

www.bigideasforsmallbusiness.org
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Historic Crisis for Small Business Sector

Small businesses sit at the intersection of three colliding forces

1. **Economic Centralization**
   Twenty years of economy-wide business consolidation leading to reduced competition and lower rates of business formation.

2. **Racial Injustice**
   Structural barriers in economy result in deep racial inequalities in rates of business ownership

3. **Small Business-led Recession**
   COVID-19 devastated the small business sector, resulting in unemployment and shuttered neighborhoods
A Big Plan for Small Business

A Policy Roadmap for the Next Ten Years for America’s Small Businesses

1. Respond to the COVID-19 Crisis in the Small Business Sector
2. Unleash America’s Entrepreneurial Spirit
3. Shape a Financial System that works for Main Street
4. Harness the Power of Public and Private Procurement
5. Measure to Manage: Evaluate for Continuous Improvement

In ten years, these steps will:

- Create 1.5 million net new small businesses
- Grow the small business share of employment by 25%
- Triple the number of Black- & Latinx-owned businesses
- 20% growth in minority household wealth
Ten Recommendations For Rethinking Small Business Support

1. COVID Response
   - I. Provide loan & grant products at scale

2. Unleash the Entrepreneurial Spirit of America
   - II. Spur entrepreneurship among MWBE founders
   - III. Reduce barriers to entry & strengthen antitrust law
   - IV. Replicate proven organizations & models that help businesses scale

3. Financial System for Main Street
   - V. Meet market demand with a new generation of federal debt & equity products
   - VI. Strengthen financial institutions to support local businesses formation & growth

4. Harness Public and Private Procurement
   - VII. Set new targets for federal procurement and push local governments to match these efforts
   - VIII. Mobilize corporate, educational, and medical institutions around MWBE small business growth

5. Measure to Manage
   - IX. Collect more and better data on federal programs and the small business sector
   - X. Rigorously evaluate the impact of programs and refine over time
How We Got Here: The past 90 years

The five eras of federal small business policy

- Targeted & Temporary Support
  - 1934: RFC & Federal Reserve Bank lending
  - 1942: wartime Small Business Mobilization Act

- Direct & Long-term Support
  - 1953: Establishment of the SBA
  - 1958: Small Business Act creating SBICs

- Focus on Disadvantaged Groups
  - 1960s & 1970s: Johnson & Nixon Administrations emphasize disadvantaged contracting
  - 1978: Congress establishes required small business contracting targets

- Hollowing Out of Small Biz Sector
  - 1980s: weakened antitrust leads to bigger businesses & banks
  - 1990: SBA shifts from direct loans to guarantees, subsidies disallowed

- Recovery from the Financial Crisis
  - 2008-2009: Immediate focus on small business lender liquidity
  - 2010: Small businesses & Jobs Act creates SBLF & SSBCI
# Federal Support: Pre-COVID Landscape

Three forms of support – direct financial assistance, technical assistance, and contracting support – are provided to small businesses by the federal government. A fourth source is provided as relief from disasters.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Direct Financial Assistance</th>
<th>Technical Assistance</th>
<th>Contracting</th>
<th>Disaster</th>
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<tbody>
<tr>
<td>Small Business Administration</td>
<td>1. 7(a) Loan Guarantees</td>
<td>1. Small Business Development Centers</td>
<td>-</td>
<td>1. Business Loans (Damaged Property)</td>
</tr>
<tr>
<td></td>
<td>2. 504 CDC Loan Guarantees</td>
<td>2. Entrepreneurship Programs</td>
<td>Small Business Development Centers (procurement assistance)</td>
<td>2. Emergency Injury Disaster Loans (Working Capital)</td>
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<td>3. Microloan Program</td>
<td>3. Export Programs</td>
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<td>2. EDA Coal Community Assistance</td>
<td>2. EDA Technical Assistance Programs</td>
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<td>2. Fishery Assistance</td>
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<td>2. Small Business Lending Fund</td>
<td>Revolving Loan Fund</td>
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<tr>
<td>Housing and Urban Development</td>
<td>1. Appalachia Economic Development Initiative</td>
<td>Community Development Block Grants</td>
<td>-</td>
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<tr>
<td>Department of Agriculture</td>
<td>Rural Business-Cooperative Service</td>
<td>Rural Business-Cooperative Service</td>
<td>-</td>
<td>Farm Service Agency</td>
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<tr>
<td>Department of Defense</td>
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<td>-</td>
<td>Procurement Technological Assistance Program (procurement assistance)</td>
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<tr>
<td>Across Federal Agencies</td>
<td>SBIR/STTR</td>
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<td><em>Each Federal Agency Sets Small-Business Contracting Goals With the SBA</em></td>
<td><em>Stafford Act Local-Business Contracting Requirement</em></td>
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*Each Federal Agency Sets Small-Business Contracting Goals With the SBA*  
*Stafford Act Local-Business Contracting Requirement*
Federal Policy Response to COVID-19

Through October 15, 2020 Congress passed five pandemic-response legislative packages that include measures for assisting small businesses.

<table>
<thead>
<tr>
<th>Date</th>
<th>Legislation</th>
<th>Description</th>
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<tbody>
<tr>
<td>March 6</td>
<td>Coronavirus Preparedness and Response Supplemental Appropriations Act (CPRSA):</td>
<td>Declares the pandemic a nationwide disaster, activating SBA measures for disaster response.</td>
</tr>
<tr>
<td>March 18</td>
<td>Families First Coronavirus Response Act (FFCRA):</td>
<td>Primarily includes provisions to enable workers to take paid sick leave during the pandemic.</td>
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<tr>
<td>March 27</td>
<td>Coronavirus Aid, Relief, and Economic Security Act (CARES Act):</td>
<td>Includes a wide array of economic relief measures and creates the Paycheck Protection Program (PPP).</td>
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<tr>
<td>April 24</td>
<td>Paycheck Protection Program and Health Care Enhancement Act (PPP Enhancement Act):</td>
<td>Injects more funds into the PPP and amends rules regarding the distribution of funds.</td>
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<tr>
<td>June 8</td>
<td>Paycheck Protection Program Flexibility Act (PPP Flexibility Act):</td>
<td>Relaxes some requirements that PPP recipients must follow to have their loans under the program forgiven.</td>
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</tbody>
</table>
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4. Spur high growth entrepreneurship among disadvantaged founders

2. Reduce barriers to entry for entrepreneurs

3. Replicate proven models that help businesses scale

5. Meet market demand with a new generation of federal debt & equity products

6. Strengthen network of financial institutions to support local business formation & growth

7. Set ambitious targets for federal procurement and push local governments to match these efforts

8. Establish new private sector ESG standards for Minority & Women Owned Business procurement

9. Collect more and better data on federal programs and the small business sector

10. Rigorously evaluate the impact of programs and refine based on data

Step 1
Respond to the COVID-19 Crisis in the Small Business Sector
COVID-19 amplifies Small Business struggles

• Lockdowns to preserve public health harmed small businesses: Total visits to all businesses have fallen almost one-fourth from the previous year, as of August 2020. As a result of these trends, small business revenues fell 21% average between January and August this year. Fully 16% of small businesses are no longer operating at all.

• Restaurants and leisure have been especially struggling: Leisure and hospitality suffered a 47% decline in revenue and Yelp data shows restaurants are also struggling.

• Black and Latinx entrepreneurs are hardest hit: fully 41% of Black small-business owners—and 32% of Hispanic owners—stopped working altogether between February and April of 2020. White small-business owners, by contrast, ceased work at only about half the rate of Hispanic owners.
I. Provide loan & grant products at scale

- **Launch a second round of PPP:** Congress should expand access to PPP funding while also refining PPP terms to direct funds where they are needed most. This includes powerfully expanding incentives for lenders to issue loans to smaller applicants.

- **Establish a new, highly flexible, loan program for hard-hit businesses:** Congress should authorize a new SBA lending program for firms whose revenues plunged during the crisis. It should follow the bicameral RESTART Act proposed in May.

- **Work through local lenders to aid the smallest and most disadvantaged businesses:** Congress should expand the reach of the bipartisan, bicameral, RELIEF for Main Street Act that was proposed in May. In addition, they should appropriate $25 billion for the Treasury to distribute to state governments to run relief efforts.

- **Inject new funds into local financial institutions:** Congress should support community lenders through emergency appropriations of $3 billion to the CDFI Fund, $6 billion to SBLF, and $3 billion to NMTC.
I. Provide loan & grant products at scale

II. Spur entrepreneurship among MWBE founders

III. Reduce barriers to entry & strengthen antitrust law

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Step 2
Unleash America’s Entrepreneurial Spirit
New Business Formation has Fallen Since the Great Recession

- **American entrepreneurship has stalled while consolidation has grown**: U.S. small business formations have stalled over the past decade, whether measured by total business formations or job creation. Over the same time period, the U.S. economy grew increasingly consolidated, with an increasingly small number of major corporations controlling ever larger market shares.

- **We have done too little to support minority entrepreneurs**: minorities are under-represented among business owners, in particular Black and Latinx individuals. When minorities do own businesses, their firms generate less income and hire fewer employees.

- **Some regions have better fostered entrepreneurship**: Business formation benefits from strong ecosystems of public, private, and nonprofit institutions. By forging tight networks of supportive community institutions, Cincinnati is one such example that has jumpstarted the growth of small businesses generally and minority-owned ones in particular.
II. Spur high growth entrepreneurship among MWBE founders

- **Expand the SBA’s Microloan Program**: Contingent upon developing better outcome-tracking metrics, the SBA should double funding for this program and expand the maximum loan size to $100,000.

- **Expand the SBA’s Growth Accelerator Fund Competition (GAFC)**: Congress should double annual appropriations to GFAC to $6 million. SBA should also set aside portions of GAFC to incubators in underserved regions and require winners to obtain private-sector matching.

- **Award SBIR/STTR to more diverse, first-time, recipients**: Federal agencies participating in the SBIR/STTR should prioritize these recipient businesses by:
  - Setting aside 20% of their budgets for first-time winners;
  - Launching an SBIR/STTR mentor-protégé program;
  - Increasing funding to earlier seed rounds.

- **Partner with colleges and business schools to promote financial literacy programs**: Existing technical centers should devote more resources to financial management education and congress should include financial management education in federal training programs.
III. Reduce barriers to entry for entrepreneurs & strengthen antitrust law and enforcement

• Help states cut onerous licensing requirements and where possible replace licensing with certifications: Congress should establish a commission to identify federal licenses—in sectors that do not implicate public health or safety—that could easily be replaced with certifications. Congress should also reward regional governments that trim burdensome requirements through credits proportional to the reduce compliance costs of small businesses.

• Extend unemployment benefits to founders to de-risk entrepreneurship: The federal government should allow unemployed workers to claim full unemployment after their business fails and create new incentives for states to offer self employment assistance to unemployed workers.

• Strengthen anti-trust law and enforcement: Congress should pass new laws to strengthen anti-trust laws and enforcement, update merger guidelines, and establish a DOJ funding program for State Attorneys General.
IV. Replicate proven organization & models that help businesses scale

- **Pioneer new local ecosystems that maximize federal resources and small business outcomes:** Congress should establish a multi-year Small Business Ecosystem Demonstration Project with a $275 million annual appropriation, allocated competitively.

- **Expand funding for community lenders to provide technical assistance:** Congress should boost appropriations for microloan technical assistance grants to at least $100 million and increase outcome—focused tracking requirements.

- **Marshall community resources for community lenders to receive technical assistance**

- **Expand the SBA’s RIC program and Department of Commerce’s RIS program:** Congress should commit another $100 million each to RIC and RIS grants over the next four years.

- **Tailor existing programs to minority communities:** Federally sponsored technical assistance centers should expand their reach and improve MWBE’s experience by: soliciting minority clients; making existing programs accessible; and introducing role models.
I. Provide loan & grant products at scale

II. Spur entrepreneurship among MWBE founders

III. Reduce barriers to entry & strengthen antitrust law

IV. Replicate proven organizations & models that help businesses scale

V. Meet market demand with new federally backed debt & equity products

VI. Strengthen a national network of financial institutions to support local businesses

Step 3
Shape a Financial System that Works For Main Street

8. Establish new private sector ESG standards for Minority & Women Owned Business procurement

9. Collect more and better data on federal programs and the small business sector

10. Rigorously evaluate the impact of programs and refine based on data
A racial gap exists in who can access the necessary credit to start & run a small businesses

- **Credit is essential to small businesses operations:** In 2019, 43% of small employer businesses applied for external financing, and from 2015 through 2019, 85% used external credit.

- **For most businesses the line between personal credit and firm credit is blurry:** At startup, only 35% of small businesses access funds besides personal and related-party assets. Black and Hispanic households have 15% and 20% of White household wealth respectively.

- **Small banks are a key source of funding, but they’re disappearing:** Small banks accounted for 5.6% of industry assets in Q1 2020 but received almost as many loans applications from small businesses as large banks (36% vs. 40%). There are 70% fewer community banks today than there were 25 years ago.

- **Black & Hispanic entrepreneurs’ lower credit has a compounding effect on their inability to access capital:** Nearly 30% of Black-owned, and 16% of Hispanic-owned, employer businesses reported being in the highest risk credit category (compared to 6% of White firms). This translates into more frequent credit denials and fewer relationships with lenders. Alongside worse personal credit, this harms Black and Hispanic business owners.
V. Meet market demand with a new generation of Federally backed debt & equity products

- Establish an inaugural first-loss guarantee loan program for non-bank lenders to lend to disadvantaged business owners: Launch a new first loss guarantee loan program for fintech lenders and other alternative lenders that operates at the portfolio level and guarantees the first 20% of losses for all loans to disadvantaged business owners, helping extend smaller subsidized loans to more borrowers by reducing transaction costs.

- Allow maximum higher interest rates on short-term SBA-backed loans: SBA should set a reasonable maximum interest rate for 7(a) loans below $100,000 of one-year duration or less between 20 and 25 percent.

- Reduce SBA fees for 7(a) borrowers and increase maximum loan guarantees to 90 percent: Congress should enact permanent fee cuts and higher maximum guarantees for the current set of 7(a) loans for 8(a) firms, alongside additional COVID recovery measures.

- Restore the State Small Business Credit Initiative with at least $3 billion in funding

Step 3
Shape a Financial System that Works For Main Street

Additional priorities

- Prioritize Community Advantage loans and loans to historically disadvantaged businesses

- Study a preferential 7(a) program for certified CDFIs lending to minorities

- Restore the SBIC program and push SBICs to invest in underserved businesses
VI. Strengthen a national network of financial institutions to support small businesses

- Make interest on deposits held by community banks tax exempt
- Reduce regulations and fees on community banks: Congress should exempt independent community banks from the Volcker Rule and Dodd-Frank Section 956, among other reforms.
- Strengthen the SBLF: Congress should appropriate at $6 billion SBLF funding, as they did in the Great Recession, and permanently authorize countercyclical appropriations.
- Update the CRA to drive investments into low income communities: Congress should make three large reforms to CRA to enable high-impact, flexible, and equitable financing. The OCC should revise the rule they unilaterally promulgated in May 2020.
- Revitalize the CDFI Fund update federal CDFI regulations: Congress should double grant appropriations to the CDFI Fund and expand certification access to the CDFI Fund.

Additional priorities

- Congress should authorize $200 million to fund CDFIs to expand equity investments in disadvantaged businesses
- Congress and the Agencies should create federal platforms to connect CDFIs to capital and training
- Congress should expand the NMTC and make it permanent at $10 billion
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VII. Set ambitious targets for federal procurement and push local governments to match these efforts

VIII. Mobilize corporate, educational, and medical institutions around MWBE small business growth

Step 4
Harness the Power of Public & Private Procurement
Procurement is a critical revenue source but today benefits fewer small firms than it could

- **Public sector contracting is a large revenue source for American businesses:** federal contracting accounts for more than $500 billion in American business revenue annually. State & local government contracting accounts for nearly $1.5 trillion annually.

- **A tiny subset of small businesses that win an outsized amount of federal contracts:** For example, 15% of the Washington DC HUBZone firms receive 70% of that region’s HUBZone dollars. Total small federal contractors have fallen from 120,000 in 2016 to 102,000 in 2019.

- **Scant data exists on federal subcontracting:** ample data exists on primary contractors, but the GAO has concluded that it is “not feasible” to locate data on subcontractors.

- **Private and nonprofit institutions spend large sums on procurement.** Insufficient data collection makes exact numbers difficult to track, it’s estimated that annually: Fortune 100 companies spend over $1 trillion; universities spend nearly $200 billion; and hospitals nearly $300 billion.
VII. Set ambitious targets for federal procurement and push local governments to match these efforts

• **Hold federal agencies to higher procurement standards:** Congress should immediately raise the statutory procurement target for small businesses to 30 percent, increase targets within each sub-category. The president should take executive actions providing incentive to ensure these targets are met.

• **Raise thresholds for federal sole-source awards and set asides:** Congress should double the $4 million and $7 million non-justification thresholds for 8(a) businesses and streamline set-aside procedure.

• **Launch a new federal-state initiative to connect small business to procurement:** The SBA should spearhead a comprehensive federal campaign to make contracting more accessible by overhauling its Office of Government Contracting and Business Development and empowering this office to run procurement assistance centers in every state with matching funds from state officials.

• **Streamline front-end applications to small-business contracting programs:** The SBA should simplify certification applications themselves and consolidate SBA operations so it process them more quickly. Congress should increase personnel appropriations.
VIII. Mobilize corporate, educational, and medical institutions around MWBE small business growth

• Establish a new, transparent, reporting regime for public, corporate, and anchor institutions: The next President should convene a blue-ribbon commission of leaders in supplier diversity across sectors and task them with devising a unified standard for tracking and reporting on corporate and institutional procurement from MWBE businesses. The president should use their soft power to garner commitments from large institutions to follow these standards, once finalized.

• Aggregate demand via intermediary marketplaces: the SBA should establish a new Office of Procurement Impact that can partner with industry to stand up such organizations and identify best practices for intermediary organizational structure and activities.

• Empower workforces to sustain local businesses: Congress should require SBA’s new Office of Procurement Impact to collect data on anchor institutions that pay workers living wages and provide equitable benefits. The office should publicize the names of anchor institutions that commit to compensating workers well. Additionally, intermediary platforms should push both anchor institutions and small businesses, themselves, to commit to fair compensation.
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Step 5
Collect Better Data & Evaluate for Continuous Improvement
Federal data collection provides only rudimentary information on the small business marketplace

- **Federal data collection on small business is decentralized across numerous agencies:** The US Census Bureau, Federal Reserve, Small Business Administration, Bureau of Labor Statistics, and US Department of Agriculture, among others all collect data. SBA’s Office of Economic Research, housed within the Office of Advocacy and tends to produce flashy briefs rather than substantive research.

- **The most detailed data on small businesses is collected private parties making it neither uniform nor widely accessible:** Kauffman Foundation, ADP, and the National Small Business Association supplement federally collected data. The COVID-19 crisis has spurred many private companies to publish free data on small business performance, including companies like Womply and Alignable.

- **Unlike other areas of the economy, data is often time lagged and not available at census-tract, zip code, or metropolitan area level:** Researchers can at-best put together only a limited snapshot of the successes and difficulties facing small businesses.
IX. Collect more and better data on federal programs and the small business sector

- **Make small business data collection and research a federal priority:** The federal government should take several concrete steps to ensure that information on the small business sector is timely, comprehensive and actionable, including:
  - *Expanding and promoting the Office of Economic Research in the SBA*;
  - *Increasing the funding to the Census Bureau’s Economic Census, especially for the Annual Business Survey, and*;
  - *Promulgating a rule for section 1071 of Dodd-Frank which requires the collection of demographic data on lending to MWBE small businesses*.

- **Create a research ecosystem:** Over the past 50 years, HUD has built a remarkable research ecosystem on housing, and the SBA must begin to do the same. SBA’s expanded Office of Economic Research should establish a program on University Partnerships, and begin to cultivate a research pipeline to ensure better outcomes for small businesses in the US.
X. Rigorously evaluate the impact of programs and refine based on data

• **Systematically evaluate federal technical assistance programs:** Congress should reinstate, expand, and make permanent the Social and Behavioral Sciences Team, a —now disbanded— interagency group of experienced experts that President Obama created in 2015 to help federal agencies collect and leverage actionable data. In addition congress should create a $1 billion fund over the next year for agencies to use for launching rigorously-designed program evaluations that focus on outcomes. Finally, congress should explicitly reserve funds for research and evaluation when authorizing new small-business programs.

• **Expand program experimentation and evaluation:** Congress should fund the SBA to undertake evaluation efforts on the scale of the hundreds of millions of dollars HUD has spent on its Moving to Opportunity and Moving to Work Demonstration Projects. The SBA currently has little funding to catalyze innovative financial approaches.
I. Empower SBA but Don’t Consolidate Programs

- **Invest in the SBA:** In a typical year, the SBA touches perhaps 5% of small businesses. Congress should invest significantly in the budget and capacity of the SBA so that it operates on par with agencies like the U.S. Treasury.

- **Maintain Program Heterogeneity:** The distribution of federal small business programs reflects the wide variance of the small business sector. Small farm owners may prefer to work with USDA, while low-income minority entrepreneurs may have experience with the MBDA. The focus, scale and scope of small business programs matters more than the particular agencies that house them.

II. Mobilize the Public, Private, and Civic Sectors

- **Shared prosperity takes everyone:** the federal government must act in a way that galvanizes the full energy of networks of public, private, and civic institutions across all scales. The reach and impact of federal investments are maximized when they engage the range of public, private, and civic sectors that serve small businesses.
Thank you

Read the full report: www.bigideasforsmallbusiness.org