REENTRY SMALL BUSINESS BARRIERS: CAPITAL ACCESS CONCEPT BRIEF

KEY TAKEAWAYS

• Reentry entrepreneurs and employers play an integral part in the circular economy and are frequently underrepresented. As such, it is essential to understand the barriers they face.

• There is a growing body of evidence that supports the notion that entrepreneurship can have a significant impact on previously incarcerated citizens. These entrepreneurs earn more than formerly incarcerated individuals who did not pursue entrepreneurship and are 33% less likely to reoffend.¹

• Small business owners, regardless of their background, face significant challenges when seeking capital for their ventures. However, these challenges are notably heightened for reentry small business owners with a criminal history.

In both rural and urban parts of the country post-pandemic, too many Main Street businesses could not recover and were forced to shut down, creating opportunities for bigger businesses such as Amazon, Dollar General, and Wal-Mart to occupy the vacancies. Research shows that when these big-box stores and multi-national conglomerates begin to expand into underserved communities, it hurts that community’s economic and public health by displacing full-service grocery stores, eliminating jobs, and undercutting competition from other retailers and small businesses.²
Reentry entrepreneurs and employers play an integral part in the circular economy and are frequently underrepresented. Small business owners, regardless of their background, face significant challenges. However, these challenges are notably heightened for reentry small business owners with criminal histories.

In 2023, Main Street Alliance (MSA) conducted a national survey to understand the issues that impact the success of independent, local business owners and entrepreneurs — especially those operating what we consider to be typically-sized "true" small businesses with less than 20 employees. The most commonly cited challenges included:

- Access to Capital
- Affordable childcare
- Corporate concentration
- Fair and equitable taxes
- Healthcare costs
- Paid Family and Medical Leave (PFML)
- Planning for retirement

Findings from our survey also emphasized the complexity and individuality of reentry experiences in the small business context. Understanding these perspectives and experiences is crucial for policymakers, stakeholders, and the broader community.

Further research that lifts the experience, needs, and voices of reentry entrepreneurs and true small business owners modeling reentry hiring is needed. The findings so far, plus additional community-based research (with methods including key informant interviews, focus groups, and equitable community-based program evaluation), can jump-start conversations and organizing to develop and advocate for effective strategies and support systems that facilitate successful reintegration and create inclusive opportunities for reentry individuals in the small business sector.

“The lack of capital is one of the reasons why people go back to prison. Returning citizens can add a lot of human capital to existing businesses if given a fair chance.”

- Altimont Wilks, owner and operator of Carmen’s Corner in Hagerstown, Maryland

MSA is the nation’s leading organization for true small businesses. We support local communities to push grassroots initiatives that work to create a more just economy and inclusive society.
INTRODUCTION

The United States leads the world in the number of people incarcerated, disproportionately affecting people of color. Nearly half of the individuals in state prisons are Black, despite Black people making up only approximately 13% of the U.S. population. According to a report by The Sentencing Project called The Color of Justice: Racial and Ethnic Disparity in State Prisons, Black people are incarcerated in state prisons at nearly five times the rate of their white counterparts, and Latin Americans are incarcerated at a rate that is 1.3 times the incarceration rate of white Americans.

According to the Bureau of Justice Statistics, the U.S. spends $81 billion yearly on mass incarceration, which is considered to be an underestimate. In 2017, the Prison Policy Initiative estimated that the actual cost to state and federal governments and impacted families is roughly $182 billion. Each state is estimated to spend an average of $25,000 to $30,000 per year on each prisoner, imposing a significant burden on taxpayers in the United States.

More than 600,000 people were released from state and federal prisons in 2015, and an additional 10.6 million cycle through local jails each year. Within three years of being released, an alarming 68% are rearrested, citing unemployment as a significant contributing factor.

After serving their time and returning to their communities, returning citizens face many challenges, especially securing employment. Reentry citizens are unemployed at a rate of 27% – higher than the U.S. unemployment rate at any point in history.

When individuals with criminal records who are eager to rebuild their lives struggle to find employment, it hampers their ability to contribute to the local economy and sustain themselves.

ROLE OF SMALL BUSINESS OWNERS

Small business owners play a vital role in their communities as they drive local economies. By actively participating in reentry efforts and providing job opportunities, small business owners can contribute to community safety, reduce recidivism rates, and promote social cohesion.

Moreover, reentry individuals often possess valuable skills and talents that can benefit small businesses. Small businesses may miss out on skilled workers by not paying attention to this untapped talent pool. Moreover, small business owners can lead in embracing fair hiring practices and supporting the successful reintegration of ex-offenders.

REENTRY ENTREPRENEURS

The challenges and barriers to employment lead many reentry citizens to pursue the route of entrepreneurship. A study by the Journal of Policy Analysis and Management found that 28% of reentry citizens are self-employed, and 22% rely solely on self-employment.

However, lending policies often exclude reentry small business owners from accessing capital, disproportionately impacting Black and Brown business owners because people of color are significantly overrepresented in the U.S. prison population, as they are at far greater risk of being targeted, profiled and arrested, especially in high-poverty areas.

Stringent eligibility criteria and risk assessments often exclude those with criminal records from obtaining traditional loans or lines of credit. For example, in 2021, the Small Business Administration (SBA) distributed $28.4 billion in small business loans, with an additional $10 billion under the American Rescue Plan Act’s “State Small Business Credit Initiative.” However, under SBA guidelines, an applicant is ineligible (but can appeal) for general loans such as a 7(a), 504, or a microloan if they were incarcerated, are on probation or parole, or have been convicted of a felony.

"I haven’t had access to capital. The moment [lenders] find out I’m a reentry business owner, it doesn’t matter if it was 20 or 30 years ago, I get blocked out."

--KB Brown, Minnesota, Wolfpack Professionals
Small businesses provide employment opportunities and key services to the communities they serve. Unfortunately, criminal history provisions remain in small business lending due to the SBA’s outdated criminal history criteria. A recent example of a noticeably out-of-touch barrier to lending for reentry small business owners occurred as part of the rollout of the Paycheck Protection Program (PPP), an SBA-backed loan intended to help businesses keep their workforce employed during the COVID-19 pandemic by distributing over $800 billion to businesses across the country.

Under the original PPP rollout, restrictions for anyone with a criminal record within five years disqualified more than 140,000 small business owners, impacting 212,000 small businesses and disqualifying 343,000 employees from receiving funds.11 After facing criticism from the public, the SBA made changes to make the program more widely available, implementing a temporary rule allowing those with non-fraud-related felony charges within the previous year to qualify for the program.

Unfortunately, many small businesses that could not receive these funds under the original rollout did not survive the pandemic. They were forced to close their businesses, allowing the large corporations to expand into communities and eliminate the power and voices of true small business owners.
RECOMMENDATIONS

1. **Support Clean Slate Policies:** The survey revealed that Clean Slate Laws, which aim to provide relief for individuals’ criminal history records, are unfamiliar to most small business owners. Underscoring the need for more awareness and education. These policies refer to a legislative model that relieves an individual’s criminal history record, allowing records to be sealed or expunged from criminal background searches and public records. Ten states have passed Clean Slate Laws into legislation to date. This makes reentry life much harder for citizens with records, as it limits their pathways into the workforce and forces them to work multiple part-time jobs to earn a livable wage. Clean slate policies are not implemented nationally, and the process in many states is extremely costly. Many individuals who may be eligible to apply for a clean slate are unaware of this option. By automating the process, the Clean Slate Act would make record sealing more accessible for reentry citizens, and eligible reentry small business owners would have the barrier of a criminal history removed from the loan application process.

2. **Continue to Expand the State Small Business Credit Initiative (SSBCI):** Through the 2021 American Rescue Plan Act, $10 billion has been authorized to expand SSBCI programs to expand access to capital for small businesses emerging from the pandemic, build ecosystems of opportunity and entrepreneurship, and create high-quality jobs. The United States Department of Treasury administers the federal program through the SSBC, which was created to strengthen state programs that support private funding for small businesses. This legislation allocated $1.5 billion for business enterprises owned and controlled by socially and economically disadvantaged individuals (SEDI-owned businesses). From lessons learned during the initial PPP rollout, it is critical to remove barriers to accessing these funds for reentry small business owners, as nearly $80 billion never reached the targeted SEDI-owned businesses.¹²

3. **Reevaluate criteria for traditional SBA loans for reentry small business owners:** The SBA received criticism for being too exclusive with their emergency disaster loans during COVID-19. Later, the SBA determined that due to the changing conditions in the American economy, technological developments, and a constantly evolving small business community, there is a need to revise regulations to improve program efficiency and the customer experience for the 7(a) and 504 Loan Programs. While discussions to amend the 7(a) and 504 loan applications are ongoing, it is important for the SBA to consider expanding access for reentry small business owners. These two types of loans are the most traditional for starting and growing a small business. Reentry small business owners need collective support from the greater small business community in removing barriers to capital and employment due to their past criminal history.
CLEAN SLATE LAWS FAMILIARITY

Clean Slate Laws refer to a legislative model that provides relief for an individual’s criminal history record, allowing these records to be sealed or expunged from criminal background searches and public records. We asked small business owners about their familiarity with Clean Slate Laws.

The majority (48.8%) of respondents were unfamiliar with Clean Slate. Only 2.1% were very familiar with this concept, and 41% had a moderate level of familiarity with the topic.

Lastly, 8.4% of respondents selected the neutral option, indicating they have neither familiarity nor unfamiliarity with Clean Slate. These individuals may have limited exposure or knowledge about the concept.

MSA sees an opportunity for meaningful change in the reported limited familiarity of Clean Slate policies. MSA is uniquely positioned to inform true small business owners of these policies where they exist and to organize small business owners where they do not exist.

CLEAN SLATE LAWS OPINIONS

The responses to the question regarding Clean Slate Laws and their impact on welcoming reentry individuals seeking a second chance are diverse. A significant number of respondents, 35%, believe these policies will help attract reentry applicants to their businesses. They see Clean Slate Laws as beneficial for individuals seeking a fresh start. On the other hand, 45% of respondents expressed that while they acknowledge the positive impact of Clean Slate Laws for individuals, they cannot form a strong opinion at this time. However, a few respondents, 5%, also stated that even with Clean Slate Laws, they are not open to hiring someone with a criminal record.

Their decision may be influenced by factors such as the nature of the offense or the specific regulations of their industry, as mentioned by some respondents in the “Other” category. Overall, the responses indicate a range of perspectives regarding Clean Slate Laws and their potential impact on welcoming reentry individuals, with some expressing support and others expressing reservations or specific limitations based on industry or conviction details. These perspectives should be considered to develop tailored initiatives that address industry-specific concerns while promoting awareness and support for reentry hiring and entrepreneurship.
PARTICIPATION IN REHIRING ASSISTANCE PROGRAMS

Based on the MSA survey, a diverse range of local, state, and federal programs in reentry hiring assistance are being used. Of those who participate in reentry hiring assistance programs, nearly 70% indicated the “Other” category, indicating the existence of numerous additional programs beyond those listed. One owner noted in the survey that they tried offering a twelve-week course for reentry individuals but could not find an agency to sponsor them fiscally. In contrast, others mentioned that they explored programs through the Small Business Association and local programs.

The Federal Tax Credit program has the second-highest response, followed by Apprenticeship Program, State Tax Credits, Work Opportunity Tax Credits, Municipal Incentive Program, and Federal Bonding Programs. The specific details and nature of these programs may vary; however, they generally aim to provide incentives, tax credits, or support for employers hiring individuals with a criminal record or those reintegrating into society after incarceration.

BACKGROUND CHECKS

When asked about conducting background checks for applicants, the responses varied. The majority of respondents, 52%, mentioned that they do not conduct background checks. However, 19% of respondents indicated that they conduct background checks for every position, while 16% stated that they conduct background checks for certain positions. The remaining responses were marked as “Other,” and respondents described unique circumstances. Some respondents mentioned plans to implement background checks in the future, while others identified themselves as solopreneurs or stated that they were not currently seeking employees. Overall, the responses reflect a range of approaches to conducting background checks, with a notable number not implementing this practice in their hiring process.

“Most of the jobs that pay a living wage have one thing in common: they do background checks. It doesn’t matter if you committed a crime 30 years ago or three years ago, you could be the hardest worker, but once a background report shows you have a record, you’re out.”

--KB Brown, Minnesota, Wolfpack Professionals
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The information contained in this resource is provided for informational purposes only and should not be construed as legal advice on any subject matter.

Endnotes


5 Kuhn, C. (2021, April 7). The U.S. spends billions to lock people up, but very little to help them once they’re released. Retrieved from PBS NewsHour website: https://www.pbs.org/newshour/economy/the-u-s-spends-billions-to-lock-people-up-but-very-little-to-help-them-once-theyre-released#:~:text=The%20U.S.%20spends%20%2481%20billion


8 Dilanian, K., & Strickler, L. (2022, March 28). Theft from the Covid relief plan known as PPP was even worse than we thought. Retrieved from NBC News website: https://www.nbcnews.com/politics/justice-department/biggest-fraud-generation-looting-covid-relief-program-known-ppp-n1279664