



Lessons from
**Richmond,
Virginia**

Strengthening the Links

Between Business Ownership and
Minority Wealth Building

May 2023

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Executive Summary



Entrepreneurship can create a virtuous cycle of wealth generation that benefits business owners, their families, their communities and the economy. For Black and Hispanic communities, business ownership can be transformative, but only under certain conditions. This paper seeks to show how variables such as funding, capabilities and ecosystems can make a difference to business outcomes. Based on these insights, the paper explores potential ways to level the playing field.

Black and Hispanic business owners, representing 3% and 6.5% of business owners¹ respectively, often have a different experience of the entrepreneurship process than their non-Black and Hispanic peers. Much research² has focused on the differences between communities across various dimensions including revenue opportunities in commercial corridors, resources, business size, general survivability and access to capital. Building on previous research, this paper highlights varying patterns of wealth creation among Black and Hispanic business owners.

Our results shed new light on the conditions that would support Black and Hispanic business success, growth and wealth generation. Based on these findings, we discuss potential levers that could help entrepreneurs, financial institutions, business and community organizations and policymakers close the racial wealth gap.

Study background

From August to October 2022, we surveyed 1,015 current and former business owners and residents of Richmond, Virginia. In addition, we conducted interviews with Black and Hispanic business owners and 21 community organizations that provide support to local businesses in the Richmond area.

Our research focused on wealth accumulation over each respondent's business ownership through 2022. Nearly all the owners in our survey launched their businesses before 2020, meaning they survived through the height of the COVID-19 pandemic, which had a devastating impact on businesses across the US.



Key Findings

Under the right conditions, Black and Hispanic businesses can generate substantial wealth, community benefits and independence:

About 35% of Black and Hispanic business owners in Richmond were able to grow their personal wealth to more than \$188,000, achieving parity with the median wealth for white households in the United States.

In addition to personal wealth, small businesses can bring jobs to the community, even when they do not grow personal wealth for the business owner.

Business owners also highlight the benefits of being independent of traditional employers and retaining control of their own wealth generation.

Still, business ownership does not guarantee wealth growth:

From 2017/18 to 2022, entrepreneurs who started a business in Richmond generated less wealth on average than residents who did not own a business, illustrating the short-term opportunity cost of entrepreneurship versus employment.

Black and Hispanic business owners gained just 25% of the wealth accumulated by non-Black and Hispanic business owners over this period.

These findings suggest that, while wealth growth through business ownership is possible for Black and Hispanic entrepreneurs, several key factors often impede success. These must be addressed so that Black and Hispanic businesses can achieve economic parity with their non-Black and Hispanic peers.

We identify the factors as:

Initial funding and growth funding

Access to capital is critical for all businesses. However, there are differences in funding impacts between Black and Hispanic business owners and others. Black and Hispanic business owners who receive all the external startup funding they request generate three times more wealth than those who receive only part of the funding. Non-Black or Hispanic businesses see roughly the same wealth growth, irrespective of whether they receive all external funding. For Black and Hispanic business owners, access to capital has a greater impact on their ability to grow wealth, potentially because they have fewer funding alternatives, such as personal wealth or friends and family. Similarly, Black and Hispanic entrepreneurs that receive growth funding for their businesses increase their wealth by nearly 50% more than those who do not.

Capabilities and expertise

All businesses, large and small, require supporting infrastructure and a healthy business ecosystem to grow. Our research finds that Black and Hispanic businesses in Richmond often find it difficult to access resources generally available to other businesses. These include deep talent pools possessing specific skill sets, well-established markets and networks that offer revenue growth opportunities and third-party expertise, including consulting and other infrastructure support services.

A coordinated ecosystem

To achieve wealth generation through growth and longevity, small businesses need an “invisible scaffolding” of mentorship and expertise—often external to the business. Players in the local and virtual small business ecosystem can provide this support through technical assistance, connections to business networks and access to capital and other resources. However, they need sufficient resources to ease navigation, improve coordination and collaborate effectively.





Recommendations

Black and Hispanic business owners face disproportionate difficulties in accessing financial capital and social capital including mentoring, technical assistance and business networks. Government entities, community organizations, private-sector stakeholders and other members of the business ecosystem can play a role in ensuring equitable access to resources and empowering Black and Hispanic business owners to succeed.

Based on our research, we recommend the following actions:

Continue exploring innovative methods for improving access to capital, including partnerships and financing mechanisms that allow for greater customization of products and services (such as smaller loans and finding new ways to assess credit worthiness).

Raise awareness of, access to, and engagement in public and private programs that support small business incubation and growth, thereby boosting take up.

Help level the playing field and ensure that all small businesses are well prepared to seek funding by providing them with financial management, coaching and digital tools that streamline business documentation.

Strengthen the community organizations that support small businesses, so they can offer more tailored business support and maximize the impact of their limited resources through better coordination and collaboration.

Continue building trust between funders and communities of color through transparency and engagement.

Introduction

Business ownership is a powerful economic driver that is often hailed as a means of building wealth and narrowing the racial wealth gap. It can be transformative for Black and Hispanic communities. One study found that households whose head is self-employed have substantially higher wealth than those in which the head of the household works for someone else³.

Wealth as a key indicator



The research in this report focuses on wealth rather than income alone, because wealth, more than income, offers opportunities for economic mobility and financial security. Wealth is how families pass financial security and opportunity on to the next generation. Persistent wealth gaps in the US continue to separate Black and Hispanic families from non-Black or Hispanic families. In 2019, according to the Federal Reserve⁴, a typical white family in America had \$188,200 in wealth, while a typical Black family had \$24,100 and a typical Hispanic family had \$36,100—a persistent gap rooted in longstanding barriers to wealth creation.

If they reached parity with white business owners in both number (proportional to the population) and average revenue, Black businesses could drive an estimated additional \$5.9 trillion⁵ in economic activity. Hispanic businesses could catalyze even greater economic gains. However, unlocking the benefits of wealth generation through business ownership would mean building a robust infrastructure of resources and support that has historically not been available to Black and Hispanic businesses.

Building on existing research, this study discusses the wealth-generation potential of small businesses. What conditions need to be in place for success and what barriers need to be addressed? To answer these questions, we focus on businesses in Richmond, Virginia. Taking a geography-based approach allows us to explore the unique attributes, challenges, support systems and resources in one city's business ecosystem, while highlighting lessons and surfacing insights that may apply to other cities and communities.

Business Ownership and Wealth: A Complex Story

Businesses can generate personal wealth for owners and their families, as well as community wealth through job creation and improved quality of life.

Personal wealth

Under the right conditions, business ownership can drive significant personal wealth accumulation. The median wealth for a white US family is \$188,200 while the median wealth for a Black family is just \$24,100 and for a Hispanic family is \$36,100⁶—a persistent gap rooted in longstanding barriers to wealth creation. Of Richmond’s Black and Hispanic business owners who started their business with wealth below that of the typical white owner⁷, 35% were able to grow their wealth to at least \$188,000, achieving or exceeding parity with median white US household wealth. (See Exhibit 1).

Black and Hispanic business owners in our study experience an average wealth increase of roughly \$90,000 over the course of their business ownership, while non-Black or Hispanic business owners grow wealth by an average of \$157,000. This suggests that while Black and Hispanic business owners in Richmond experience notable wealth growth, business ownership has not helped close the wealth gap in our sample.

EXHIBIT 1

Black and Hispanic business owners can achieve personal wealth

Share of black and Hispanic business owners that reached at least \$188K in wealth over the course of their business ownership.

35%
of Richmond
businesses

\$188,000
increase in
personal wealth



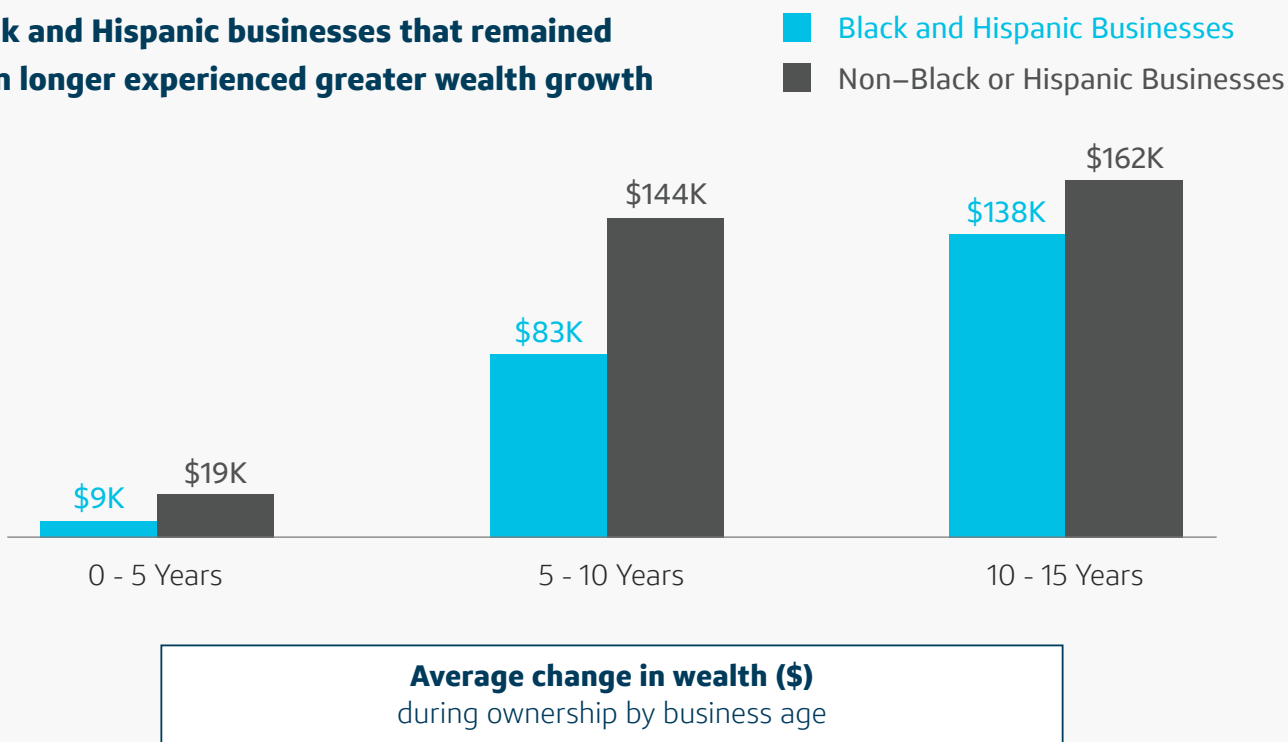
In addition, our research confirms that businesses reaching a certain maturity can generate greater wealth. As expected, we find that Black and Hispanic businesses that survive startup years generate more wealth for their owners. In line with research conducted by JPMorgan Chase Institute⁸, we conclude that liquid wealth does not meaningfully increase for the typical small business owner in the first four years of operation, and even less so for the typical Black or Hispanic small business owner.

In our study, those able to keep their businesses open for five to 10 years grow their wealth by nine times more than those operating for less than five years. Longevity seems to aid wealth growth for Black and Hispanic business owners slightly more than it does for non-Black and Hispanic business owners, who experience a 7.5 times increase over a five-to-10 year period.

As expected, greater revenue correlates with greater wealth growth. Black-and Hispanic-owned businesses with revenues of at least \$500,000 grow their wealth by three times more than those with revenues of less than \$500,000. Beyond \$1 million in revenues, wealth growth continues for those owners but at a slower pace than businesses with revenues below \$1 million. Wealth growth above \$5 million in revenues reveals surprising patterns, including a dip in wealth growth for non-Black and Hispanic business owners. This warrants further research into wealth generation by larger small businesses. (See Exhibit 2).

EXHIBIT 2

Black and Hispanic businesses that remained open longer experienced greater wealth growth



Community wealth and personal goals

Personal wealth is not the only measure of business success. Businesses can deliver wealth to the community by creating jobs and contributing to the quality of life and vibrancy of neighborhoods. They provide essential goods and services and help keep money within the local economy. For this reason, we also measured job creation as an indicator of business success.

In Richmond, businesses that employ fewer than 250 people are a critical driver of the local economy and account for 65% of overall employment.

Even in cases where growth in personal wealth is not large, Black and Hispanic businesses in our survey generate jobs in the community, with 40% of these employing at least 10 people. The same is true for businesses that experience significantly lower personal wealth growth for their owners (less than \$188,000), with 13% of these generating at least 10 jobs.

Black and Hispanic business owners also serve community needs and provide essential goods and services. They enhance neighborhoods by occupying otherwise vacant stores, providing community meeting places and stimulating the inflow of additional resources. These owners can be role models and can provide support for future entrepreneurs in their neighborhoods.

Across the US, 75% of small business revenue tends to stay in the local economy, compared with less than half of that of large businesses⁹. According to research by the Brookings Institution, Black-owned businesses are more likely to be located in predominantly Black neighborhoods, which keeps dollars and jobs in those neighborhoods¹⁰.

Not all business owners prioritize wealth growth. Many seek non-financial goals such as independence, fulfillment and flexibility, while covering living costs. In a 2020 Franchise Insights¹¹ survey, 84% of respondents say that a desire to “be my own boss” was the reason they started a business. Several owners told us they wanted to generate enough revenue to support their families, create an asset to pass to the next generation or contribute to the community.

Wealth growth is not guaranteed

Strikingly, Black and Hispanic business owners that started businesses in 2017/2018 and were still operating in 2022 gained just 25% of the wealth gained by non-Black or Hispanic business owners during that period, increasing the racial wealth gap among business owners. The racial wealth gap among non-business owners, meanwhile, stayed the same. (See Exhibit 3). This suggests that business ownership in the communities surveyed widened the wealth gap for Black and Hispanic owners rather than narrowing it.

More concerning is that Black and Hispanic individuals in Richmond who started a business in 2017/2018 that was still operating in 2022 grew their wealth by roughly half that of Richmond residents **who did not own a business**. In effect, they were in a weaker financial proposition than if they had not started a business. Non-Black or Hispanic owners also saw a lower average increase in wealth than non-business owners (\$66,000 vs \$83,000), but a slightly greater relative increase in wealth (3 times vs 2.9 times for non-business owners). These findings suggest that business ownership in the communities surveyed widened the wealth gap for Black and Hispanic owners rather than narrowing it, at least in the short term.

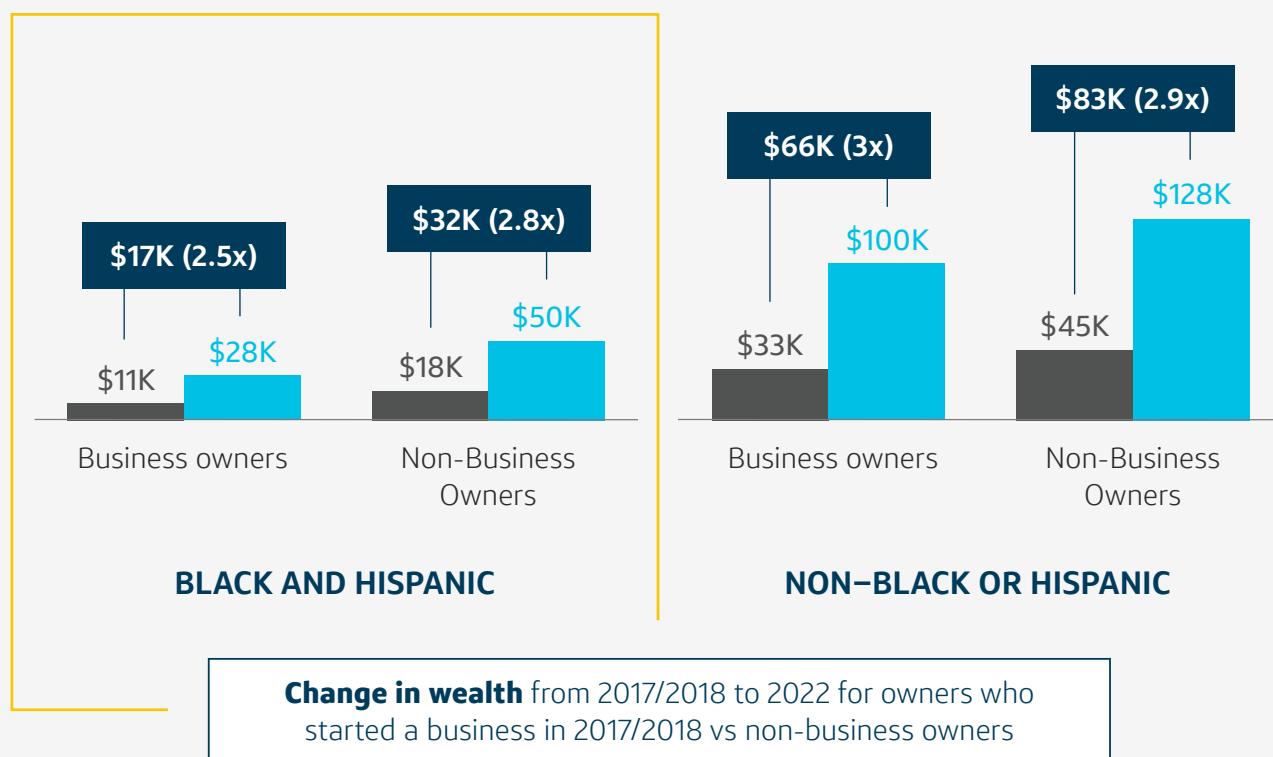


This data likely understates the extent of the challenges that minority businesses have faced in recent years. As noted above, we focused on businesses that made it through the pandemic. However, across the US, COVID-19 highlighted and deepened disparities between Black and Hispanic businesses and other businesses, creating an even more pressing need to support these communities.

EXHIBIT 3

Black and Hispanic residents who did not own a business experienced greater wealth growth over a 5-year period than those who started a business

■ Average 2017/2018 Wealth
■ Average 2022 Wealth



During the first few months of 2020, 41% of Black-owned and 32% of Hispanic-owned businesses closed, according to the National Bureau of Economic Research¹², with those in service industries and bricks-and-mortar retail hit hardest. The concentration of Black and Hispanic businesses in these industries contributed to their higher rates of closure¹³.

Overall, 68% of small businesses survive for at least two years, according to the Small Business Administration (SBA)¹⁴. For Black and Hispanic firms, the figure is slightly lower, at 65% and 64% respectively¹⁵. And because they often invest personal wealth into their businesses, owners can suffer financially in the early years—or over the longer term if the business fails.

The racial wealth gap is more pronounced in certain industries. Black and Hispanic businesses are generally underrepresented in the highest-revenue industries, such as wholesale trade, manufacturing and utilities.¹⁶ Our study finds that Black and Hispanic businesses in Richmond's service industry increased their personal wealth by \$90,000—twice as much as those in the retail or manufacturing industries. By contrast, non-Black or Hispanic businesses in manufacturing in Richmond increased their wealth by more than retail or service businesses.

This suggests that Black and Hispanic entrepreneurs could benefit from greater access to opportunities in the high-growth B2B industries, in which non-Black and Hispanic business owners are succeeding in growing wealth.

These observations highlight the importance of identifying the conditions, infrastructure and resources needed to enable wealth creation for Black and Hispanic entrepreneurs.



Wealth Creation: Identifying the Essential Building Blocks

Although our research in Richmond suggests that business ownership is not a panacea when it comes to closing the wealth gap, it reveals some critical factors that can boost the wealth-generating potential of business ownership.

Access to capital

Initial funding

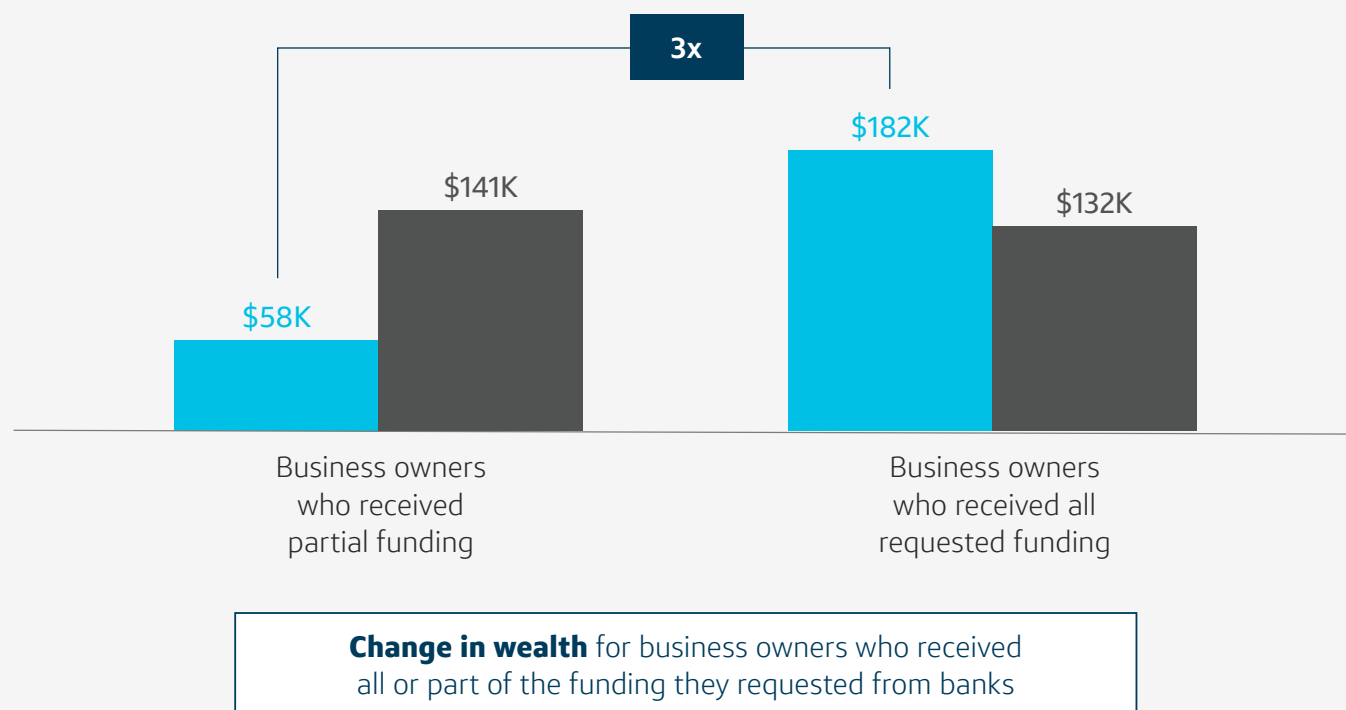
The results of our study support a well-known fact: Funding is critical for business survival and success. When Black and Hispanic owners of closed businesses were asked why they were unable to stay open, they were twice as likely to cite a lack of capital.

Access to funding appears to be disproportionately important to Black and Hispanic business owners. Non-Black or Hispanic owners do better in terms of wealth and job creation, whether or not they receive all the startup funding they need. But Black and Hispanic owners who do not receive full startup funding generate three times less wealth than Black and Hispanic owners who do. (See Exhibit 4). Funding for small businesses can be obtained through a range of different commercial, government and personal sources. For more details on the landscape of funding sources, see box: “A deeper look at the funding ecosystem.”

EXHIBIT 4

Among Black and Hispanic business owners who requested funding from a bank, those who received all requested funds grew their wealth by more than those who received partial funding

■ Black and Hispanic Businesses
■ Non-Black or Hispanic Businesses



Our data does not seek to explain why Black and Hispanic owners were unable to obtain the full amount of funding requested. It is possible that those receiving full funding had higher credit scores or more robust business plans. Still, in general, Black and Hispanic business owners have difficulty accessing financing. According to the Federal Reserve Bank's 2021 Small Business Credit Survey (SBCS)¹⁷, financing shortfalls are more common among Black-owned (39%) and Hispanic-owned (31%) firms than among white-owned firms (22%).

Black and Hispanic business owners tend to rely heavily on personal funding. Findings from the 2021 Small Business Credit Survey¹⁸ show that, to address business challenges, Black business owners are most likely (74%) to tap into personal funds, followed by Hispanic businesses (65%). Research by the Stanford Latino Entrepreneurship Initiative¹⁹ shows that 70% of Latino entrepreneur startup funding comes from personal savings.

The dramatic effect that sufficient bank funding has on wealth outcomes indicates that personal savings are insufficient substitutes for access to robust external capital.

A deeper look at the funding ecosystem

Traditional financial institutions account for around 75% of the funding provided to small businesses in the US²⁰, making these institutions the primary source of external capital for small business owners. However, despite the significant funding available from financial institutions, funding resources for small businesses include a broad range of financing types from many different sources. Funding can take the form of equity, debt or transfers (such as gifts or grants). Potential sources include private equity funds, venture capital funds, fintech firms, government funds (e.g., CDFIs, grants, loans), angel investors, nonprofits and philanthropic organizations.

Equity capital providers receive partial ownership of the business they fund and share both the opportunities and risks. Debt capital providers lend funds to a business—sometimes requiring owners to put up collateral assets—under certain terms, with the debt typically accruing interest. Transfers may come as gifts from friends and family or through grants from foundations or public entities.

Financing structures vary from standard-term loans, working-capital loans and flexible lines of credit such as business credit cards, to more complex mechanisms such as receivables or payables financing, dynamic discounting or supply chain financing.

Each funding structure has advantages and disadvantages, and business owners can find it challenging to determine the right type of capital to pursue—particularly owners who lack access to expert advice and business networks.

As a result, some business owners prefer the simplicity and clarity of alternative options or non-bank services²¹. However, these come with high transaction costs, greater risks, onerous terms and conditions and fewer regulatory protections.

In Richmond, only 50% of funding for the Black and Hispanic businesses surveyed comes from banks, while 28% takes the form of gifts or loans from friends and family.

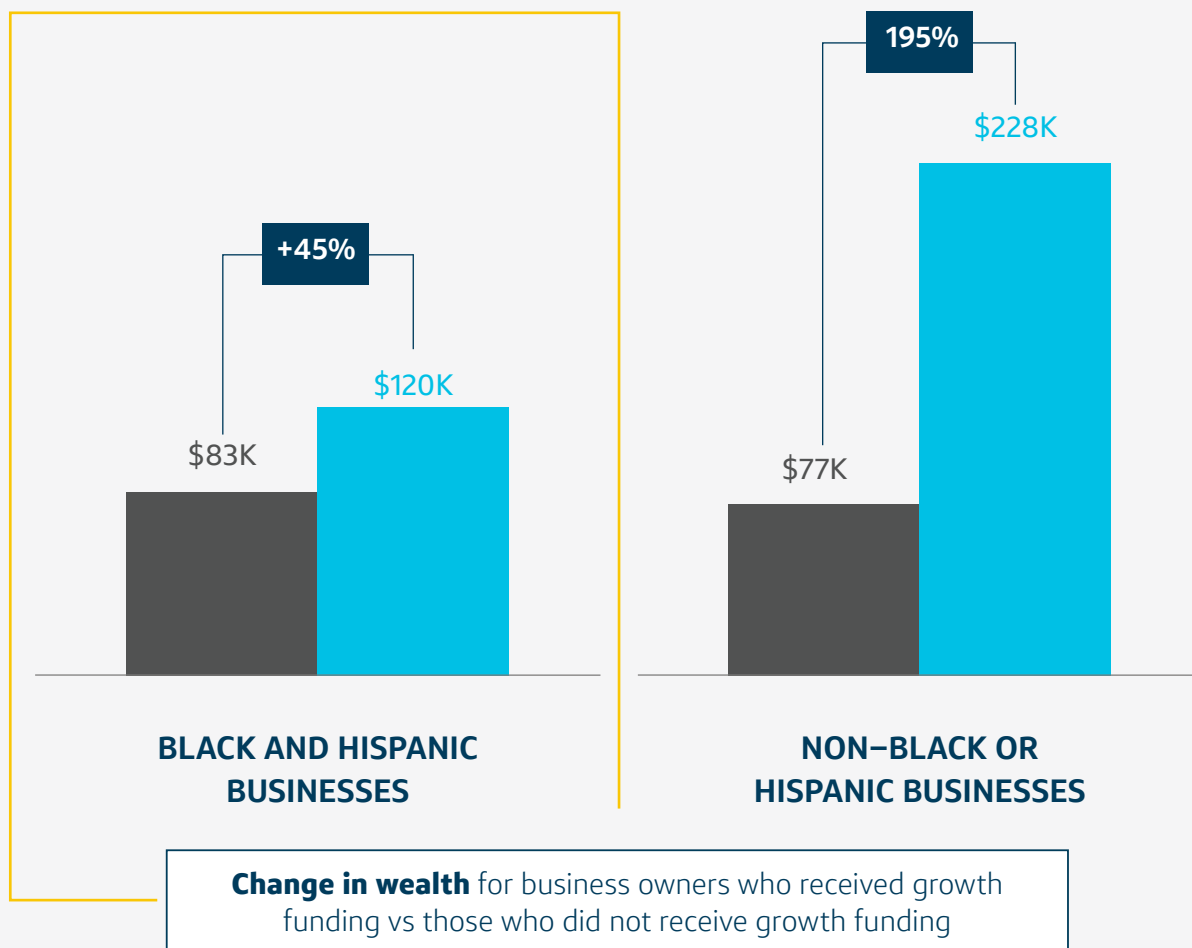
Growth funding

Starting a business is just the first step. In addition to startup capital, Black and Hispanic business owners need funding to scale their businesses. Those who received growth funding expanded owner wealth by 45% more than those who did not. (See Exhibit 5).

EXHIBIT 5

Black and Hispanic businesses that received growth funding grew owner wealth more than those who did not

■ Did not receive growth funding
■ Received growth funding

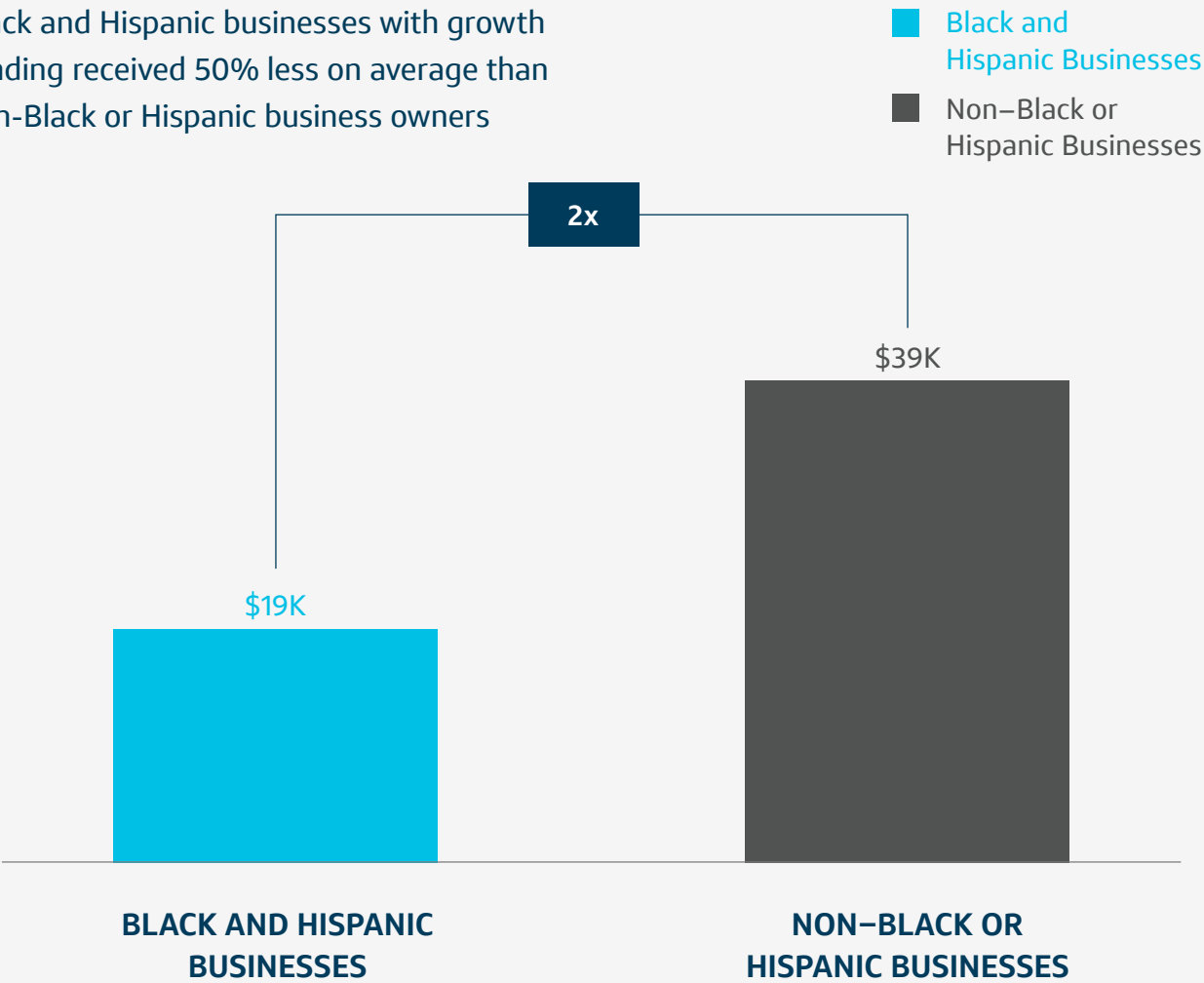


We find that only 40% of Richmond’s Black and Hispanic business owners receive growth funding, and the funding is about half the amount received by non–Black or Hispanic business owners. (See Exhibit 6). This has an impact on wealth generation. In a report by the Association for Enterprise Opportunity²², 79% of Black owners said the current business financing environment “was restricting their business growth opportunities.”

In addition to missed opportunities for wealth creation, limited access to capital from traditional sources can lead some business owners to pursue other options that come with high costs and high risk. Some Richmond-based entrepreneurs with low or poor credit scores say they resort to alternative financial services or predatory loans when traditional financing options are unavailable.

EXHIBIT 6

Black and Hispanic businesses with growth funding received 50% less on average than non-Black or Hispanic business owners





Capabilities, expertise and access

To scale and grow businesses successfully, owners need social capital, including access to clients, markets and community and support networks. Social capital is the “invisible scaffolding” that underpins growth and longevity for businesses of all sizes, at all stages, and in all markets. Social capital is essential to navigating the system and knowing who to work with, where to find resources, how to price goods and services and how much to pay for vendor services. Black and Hispanic communities often find social capital hard to access. As one Black and Hispanic business owner told us: “Richmond is all about who you know.”

Access to markets

Black and Hispanic business owners report not receiving the same level of client referrals and not being seen as having the same level of expertise as their counterparts.

In service industries, Black and Hispanic businesses are more highly concentrated than white businesses: 25% and 17% respectively in “other services,” compared with 11% of white-owned firms and 13% of all firms²³. And while access to consumer markets is critical for those in the service and retail sectors, some Richmond business owners say they struggle to articulate their value proposition to potential customers, while others rely on relationships in their communities for client and customer referrals.

For B2B businesses, access to markets is more complex. In Richmond, forms of support for eligible businesses include the Minority Business Enterprise (MBE) certification for businesses that are at least 51% minority-owned and the Small, Woman-owned and Minority-owned Business (SWaM) certification. However, some Black and Hispanic business owners tell us that, because of challenges in navigating Richmond’s municipal systems and requirements for establishing a business, they choose not to obtain MBE or SWaM certifications.

While supplier diversity programs are growing in number, some business owners tell us they find the process of securing government and corporate procurement contracts extremely difficult and complicated. This limits access to the coaching and mentorship these programs offer, as well as to the larger contracts that create opportunities for growth and capacity building.

Operational capacity

Even if businesses secure financing, they must have the operational capacity to handle the increased sales volumes that come with growth. They also need access to the broader markets and new customer bases that will allow them to scale.

Small businesses can become trapped in a vicious cycle, in which they lack sufficient staff or production capacity to meet vendor requirements and therefore are unable to win contracts that would allow them to grow. As one Harvard Business Review²⁴ article put it; “Without adequate scale and capabilities, the diverse suppliers cannot be awarded new business, and without being awarded new business, they cannot gain scale or learn new capabilities.”



Access to expertise

To get their businesses off the ground, most owners need mentors and the ability to tap into expertise from trustworthy networks. In addition, Black and Hispanic business owners require mentors and networks that can address needs specific to minority-owned businesses. Without these forms of support, they may fail to connect with the community partners that provide valuable resources. Many of the businesses we interviewed turn to social media and web searches, unreliable financing channels or predatory loans.

Richmond-based Black and Hispanic business owners with strong business backgrounds or access to training from community partners tell us that business knowledge and expertise play a significant role in ensuring financial success and mitigating legal risks. They see accounting and tax knowledge and good personal credit ratings for securing business loans as essential for achieving sustained growth. Early-stage Black and Hispanic owners lack many of these forms of support, suggesting more needs to be done to increase access to these resources.

Black and Hispanic entrepreneurs could benefit from support in navigating Richmond City's business systems, access to industry-specific networking and guidance on how to successfully pitch their businesses to buyers or funders, particularly for diverse business programs. Mentorship is also essential to help young businesses without entrepreneurial experience see the bigger picture while focusing on the details of starting an enterprise.

Even when resources are in place, new channels are needed to direct Black and Hispanic business owners toward the right experts and advisors. Web searches are often too broad and unreliable. And while community organizations can help, our interviews reveal that some Richmond Black and Hispanic business owners are not using the resources these organizations offer because of a lack of awareness, perceived lack of usefulness or assumed lack of access.



The ecosystem: sources of support in Richmond

The local economy and the business support ecosystem—both enabling infrastructure and systemic barriers—affect a business’s ability to thrive and grow. By focusing on financiers, markets, suppliers and enabling infrastructure, we can identify trends and unlock potential solutions that could help businesses gain access to funding, networking, mentoring, expertise and other resources. (See Exhibit 7).

EXHIBIT 7

Minority Business Enterprises (MBE) Ecosystem



Note: Minority Business Enterprises are businesses that are at least 51% owned and operated by African Americans, Asian Americans /Pacific Islanders, Hispanic Americans and/or Native Americans.

The Richmond metropolitan area is home to roughly 1.3 million people. About 28% of the population is Black and 7% is Hispanic. The median household income in Richmond is \$74,151. In many ways, Richmond is similar to other mid-sized metros in the Mid-Atlantic region. Observations in Richmond could also highlight solutions for small businesses across the US.

The Business landscape

The Annual Business Survey²⁵ reported that the Richmond Metro Area had the following number of businesses in 2020:



23,757

Total number of
employer businesses



1,397

Number of Black-owned
employer businesses



476

Number of Hispanic-owned
employer businesses

According to the Small Business Equity Toolkit developed by the Mastercard Center for Inclusive Growth²⁶, Richmond ranks 59th out of the top 100 US metros in the US for Black businesses and 35th for Hispanic businesses. The toolkit ranks cities on three dimensions: business density (total companies per 1,000 residents of the same group), average sales and high-wage industry participation.

Richmond ecosystem players

Richmond has a robust small business ecosystem with resources and support available from public, private and nonprofit actors to help Black and Hispanic owners start and grow businesses and serve community needs:

Financing

A broad range of financial institutions, private investors, government programs and foundations provide funding opportunities. Richmond has seven Community Development Finance Institutions (CDFIs)²⁷, seven times that of Montgomery, Alabama—a city with a similar minority and general population size but with only one CDFI. In Richmond, CDFIs such as Virginia Community Capital and Community First Lending play an important role in expanding access to finance to communities that find it hard to obtain loans from traditional financial institutions.

Market demand

From online marketplaces to vendor databases such as the Richmond supplier portal, a variety of channels enable local communities, online shoppers and procurement organizations to access the goods and services offered by Black and Hispanic businesses.

Business development support

Accelerators and other organizations, such as Lighthouse Labs and Startup Virginia, offer support in the form of technical assistance, training and mentorship. Capital One, one of the region's largest employers, provides business incubators and mentoring. The Virginia Hispanic Chamber and the Jackson Ward Collective (JWC) advocate for Hispanic- and Black-owned businesses and provide culturally relevant support. The Federal Reserve Bank of Richmond offers training programs and connections to technical assistance providers and funding opportunities.

Other players

Different forms of support are offered by demand generators, analysis and monitoring organizations, market advisors, policymakers and education and talent organizations such as the Capital Region Small Business Development Center, JWC and the Metropolitan Business League.

Solutions: Harnessing Levers for Change

Black and Hispanic entrepreneurs face unique challenges and disparities in access to loans, business networks, mentoring and expertise. To close these gaps, all players in the business ecosystem—government agencies, policymakers, companies, financial institutions, fintech firms, community stakeholders and researchers—should work together to provide the right forms of support and level the playing field.

Our study identifies five key imperatives for ecosystem partners who are working to reduce wealth disparities through business creation:



Continue Exploring Innovative Methods for Improving Access to Capital

The challenges

In a business's early years and for smaller loan sizes, business lending is often reliant on personal credit scores, in addition to other factors. Black and Hispanic entrepreneurs, on average, have lower credit scores than white entrepreneurs, making it harder to secure capital. This often reflects the broader disparities in income and wealth distribution that leave many aspiring Black and Hispanic entrepreneurs—even those with stable incomes and savings—without access to reliable, sustainable financial options as consumers. Although lenders may use assets, such as a home or a car, as collateral, Black and Hispanic households are less likely than white households to own collateral-eligible assets. When they do, those assets typically have lower values²⁸.

In the US, about 15% of Black and Hispanic borrowers (compared with about 9% of whites and Asians) are “credit invisible”. That is, they have no credit history, according to the Consumer Financial Protection Bureau²⁹. An additional 13% of Blacks borrowers and 12% of Hispanic borrowers have unscored records (compared with 7% of white borrowers), meaning their credit histories contain no recently reported activity and are too short to calculate a score.

The solutions

Funders could continue exploring innovative methods for increasing access to capital, including partnerships and financing solutions that enable lenders to provide smaller loans that are better suited to early-stage businesses.

Funders could expand the practice of identifying the likelihood of repayment and creditworthiness using innovative credit assessment methodologies that rely on different forms of personal data.

Community organizations could increase accessibility to digital tools and nonprofit small business programs that can help Black and Hispanic entrepreneurs improve their credit scores and prepare to navigate the loan process, increasing the likelihood of being eligible for traditional business financing.



Positive Outcome:

Given access to sufficient funding, Black and Hispanic businesses with strong growth potential could generate wealth for their owners and others in the community.

Raise awareness of, access to, and engagement in public and private programs **that support small business incubation and growth**

The challenges

Black and Hispanic business owners often seek small-scale loans³⁰ (between \$15,000 and \$45,000) in the form of personal loans or credit cards. Traditional commercial lenders generally offer larger business loans (between \$50,000 and \$100,000)³¹ that may require collateral in the form of personal assets. Many business owners tell us the risk of putting up their homes or other assets for collateral deters them from applying for loans.

Black and Hispanic business owners have limited access to private and grant capital. In our interviews, many say they are unaware of available grant opportunities or find the application processes too difficult.

As elsewhere, smaller businesses do not have easy access to growth capital. Richmond's supply of equity capital was \$33 million in 2017 but represented fewer than 15 equity investments³².

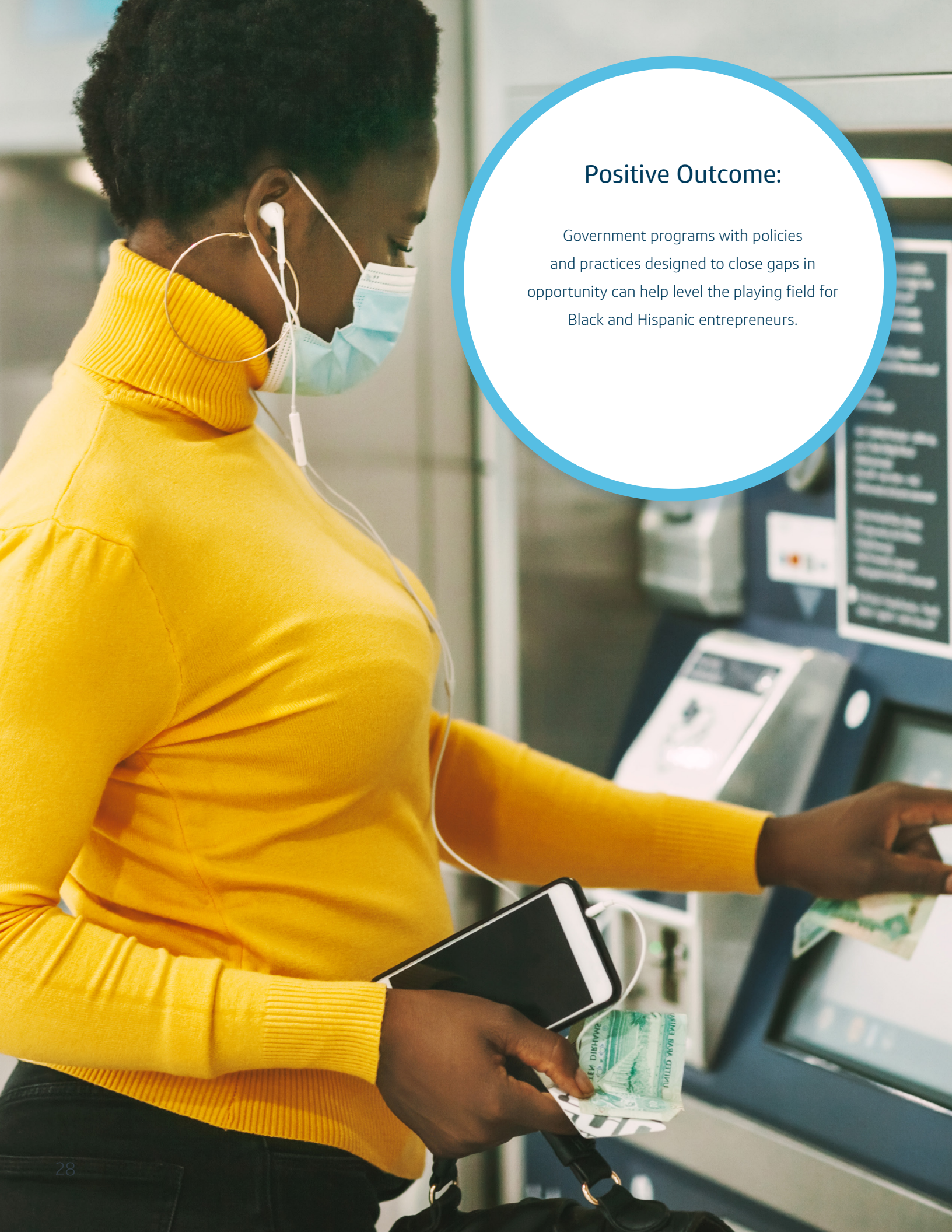
SBA and CDFI lending levels in Richmond are disproportionately low compared with similar localities, such as Atlanta and San Antonio, according to nonprofit Common Future and mission-driven small business advisory Next Street³³. This disparity is most pronounced in Richmond neighborhoods with high concentrations of Black and Hispanic residents, particularly East Richmond and South Richmond, where rates of commercial bank lending are lower and the presence of CDFIs is limited.

The solutions

Policymakers could support the expansion of the SBA's microloan program and the Small Business Investment Company³⁴, as well as permanently establish the SBA Community Advantage pilot program, which helps meet the credit needs of underserved markets.

Policymakers could support the expansion of the CDFI Fund³⁵, which provides tailored resources and programs that invest federal dollars alongside private sector capital. This could drive greater community financing and financial inclusion³⁶, particularly in the case of specific allocations for Black- and Hispanic-led CDFIs.

Community actors and advocates could increase awareness of, and provide better access to, programs such as the SBA, which help entrepreneurs start, grow and scale businesses.



Positive Outcome:

Government programs with policies and practices designed to close gaps in opportunity can help level the playing field for Black and Hispanic entrepreneurs.

Empower Black and Hispanic small businesses through financial management, coaching and digital tools

The challenges

During the pandemic, Black and Hispanic business owners across the US faced challenges in accessing loans from the Paycheck Protection Program (PPP), a federal relief program designed to help small businesses. Some improvements were made in the second round to address this issue.

The Federal Reserve Bank of New York found that PPP loans reached only 20% of eligible firms in states and counties with the highest densities of Black-owned firms³⁷. These disparities stem from a variety of historical and contemporary factors, including significant limitations in the program's initial design (e.g., locking out and then limiting sole proprietors) and lack of knowledge among business owners about how to apply for or obtain the necessary financial documents. Disparities in access to PPP loans provide insights into disparities in access to other critical resources.

Lack of proper documentation and clear financial statements can make it more challenging for many Black and Hispanic business owners to complete successful applications for bank loans.

Richmond Black and Hispanic business owners tell us that having well-organized business and financial data is the most important factor in securing funding and mitigating related risks.

Even business owners with strong credit histories and a solid business may struggle to access available resources. Without scale, they are unlikely to be able to employ staff or afford external help to maintain their records.

The solutions

Community actors and business networks could provide Black and Hispanic business owners with financial management coaching and training that will enable them to make successful applications for grants and other types of funding.

Community organizations can partner with private companies to make financial management and business documentation tools more accessible to Black and Hispanic small businesses owners, including tools that help prepare financial documents for grant and loan applications.

Financial institutions, technology companies and other small business support organizations could collaborate to develop digital tools that provide high-quality resources and are personalized to meet businesses' needs at critical points on their journeys. For example, Mastercard's Center for Inclusive Growth launched Strive USA³⁸, a program that provides small businesses and organizations in their ecosystems with resources—including capital, technology and information—to support digitization and innovation.

A man with dark hair and a beard, wearing a dark suit, white shirt, and patterned tie, is sitting at a dark wooden desk. He is looking down and to the right, with his hand resting on his chin and holding a pair of glasses. On the desk in front of him is a laptop, a glass of water, and a smartphone. The background shows a large window with a view of a city skyline.

Positive Outcome:

Business training and digital tools will enable Black and Hispanic small business owners to better manage their finances, ensuring that they have the right documentation to secure funding and increase their capacity to grow.

Strengthen the community organizations **that support Black and Hispanic small businesses**

The challenges

In Richmond, the number of new small business support organizations dedicated to addressing the needs of Black and Hispanic business owners is growing. But many organizations report struggling to secure operational funding while fundraising for grants or loans.

With funding for support programs limited, organizations often compete for the same dollars, instead of finding ways to work together more effectively.

Many organizations say that it can be hard to connect with Black and Hispanic business owners early on, when guidance would be most effective, such as during set up of essential financial or technical systems.

Some Black and Hispanic business owners are unaware of the availability of business development resources, may not see those resources as useful or may be wary of accessing them because of previous negative experiences or knowledge of past discriminatory practices.

The solutions

Richmond's community actors could improve their support for Black and Hispanic business owners by promoting greater coordination and collaboration across organizations, including connecting to Black and Hispanic businesses earlier in their life cycles.

New organizations could offer direct resources and expertise in underserved areas, rather than crowding the market with the same services others provide.

Community organizations could offer sector-specific support, as well as in-depth and targeted skills training, such as in accounting, procurement and contracting.

Community organizations could help identify businesses and business models that need more development before they are ready to grow, while supporting the growth of Black and Hispanic enterprises that have a strong chance of succeeding.



Positive Outcome:

By collaborating, aligning goals and pooling resources and expertise, community organizations can maximize the impact of limited resources and do more to empower Black and Hispanic business owners to succeed. The broader business community can play a critical role as a convenor—enabling organizations to maximize their collective support for business owners.

Continue to build trust between funders and communities of color

The challenges

Black and Hispanic business owners often lack strong relationships with traditional banks and other funders, making it harder for them to access institutional capital.

In Richmond, interviews reveal that Black and Hispanic communities are less likely than others to have positive relationships with financial institutions. Interviewees say that perceived “poor experiences” with the loan process can discourage business owners from seeking loans from traditional institutions.

These concerns are consistent with broader findings: In a 2022 Federal Reserve study³⁹, 40% of Black employer firms said their reason for not applying for loans in the previous 12 months was because they believed they would be turned down (compared with only 12% of white-owned employer firms).

According to 2019 research by the Federal Reserve⁴⁰, fewer than one-in-four Black-owned employer firms across the US have a recent borrowing relationship with a bank. This figure drops to one-in-10 among Black non-employer firms (compared with only one-in-four white-owned non-employer firms). And Black business owners consistently report that relationships with their primary financial institutions are short-term rather than long-term.

Black and Hispanic borrowers are more likely than others to turn to alternative financial services, such as payday loans or hard money loans with high interest rates that can damage credit history. In the US, Black borrowers account for 23% of all storefront payday loans, according to a Pew report⁴¹.

The solutions

Stakeholders across the funding ecosystem, such as nonprofit and public sector organizations providing small business support, could work together to boost the knowledge, awareness, transparency and engagement needed to strengthen relationships between lenders and Black and Hispanic business owners.

Banks and financial institutions could be encouraged to partner with community groups and regulators to develop information and education programs that debunk myths and correct misperceptions around financial products and services. These programs can also highlight the risks associated with non-bank lenders and other unreliable sources of funding.

Funders and stakeholders could continue building meaningful relationships and trust with Black and Hispanic communities through greater transparency and clarity. In doing so, they could continue to consider the diverse individual and collective priorities of different sections of communities.

A woman with brown hair tied back, wearing a blue and white striped shirt and a dark apron, is smiling and looking upwards while working in a bakery. She is holding a small object in her right hand. The background shows shelves filled with various baked goods.

Positive Outcome:

Constructive, long-term relationships with financial institutions will increase the ability of small business owners to access credit and help financial institutions enhance their engagement and reputation in local communities.

Opportunities for Further Research

In this study, we tapped into self-reported data from respondents to focus on the factors that shape the relationship between wealth growth and business ownership. Through our analysis and discussions, we surfaced some topics that would benefit from further study. These include:

More granular sectoral data

More granular data—particularly within the service industry—would highlight different experiences and needs across different industries and between high-growth enterprises and mom-and-pop businesses that are not focused on expansion or scale.

Longitudinal before-and-after data

This would enable more in-depth exploration of causal relationships between business ownership and wealth growth, as would direct comparisons between business owners and non-business owners over longer timescales than were possible in this study.

Transaction-level data relating to small businesses

This would enable more granular analyses of funds received and cash flows, allowing for deeper insights into necessary funding thresholds.

Conclusion

Business ownership presents a tremendous opportunity to build wealth and narrow the racial wealth gap. Yet, the experiences of Richmond's business community demonstrate that business ownership does not guarantee wealth generation. Lack of awareness of resources that would enable incubation and growth, or lack of access to those resources, make it more difficult for Black and Hispanic entrepreneurs to realize their full business potential.

Unlocking greater wealth creation for Black and Hispanic entrepreneurs requires stakeholders to empower small business ecosystems to offer greater and more targeted support to Black and Hispanic businesses. Stakeholders can provide the building blocks of success by: contributing to innovation in credit assessments; creating digital tools that ease administrative burdens; building stronger local networks of mentors, experts and partners; and improving relationships between funders and communities of color.

Given the right conditions, business owners can create substantial wealth both for their founders and the broader community. As counties, cities and states across the US work to narrow the economic and racial wealth divide, this is an opportunity they cannot afford to miss.



Methodology

Key definitions

Business owners: refers to current business owners, unless otherwise stated.

Wealth: defined as assets minus debts; does not include the potential value of equity in a business.

Quantitative research: Survey data collection

We worked with survey providers to collect 1,015 valid survey responses from both Richmond business owners and Richmond residents using online and phone surveys. The survey focused on current and past business owners with Black or Hispanic backgrounds.

Survey respondents included owners of active businesses started between 1970 and 2021 and former owners of closed businesses that were started between 1974 and 2022. Respondents' businesses generated up to \$10 million in annual revenues with a sample average of \$2.9 million in the service, retail and manufacturing sectors. The survey asked respondents to self-report as either Black or Hispanic or as neither Black nor Hispanic (note: non-Black or Hispanic segment includes all other racial segments besides Black or Hispanic).

The data was collected using quota-on-completes sampling (a process by which the survey continues to be fielded until the quota for a specific category of respondents is reached), setting business owners quotas on race/ethnicity, sector and revenue, and non-business owner quotas on race/ethnicity and income.

Qualitative research: Interviews

The qualitative research conducted as part of this study took the form of in-depth interviews with members of 21 community organizations and Black- and Hispanic-owned small businesses in Richmond, Virginia. We sourced interviews with cold outreach and through relationships that researchers had established with organizations during their previous work.

Data Preparation

Data cleaning

We removed survey responses that were duplicated or fake by checking for logical errors, response time outliers and other anomalies.

Weighting caps

Given that the sample population dynamics were very different from population dynamics, weights in some categories were extreme (Maximum: 612%; Minimum: 0.1%). Weight truncation was considered as a means of introducing additional variance in extreme weighting scenarios. However, this was set aside to preserve population dynamics as closely as possible.

Sample size constraints

We restricted analyses to those where segments examined included at least 30 observations. This limited the extent of detailed analysis possible, but maintained greater reliability of data.

Weighting

We weighted the data using population incidence data of segments where we set collection quotas using four independent weighting schemes (Black and Hispanic versus non-Black or Hispanic for business owners and non-business owners). Independent data on sector and business revenue was used. Weights for business owners were calculated using a multiplicative matrix.

Outliers

For each analysis, observations greater than two standard deviations away from the mean were removed. We also explored IQR-based outlier removal as an option. (Any additional outlier exclusions to be footnoted on an analysis-by-analysis basis.)

Data Interpretation

Accuracy of retrospective self-reported data

Business owners' memory of their finances from the past may be unreliable, so some of the data may not be accurate.

Focus on smallest businesses

Over 90% of Richmond's businesses have annual revenue under \$1 million, which is reflected in our data weighting. Thus, aggregate findings primarily speak to small businesses, while analyses that break out by revenue contribute to the exploration of larger businesses.

Causation versus correlation

It is difficult to demonstrate causation through survey data. Variables that are correlated may suggest a causative link. However, without strict controls or time series data, observational data is insufficient to establish causation.

Survivorship bias

Our data represents primarily businesses that "made it." Black and Hispanic businesses that closed due to poor performance prior to this survey being conducted are not captured in the results. Accordingly, businesses included in the survey are those that survived or that continue to be profitable enough to stay open. Because of this, our survey likely overrepresented "successful" businesses and underrepresents struggling businesses that eventually closed.

Limited sector analysis

Due to data granularity and the nature of the Richmond business ecosystem, the findings primarily reflect the service sector (over 90% of Richmond's businesses)⁴². We do not have more granular industry data.



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