Equity in COVID-19 Recovery Act of 2020
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American small businesses are key drivers of job and productivity growth in America. But the small businesses most responsible for that growth—young startups less than 5 years old, as well as minority- and women-owned businesses—are also the small businesses least likely to survive the unprecedented economic disruption our nation is experiencing without adequate action from the federal government.[1] Failing to help these vulnerable small businesses runs the risk of extending this economic crisis while also limiting our economy's ability to recover after we defeat COVID-19.

Congressional action up to this point has helped millions of small businesses and entrepreneurs access emergency financing to weather this economic storm. It is clear, however, that traditionally underserved business owners, including minorities, women, and those in rural areas, have been disproportionately left behind. Based on Small Business Administration (SBA) research and independent analysis of lending patterns in SBA's 7(a) loan program,[2] we know that during times of economic crisis, underserved business owners experience a disproportionate credit crunch; for example, **between 2007 and 2010, the percentage of 7(a) approvals that went to Black borrowers dropped precipitously from 14% to 3%** and, even before the onset of COVID-19, has still far from recovered. We have learned from the Great Recession that, without targeted measures, wealth inequality in rural and Black and Brown communities will only widen, and that these communities will not share in the same robust recovery as the nation as a whole.[34] Now is the time to make a targeted investment in those businesses and avoid the same mistakes from the past.

The urgency to implement such measures is only compounded by the historic inequities facing traditionally underserved entrepreneurs, and the disproportionate impact of the pandemic in underserved communities.[5] Despite being the fastest growing group of firms in the country, minority- and women-owned firms still face significant hurdles, not least of which in accessing capital, as do businesses in rural areas and veteran-owned businesses. The data paint a bleak picture:

- The typical white family has **about 10 times the wealth of the typical black family** and about **7.5 times the wealth of the typical Hispanic/Latino family**, and women have an estimated **$3 in wealth for every $10** men have, resulting in less money with which to weather an economic downturn.[6]
- **Minority business owners are 2 to 3 times more likely to be denied loans** than nonminority business owners and are more likely to receive less funding and pay higher interest rates on the loans they do receive.[7]
- Over three decades after the landmark passage of the Women's Business Ownership Act of 1988, **women entrepreneurs are still less likely to apply for loans because they fear denial**.[8]
- **Less than 1 percent of all venture capital goes to rural firms**; **less than 3 percent goes to women-owned firms**; **and less than 3 percent goes to black- and Hispanic-owned firms combined**.[9]

ENDORSEMENTS: National Urban League, National Action Network (NAN), Main Street Alliance, Small Business Majority, Black Economic Alliance, National Association of Investment Companies (NAIC), U.S. Hispanic Chamber of Commerce, National Association of Latino Asset Builders (NALCAB), American Business Immigration Coalition (ABIC), Local Initiatives Support Corporation (LISC), National Banker's Association, Capital Region Minority Supplier Diversity Council, National Minority Supplier Diversity Council, Opportunity Finance Network (OFN), Hope Credit Union, and Hope Policy Institute.

IMMEDIATE IMPROVEMENTS TO SBA AND FEDERAL PROGRAMS

Mandatory daily and weekly reporting on SBA COVID-19 & disaster programs. Daily reporting should include the total number and dollar amounts of loans or grants approved and disbursed through the PPP, Emergency EIDL Grants Program, and the EIDL Program as well as the amount of remaining funding in each program. Weekly reporting should include a breakdown by industry, demographics (race, ethnicity, gender, and veteran status), and loan and/or grant size.

Additional PPP appropriations should be targeted and further expand access.

- Create a realistic threshold for Community Development Financial Institutions (CDFIs) and other mission-based, non-profit lenders who are still seeking approval to lend under PPP.
- Set aside at least $10 billion for CDFIs that have a demonstrable record of reaching underserved borrowers and MDIs to support loans to underserved small businesses.
- Set-aside based on number of employees to ensure that the smallest businesses are actually able to access PPP funds.
- Bonus 2-5% reimbursement from SBA to lenders for approvals in New Market Tax Credit census tracts, Opportunity Zones, and HUBZones to encourage lending of the set-aside to borrowers in areas of most need.
- Minimum SBA reimbursement fee of $2,500 for community financial institutions (CFIs).

Ensure second chances for those who have been justice involved. Making the decision to take the risk of entrepreneurship is daunting for anybody, but for some it is their only option. Businesses owned by individuals with felony convictions or who were placed on pre-trial diversion within the last 5 years or who are on parole or probation should not be locked out of government assistance, so long as their offense was not one of financial fraud or deception. The business needs of those who have been justice involved, and their employees, deserve equal consideration. There is bipartisan consensus that SBA and Treasury's overly broad restrictions need to be amended to align with Congress and the Administration's shared goal for second chances.

Allow borrowers flexibility in the covered period and fix technical issues with forgiveness. As we have no way of knowing when the public health crisis will abate, allowing us to reopen the economy, it is prudent to give employers flexibility in choosing when to deploy PPP funds and/or to hire back their employees. This is especially important for underserved business owners as their businesses tend to be concentrated in shuttered service-based industries and they tend to have less wealth from which to pay off additional debt should their PPP assistance not be completely forgiven.

Support state and local relief funds. The bipartisan proposal for a Small Business Local Relief Program calls for $50 billion to be allocated to states and localities to seed and scale local small business relief funds. These local funds, many of which have already emerged across the country, would have considerable flexibility to design their financial offerings, including grants and loans, provided they target businesses with less than 20 employees (or 50 employees if based in high-poverty census tracts). By empowering states and localities to provide emergency financing to small businesses in their own communities, the Fund will better support small businesses that are less likely to participate in PPP, including minority-owned, very small, and those disconnected from banking system.

Allocate $1 billion in emergency appropriations to the CDFI Fund. CDFIs are small businesses dealing with COVID-19 themselves and need equity capital assistance from the public sector to maintain their own financial health and continue to be a resource to their communities. The CDFI Fund is unique among federal programs because it takes an enterprise approach to its programming by strengthening institutions rather than funding specific projects. This allows the CDFI to use their resources to meet the needs of their communities and be nimble in the response. Allocations to the CDFI Fund should prioritize CDFIs, and MDIs that are CDFIs, that are undercapitalized relative to their peers and/or have a demonstrated record of reaching underserved borrowers.

Increase the capacity of CFIs to meet need. Reserving funds for CFIs is vital, but its impact is only as powerful as those institutions' capacity to get those funds out the door. We must allocate funds specifically for the CFIs that need help to swiftly build capacity, including by upgrading technological systems, in order to meet the assistance needs of the many small business owners who rely on them. In so doing, we should prioritize those CFIs that are undercapitalized relative to their peers and/or have a demonstrated record of reaching underserved borrowers.

Support SBA's core programs to make them more affordable and expand their reach. We have yet to address many common sense measures that should be taken to bolster SBA's core programs – 7(a), 504, and microloans – that are in desperate need of attention, especially since the debt relief provided under the *CARES Act* makes some of these products still the best product for certain business owners. We should temporarily tailor SBA programs to:

- reduce the cost of capital by waiving the fees associated with 7(a) and 504 loans, for borrowers and lenders, for up to 18 months, including for Community Advantage Loans and Export Loans;
- expand the pool of available capital for small businesses by increasing the annual lending limit of the 7(a) loan program, SBA's flagship loan program, from $30 billion to $80 billion for two years;
- incentivize lenders to make loans by increasing the guarantee up to 90% on 7(a) loans and up to 95% for 7(a) loans made to underserved markets and historically underutilized businesses;
- enhance the 504 refinance program to reach more small businesses who need to refinance expensive fixed assets and lower their payments; and
- boost the microloan program with an additional $72 million in loans, increase how much each lender can loan from $6 million to $10 million, and give borrowers an extra two years to repay.

Community Advantage Program. To increase lending to underserved markets, we should codify and make permanent the 7(a) Community Advantage program, which has proven successful at increasing lending to women, minorities and veterans by providing loans of up to $250,000 through mission lenders. We must on lessons learned over the past nine years, creating guardrails for responsible growth and increasing oversight to mitigate risk.

Establish the Office of Emerging Markets. We have seen that, when left to its own devices, the private market, even when government-backed, will largely perpetuate longstanding inequities. The Office of Emerging Markets would provide an integrated approach to the development of small business concerns in emerging markets, including minority- and women-owned businesses, implementing strategy and providing guidance so they do not get left behind. It is vital that the additional resources and tools provided to SBA be deployed in a strategic manner to ensure that SBA-backed capital is directed to the communities that struggle the most to access capital in the private markets.

Enhance Minority Business Enterprise (MBE) economic resilience. It is clear that minority communities, which have not experienced the same recovery as other parts of the country post-Great Recession, are being disproportionately impacted by COVID-19, both in terms of health and business viability. We must make a serious investment into MBE economic resilience to ensure that the economic engines of these communities do not die and jobs are not lost forever. This includes robustly supporting the Minority Business Development Agency (MBDA).

- **Formally codify the agency.** MBDA currently exists off an Executive Order signed by President Nixon, but requires certainty in order to establish it as core part of the recovery.
- **Additional Emergency Supplemental Appropriation to the MBDA.** MBDA should get an additional appropriation in order to directly deploy funds into the minority business communities that need it and increase its own capacity.

Outreach to underserved communities. Mandate that SBA and Treasury collaborate with the MBDA, the Economic Development Administration (EDA), the U.S. Department of Agriculture (USDA), and the Farm Credit Administration in order to engage with minority, low- and moderate-income, and rural communities and ensure that small business owners in those communities have equal access to SBA information and funding. They should also reach out to private partners and outlets to conduct outreach in these communities.

Forgivable EIDLs. If the reported data demonstrate that PPP has failed to adequately reach underserved small businesses and the program is discontinued, we may consider providing forgiveness for part or all of EIDL loans – with prioritization for distressed communities.

Ensure borrowers receive EIDL Emergency Grants as intended and, if there are additional funds provided, make it retroactive to date of *CARES* enactment. The Administration should uphold Congressional intent and remove the limitations it imposed to prevent businesses from receiving their full $10,000 grant amount. SBA must change its policy so that this program functions as Congress intended: as a rapid infusion of meaningful capital to help small businesses survive.

Support Diverse Contractors.

- temporarily remove the requirement for contracting officers to conduct market research so that contracting officers may grant sole-source award contracts for small business programs, including the women-owned, HUBZone and service-disabled veteran-owned small business programs;
- increase total sole-source award contract values to $8 million for services and $10 million for manufacturing;
- increase 7(j) appropriations level to Great Recession-era levels, to $3.4 million from $2.8 million FY19 enacted funding level. SBA's 7(j) Technical Assistance Program provides critical technical assistance to socially and economically disadvantaged small businesses, including those owned by low-income individuals and located in areas with high unemployment;
- extend participation in the 8(a) program for an additional year; and
- waive 8(a) Business Activity Target requirements through Fiscal Year 2023. SBA regulations require 8(a) program participants to obtain business outside of the 8(a) program to be in compliance with the program. Program participants are facing COVID-19 hardships and workforce issues. 8(a) program participants may have significant difficulties in attaining these Business Activity Targets, now and for the next few years.

INVESTING IN UNDERSERVED BUSINESSES FOR THE FUTURE

Further expand work to eliminate disparities between MBEs and non-MBEs. U.S. Census estimates project that by 2060, racial minorities will comprise the majority of the U.S. population. However, business ownership rates among most minority groups continue to lag those of non-Hispanic whites. Eliminating disparities between MBEs and non-MBEs will benefit communities and the U.S. economy as a whole—such as through job creation and innovation, and it could alleviate economic disparities.[10] Estimates show that, if minorities started and owned businesses at the same rate as non-minorities, **approximately 9,500,000 jobs** would be added to the economy of the United States.[11]

- **Create a Diversity Business Council within the MBDA.** The Council will advise the Federal government about issues related to MBEs, as well as host an annual government-business forum focused on MBEs. Council members will include representatives of other Federal Agencies, such as the Department of Treasury, the Securities and Exchange Commission, and the Small Business Administration, as well as minority Chambers of Commerce, business organizations, and private sector representatives.
    - Forum: As part of its duties, the Council will conduct an annual government-business forum on the state of diverse businesses, with an emphasis on capital access. Federal agencies involved will be required to review the findings and recommendations of the forum, which will be made public, and produce a public statement on any that directly relate to their agencies.
- **Direct MBDA to study and publicly produce a report on opportunities for providing alternative financing solutions to MBEs.**

Expand the network of Women's Business Centers (WBCs). As we prepare to meet the demand for business counseling that will surely rise during and in the wake of the economic crisis, we must elevate and expand the footprint of those resources most targeted to underserved communities. In addition to women, WBCs are mandated to serve the needs of underserved entrepreneurs, including low-income entrepreneurs, but there are only just over 100 WBCs nationwide compared to the nearly 1,000 Small Business Development Centers (SBDCs). Unlike SBDCs, WBCs are based out of non-profits instead of institutions of higher education.

Establish the Innovation Centers Program. Underserved communities have been left out of many of the economic gains that have occurred since the Great Recession. Many of these communities are now the hardest hit by COVID-19. As our economy recovers from this pandemic, we must ensure that these communities are not left even further behind. To do this, we must support the creation and retention of dignified work that offers good salaries and pathways to prosperity by partnering with HBCUs, MSIs, and community colleges, which are critical to reaching minority, low-income, and rural populations, to create incubators and accelerators aimed at underserved communities. This will give their businesses the best chance for success and help create a diverse pipeline into the innovation sector. Engaging with HBCUs, MSIs, and community colleges in this way will also strengthen SBA's ties to different types of institutions of higher education.

Reauthorize the State Small Business Credit Initiative (SSBCI). SSBCI was created through the Small Business Jobs Act of 2010 and was funded with $1.5 billion to strengthen state programs that support financing of small businesses. Treasury awarded funding to 47 states, the District of Columbia, 5 U.S. Territories, and municipalities in 3 states, based on their proportion of unemployed persons as a percentage of the national total. This program can be modified to better target very small and new businesses, including through equity investments.

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