

JUNE 2023

ACCESS TO CAPITAL *for*  
ENTREPRENEURS:

REMOVING  
BARRIERS

2 0 2 3

U P D A T E

EWING MARION  
**KAUFFMAN**  
FOUNDATION





# ACCESS TO CAPITAL FOR ENTREPRENEURS: REMOVING BARRIERS | 2023

## Authors

**Brendan Cosgrove**, consultant, Ewing Marion Kauffman Foundation

**Philip Gaskin**, vice president of Entrepreneurship, Ewing Marion Kauffman Foundation

**Thom Goff**, consultant, Ewing Marion Kauffman Foundation

**Erin Kenney**, consultant, Ewing Marion Kauffman Foundation

**Jessica Milli**, consultant, Ewing Marion Kauffman Foundation

**Hyacinth Vassell**, senior director, Ewing Marion Kauffman Foundation

## Special thanks

**Lisa Murray**, chief investment officer, Ewing Marion Kauffman Foundation

**JaNay Queen Nazaire**, co-founder, BLK GRVITY, Inc.

**John Tyler**, general counsel, Ewing Marion Kauffman Foundation

**Please cite this report as:** Cosgrove, B., Gaskin, P., Goff, T., Kenney, E., Milli, J., and Vassell, H. (2023)  
"Access to Capital for Entrepreneurs: Removing Barriers: 2023 Update," Ewing Marion Kauffman Foundation: Kansas City.

EWING MARION  
**KAUFFMAN**  
FOUNDATION

*This is a report published by the Ewing Marion Kauffman Foundation utilizing content and data from multiple sources and external contributors. Every effort has been made to verify the accuracy of the information contained in this report and is believed to be correct as of the publication date. Nonetheless, this material is for informational purposes and you are solely responsible for validating the applicability and accuracy of the information in any use you make of it.*

# TABLE OF CONTENTS

1	DATA USED IN THIS REPORT
2	EXECUTIVE SUMMARY
3	INTRODUCTION
4	ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP
15	WHY AREN'T BUSINESSES ACCESSING CAPITAL IF THEY NEED IT?
17	WHERE IS THE CAPITAL FLOWING FROM?
33	THE COVID-19 PANDEMIC AND THE ENTREPRENEURIAL LANDSCAPE
36	THE IMPORTANCE OF LENDER DIVERSITY
40	INVESTING IN INNOVATIVE INVESTMENT MANAGERS: CAPITAL ACCESS LAB
42	ALTERNATIVE LENDERS AND EQUITABLE ACCESS
44	CAPITAL IS JUST ONE PIECE OF THE PUZZLE
47	THE COST OF INACTION
52	BUILDING A CAPITAL ACCESS ECOSYSTEM IN KANSAS CITY
56	WHAT CAN POLICYMAKERS, PROGRAM LEADERS, AND PHILANTHROPY DO TO ADDRESS THESE GAPS?
58	CONCLUSION
60	ENDNOTES
62	REFERENCES
65	APPENDIX

# DATA USED IN THIS REPORT

The 2019 *Access to Capital for Entrepreneurs* report drew heavily on data from the 2016 **Annual Survey of Entrepreneurs (ASE)**,<sup>1</sup> which provided information on businesses for calendar year 2015. Since then, the ASE has been replaced with the **Annual Business Survey (ABS)**.<sup>2</sup> Both surveys cover the same population of businesses, which means that results from each are comparable.

We use the ABS survey to provide an update of the data provided in the previous report. The ABS data is published annually and contains a set of core questions that are included in each year of data. It also incorporates new topical content each year. As a result, the specific questions relating to capital access that are relevant for this report are only available in the 2018 ABS data for calendar year 2017.

Where possible, we augment the data available in the ABS with other existing data sources on access to capital for entrepreneurs to provide more recent data. These include the Kauffman-funded 2022 **Entrepreneurship in the Population Survey (EPOP)**<sup>3</sup> and the Federal Reserve's 2021 **Small Business Credit Survey (SBCS)**.<sup>4</sup> These data sources provide a sense of how things may have changed in the years since the start of the COVID-19 pandemic. Because the population of businesses covered by each survey differ, we are cautious in stating definitively what has changed since the last available year of ABS data (2017), but can provide reasonable estimates.

We make use of additional data in order to estimate capital flows in the United States and in the Kansas City metro area. These include data from the **Community Development Financial Institutions (CDFI) Fund**,<sup>5</sup> which provides data on the number and value of micro and business loans by loan size; the **FFIEC-Community**

**Reinvestment Act (CRA)**,<sup>6</sup> which provides data on the number and value of small business loans and small farm loans by loan size; the **Federal Deposit Insurance Corporation (FDIC)**,<sup>7</sup> which provides data on bank branches and deposits; the **Small Business Administration (SBA)**,<sup>8</sup> which provides data on the number and value of 7(a) program loans by type and the number and value of 504 program loans; the **National Credit Union Administration (NCUA)**,<sup>9</sup> which provides data on the number and value of commercial loans stemming from credit unions; the **National Venture Capital Association (NVCA)**<sup>10</sup> and **Crunchbase**,<sup>11</sup> which provide data on number and value of venture capital deals; and the **Quarterly Census of Employment and Wages, data-Fab release (dF-QCEW)**,<sup>12</sup> which provides data on private sector establishments and jobs (used to normalize lending levels for comparison across geographies).

All of the data sources used in this report can also be found in Appendix Table 1.

Limitations in each of the sources described above mean that only certain data are able to be broken out by geographic region, gender, race, and ethnicity. We have provided breakdowns of salient data throughout the report where possible, but readers may notice that gaps exist in certain sections, particularly regarding the Kansas City metro area.

# EXECUTIVE SUMMARY

**Entrepreneurs continue to face a considerable gap in accessing capital through every stage of the business cycle.** While there have been some advances in identifying and addressing barriers to accessing capital, there is much more work to do.

The Ewing Marion Kauffman Foundation continues to recognize, with urgency, the significance of the role new and existing businesses play in local, regional, and the national economy. This report continues our series of sharing the state of capital access for entrepreneurs highlighting the need for innovative products and models to improve capital delivery systems.

### What are the barriers?

The following data and information highlight demographic and geographic disparities in the flow of capital. The information brings to life the barriers across all traditional forms of capital from venture to lending.

The bottom line? There is a need for both changes in policies and practices as well as investments in the development of alternative forms of financing to reduce gaps in capital needs.

### What can you do?

- If you're a capital allocator, you can invest in emerging fund managers that are offering alternative financing beyond traditional VC and lending and that are proven to be more accessible by a more diverse set of entrepreneurs.
- If you're a capital allocator, you can invest in funds that are practicing creative, alternative means of financing and give funds that "feel unfamiliar or novel" a fair shot.

- If you're a bank, Community Development Financial Institution (CDFI), or traditional lender, you can create and implement new debt products like revenue-based lending to expand your pipeline of investable businesses.
- If you are a corporation, you can invest in local financial institutions and funds led by or supporting people of color.
- If you are an investor, you can promote and refer entrepreneurs to alternative methods of getting capital into the hands of many that are being left out.
- If you're a policymaker, you can advocate for and implement entrepreneur-friendly capital solutions in your communities and states.
- If you're a policymaker, you can ensure regulations prevent and penalize predatory and opaque lending and investment practices.
- If you're a civic, non-profit, philanthropic, or for-profit organization, you can work collaboratively to make important funding decisions to change conditions for marginalized entrepreneurs. We offer a case study on a successful effort in Kansas City.

# INTRODUCTION

**In 2019, the Ewing Marion Kauffman Foundation published *Access to Capital for Entrepreneurs: Removing Barriers*, a report which presented a landscape analysis of the capital ecosystem.** The report highlighted the need not only for increased funding of companies led by marginalized founders, but also the need to build up critical market infrastructure. This could be done through promoting greater diversity of investment vehicles. The report closed by posing a set of guiding questions for policymakers, program leaders, philanthropy, and other stakeholders to consider as they continue to work toward greater and more equitable access to capital for entrepreneurs.<sup>13</sup> Since then, we have undertaken a number of efforts to dismantle the barriers that many entrepreneurs face in starting and growing a business. These investments have shown early promise, but there is still more work to be done.

The present report *Access to Capital for Entrepreneurs: Removing Barriers 2023* updates the data describing the national capital access and entrepreneurial support landscape that was originally presented in the 2019 report, while also layering in data from new sources that provide greater context into the experiences and challenges facing entrepreneurs in today's economy. This report includes additional data describing the capital access landscape in the Kansas City metro area and in the Heartland states (Iowa, Kansas, Missouri, and Nebraska). A number of our recent capital access investments have been targeted there, which we highlight throughout the report.

In the 2019 report, we found that 90% to 95% of businesses with employees will need some capital to start their business and that 83% of those businesses do not access capital from external private institutions (e.g. bank loans). These numbers have not changed since 2019. However, from a social and economic standpoint, much has changed as a result of the COVID-19 pandemic. These changes have had a tremendous impact on the entrepreneurial ecosystem and have contributed to a worsening of many entrepreneurs' financial conditions. Fewer than half of all businesses with employees feel that their financing needs are adequately met and many of those that need financing

**The COVID-19 pandemic has had a tremendous impact on the entrepreneurial ecosystem and has contributed to a worsening of many entrepreneurs' financial conditions.**

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

choose not to apply because they expect to be turned down, that financing costs are too high, or that the application process is too difficult. This includes businesses that are still in the start-up phase, but also businesses that are already established and are seeking operating or growth capital.

Beyond capital, new data from the Entrepreneurship in the Population Survey (EPOP) is highlighting the barriers to knowledge, networks, and support that many entrepreneurs face. Despite having gaps in knowledge about the ins and outs of running a business, entrepreneurs are more likely to consult with friends and family rather than established business leaders or other professionals and support organizations that can supply the expertise entrepreneurs need. It is yet unclear why entrepreneurs aren't making these connections, but what is clear is that there is a greater need for

more connectivity within ecosystems to increase the visibility of the different capital, knowledge, and support resources available to entrepreneurs.

The findings in this report show that we still have a long way to go to ensure that everyone who wants to start a business in this country has access to the tools, resources, and support that they need to be successful. The recommendations highlighted in this report provides actionable steps such as addressing the wealth gaps that put some entrepreneurs at a disadvantage from day one, ensuring that alternative lenders and funding programs are adequately funded, investing in innovations in new funding models, and addressing gaps in existing policies such as the Community Reinvestment Act (CRA), to improving access to business knowledge and promoting an entrepreneurial mindset, and expanding access to entrepreneurial support.

## ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP



**90% of new businesses with employees will need capital at start-up.**

**Every business is different and has its own experiences and needs, but a common theme among them is the importance of capital at every stage.** In 2017, 90% of businesses with employees started in the United States needed at least some start-up capital to get up and running. Similar shares of businesses in the Heartland states and the Kansas City metro area reported needing at least some capital at start-up (both 89%).<sup>14</sup>

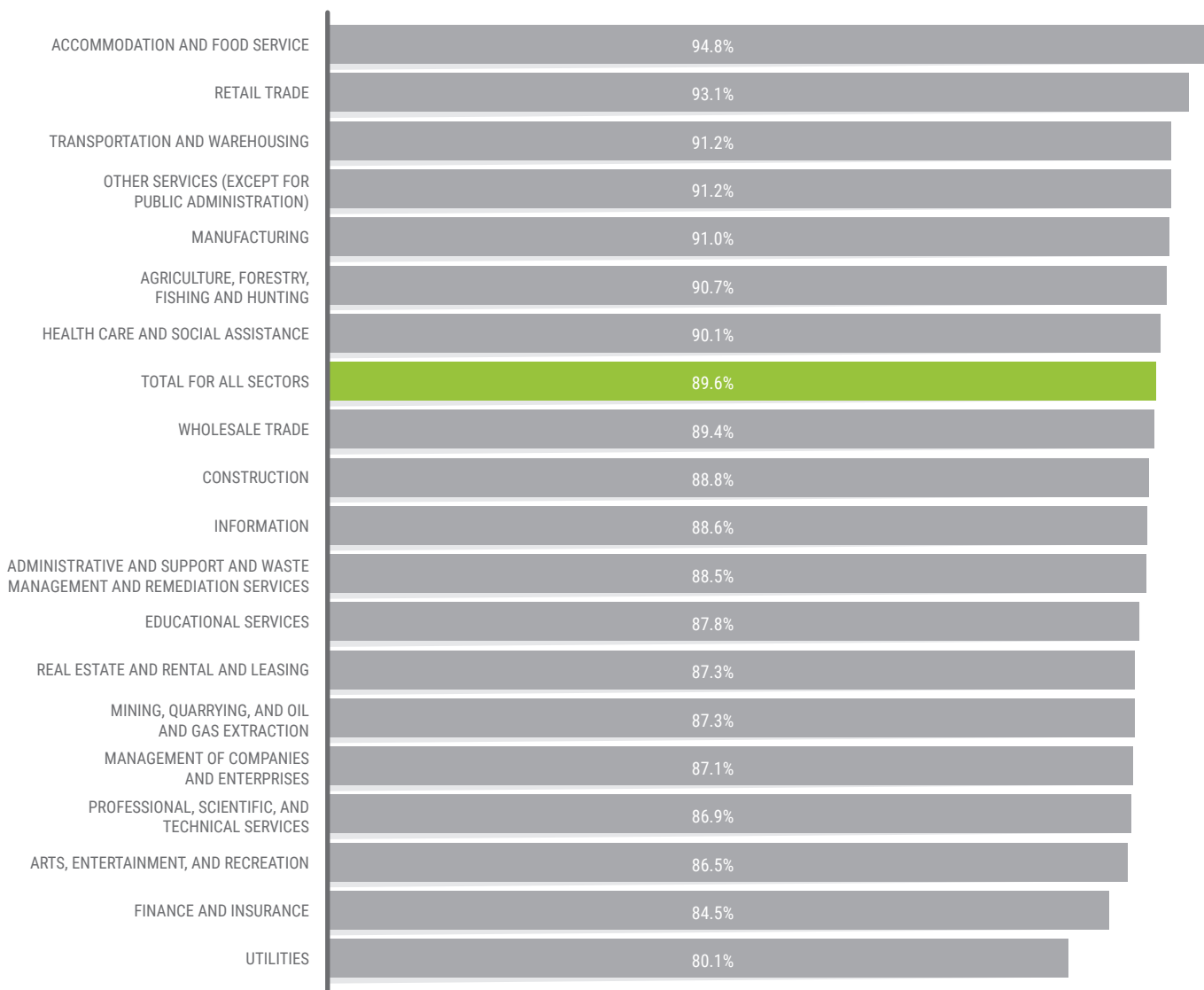


# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

Reliance on capital at start-up varies substantially by industry, though a majority of businesses in every industry will require start-up capital. Across major industry groups, the share of businesses using any start-up capital ranges from a low of 80% of businesses in the utilities industry to a high of 95% of businesses in the accommodation and food services industry (Figure 1).

These numbers have not changed appreciably since the 2019 capital report, which found that in 2015 between 90% and 95% of businesses with employees will need at least some financing to start their business, with about half (48%) of all businesses needing less than \$50,000 and about 19% needing \$100,000 or more. Due to limitations in the data underlying these statistics, we are

Figure 1. **Share of new businesses with employees that require start-up capital, 2017**



Source: Kauffman analysis of the 2018 Annual Business Survey for calendar year 2017.

Note: Data include only businesses with employees. Non-employer businesses are not represented in the Annual Business Survey data.

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

not yet able to explore trends post-pandemic. Data from the 2022 EPOP survey, though not directly comparable, do indicate that these trends have likely not changed significantly in the years since the pandemic. Among current entrepreneurs, about 90% said that they needed at least some start-up capital.<sup>15</sup>

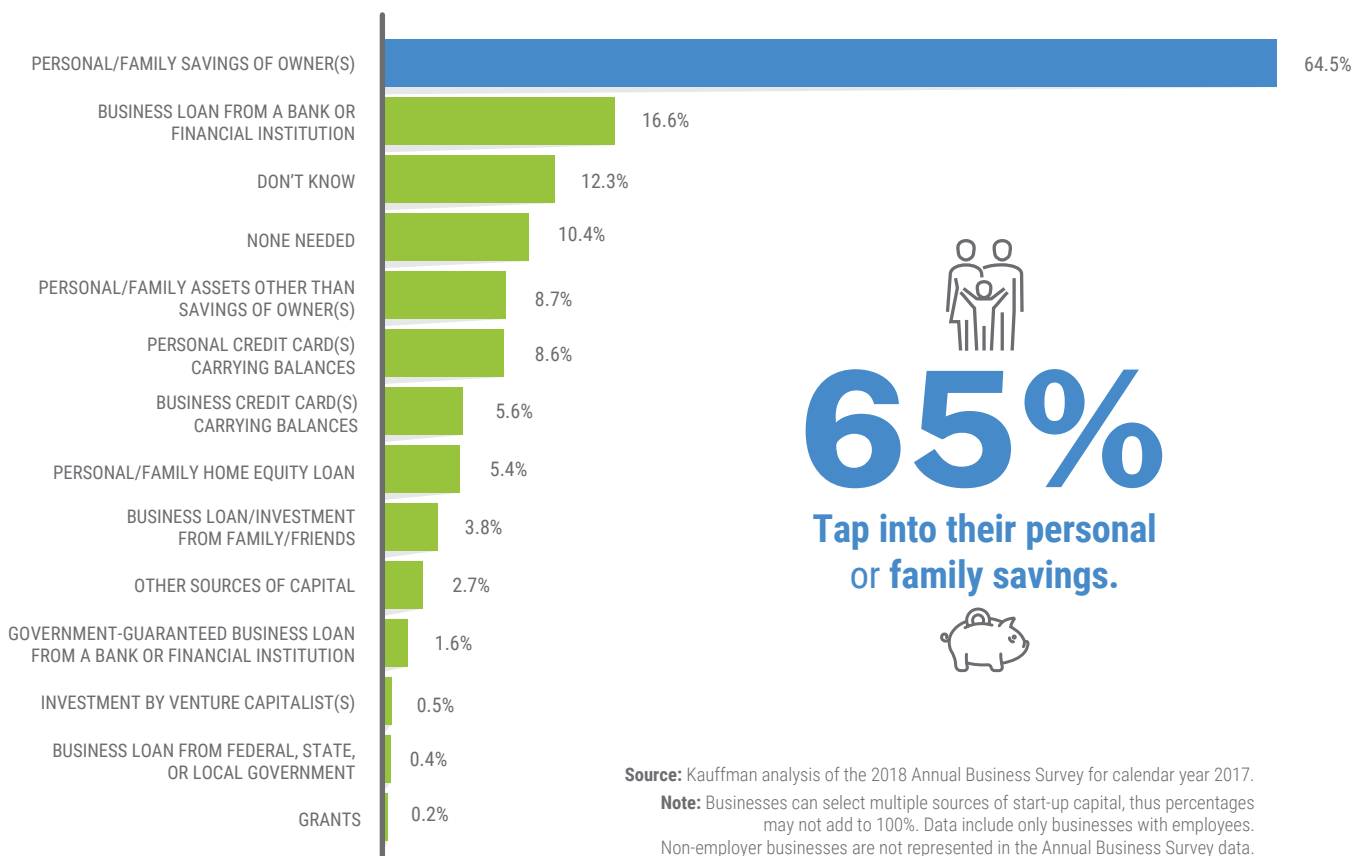
Nearly two-thirds of new businesses will rely on personal or family savings to cover at least some of their start-up costs.

Personal and family savings are by far the most common source of start-up capital that new businesses use.

Nearly two-thirds (65%) of new businesses will use personal and/or family savings to cover their start-up costs (Figure 2).

At the same time, relatively few businesses are accessing capital to cover their start-up costs from banks, equity providers, and other financial institutions. Beyond personal and family savings, the next most common source of start-up capital is a business loan from a bank or other financial institution, with just 17% of new businesses using this type of capital to fund their start-up costs. Equity-based financing is considerably less common among new businesses, with only 0.5% of businesses receiving equity investments from venture capitalists (Figure 2). Some of these trends may be

FIGURE 2. Sources of start-up capital used by new businesses with employees, 2017



# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

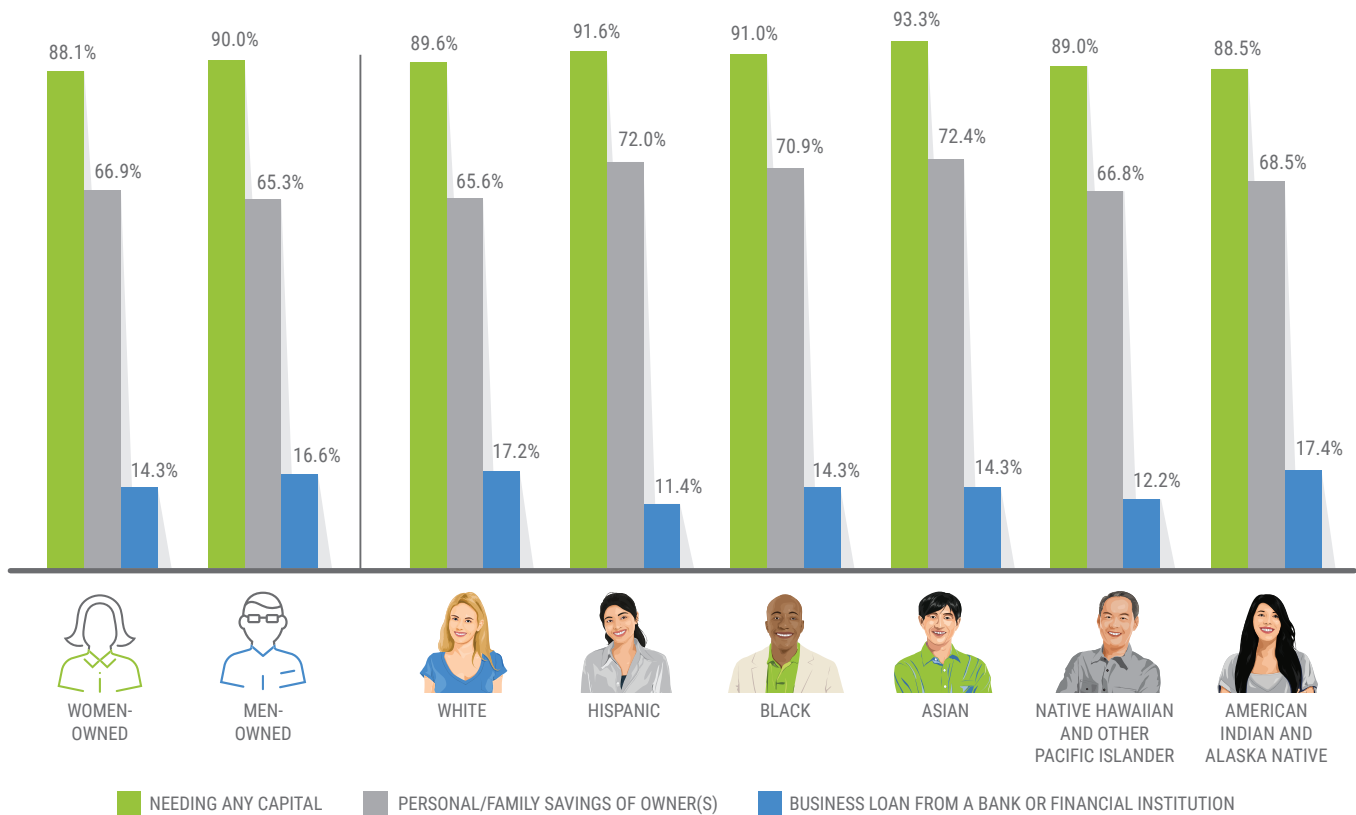
driven at least in part by differences in the types of capital that are most appropriate for different types of businesses. Venture capital, for example, is only appropriate for specific high-growth industries and is therefore not relevant to a large majority of businesses.<sup>16</sup>

The 2022 EPOP survey data show that these trends remain largely unchanged in the years since the pandemic. In 2022, for example, 69% of current business owners said that they relied on personal or

family savings to finance the start-up of their business compared with about 12% reporting that they used a business loan from a bank.

**These trends are even more pronounced among businesses owned by people of color.** While 66% of white business owners use their own personal and/or family savings to help fund their business at start-up, 72% of Hispanic and 71% of Black business owners do (Figure 3). We know from previous research that people

**FIGURE 3. Share of new businesses with employees that needed any capital at start-up and shares using select sources of capital by gender and race/ethnicity of majority ownership, 2017**



**Source:** Kauffman analysis of the 2018 Annual Business Survey for calendar year 2017.

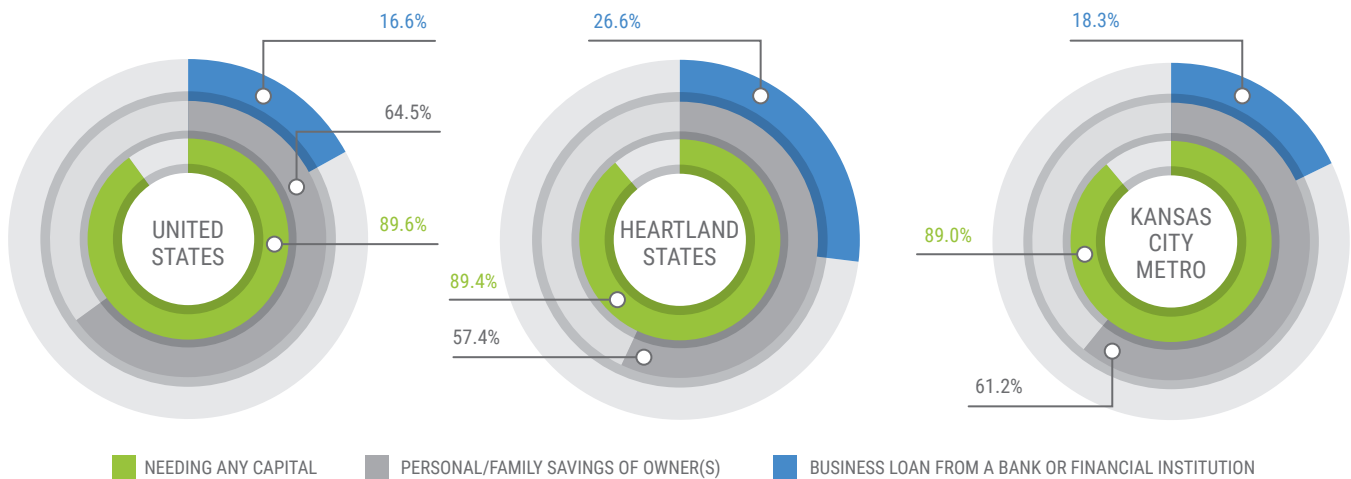
**Note:** Businesses can select multiple sources of start-up capital, thus percentages may not add to 100%. Data include only businesses with employees. Non-employer businesses are not represented in the Annual Business Survey data.

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

of color face significant barriers to accessing capital,<sup>17</sup> which may be part of the reason why they are more likely to rely on personal and family resources to finance the start-up of their businesses and less likely to access business loans from banks. This can be problematic, as significant racial wealth gaps exist,<sup>18</sup> which put people of color at a distinct disadvantage since they have fewer personal resources to draw on when starting their businesses.

In the Heartland states and the Kansas City metro area, businesses are less likely to rely on personal or family savings – 57% of businesses in the Heartland and 61% of businesses in the Kansas City metro area compared with 65% of businesses overall; and more likely to access capital through business loans from a bank or other financial institution – 27% of businesses in the Heartland states and 18% of businesses in the Kansas City metro area compared with 17% of businesses overall (Figure 4).

FIGURE 4. Share of new businesses with employees that needed any capital at start-up and shares using select sources of capital by geographic area, 2017



Source: Kauffman analysis of the 2018 Annual Business Survey for calendar year 2017.

Note: Heartland states include Kansas, Missouri, Iowa, and Nebraska. Businesses can select multiple sources of start-up capital, thus percentages may not add to 100%. Data include only businesses with employees. Non-employer businesses are not represented in the Annual Business Survey data.

**In the Heartland states and the Kansas City metro area, businesses are less likely to rely on personal or family savings and more likely to access capital through business loans from a bank or other financial institution.**

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

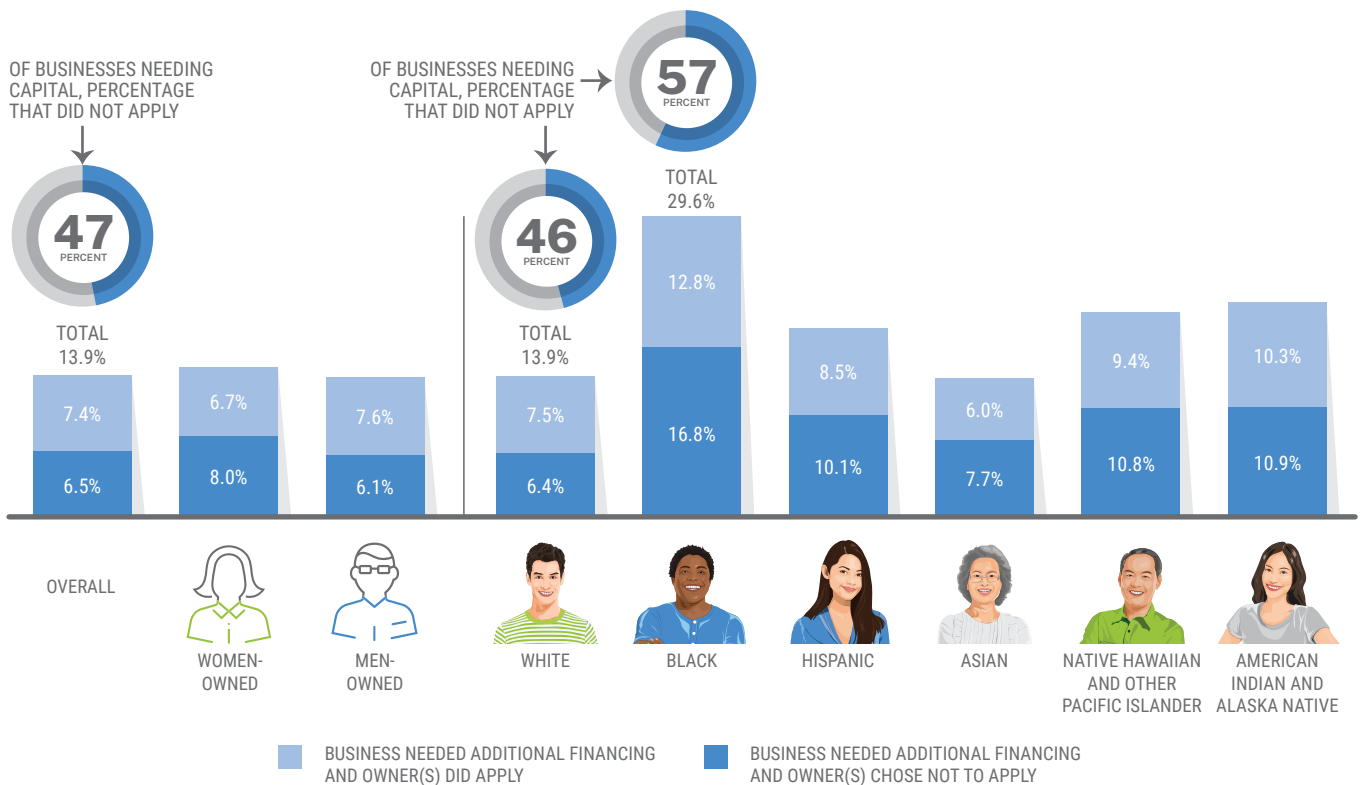


Each year, 14% of established businesses with employees will need additional capital, but nearly half of these businesses will choose not to apply for it.

Capital is also important for established businesses because it can help them meet their operating expenses while working on contracts and waiting to be paid, replace or repair important machinery or other assets, and/or expand the business and pursue new opportunities. About 14% of established businesses will require additional capital in a given year, yet nearly half of these businesses (47%) will choose not to apply for it (Figure 5).

Businesses owned by Black entrepreneurs are especially likely to experience a capital gap beyond the start-up phase. Among Black-owned businesses with employees, 30% will need additional capital each year, but 57% of those will choose not to apply. In contrast, 14% of businesses owned by white entrepreneurs will need additional capital each year and fewer than half (46%) of those will choose not to apply (Figure 5).

FIGURE 5. Share of businesses with employees needing additional capital and whether they applied for it by gender and race/ethnicity of majority ownership, 2017



Source: Kauffman analysis of the 2018 Annual Business Survey for calendar year 2017.

Note: Data include only businesses with employees. Non-employer businesses are not represented in the Annual Business Survey data.

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

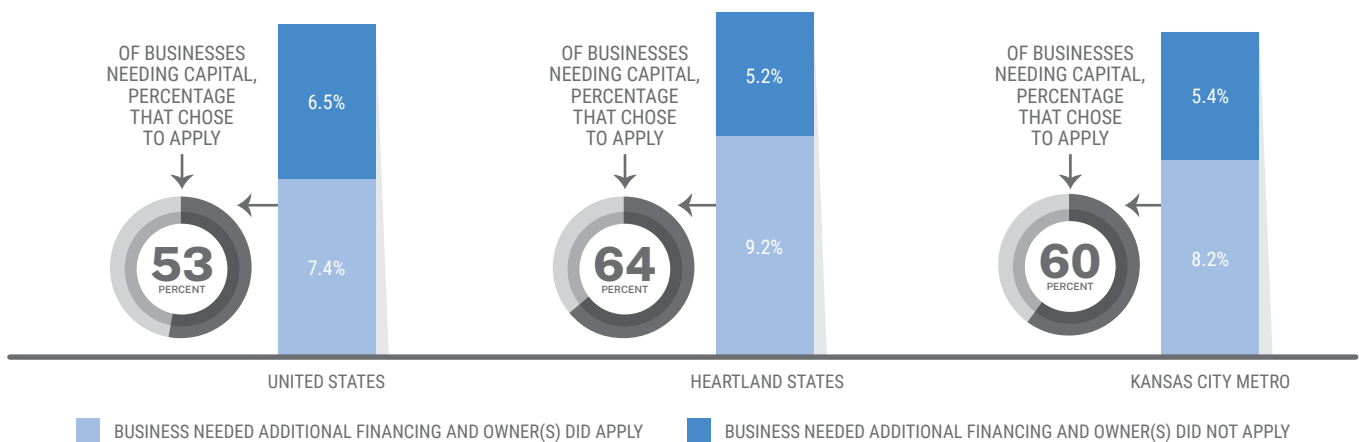
Conditions are somewhat better for business owners in the Heartland states and the Kansas City metro area than they are for business owners in the United States overall. While similar shares of established businesses will need additional capital beyond start-up across the three geographic categories, businesses in the Heartland states and the Kansas City metro area who have a need for additional capital are more likely to apply for it. Among businesses that need additional capital beyond start-up, 64% of businesses in the Heartland states and 60% of businesses in the Kansas City metro area will apply for it, compared with just 53% of businesses in the United States overall (Figure 6). As we will discuss in greater detail below, the Kansas City metro area has more bank branches relative to the number of businesses than the United States overall, providing more opportunities for local businesses to apply for

capital. However, this does not necessarily mean that Kansas City metro area businesses are actually receiving the full amount of capital that they need. In Figures 24 and 25 we provide data showing that there is a significant lending gap in the Kansas City metro area.

Nationally, even among those who do choose to apply for additional capital beyond the start-up phase, significant capital gaps still exist. Just 30% of all businesses applying for capital will receive the full amount requested. More than half (56%) will receive less than half of the amount requested or nothing at all. Again, stark inequities by race and ethnicity exist in how much capital businesses receive. Three-quarters of Black-owned businesses receive less than half of the amount requested or nothing at all, as do 70% of Hispanic-owned businesses, compared with 53% of white-owned businesses. Just 14% of Black-owned

**Among businesses that need additional capital beyond start-up, 64% of businesses in the Heartland states and 60% of businesses in the Kansas City metro area will apply for it, compared with just 53% of businesses in the United States overall.**

**FIGURE 6. Share of businesses with employees needing additional capital and whether they applied for it by geographic area, 2017**

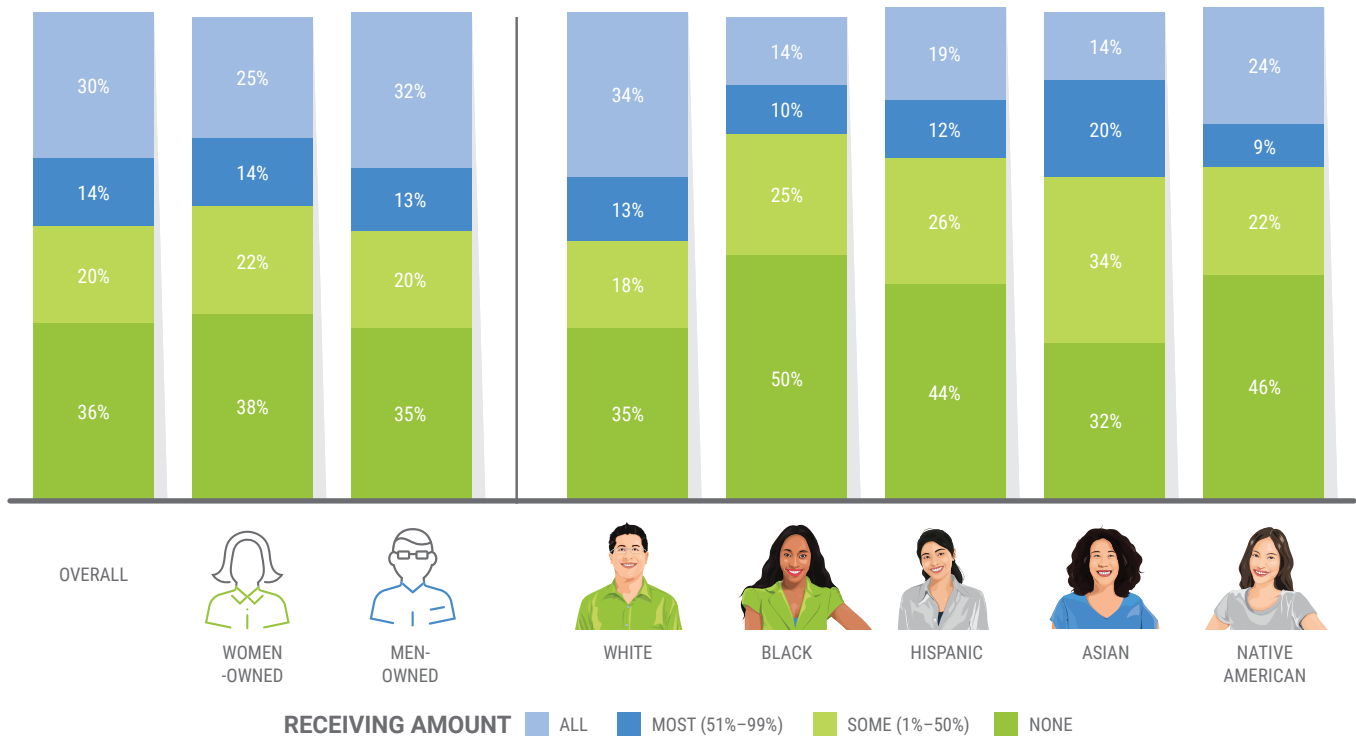


**Source:** Kauffman analysis of the 2018 Annual Business Survey for calendar year 2017.

**Note:** Heartland states include Kansas, Missouri, Iowa, and Nebraska. Data include only businesses with employees. Non-employer businesses are not represented in the Annual Business Survey data.

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

FIGURE 7. Share of funding requested received among businesses requesting any capital by gender and race/ethnicity of majority ownership, 2021



Source: Kauffman analysis of the Federal Reserve Banks 2021 Small Business Credit Survey.

Note: The Federal Reserve Banks and the Federal Reserve System cannot vouch for the data or analyses derived from these data after the data have been retrieved from fedsmallbusiness.org.

and 19% of Hispanic-owned businesses receive the full amount requested compared with 34% of white-owned businesses (Figure 7).

The pandemic has created some shifts in the degree to which businesses are able to access the full amount of capital requested. Most notably, the share of businesses that do not receive any of the financing that they requested has increased significantly in the wake of the pandemic, increasing from 21% in 2019 to 36% in 2021. Similarly, the share of businesses receiving the full amount requested has declined by nearly half from 51% in 2019 to 30% in 2021 (Figures 8 and 9).

While these shifts in financing shortfalls impacted businesses across the board, the magnitude of the shifts varied by race and ethnicity. Between 2019 and 2021, the share of white-owned businesses receiving none of the capital requested increased from 20% in 2019 to 35% in 2021. During that same period, the share of Black-owned businesses receiving none of the capital requested increased from 39% to 50%, and among Hispanic-owned businesses it increased from 31% to 44% (Figure 8). At the same time, the share of businesses receiving the full amount of funding requested declined substantially between 2019 and 2021 (Figure 9).

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

FIGURE 8. Share of businesses receiving none of the funding requested by race/ethnicity of majority ownership, 2019 and 2021

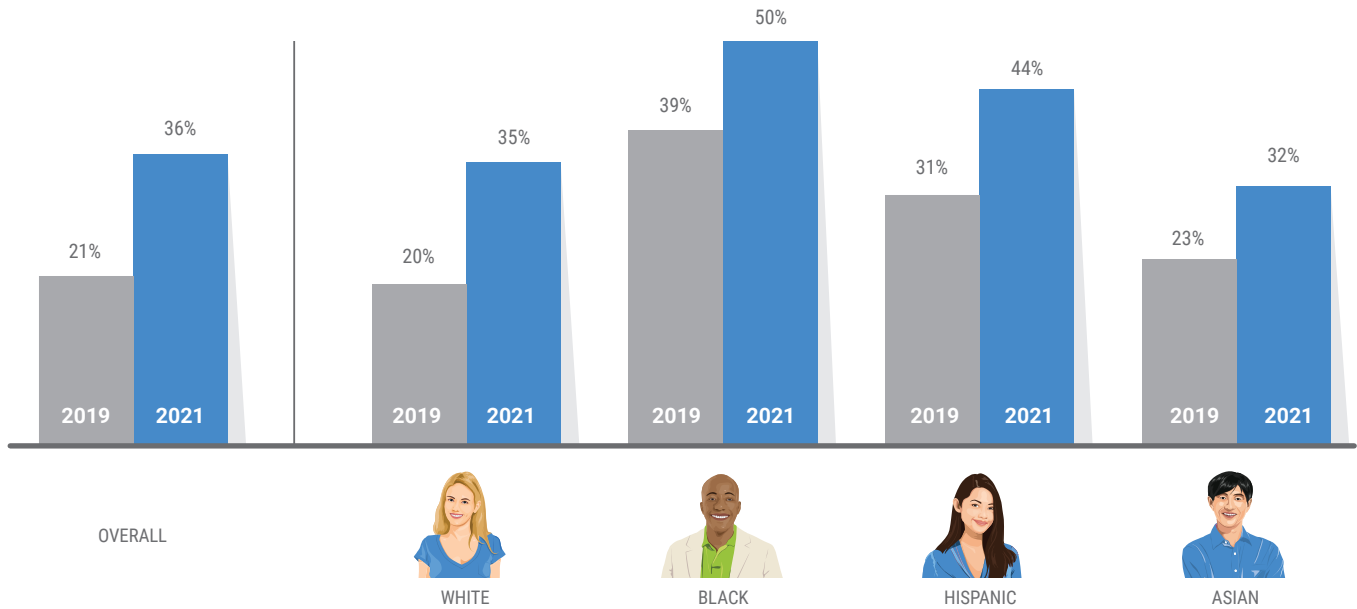
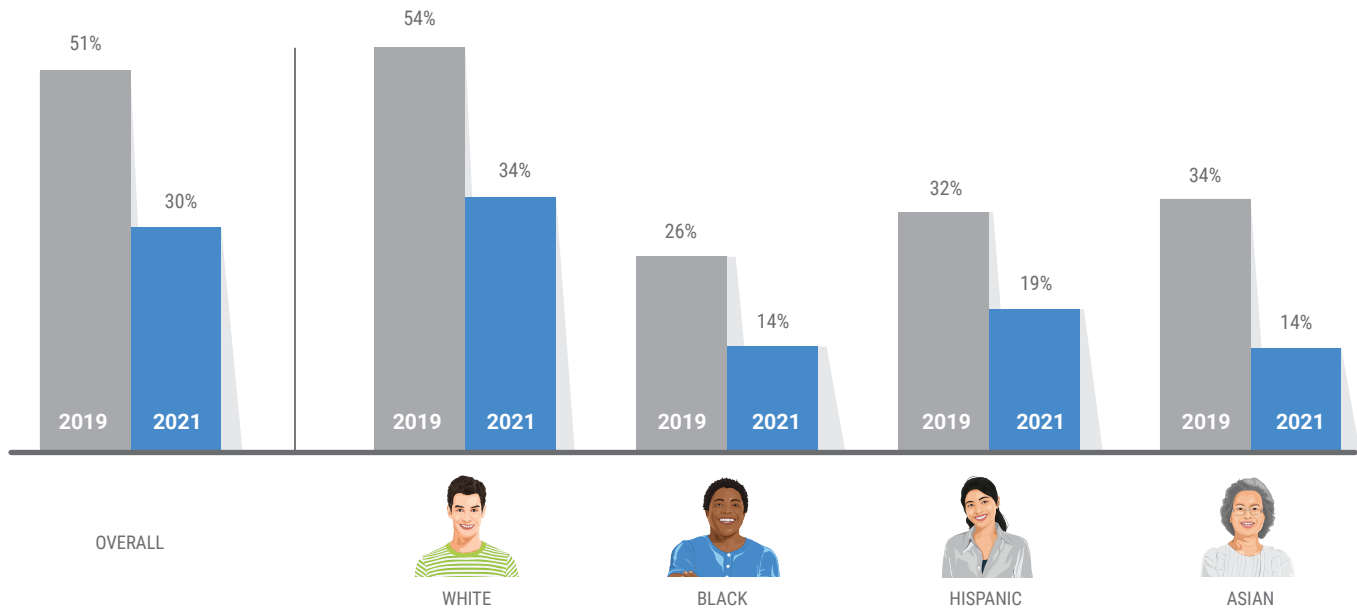


FIGURE 9. Share of businesses receiving the full amount of funding requested by race/ethnicity of majority ownership, 2019 and 2021



Source: Kauffman analysis of the Federal Reserve Banks 2021 Small Business Credit Survey.

Note: The Federal Reserve Banks and the Federal Reserve System cannot vouch for the data or analyses derived from these data after the data have been retrieved from fedsmallbusiness.org.



# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

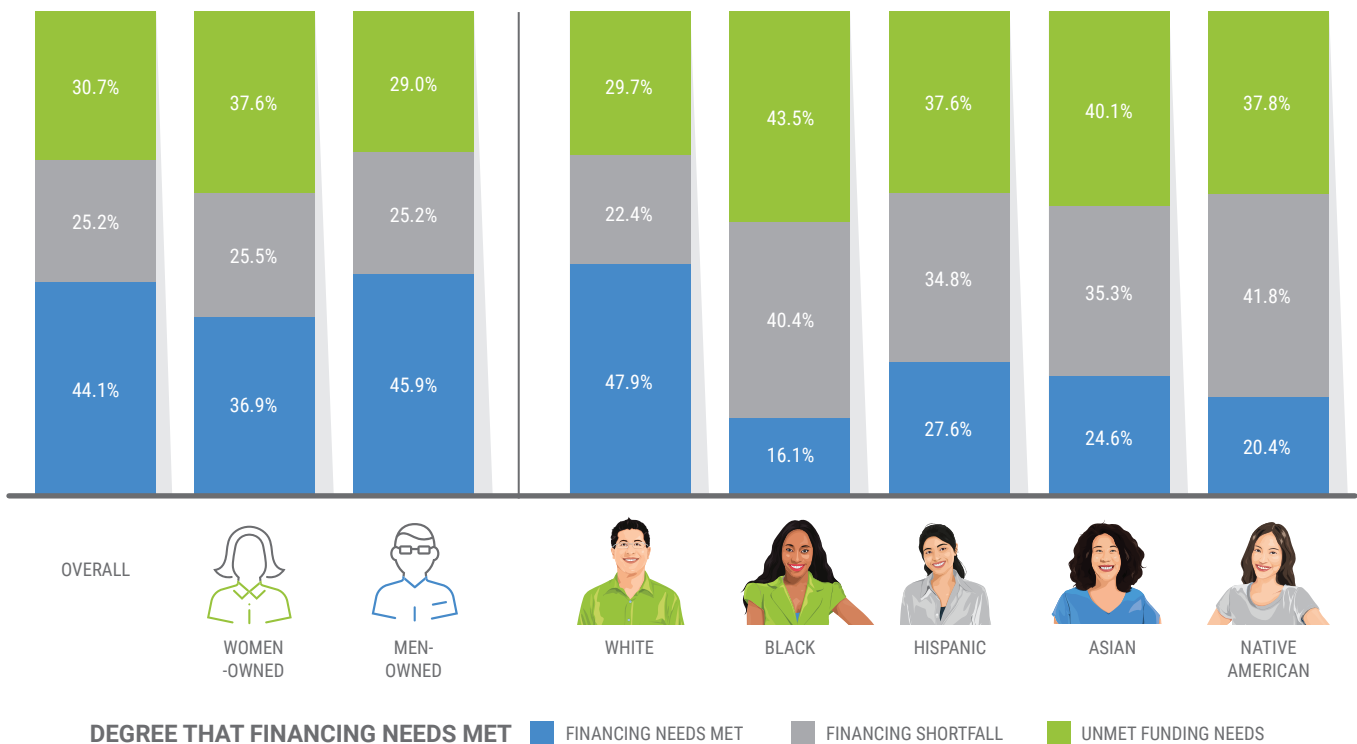
The business financing system is letting Black entrepreneurs down – just 16% of Black-owned businesses’ financing needs are met.

All of this adds up to a significant gap in capital access for all entrepreneurs, but one that is most keenly felt by businesses owned by people of color. Among businesses with employees, just 44% report that their financing needs are met. Across gender, race, and ethnicity, no group reports more than half of all businesses having

their financing needs met. However, businesses owned by people of color are substantially more likely to experience financing shortfalls and/or unmet funding needs. Just 16% of Black-owned businesses’ financing needs are met, compared with 48% of white-owned businesses (Figure 10).

The COVID-19 pandemic has impacted the ability of entrepreneurs to access the capital that they need to sustain (or grow) their businesses. In 2019, prior to the pandemic, nearly half (49%) of all businesses reported that their financing needs were met, compared with just 44% of all businesses in 2021. These effects have been most keenly felt among Black entrepreneurs, with the

FIGURE 10. Degree that business’ financing needs are met, 2021

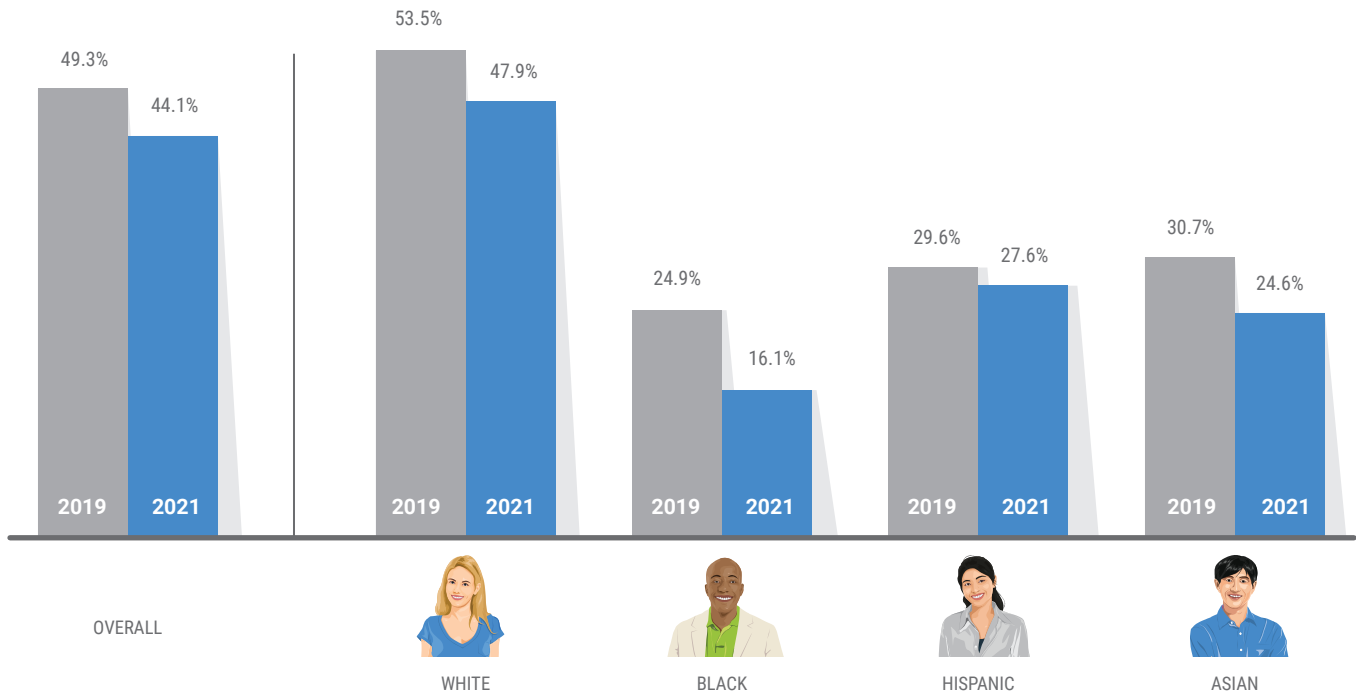


Source: Kauffman analysis of the Federal Reserve Banks 2021 Small Business Credit Survey.

Note: Businesses are defined as having unmet funding needs if they reported needing financing in the past 12 months, but chose not to apply. Businesses are defined as having a financing shortfall if they reported applying for financing in the past 12 months, but receiving less than the full amount requested. Businesses are defined as having their financing needs met if they either reported not applying for financing in the past 12 months because they had sufficient funding or they reported applying for financing in the past 12 months and receiving the full amount requested. The Federal Reserve Banks and the Federal Reserve System cannot vouch for the data or analyses derived from these data after the data have been retrieved from fedsmallbusiness.org.

# ENTREPRENEURS STILL FACE A CONSIDERABLE CAPITAL GAP

FIGURE 11. Share of businesses whose financing needs are met by race/ethnicity of majority ownership, 2019 and 2021



Source: Kauffman analysis of the Federal Reserve Banks 2021 Small Business Credit Survey.

Note: The Federal Reserve Banks and the Federal Reserve System cannot vouch for the data or analyses derived from these data after the data have been retrieved from fedsmallbusiness.org.

share of businesses whose financing needs are met declining from 25% in 2019 to 16% in 2021 (Figure 11). These trends may be driven largely by disparities in access to emergency financing through

programs like PPP, as data have shown that businesses owned by people of color received a disproportionately small share of all PPP loans (Figure 33 and Table 2).

**The COVID-19 pandemic has impacted the ability of entrepreneurs to access the capital that they need to sustain (or grow) their businesses, especially among Black entrepreneurs, with the share of business whose financing needs are met declining from 25% in 2019 to 16% in 2021.**

# WHY AREN'T BUSINESSES ACCESSING CAPITAL IF THEY NEED IT?

**About half of all businesses that need additional financing beyond start-up choose not to apply for it and the reasons for this are many and varied.** In 2021, nearly half (49%) of businesses who needed additional financing but chose not to apply did so because they were debt averse. However, more than half (51%) did not apply for other reasons that can possibly be addressed through programmatic and/or policy interventions. About 1 in 4 businesses chose not to apply for additional financing because they expected to be turned down, 11% felt that the application process was too difficult, and 8% thought that the cost of credit was too high (Figure 12).

The small business capital landscape has changed significantly since the beginning of the COVID-19 pandemic, these trends resemble their pre-pandemic trends. For comparison, in 2019, 52% of businesses needed additional financing but chose not to apply. Similar shares chose not to apply because they were debt averse (47%), while more expected to be turned down (28%) or felt that the cost of credit was too high (12%). On the other hand, somewhat fewer felt that the application process was too difficult in 2019 (9%), possibly reflecting the increased difficulty that businesses had in applying for loans through emergency relief programs such as PPP and EIDL during the pandemic (Figure 12).

Women and people of color are more likely to need additional financing but choose not to apply – 45% of the men who needed additional financing in 2021 chose not to apply compared with 54% of women; 46% of the white business owners who needed additional financing

chose not to apply compared with 57% of Black, 54% of Hispanic, 56% of Asian, 54% of Native Hawaiian and Other Pacific Islander, and 51% of Native American and Alaska Native business owners.<sup>19</sup>

Women and people of color are less likely to be debt averse and more likely to cite challenges around the application process being too difficult and expectations of being turned down as barriers to applying for additional financing. Of the Black business owners who chose not to apply for additional financing despite needing it, 46% chose not to apply because they expected to be turned down, compared with just 24% of white business owners (Figure 13).

# WHY AREN'T BUSINESSES ACCESSING CAPITAL IF THEY NEED IT

FIGURE 12. Reasons businesses that needed additional financing chose not to apply for it, 2019 and 2021

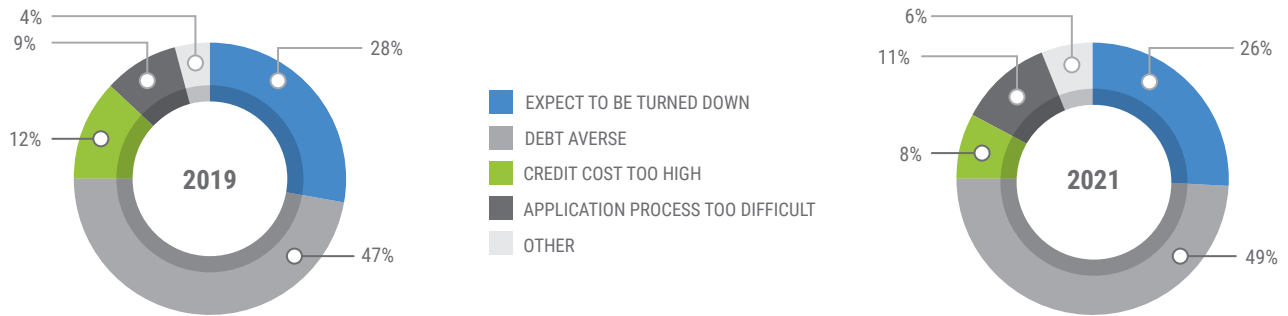
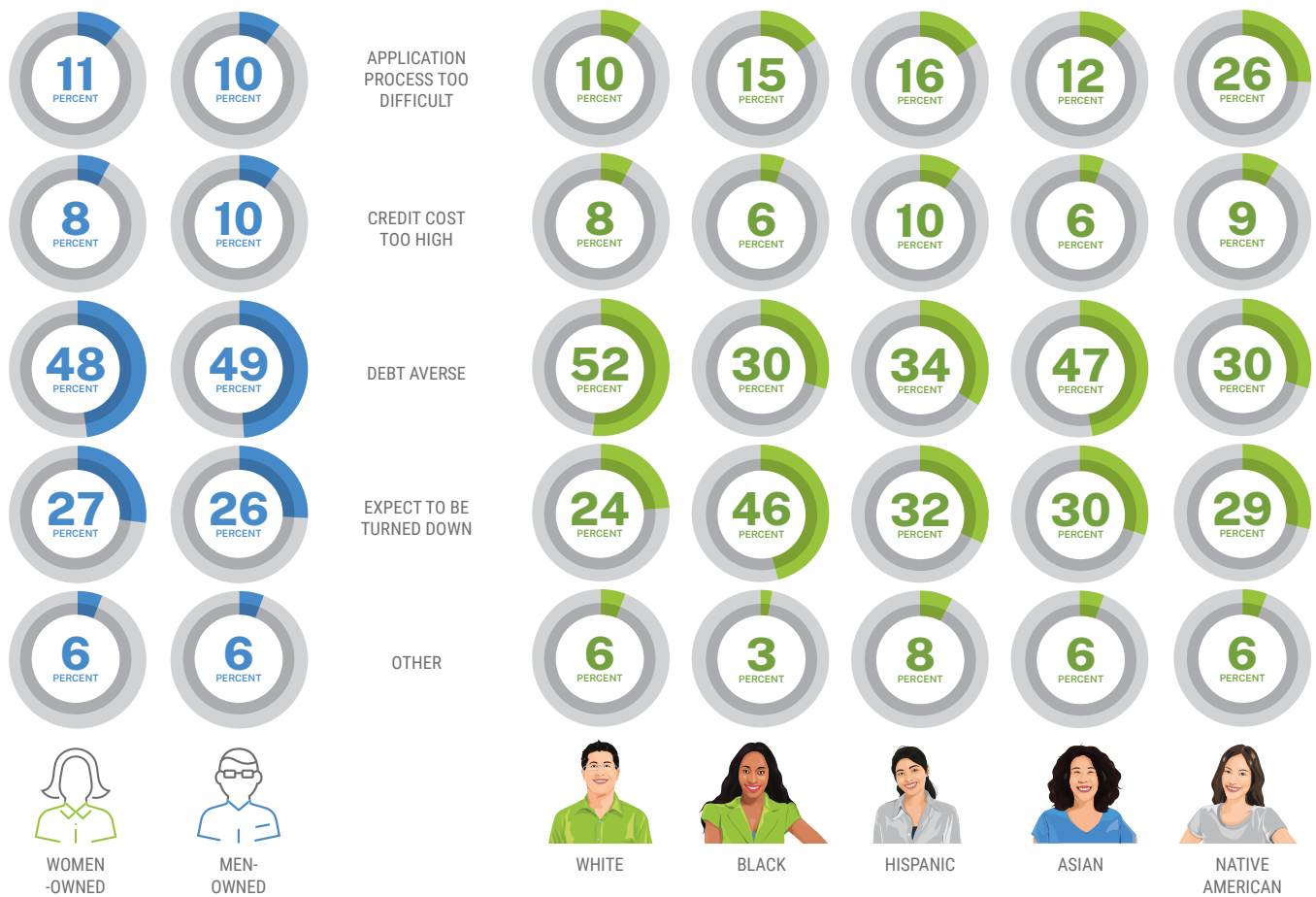


FIGURE 13. Reasons businesses that needed additional financing chose not to apply for it by gender and race/ethnicity, 2021



Source: Kauffman analysis of the Federal Reserve Banks 2019 and 2021 Small Business Credit Survey.

Note: Racial groups are non-Hispanic. The Federal Reserve Banks and the Federal Reserve System cannot vouch for the data or analyses derived from these data after the data have been retrieved from fedsmallbusiness.org.

## WHERE IS THE CAPITAL FLOWING FROM?

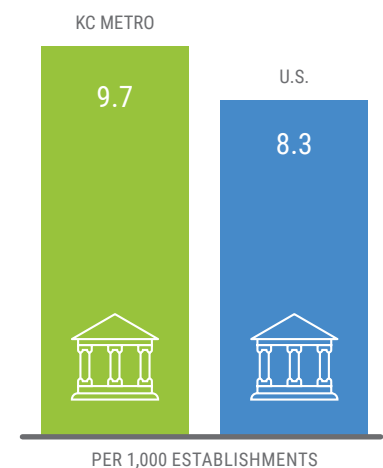
**Access to capital means more than a single loan or funding stream – it requires the availability of a constellation of funding and financing sources.** The following sections discuss the presence and availability of capital from multiple sources at the national level and provide data on how lending levels in the Kansas City metro area compare to the national baseline. Table 1 in the appendix provides an overview of the data sources leveraged in this section and the measures they provide.

### Bank Branches

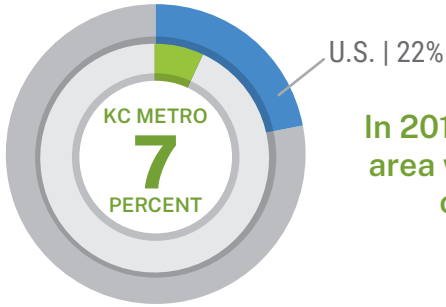
Bank branch locations and deposits reveal a business's proximity to lenders and their level of capitalization. Bank branch locations and deposits reveal banks' evaluation of (real and perceived) demand for business loans in a given geography. Though the physical landscape of bricks-and-mortar lenders has been reduced with the rise of online platforms, bank branches provide important insights into how and where business owners can access capital, both today and historically.

In 2020, there were 9.7 bank branches per 1,000 business establishments in the Kansas City metro area compared to 8.3 in the U.S. The Kansas City metro area has more bank branches relative to the number of businesses, but banks in this area are undercapitalized. The presence of more banks does not necessarily translate into greater access to capital for entrepreneurs and business owners, especially for people of color. In 2019, just 7% of bank branches in the Kansas City metro area were located in census tracts with majority-

**There are 9.7 bank branches per 1,000 establishments in the KC metro area compared with 8.3 bank branches in the U.S. overall.**



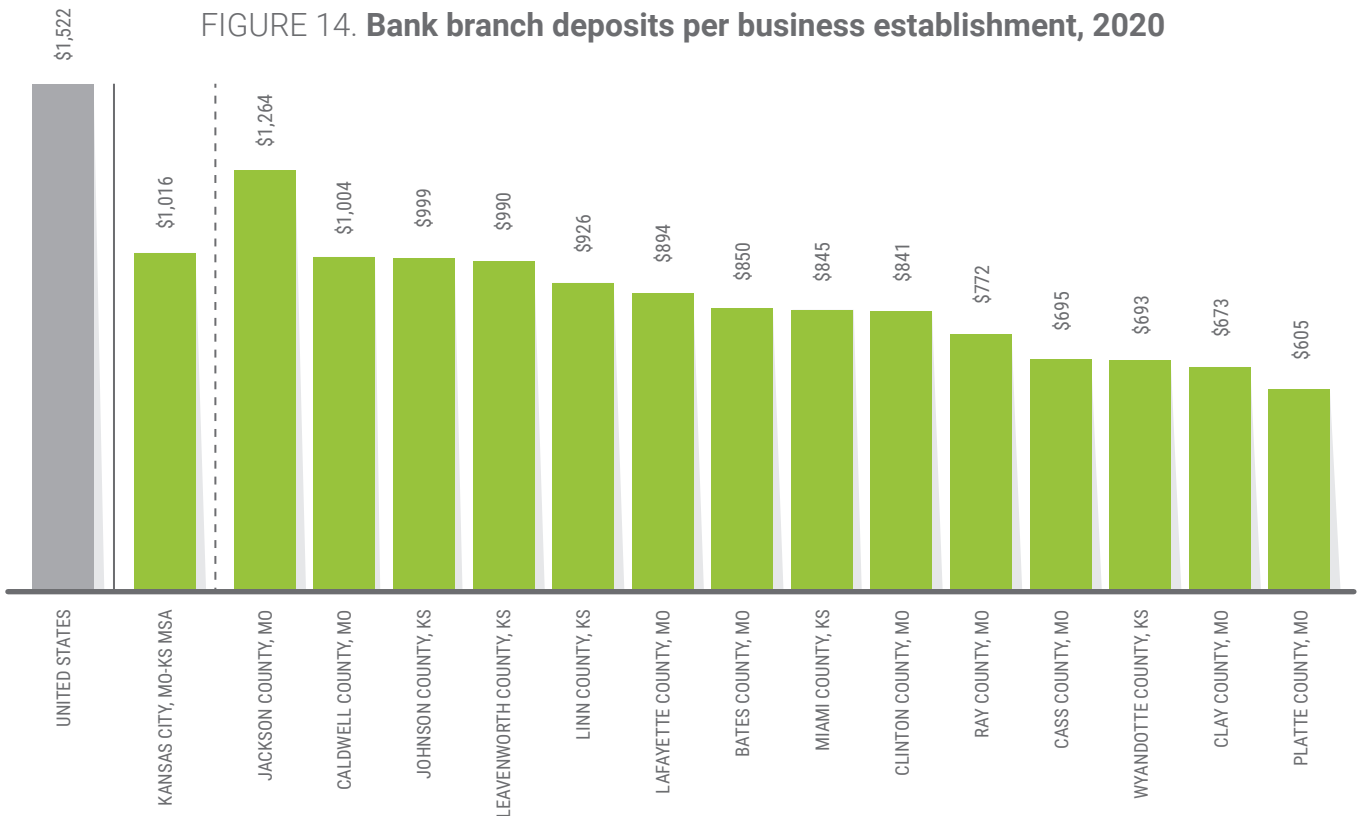
# WHERE IS THE CAPITAL FLOWING FROM?



**In 2019, just 7% of bank branches in the Kansas City metro area were located in census tracts with majority-people of color populations compared with 22% in the U.S.**

people of color populations compared with 22% in the U.S. overall, indicating that businesses owned by people of color may face more significant barriers to capital access in the Kansas City metro area.<sup>20</sup> Only 3 of the 14 counties in the Kansas City metro have at least some bank branches in majority-people of color tracts, and Wyandotte County, KS, is the only county where most bank branches are situated in majority-people of color tracts.

In 2020, bank branch deposits per business establishment amounted to \$1,000 in the Kansas City metro area, about two-thirds the national level (\$1,500), indicating that bank branches in the Kansas City metro area are under-capitalized.<sup>21</sup> Among Kansas City metro area counties, Jackson County, MO, has the highest amount of branch deposits per business establishment (\$1,300) but still falls well below the national average (Figure 14).<sup>22</sup>



Source: Kauffman analysis of the 2020 FDIC and dF-QCEW data.

### Minority Depository Institutions (MDIs)

MDIs are commercial banks and savings associations where “51% or more of the voting stock is owned by minority individuals; or a majority of the board of directors is minority and the community that the institution serves is predominantly minority.”<sup>23</sup> They are and have been key sources of capital for business owners of color, and they serve a range of business stages.

In 2019, there were 1,180 MDIs in the U.S., with just two located in the Kansas City metro area (one in Wyandotte County, KS, and the other in Jackson County, MO). In the Kansas City metro area, there were 0.3 MDI branches per 100,000 people of color compared to 0.9 nationally.<sup>24</sup> In 2019, MDI branch deposits nationwide totaled about \$140 million, averaging \$118,000 per MDI branch and \$1.09 per person of color in the U.S. In the Kansas City metro area, where MDI branch deposits totaled \$44,000, MDI branches averaged deposits of just \$22,000 per branch and \$0.08 per person of color.<sup>25</sup> Unfortunately, this gap appears to be widening: from 2010 to 2019, real MDI branch deposits per person of color increased in the U.S. but declined in the Kansas City metro area.<sup>26</sup>

### Community Development Financial Institutions (CDFIs)

CDFIs are generally concentrated in lower-income communities.<sup>27</sup> CDFIs are an important capital provider for small businesses because they generally approve loans and credit lines at higher rates than traditional bank lenders and have the ability to offer more favorable interest rates.<sup>28</sup> CDFI business loans generally serve

local, neighborhood-serving small businesses at varying stages of growth and establishment. Additionally, CDFIs may lend smaller amounts – i.e., micro loans – to entrepreneurs and businesses that traditional bank lenders may deem too small to be worthwhile to them; micro loans are generally targeted to start-up stage businesses, or even pre-launch businesses.

Over the 2018-2020 period, CDFIs made about 133,000 micro and business loans in the U.S. and 200 in the Kansas City metro area. They provided about \$5.4 billion in micro and business loans in the U.S., averaging about \$40,000 per loan and \$530 per business establishment. In the Kansas City metro area, average CDFI loan value (\$136,000) was higher than the national average, but loan value per business establishment was lower (\$390).<sup>29</sup> Among Kansas City metro area counties, Cass County, MO, had the highest CDFI lending rate per 1,000 business establishments (6.0) and the highest loan value per business establishment (\$830). In addition to Cass, Jackson County, MO, and Clay County, MO, were the only other metro counties to report CDFI loan values per business establishment above the U.S. level (see Figure 15). Three counties – Bates County, MO, Clinton County, MO, and Ray County, MO – had no CDFI micro or business loans from 2018 to 2020.

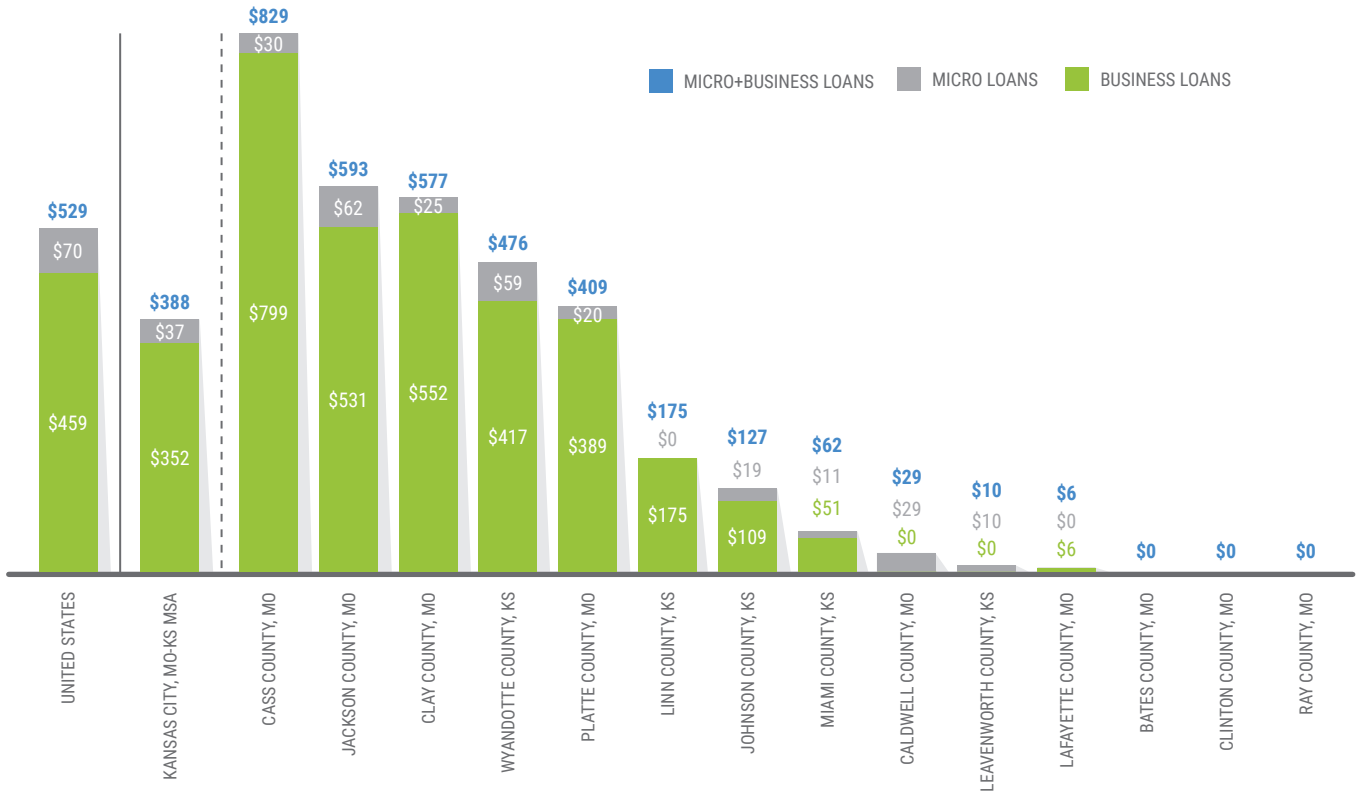
### Credit Unions

Credit unions are non-profit, member-owned, community-oriented financial institutions that engage in traditional banking and lending activity for their members. A credit union's field of membership may be based on a shared employer, membership in another group like a place of worship, school, labor union, or homeowners' association, or a specific geographic area.<sup>30</sup> Credit unions generally serve a range of business stages.

**In 2019, there were 1,180 Minority Depository Institutions in the U.S., with just two located in the Kansas City metro area (one in Wyandotte County, KS, and the other in Jackson County, MO).**

# WHERE IS THE CAPITAL FLOWING FROM?

FIGURE 15. Dollar value of CDFI loans per establishment, 2018–2020 average



Source: Kauffman analysis of the 2020 FDIC and dF-QCEW data.

Geo	Micro+Business Loans	Micro Loans	Business Loans
U.S.	\$529	\$70	\$459
KC MSA	\$388	\$37	\$352
Cass County, MO	\$829	\$30	\$799
Jackson County, MO	\$593	\$62	\$531
Clay County, MO	\$577	\$25	\$552
Wyandotte County, KS	\$476	\$59	\$417
Platte County, MO	\$409	\$20	\$389
Linn County, KS	\$175	\$0	\$175
Johnson County, KS	\$127	\$19	\$109
Miami County, KS	\$62	\$11	\$51
Caldwell County, MO	\$29	\$29	\$0
Leavenworth County, KS	\$10	\$10	\$0
Lafayette County, MO	\$6	\$0	\$6
Bates County, MO	\$0	\$0	\$0
Clinton County, MO	\$0	\$0	\$0
Ray County, MO	\$0	\$0	\$0

Note: Highlighted cells have higher values than the U.S.



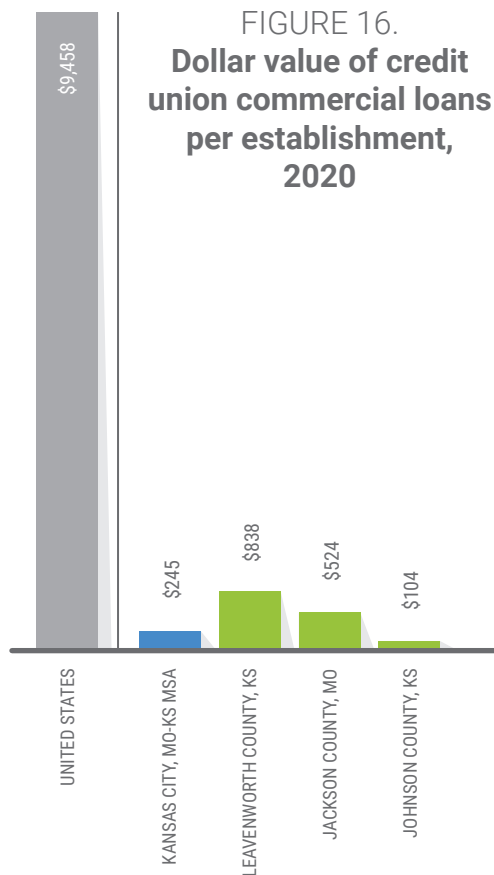
Credit unions appear to be under-capitalized in the Kansas City metro. As of 2020, credit unions made about 246,000 commercial loans nationally, 220 of which were in the KC metro, and credit unions only made about \$240 in commercial loans per business establishment in the Kansas City metro area, compared to \$9,500 in the U.S. Among Kansas City metro area counties, more than half (130) of the 220 commercial loans from credit unions were made in Johnson County, KS, and most of the remainder were made in Jackson County, MO.<sup>31</sup> Only three of Kansas City metro area's 14 counties received any credit union commercial loans. While the commercial loan values per establishment in all three counties were significantly lower than the U.S., they were highest in Leavenworth (\$840; Figure 16).

## Traditional Small Business Loans

Traditional small business loans reflect originations of small loans – those made for less than \$1 million – to businesses by traditional commercial banks and savings associations (e.g., Bank of America Citibank, JP Morgan Chase, Wells Fargo).<sup>32</sup> These loans generally serve a range of business stages.

In 2020, approximately 7.9 million traditional small business loans were made nationally, and 47,500 were made in the Kansas City metro area. The total number of small business loans per establishment in the Kansas City metro area – about 670 – is lower than in the U.S. rate (780 loans per business establishment). However, the Kansas City metro area reported high average loan values and loan value per business establishment compared to the U.S.; the average value of loans in the Kansas City metro area exceeded the national value by more than \$15,000 (\$72,000 in the Kansas City metro area vs. \$56,000 in the U.S.), and the value of loans per business establishment in the Kansas City metro area was about \$4,000 higher than across the nation (\$48,000 vs. \$44,000). When these values are broken out by loan size in Figure 17, (page 22), we can see that the driver of the higher overall value for the Kansas City metro area is significantly higher loan value per establishment for loans between \$250K and \$1M (\$27.2K vs \$20.6K in the U.S.). Figure 18, which breakouts the share of loan value by loan size, shows that only 24% of traditional small business loans in Kansas City metro area were for <\$100K as compared to 32% in the U.S. This points to a gap for startups and smaller businesses in need of smaller loans.

Among Kansas City metro area counties, Cass County, MO, reported the highest number of small business loans per 1,000 business establishments (810). Wyandotte County, KS, reported the largest loan value per business establishment (\$61,000), as well as the highest average loan value (\$84,000); it also reported the lowest share of small business loans for less than \$100,000 (21%). Six of the fourteen counties in the Kansas City metro area had higher overall loan values per establishment than the U.S.; these same six counties all had higher values for loans of \$250K-\$1M as well. No counties had higher values for loans of <\$100K and only Wyandotte, KS, and Johnson, KS, had higher values for loans of \$100K-\$250K.<sup>33</sup>

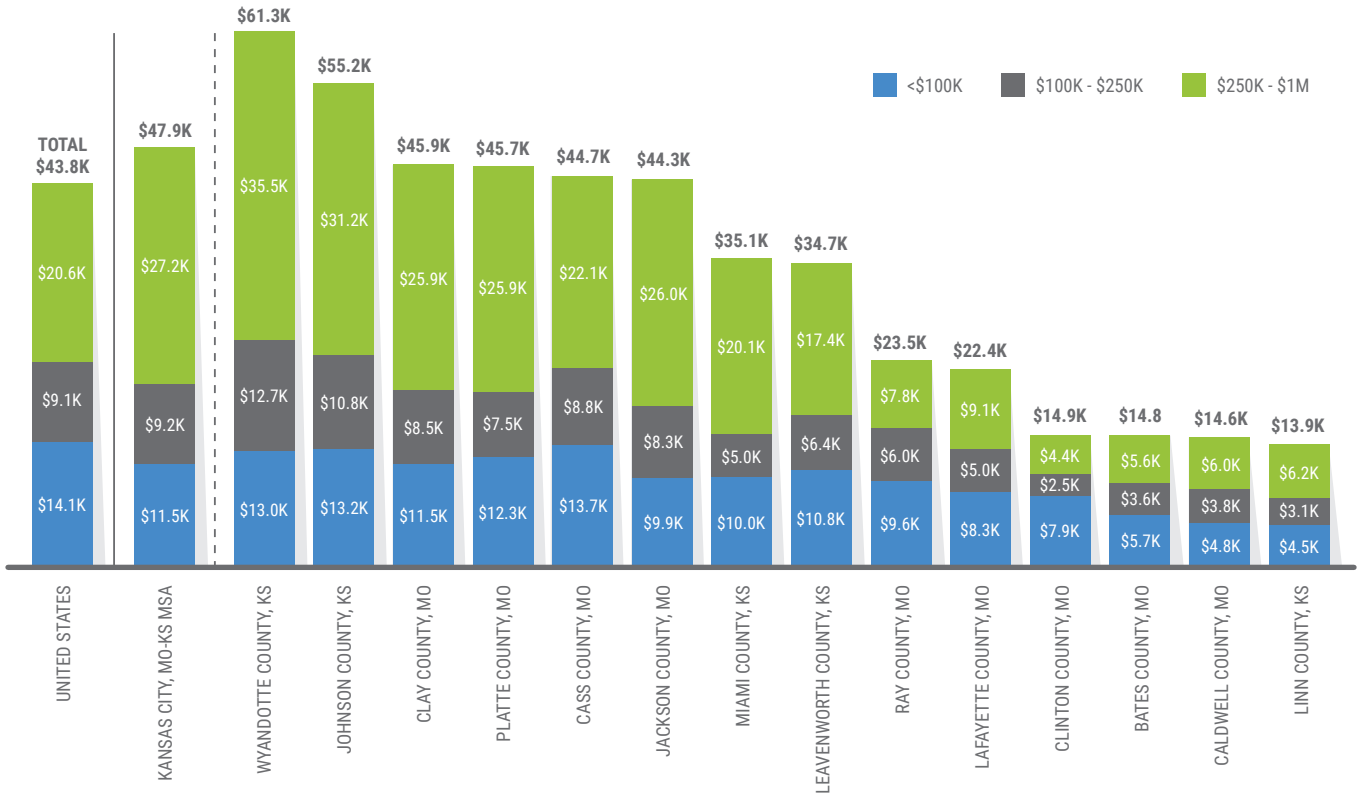


**Source:** Kauffman analysis of the 2020 FDIC and dF-QCEW data.

**Note:** Linn, Miami, and Wyandotte counties in Kansas, and Bates, Caldwell, Cass, Clay, Clinton, Lafayette, Platte, and Ray counties in Missouri, did not receive credit union commercial loans in 2020.

# WHERE IS THE CAPITAL FLOWING FROM?

FIGURE 17. Dollar value of traditional small business loans per establishment, 2020



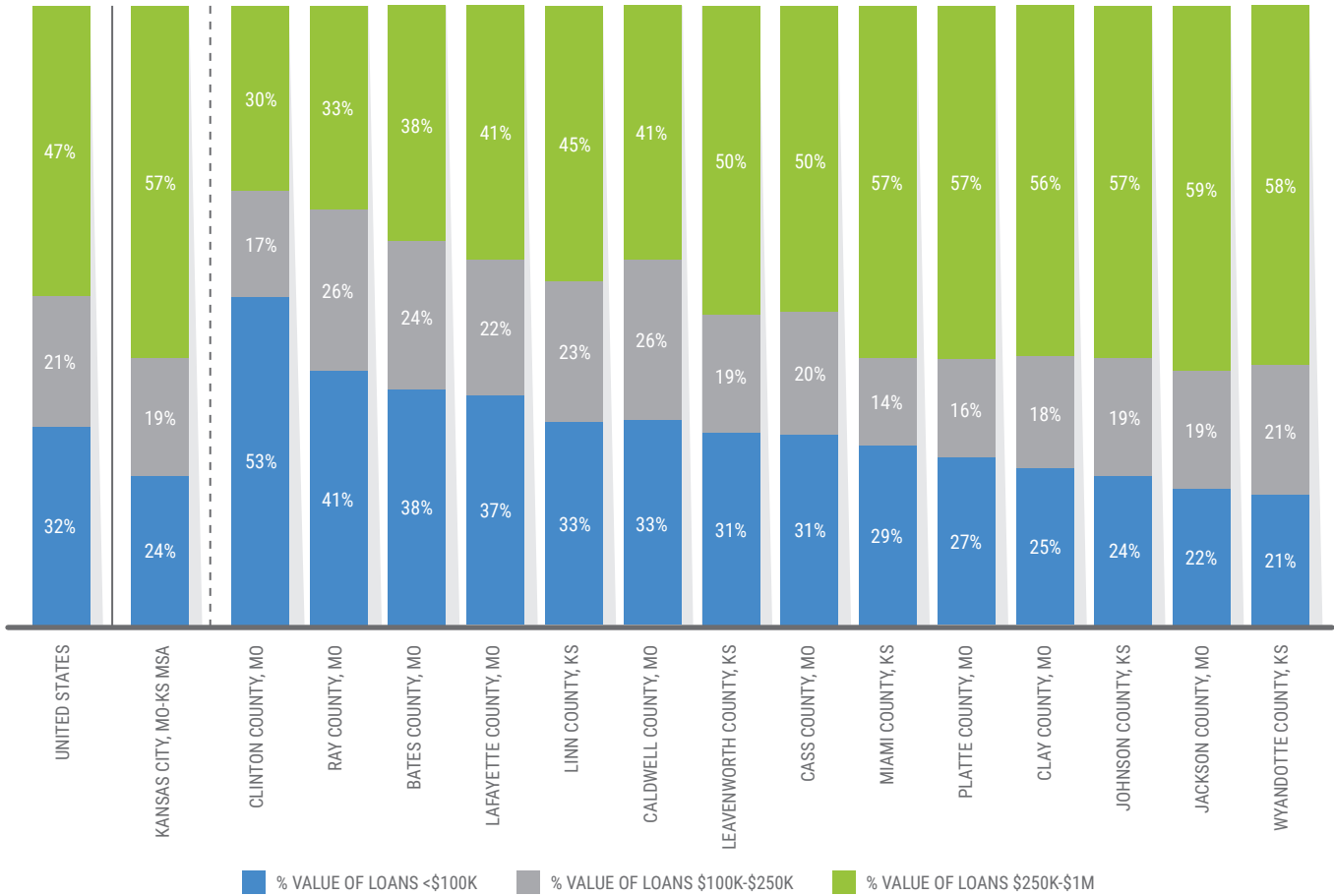
Source: Kauffman analysis of the 2020 FDIC and dF-QCEW data.

Geo	Total	<\$100K	\$100K - \$250K	\$250K - \$1M
U.S.	\$43,800	\$14,100	\$9,100	\$20,600
KC MSA	\$47,900	\$11,500	\$9,200	\$27,200
Wyandotte County, KS	\$61,300	\$13,000	\$12,700	\$35,500
Johnson County, KS	\$55,200	\$13,200	\$10,800	\$31,200
Clay County, MO	\$45,900	\$11,500	\$8,500	\$25,900
Platte County, MO	\$45,700	\$12,300	\$7,500	\$25,900
Cass County, MO	\$44,700	\$13,700	\$8,800	\$22,100
Jackson County, MO	\$44,300	\$9,900	\$8,300	\$26,000
Miami County, KS	\$35,100	\$10,000	\$5,000	\$20,100
Leavenworth County, KS	\$34,700	\$10,800	\$6,400	\$17,400
Ray County, MO	\$23,500	\$9,600	\$6,000	\$7,800
Lafayette County, MO	\$22,400	\$8,300	\$5,000	\$9,100
Clinton County, MO	\$14,900	\$7,900	\$2,500	\$4,400
Bates County, MO	\$14,800	\$5,700	\$3,600	\$5,600
Caldwell County, MO	\$14,600	\$4,800	\$3,800	\$6,000
Linn County, KS	\$13,900	\$4,500	\$3,100	\$6,200

Note: Highlighted cells have higher values than the U.S.

# WHERE IS THE CAPITAL FLOWING FROM?

FIGURE 18. Breakdown in dollar value of traditional small business loans by size, 2020



Source: Kauffman analysis of the 2020 CRA data.

Analyzing small business loans at the census tract level, after normalizing by the number of people ages 25 and older, reveals clear patterns and disparities within the metro and within Kansas City itself, such as low loan values per capita on the east side of the city.

Furthermore, of traditional bank loans in the Kansas City metro area only 11% went to majority-people of color and 17% went to high poverty (>20% poverty rate) tracts in 2019, as compared to 29% and 19% in the U.S. (Figure 19)<sup>34</sup>

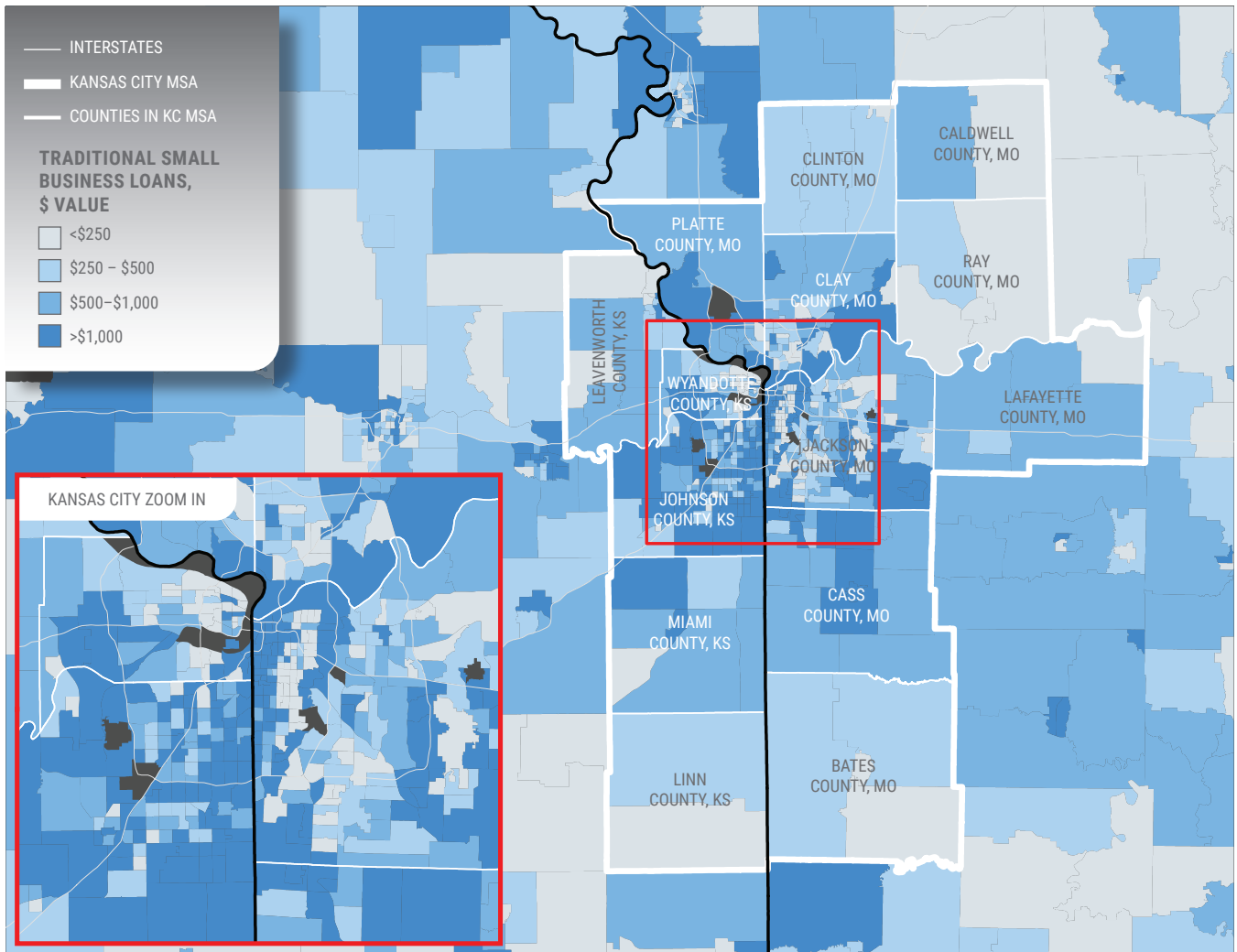
**Only 24% of traditional small business loans in Kansas City metro area were for <\$100K as were 32% in the U.S. This points to a gap for startups and smaller businesses in need of smaller loans.**

# WHERE IS THE CAPITAL FLOWING FROM?



Analyzing small business loans at the census tract level, after normalizing by the number of people ages 25 and older, reveals clear patterns and disparities within the metro and within Kansas City itself, such as low loan values per capita on the east side of the city.

FIGURE 19. Traditional small business loans (\$) per population ages 25+ years old, 2019



# WHERE IS THE CAPITAL FLOWING FROM?

## Traditional Small Farm Loans

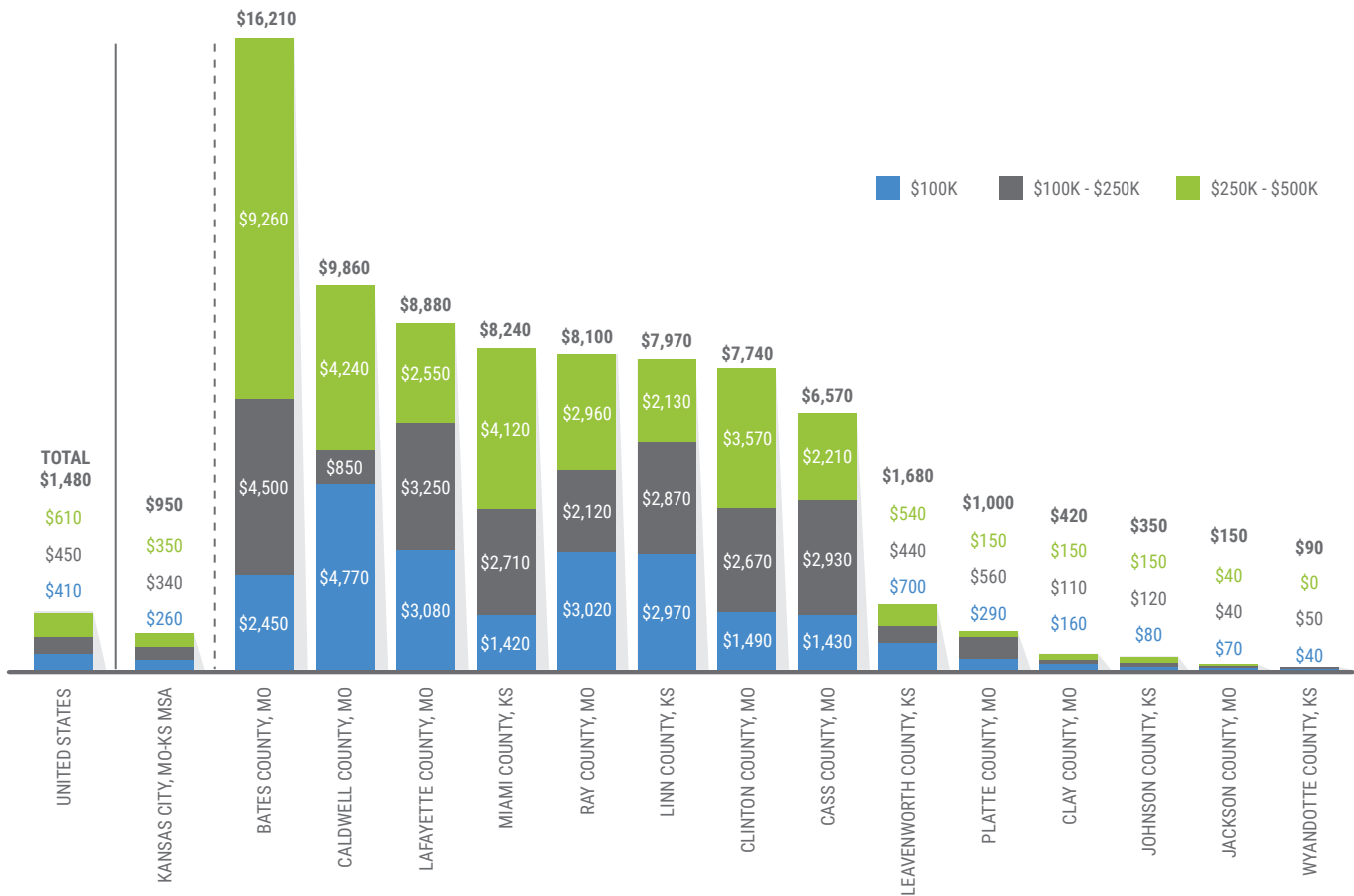
Traditional small farm loans reflect originations of small loans – those made for less than \$500,000 – to farms by traditional commercial banks and savings associations.<sup>35</sup> These loans generally support small- to mid-sized independent farmers, and they serve range of business stages.

In 2020, nearly 200,000 small farm loans were made nationally, and just over 900 were made in the Kansas City metro area. In the Kansas City metro area, there were about 13 loans made per 1,000 business establishments, compared to about 20 in the U.S. Though average loan sizes are comparable (\$76,000 in the U.S. vs. \$74,000 in the Kansas City metro area),

loan value per business establishment in the U.S. far outpaces the Kansas City metro area (\$1,500 vs. \$950).<sup>36</sup>

Among Kansas City metro area counties, Caldwell County, MO, reported the highest number of small farm loans per 1,000 business establishments (190), more than 60 times the rates in Jackson County, MO, and Wyandotte County, KS. Loan value per business establishment is highest in Bates County, MO (\$16,000) and lowest in Wyandotte County, KS (\$90). Across the 14 counties in the Kansas City metro area, nine (more rural and agricultural) counties have higher loan values per establishment than the U.S.; eight of these nine counties have consistently higher values across all farm loan sizes (see Figure 20 below and table on page 26).

FIGURE 20. Dollar value of traditional small farm loans per establishment, 2020



Source: Kauffman analysis of the 2020 CRA data.

## WHERE IS THE CAPITAL FLOWING FROM?

Dollar value of traditional small farm loans per establishment, 2020				
Geo	Total	<\$100K	\$100K - \$250K	\$250K - \$500K
U.S.	\$1,480	\$410	\$450	\$610
KC MSA	\$950	\$260	\$340	\$350
Bates County, MO	\$16,210	\$2,450	\$4,500	\$9,260
Caldwell County, MO	\$9,860	\$4,770	\$850	\$4,240
Lafayette County, MO	\$8,880	\$3,080	\$3,250	\$2,550
Miami County, KS	\$8,240	\$1,420	\$2,710	\$4,120
Ray County, MO	\$8,100	\$3,020	\$2,120	\$2,960
Linn County, KS	\$7,970	\$2,970	\$2,870	\$2,130
Clinton County, MO	\$7,740	\$1,490	\$2,670	\$3,570
Cass County, MO	\$6,570	\$1,430	\$2,930	\$2,210
Leavenworth County, KS	\$1,680	\$700	\$440	\$540
Platte County, MO	\$1,000	\$290	\$560	\$150
Clay County, MO	\$420	\$160	\$110	\$150
Johnson County, KS	\$350	\$80	\$120	\$150
Jackson County, MO	\$150	\$70	\$40	\$40
Wyandotte County, KS	\$90	\$40	\$50	\$0

**Note:** Highlighted cells have higher values than the U.S.

### SBA 7(a) and 504 Loans

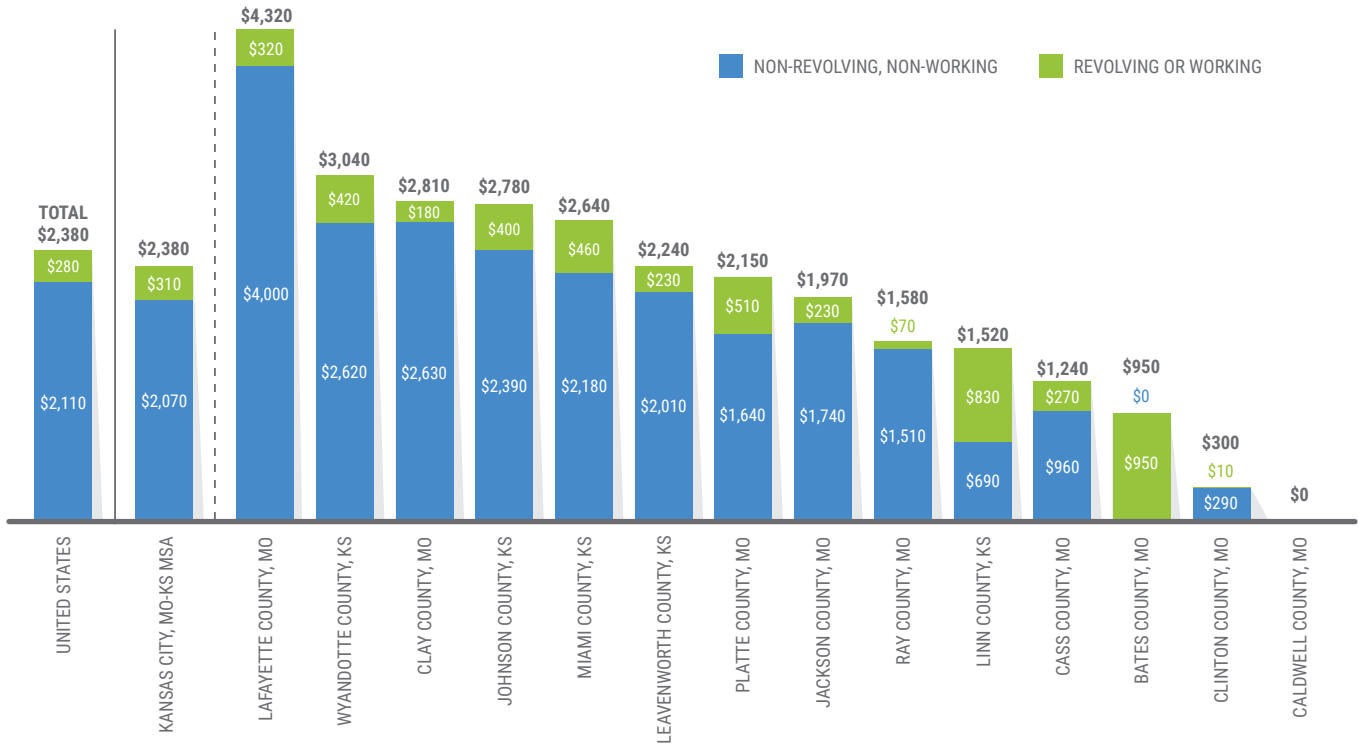
The U.S. Small Business Administration (SBA) provides loans to small businesses. The 7(a) program is considered the “primary program for providing financial assistance to small businesses,” and it offers loans of up to \$5 million.<sup>37</sup> The 504 program provides long-term loans of up to \$5.5 million to support investments aligned with targeted economic development uses, such as “existing buildings or land, new facilities, or long-term machinery and equipment or the improvement or modernization of land, streets, utilities, parking lots and landscaping, or existing facilities.”<sup>38</sup> Though specific capital demands may vary by industry, generally, both the 7(a) and 504 programs serve a range of business stages. The 7(a) program data can be broken out by working or revolving loans, which have terms that are less than 84 months and are often leveraged by existing businesses that may be trying to scale.

Over the 2018-2020 period, SBA averaged \$24 billion in 7(a) loans, and \$170 million were loaned in the

Kansas City metro area. The rate of 7(a) loans per 1,000 business establishments in the Kansas City metro area lags the U.S., overall and for revolving or working (<84 month term) loans. However, loan values per business establishment in the Kansas City metro area were on par with national levels (\$2,400), and Kansas City metro area revolving or working loan values outpace the U.S. (\$310 vs. \$280 per business establishment). Among Kansas City metro area counties, five counties had higher loan values per establishment compared to the U.S.; these same five counties also had higher values for non-revolving, non-working 7(a) loans. Lafayette County, MO, reported the highest loan value per establishment (\$4,300), and Bates County, MO, reported the highest revolving or working loan value per establishment (\$950). One county (Caldwell County, MO) reported no 7(a) loans and Bates County had no non-revolving, non-working loans. By far, Linn County, KS, received the most 7(a) loans per business establishment on a count basis, overall and for revolving or working loans specifically.<sup>39</sup> (Figure 21).

# WHERE IS THE CAPITAL FLOWING FROM?

FIGURE 21. Dollar value of SBA 7(a) loans per establishment, 2018-2020 average



Source: Kauffman analysis of the 2018-2020 SBA and 2020 dF-QCEW data.

Dollar value of SBA 7(a) loans per establishment, 2018-2020 average

Geo	Total	non-revolving, non-working	revolving or working
U.S.	\$2,380	\$2,110	\$280
KC MSA	\$2,380	\$2,070	\$310
Lafayette County, MO	\$4,320	\$4,000	\$320
Wyandotte County, KS	\$3,040	\$2,620	\$420
Clay County, MO	\$2,810	\$2,630	\$180
Johnson County, KS	\$2,780	\$2,390	\$400
Miami County, KS	\$2,640	\$2,180	\$460
Leavenworth County, KS	\$2,240	\$2,010	\$230
Platte County, MO	\$2,150	\$1,640	\$510
Jackson County, MO	\$1,970	\$1,740	\$230
Ray County, MO	\$1,580	\$1,510	\$70
Linn County, KS	\$1,520	\$690	\$830
Cass County, MO	\$1,240	\$960	\$270
Bates County, MO	\$950	\$0	\$950
Clinton County, MO	\$300	\$290	\$10
Caldwell County, MO	\$0	\$0	\$0

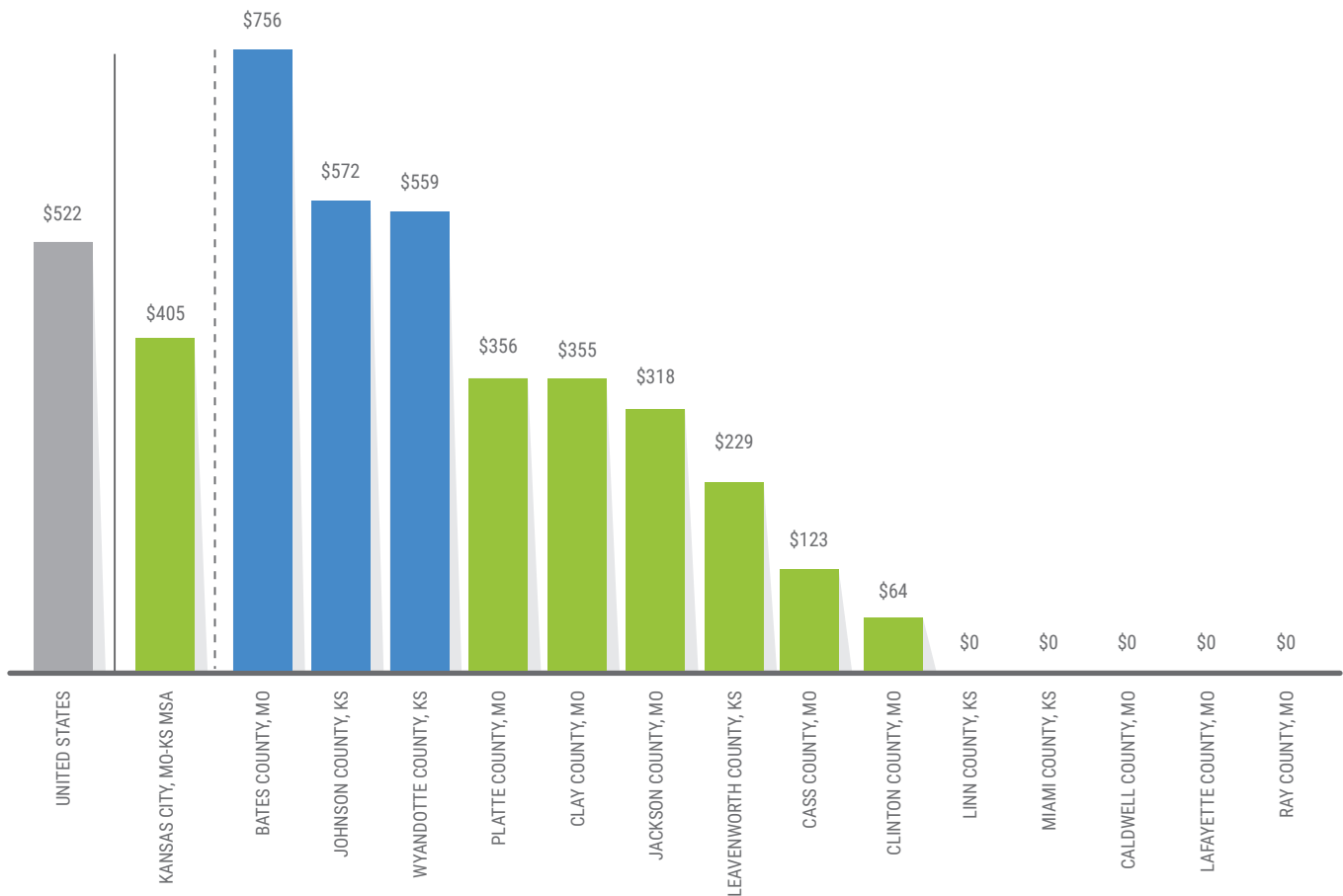
Note: Highlighted cells have higher values than the U.S.

## WHERE IS THE CAPITAL FLOWING FROM?

During the same period, SBA averaged \$5.3 billion in 504 loans, and \$29 million were made in the Kansas City metro area. The number and value of 504 loans in the Kansas City metro area lags the U.S.: the Kansas City metro area reported 0.47 loans per 1,000 business establishment compared to 0.62 in the U.S., and the metro trailed the U.S. loan value per business establishment by more than \$100 (\$410 vs. \$520).<sup>40</sup>

The vast majority of the region's 504 loans went to Johnson County, KS, or Jackson County, MO. However, the number of 504 loans per 1,000 business establishment and value of loans per business establishment was highest in Bates County, MO. Five metro counties received no 504 loans from 2018 to 2020 (Figure 22).

FIGURE 22. Dollar value of SBA 504 loans per establishment, 2018–2020 average



Source: Kauffman analysis of the 2018-2020 SBA and 2020 dF-QCEW data.

Note: Bars in blue indicate the county has higher values than the U.S.



# WHERE IS THE CAPITAL FLOWING FROM?

## Venture Capital (VC)

VC refers to a unique source of capital that makes “high-risk, long-term equity investments into innovative young companies to conduct research, expand workforces, build out new facilities, [and] focus on long-term value growth activities,” usually over the course of at least 10 years.<sup>41</sup> VC is generally best suited to start-up firms with high growth potential in very select industries, and it often supports businesses for whom mainstream funding is unattainable or unavailable.

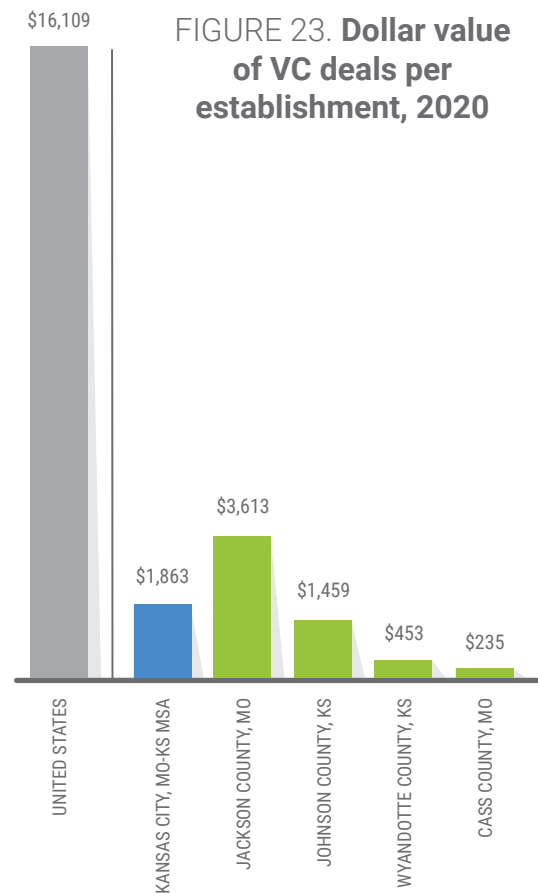
In 2020, there were 11,600 VC deals across the U.S., more than half of which occurred in California, New York, or Massachusetts. Less than 40 VC deals occurred in the Kansas City metro area. The average deal size in the Kansas City metro area was \$3.5 million, well below the national average of \$14 million. The number of VC deals per 1,000 business establishment in the Kansas City metro area was less than half the U.S. rate (0.5 vs. 1.1), and the VC deal value per business establishment was just over 11% the U.S. value (\$1,900 vs. \$16,000).<sup>42</sup>

Within the Kansas City metro area, almost all of the VC deals took place in Jackson County, MO, and Johnson County, KS, and only three other counties reported any VC deals (likely following the landscape of VC candidate firms). The number of VC deals per 1,000 business establishment was highest in Wyandotte County, KS (1.3), but deal value per business establishment was highest in Jackson County, MO (\$3,600), more than twice the next-highest county (Johnson County, KS; \$1,500). However, the values in the four counties with data were all a fraction of the U.S. value (Figure 23).<sup>43</sup>

## How big is the lending gap in the Kansas City metro area?

While the measures described above point to a gap in capital access in the Kansas City metro area, they don’t, on their own, reveal the size of the gap. Estimating what lending levels in the Kansas City metro area would look like at U.S. rates helps contextualize the magnitude of the gap overall and by capital type.

The Kansas City metro area had an estimated capital gap of over \$1.4 billion in 2020, underperforming national lending rates per establishment across all capital types other than traditional small business



**Source:** Kauffman analysis of the 2020 NVCA, Crunchbase, and dF-QCEW data.

**Note:** Clay County, MO reported two VC deals but no deal value information was available. KC MSA counties not shown did not have any VC deals in 2020.

lending. VC deals and credit union commercial loans are the biggest drivers of the gap, accounting for 71% and 46% of the gap between the Kansas City metro area and the U.S., respectively.<sup>44</sup>

All counties in the Kansas City metro area have a negative lending gap. All metro counties underperformed in VC deals and credit union commercial loans. The only category where most Kansas City metro area counties outperformed U.S. rates was traditional small farm loans.

Six counties outperformed U.S. rates on traditional small business loans, and this was mainly due to high

## WHERE IS THE CAPITAL FLOWING FROM?

FIGURE 24. **Kansas City metro area lending gap (in millions of dollars), 2020**

Capital Type	Gap
VC Deals	-\$1,014.6
Traditional Small Business Loans	\$293.7
<i>Traditional Small Business Loans for &lt;\$100K</i>	-\$180.7
<i>Traditional Small Business Loans for \$100K to \$250K</i>	\$4.3
<i>Traditional Small Business Loans for \$250K to \$1M</i>	\$470.0
SBA 7A Loans, 2018-2020 Avg.	-\$0.1
<i>SBA 7A Loans, non-revolving, non-working, 2018-2020 Avg.</i>	-\$2.6
<i>SBA 7A Loans, revolving or working, 2018-2020 Avg.</i>	\$2.5
Credit Union Commercial Loans	-\$656.2
SBA 504 Loans, 2018-2020 Avg.	-\$8.3
Micro + Business CDFI Loans, 2018-2020 Avg.	-\$10.0
<i>Micro CDFI Loans, 2018-2020 Avg.</i>	-\$2.4
<i>Business CDFI Loans, 2018-2020 Avg.</i>	-\$7.6
Traditional Small Farm Loans	-\$37.7
<i>Traditional Small Farm Loans for &lt;\$100K</i>	-\$11.1
<i>Traditional Small Farm Loans for \$100K to \$250K</i>	-\$8.2
<i>Traditional Small Farm Loans for \$250K to \$500K</i>	-\$18.4
<b>Total Estimated Gap</b>	<b>-\$1,433.3</b>

**Note:** The lending gap is calculated by estimating the dollar value in lending activity by type if the Kansas City metro area had the same level per establishment as the U.S. and subtracting this predicted level of lending activity from the actual dollar value.

lending levels for larger loans between \$250,000 and \$1 million. No counties out-performed the U.S. for loans less than \$100,000, and only two – Johnson County, KS, and Wyandotte County, KS – out-performed the U.S. for traditional small business loans between \$100,000 and \$250,000. This under-performance among smaller-value loans could indicate challenges for smaller and/or younger firms searching for lower levels of business capital (Figure 25).

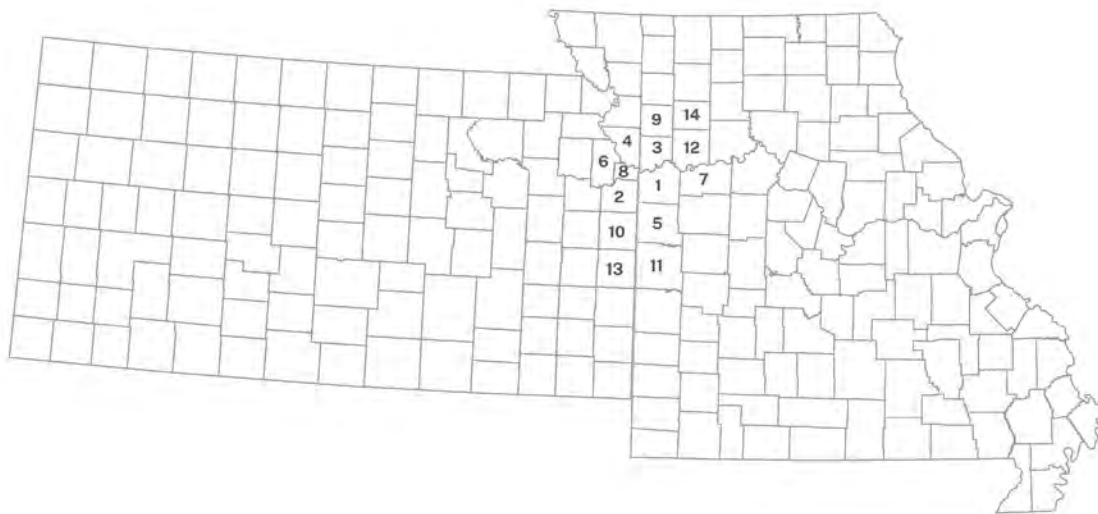
Though not calculated in the lending gap, bank branch deposits are another crucial component of the region's lending ecosystem. If bank branches in the Kansas City metro area had the same level of bank branch deposits per business establishment as in the U.S. overall, the Kansas City metro area would have \$36 million more in deposits – and if bank branches in the Kansas City metro area had the same level of bank branch deposits per branch as the U.S., nearly \$54 million more in

## WHERE IS THE CAPITAL FLOWING FROM?

FIGURE 25. **Kansas City metro area lending gap by county (in millions of dollars), 2020**

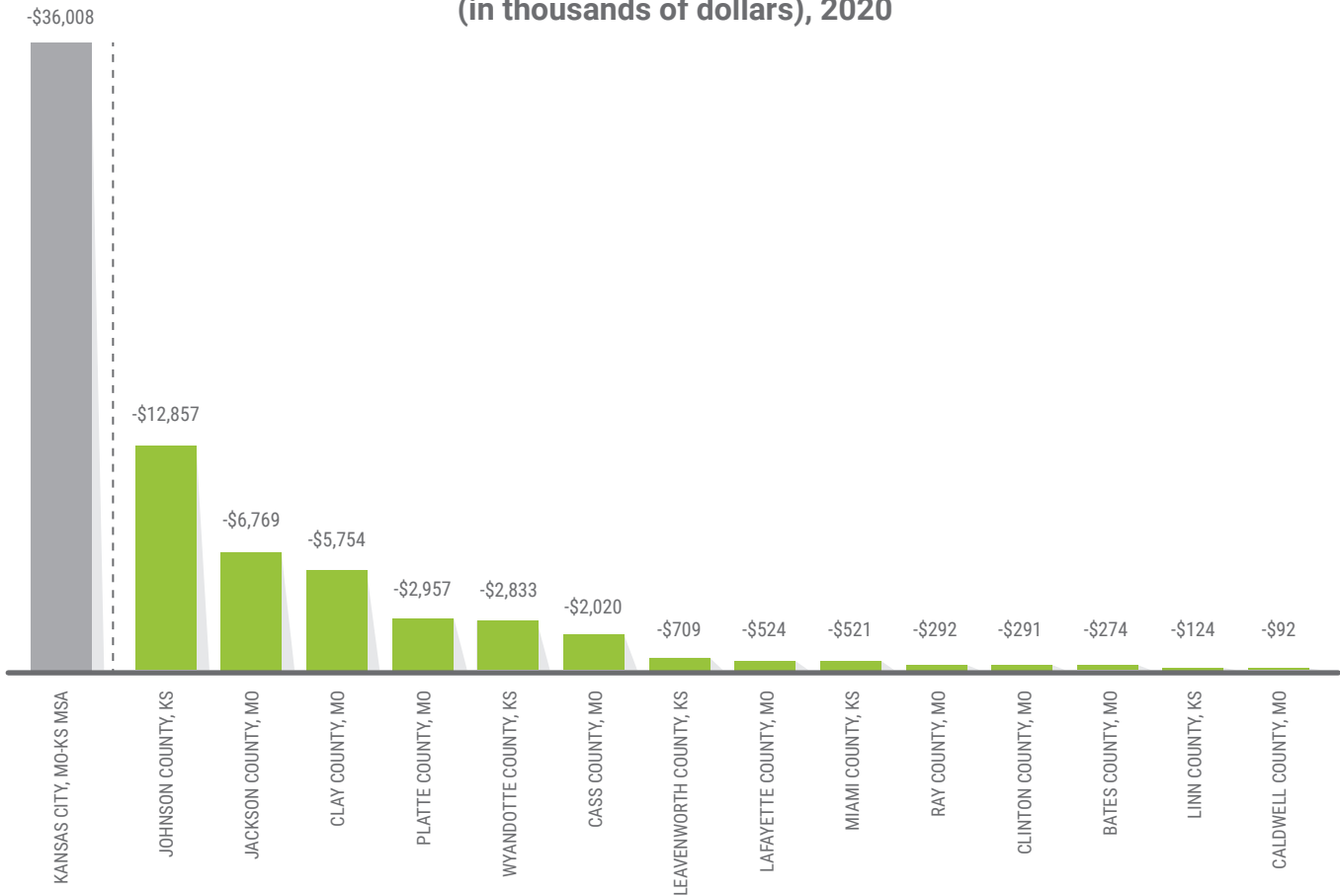
Type	VC Deals	Traditional Small Business Loans	SBA 7A Loans, 2018-2020 Avg.	Credit Union Commercial Loans	SBA 504 Loans, 2018-2020 Avg.	Micro+ Business CDFI Loans, 2018-2020 Avg.	Traditional Small Farm Loans	Total Estimated Gap
KC MSA	-\$1,014.6	\$293.7	-\$0.1	-\$656.2	-\$8.3	-\$10.0	-\$37.7	-\$1,433.3
1. Jackson County, MO	-\$327.5	\$12.1	-\$10.8	-\$234.1	-\$5.3	\$1.7	-\$34.7	-\$598.7
2. Johnson County, KS	-\$360.6	\$279.5	\$9.9	-\$230.2	\$1.2	-\$9.9	-\$27.7	-\$337.8
3. Clay County, MO	-\$109.1	\$14.4	\$2.9	-\$64.0	-\$1.1	\$0.3	-\$7.2	-\$163.8
4. Platte County, MO	-\$51.9	\$6.0	-\$0.8	-\$30.5	-\$0.5	-\$0.4	-\$1.5	-\$79.6
5. Cass County, MO	-\$38.8	\$2.1	-\$2.8	-\$23.1	-\$1.0	\$0.7	\$12.4	-\$50.4
6. Leavenworth County, KS	-\$21.5	-\$12.2	-\$0.2	-\$11.5	-\$0.4	-\$0.7	\$0.3	-\$46.2
7. Lafayette County, MO	-\$13.4	-\$17.9	\$1.6	-\$7.9	-\$0.4	-\$0.4	\$6.2	-\$32.3
8. Wyandotte County, KS	-\$53.5	\$59.8	\$2.2	-\$32.3	\$0.1	-\$0.2	-\$4.7	-\$28.6
9. Clinton County, MO	-\$6.9	-\$12.4	-\$0.9	-\$4.0	-\$0.2	-\$0.2	\$2.7	-\$21.9
10. Miami County, KS	-\$12.4	-\$6.7	\$0.2	-\$7.3	-\$0.4	-\$0.4	\$5.2	-\$21.8
11. Bates County, MO	-\$6.6	-\$11.8	-\$0.6	-\$3.8	\$0.1	-\$0.2	\$6.0	-\$16.9
12. Ray County, MO	-\$6.3	-\$7.9	-\$0.3	-\$3.7	-\$0.2	-\$0.2	\$2.6	-\$16.0
13. Linn County, KS	-\$3.4	-\$6.2	-\$0.2	-\$2.0	-\$0.1	-\$0.1	\$1.4	-\$10.6
14. Caldwell County, MO	-\$2.9	-\$5.2	-\$0.4	-\$1.7	-\$0.1	-\$0.1	\$1.5	-\$8.8

**Note:** The lending gap is calculated by estimating the dollar value in lending activity by type if the Kansas City metro area had the same level per establishment as the U.S. and subtracting this predicted level of lending activity from the actual dollar value.



## WHERE IS THE CAPITAL FLOWING FROM?

FIGURE 26. **Kansas City metro area bank deposit gap by county** (in thousands of dollars), 2020



**Note:** The bank deposit gap is calculated by estimating the dollar value in bank branch deposits if the Kansas City metro area had the same level per establishment as the U.S. and subtracting this predicted level of deposits from the actual dollar value.

deposits could potentially be used to provide the capital that businesses need to start and grow (Figure 26).

More importantly, this gap is only a small fraction of the story. The vast majority (82%) of Kansas City metro area businesses with employees do not use capital

from banks or other financial institutions to finance the cost of starting their business. Instead, 61% of businesses rely on the personal or family savings of the owner, which can put financial strain on them and their families and may not provide sufficient resources for the business to be successful.

**If bank branches in the Kansas City metro area had the same level of bank branch deposits per branch as the U.S., nearly \$54 million more in deposits could potentially be used to provide the capital that businesses need to start and grow.**

## The COVID-19 Pandemic and the Entrepreneurial Landscape

The COVID-19 pandemic has fundamentally changed the entrepreneurship landscape as many businesses had to close their doors either temporarily or permanently, shift to remote work, pivot their products and services offered, and make other adjustments to their operations. Below we present data on one of the largest emergency financing programs that was deployed during the pandemic, the Paycheck Protection Program (PPP) at the national level and compare it with experience of the Kansas City metro area. We also provide national statistics on trends in the rate of new

entrepreneurs, demonstrating that while the pandemic presented myriad challenges to established businesses, it also generated a surge in new business starts. Together these findings highlight the need for innovative thinking around capital access and entrepreneurial support.

To help small businesses (generally those with less than 500 employees), PPP loans were awarded by the SBA between April 2020 and May 2021.<sup>45</sup> Created in the Coronavirus Aid, Relief and Economic Security (CARES) Act, the program was meant to provide short-term, temporary assistance,<sup>46</sup> and though the program is no longer operational, it was an important infusion of capital for small businesses during the pandemic.

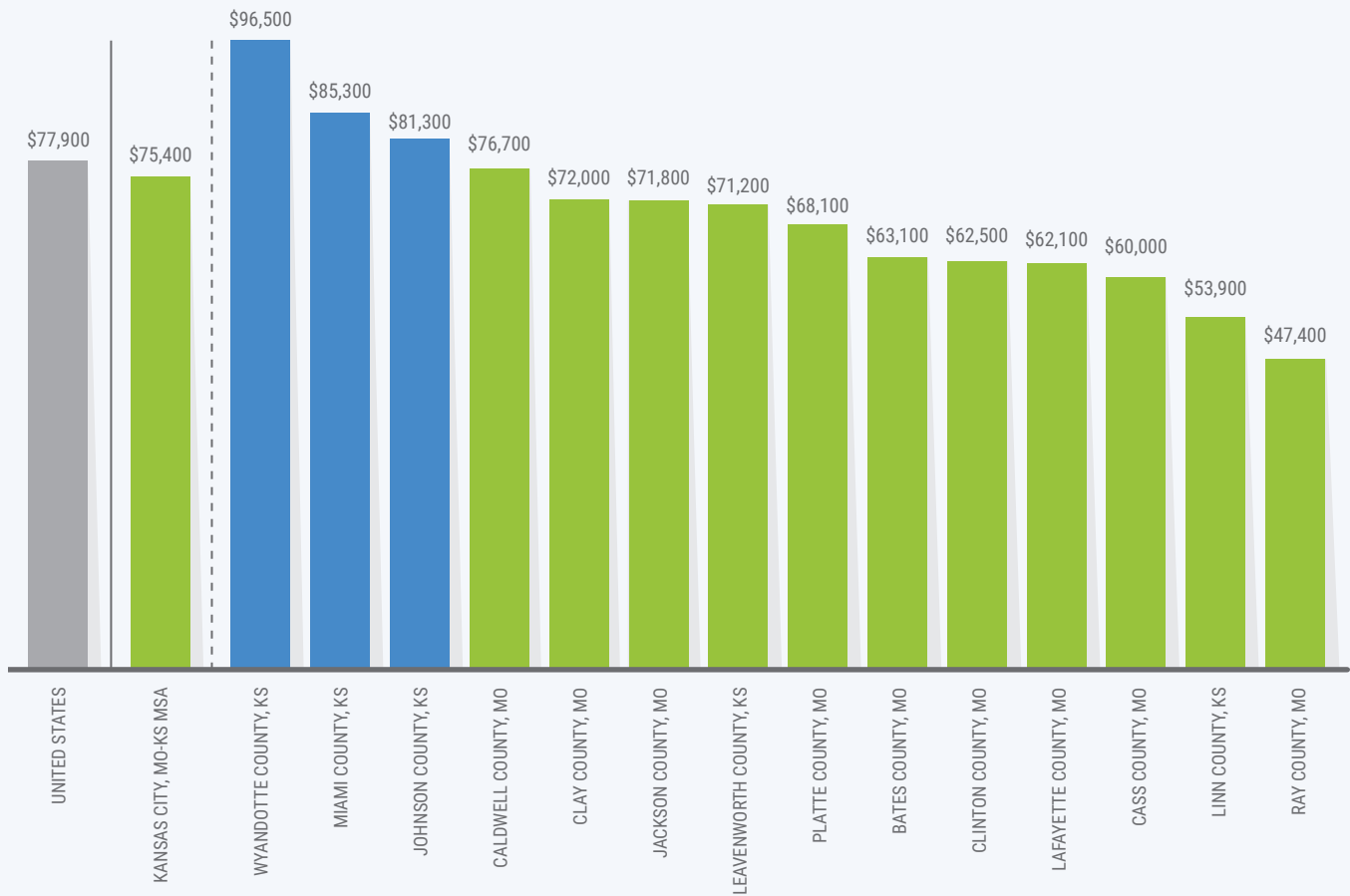
Nationally, more than \$790 billion was awarded in PPP loans, and the Kansas City metro area received about \$5.4 billion. The number and total value of PPP loans per business establishment in the Kansas City metro area lagged the U.S., however, the average PPP loan value among businesses that received them was slightly higher.<sup>47</sup>

Medium and small banks accounted for 84% of the PPP loan value in the Kansas City metro area, much higher than their share nationally (56%). Minority Depository Institutions (MDIs) had the smallest share of PPP loan value in the Kansas City metro area, accounting for 0.1% of PPP loan value compared to 2% nationally (Figure 28).

Analysis of the program has elevated public awareness of pre-existing gaps in (and barriers to) capital access facing small businesses – especially business owners of color – calling attention to the need for alternative lending sources. Appendix Table 2, for example, shows that at the time of analysis, 90% of the total value of PPP loans went to white-owned businesses whereas just 10% went to minority-owned businesses.

At the same time, the pandemic has also created shifts in new business creation and in who is starting businesses. The rate of new entrepreneurs increased substantially during the pandemic, increasing by 23% between 2019 and 2020, with particularly notable increases among Black entrepreneurs (increasing by 58%). The rate declined slightly between 2020 and 2021, though it remains higher than pre-pandemic levels.<sup>48</sup> There are several factors behind this sudden spike in entrepreneurship during the pandemic that may be at play, including increases in necessity entrepreneurship driven by high unemployment, the Great Resignation, breakdowns in child care availability making traditional employment more difficult for parents, as well as increased opportunities for entrepreneurship brought about by large-scale shifts in teleworking. The combination of dramatic changes in the economy brought about by the pandemic, a new landscape of emergency capital available to entrepreneurs, and a new set of challenges facing new and established entrepreneurs all highlight the need to reimagine what entrepreneurial support looks like.

FIGURE 27. \$ value of PPP loans per establishment, 2020

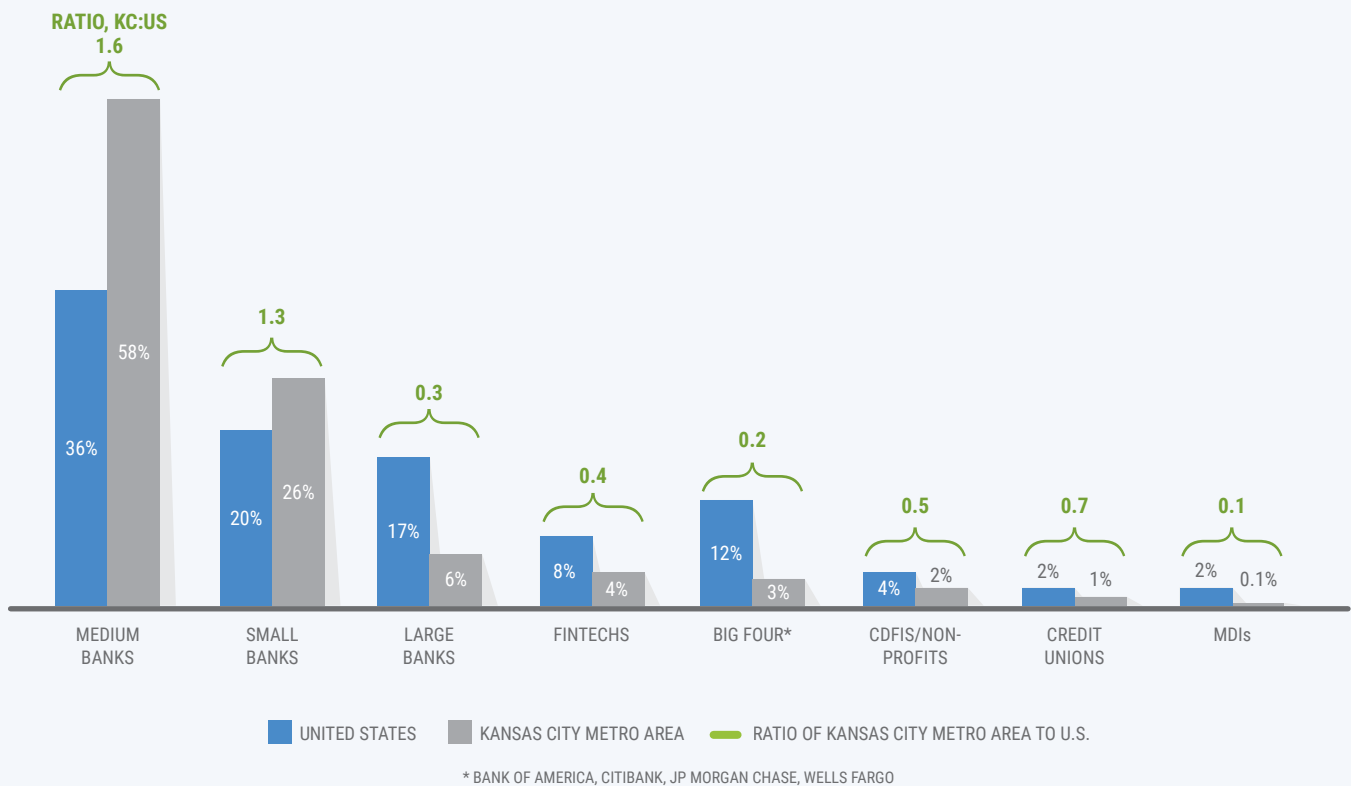


Source: Kauffman analysis of the 2020-2021 SBA and 2020 dF-QCEW data.

Note: Bars in blue indicate the county has higher values than the U.S.

Nationally, more than \$790 billion was awarded in PPP loans, and the Kansas City metro area received about \$5.4 billion. The number and total value of PPP loans per business establishment in the Kansas City metro area lagged the U.S.; however, the average PPP loan value among businesses that received them was slightly higher.

FIGURE 28. Share of PPP loan value by lender type, Kansas City metro area and U.S., 2020–2021



Medium and small banks accounted for 84% of the PPP loan value in the Kansas City metro area, much higher than their share nationally (56%). Minority Depository Institutions (MDIs) had the smallest share of PPP loan value in the Kansas City metro area, accounting for 0.1% of PPP loan value compared to 2% nationally.

# THE IMPORTANCE OF LENDER DIVERSITY

**Research has shown that greater diversity among lenders and investors can increase the share of capital going to businesses founded by women and people of color.** Women venture capitalists, for example lead more rounds that invest in diverse start-up teams and invest in up to two times as many female founders as male venture capitalists.<sup>49</sup> Another study found that even after controlling for a number of founder characteristics including the school they went to, whether they have a patent, and number of co-founders, Black investors are about 8.5% more likely to invest in Black founders than their white investor counterparts. Research has also shown that racially and ethnically diverse founding teams tend to produce higher returns on investment – historically a 3.26x median realized multiple compared with a 2.5x realized multiple for white founding teams.<sup>50</sup> One could make the case then that diversifying the pool of lenders and investors could not only chip away at the capital gap facing underserved entrepreneurs, but it also makes sound business sense. Yet lenders and investors are less diverse than the workforce overall<sup>51</sup> and this is particularly true among investors.

Since 2010, Black or African American and Hispanic or Latino workers have consistently been underrepresented in financial managers occupations. Hispanic or Latino workers have also been consistently underrepresented in the credit counselors and loan officers occupation. Though they reached parity with their share of total economy jobs in 2013, 2015, and 2020, they have also been underrepresented in the loan interviewers and clerks occupation.<sup>52</sup> Trends for Black or African American workers in both the credit counselors and loan officers and loan interviewers and clerks occupations show considerable variation over the past decade, vacillating between over- and under-representation compared to the total economy.

There is evidence to suggest that at least some of these occupations are becoming more diverse relative to the total economy. Over the 2010-2022 period, growth in the share of Hispanic or Latino workers in financial managers and credit counselors and loan officers occupations has lagged the total economy, but growth in the Hispanic or Latino share of loan interviewers and clerks has outpaced the total economy. For Black or African American workers, the gap is closing for financing managers and credit counselors and loan officers. Prior to a dramatic collapse in the share of Black or African Americans in the loan interviewers and clerks occupations between 2021 and 2022 (falling from 20% to 12%), the share had been growing robustly, and Black or African Americans were overrepresented



# THE IMPORTANCE OF LENDER DIVERSITY

in the occupation for five years (from 2017 to 2022). And women have been overrepresented in all three lending related occupations every year from 2010 to 2022, becoming increasingly overrepresented in the

financial managers and credit counselors and loan officers occupations but less concentrated in the loan interviewers and clerks occupation.

FIGURE 29. Share of jobs held by Black or African American workers, 2010–2022

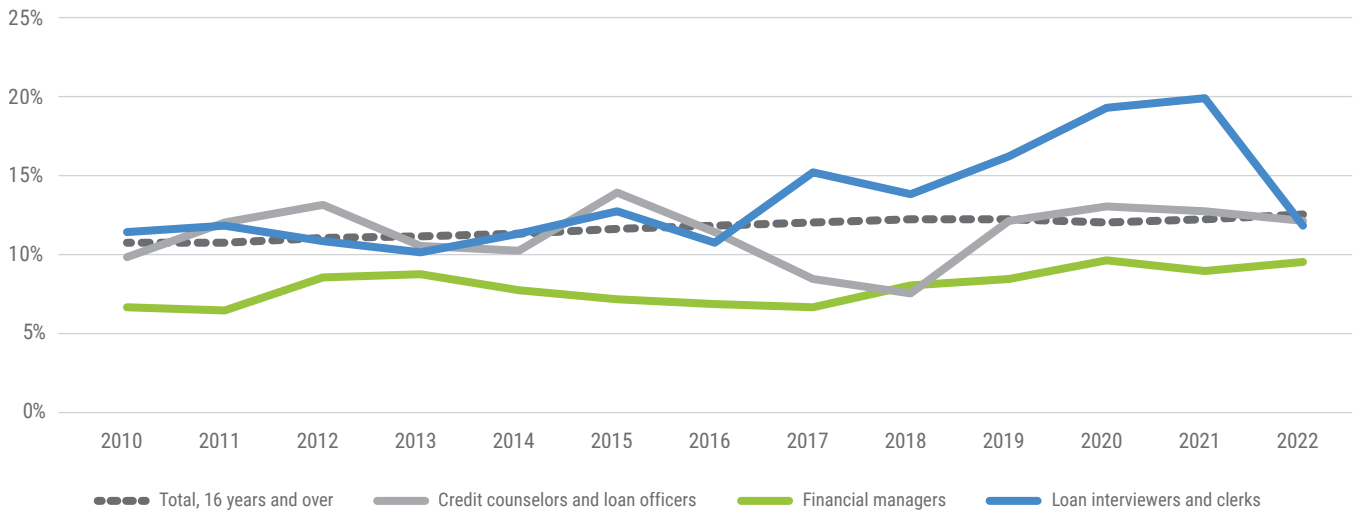
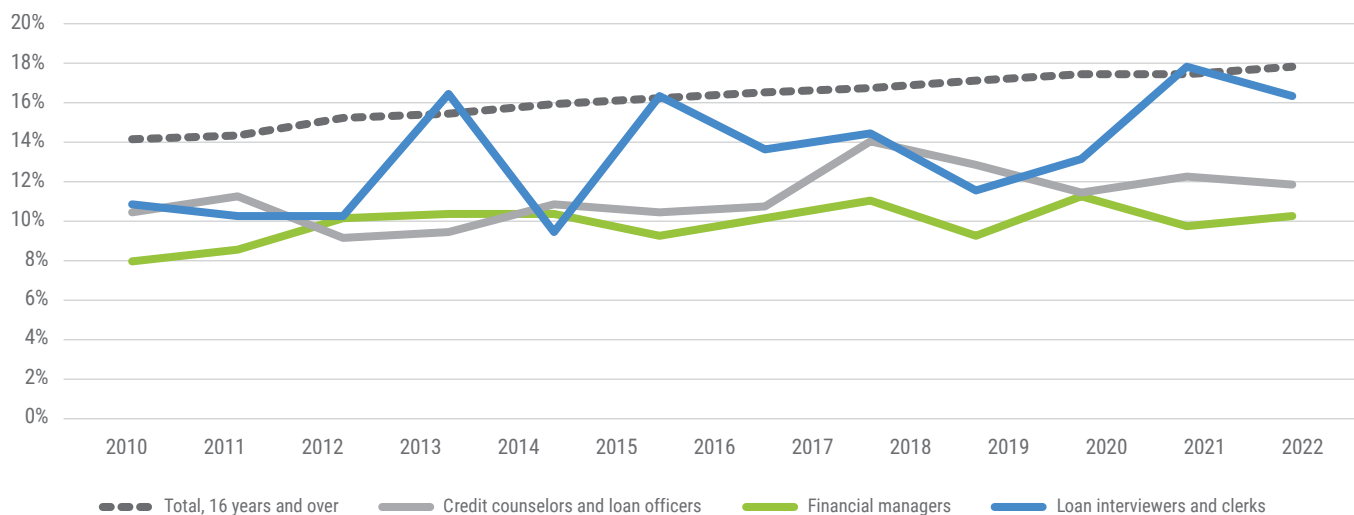


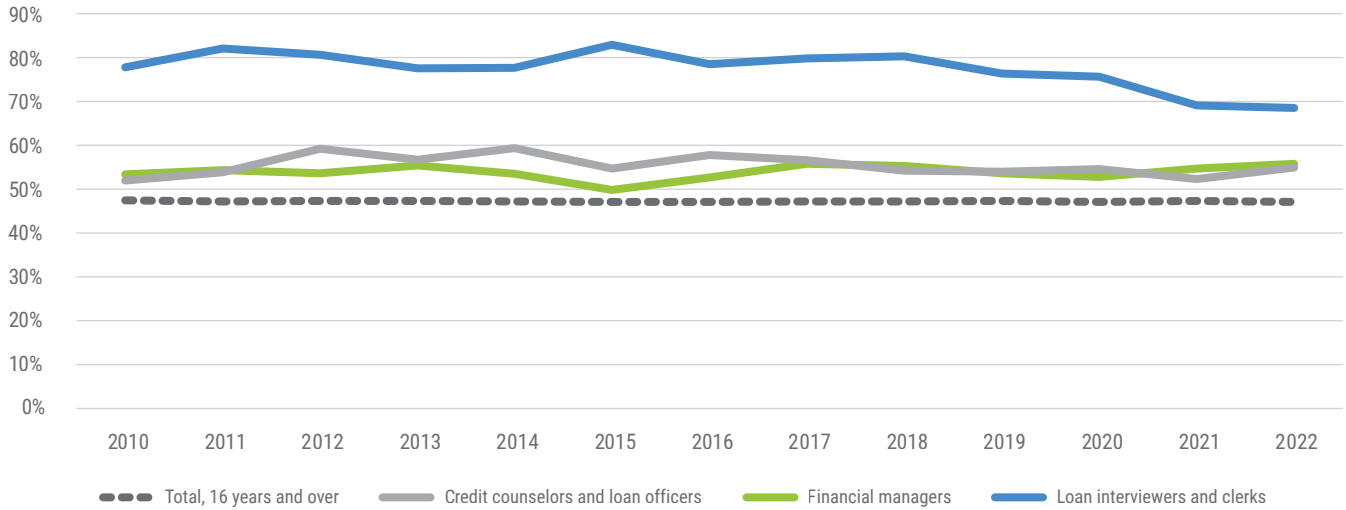
FIGURE 30. Share of jobs held by Hispanic or Latino workers, 2010–2022



Sources: Kauffman analysis of the 2010-2022 CPS data.

# THE IMPORTANCE OF LENDER DIVERSITY

FIGURE 31. Share of jobs held by female workers, 2010–2022



Sources: Kauffman analysis of the 2010-2022 CPS data.

**Women have been overrepresented in all three lending related occupations every year from 2010 to 2022, becoming increasingly overrepresented in the financial managers and credit counselors and loan officers occupations but less concentrated in the loan interviewers and clerks occupation.**

Today, both Black and Hispanic workers are still underrepresented among lender occupations. While Black workers make up 13% of the workforce overall, they represent just 10% of financial managers, 12% of credit counselors and loan officers, and 12% of loan interviewers and clerks. Similarly, Hispanic workers make up 19% of the workforce, but represent just 10% of financial managers, 13% of credit counselors and loan officers, and 16% of loan interviewers and clerks (Figure 32).

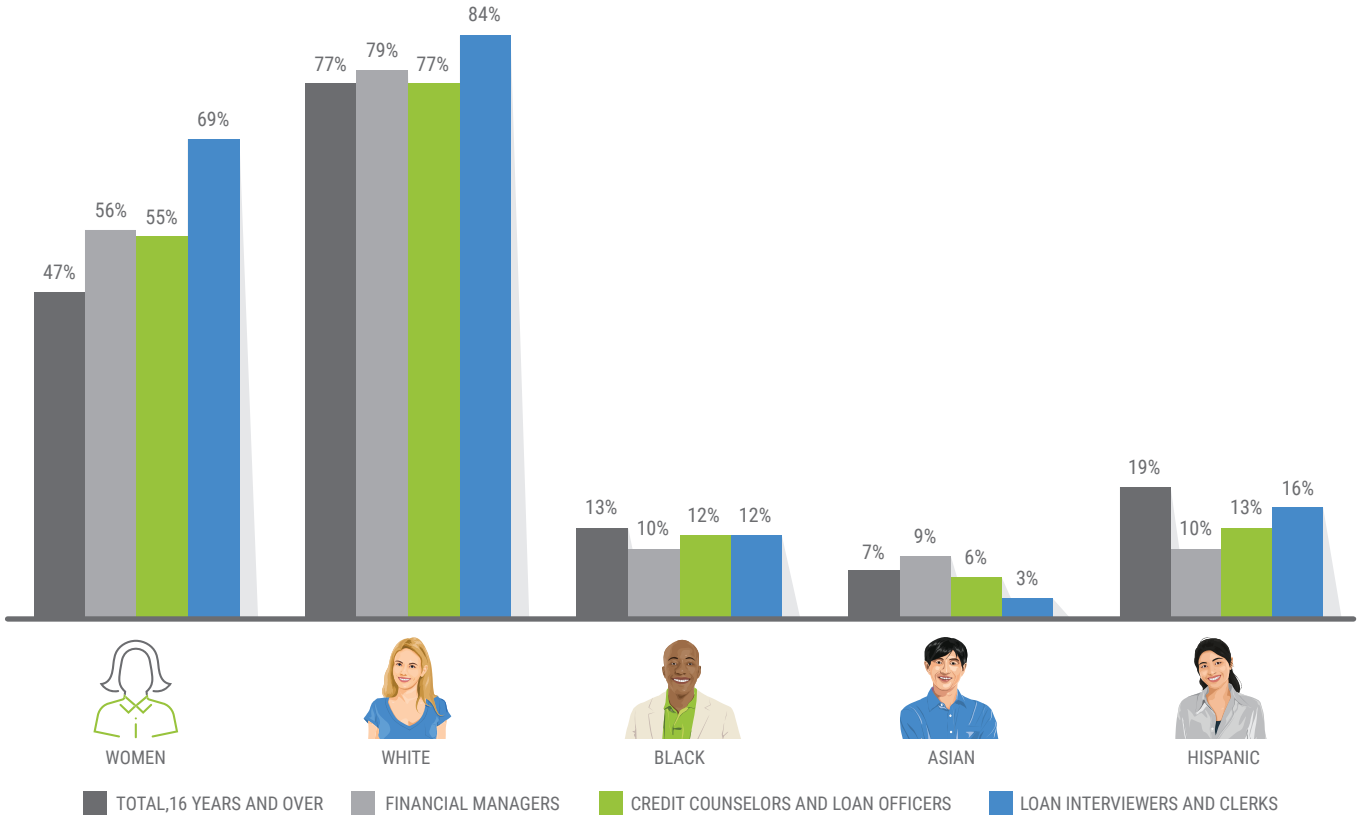
On the investor side, women and people of color are even more underrepresented. In 2020, women were just 23% of investment professionals and 16% of investment partners. Similarly, just 4% of investment professionals

were Black, 4% were Hispanic, and 19% were Asian/Pacific Islander. And when looking at investment partners, 3% were Black, 4% were Hispanic, and 15% were Asian/Pacific Islander.

There are signs that the landscape of investors is diversifying: the share of private equity firms developing diversity or inclusion strategies has been steadily increasing,<sup>53</sup> and data on private equity firm ownership indicates that the number of woman- and minority-owned private equity firms has also been increasing.<sup>54</sup> However, it is well-documented that funds tend to be smaller at private equity firms owned by women and minorities,<sup>55</sup> so the diversity of lenders must be analyzed alongside funding and capitalization levels, as well.

# THE IMPORTANCE OF LENDER DIVERSITY

FIGURE 32. Demographic characteristics of lenders by occupation, 2022



Source: Kauffman analysis of the 2022 CPS data.

Occupation	Women	White	Black or African American	Asian	Hispanic or Latino
Total, 16 years and over	47%	77%	13%	7%	19%
Financial managers	56%	79%	10%	9%	10%
Credit counselors and loan officers	55%	77%	12%	6%	13%
Loan interviewers and clerks	69%	84%	12%	3%	16%

**Note:** Cells highlighted in blue are underrepresented relative to their total economy share of jobs.

**Black and Hispanic workers are still underrepresented among lender occupations.**

## Investing in Innovative Investment Managers: Capital Access Lab

**The existing capital ecosystem is not working for the majority of entrepreneurs and that this is particularly true of businesses owned by women and people of color.** The findings of the 2019 *Access to Capital for Entrepreneurs* report served as motivation to devise solutions that support closing the gap for those entrepreneurs and mobilizing more capital to innovative financing models that may be a better fit for the majority of small businesses.

After a number of conversations with fund managers and entrepreneurs about capital products that didn't fit the traditional mold, the Capital Access Lab was eventually launched in 2019 with seed funding from the Kauffman Foundation and later with funding from the Rockefeller Foundation. The Capital Access Lab provided \$3.4 million in commitments from both foundations to six innovative fund managers who are providing new types of capital to marginalized entrepreneurs, including profit sharing, redeemable equity, and revenue-based loans. These funds include:

- Capacity Capital
- Collab Capital
- Indie.vc
- 1863 Ventures

- Anzu Partners
- Founders First Capital Partners

The structure of the Capital Access Lab enabled us to more quickly deploy capital to funds that could get it into the hands of entrepreneurs than we would have been able to had we set up an investment fund ourselves. It also allowed us to benefit from the experience and expertise of the investment managers as well as the existing relationships that they had in their communities, which likely enhanced the effectiveness of the portfolio. Finally, it provided the opportunity for us to test out a few different models by purposely investing in funds that used different approaches.

While it is still early to report on the longer-term impacts of the Capital Access Lab on both the funds and the entrepreneurs that they have invested in, preliminary data is certainly promising. Across all six funds, a total of at least 86 investments in entrepreneurs have been made, totaling over \$44 million. The vast majority (82) have been investments made in businesses owned by diverse founders. To date, the default/failure rate of the businesses in the portfolio served through revenue-based or profit-sharing investments is less than 5%.

Having an early investment from Kauffman and Rockefeller proved to be critical for many of the funds, since it served as a signal that these funds were worth a closer look. As a result, Capital Access Lab was able to mobilize \$165 million in private capital for the funds, a catalytic leverage ratio of 48x.<sup>56</sup>

Fund	# Investments	\$ Investments	# Diverse Founders Served
Collab Capital	30	\$22 million	30
Capacity Capital	10	\$1 million	7
Anzu Partners	1	\$13 million	0
Indie.vc	8	\$400,000	8
1863 Ventures	17	\$3 million	17
Founders First Capital Partners	20+	\$5 million+	20
<b>Capital Access Lab Portfolio</b>	<b>86+</b>	<b>\$44.4 million+</b>	<b>82</b>

The work of the Capital Access Lab is also slowly starting to create movement in the capital access space. Collab Capital, for example, was very effective in getting limited partners excited about their profit-sharing model. As a result, we were able to raise \$50 million for their first fund. Collab Capital is finding that more entrepreneurs are open to the profit-sharing model. Likewise, Indie.vc was one of the first movers in redeemable equity. A number of funds have since expressed interest in and have started to adopt the Indie.vc model (including CDFIs) so that they can offer more flexible financing options and expand the universe of small businesses that they can back by offering alternative financing options.

From an operational point of view, the model may have limited our ability to unlock more capital compared with a more traditional fund of funds structure. This particular structure was thought to be the most efficient for this pilot because of our limitations as a philanthropic organization and our desire to mobilize capital quickly. However, moving forward there will be a need for the development of additional vehicles for funds like this that may be even more effective in catalyzing capital.

Philanthropists and other non-profits considering making similar investments will need to pay particular attention to the set-up of the fund to ensure that it meets the charity requirements of their organization. On our end, we required that at least 1.5 times our invested capital would meet two tests: (1) be invested using a non-traditional, innovative capital product; and (2) be invested in companies that operated in and served economically disadvantaged areas and/or supported underserved entrepreneurs who, because of systemic and/or historic conditions generally applicable to their race or ethnicity, have been denied or would likely be otherwise denied access to capital.

Through our initial work in the Capital Access Lab, the Kauffman Foundation developed a Charity Term Sheet, that may be helpful for other Foundations and non-profits who are interested in similar investments.<sup>57</sup>

We have found that there is certainly an appetite for such innovations in capital on both the entrepreneur and lender/investor side, but there is also a significant need for technical assistance to get funds set up. We have served as a connector of those who are interested in similar work to other funds or capital providers that are already experimenting with alternative forms of capital, but what is clear is that there is a real need for a community of practice. Non-profits and philanthropy can benefit from such a community by getting support in setting their funds up, and fund managers themselves can benefit by having a sounding board for their ideas, fundraising support, and other technical assistance needed to successfully start and manage a fund.

There is no shortage of funds doing innovative things – through our work with the Capital Access Lab, we have identified a pipeline of about 150 funds across the U.S. that are offering innovative capital products – but that are having difficulty attracting that first investment. This is particularly true because often fund managers find that they need over a decade of experience to attract investments, but many of these models haven't been around for that long. There is a need to elevate the conversation about these alternative forms of capital, raising their visibility and drawing interest among more investors. Future data on the outcomes of entrepreneurs who were invested in through Capital Access Lab will hopefully show that such investments do indeed yield strong returns and that alternative capital models aren't inherently riskier.

Philanthropic support of these funds served as a strong signal to other institutional investors that these models are worth paying attention to, which is part of the reason why we had such a high catalytic leverage ratio. Other foundations, non-profits, and investors interested in tackling the capital access gap should consider also investing in these types of innovative models, because their initial investments may help to alleviate some of the headwinds that these funds face in getting off the ground.

# ALTERNATIVE LENDERS AND EQUITABLE ACCESS

**The COVID-19 pandemic shone a light on the inequities in capital access that already existed, pointing to the need for alternative sources and forms of business capital.**

Alternative lenders such as Fintech, MDIs, and CDFIs helped to fill the gaps felt by businesses owned by people of color – over a third of the total value of PPP loans made to Black-owned businesses, 24% made to Hispanic-owned businesses, and 23% made to Asian-owned businesses came from Fintech, CDFIs, or MDIs, compared with just 9% of the total value of loans made to white-owned businesses. Fintech lenders were the single-largest lender for Black-owned businesses, accounting for 31% of PPP loan value made to Black or African American business owners (Figure 33).

Fintech, CDFIs, and MDIs were also more likely to lend to business owners of color than most other types of lenders. Business owners of color received approximately 10% of the total value of PPP loans but 27% of PPP loan value from fintech lenders, 26% of the PPP loan value from MDIs, and 11% of the PPP loan value from CDFI lenders.<sup>58</sup>

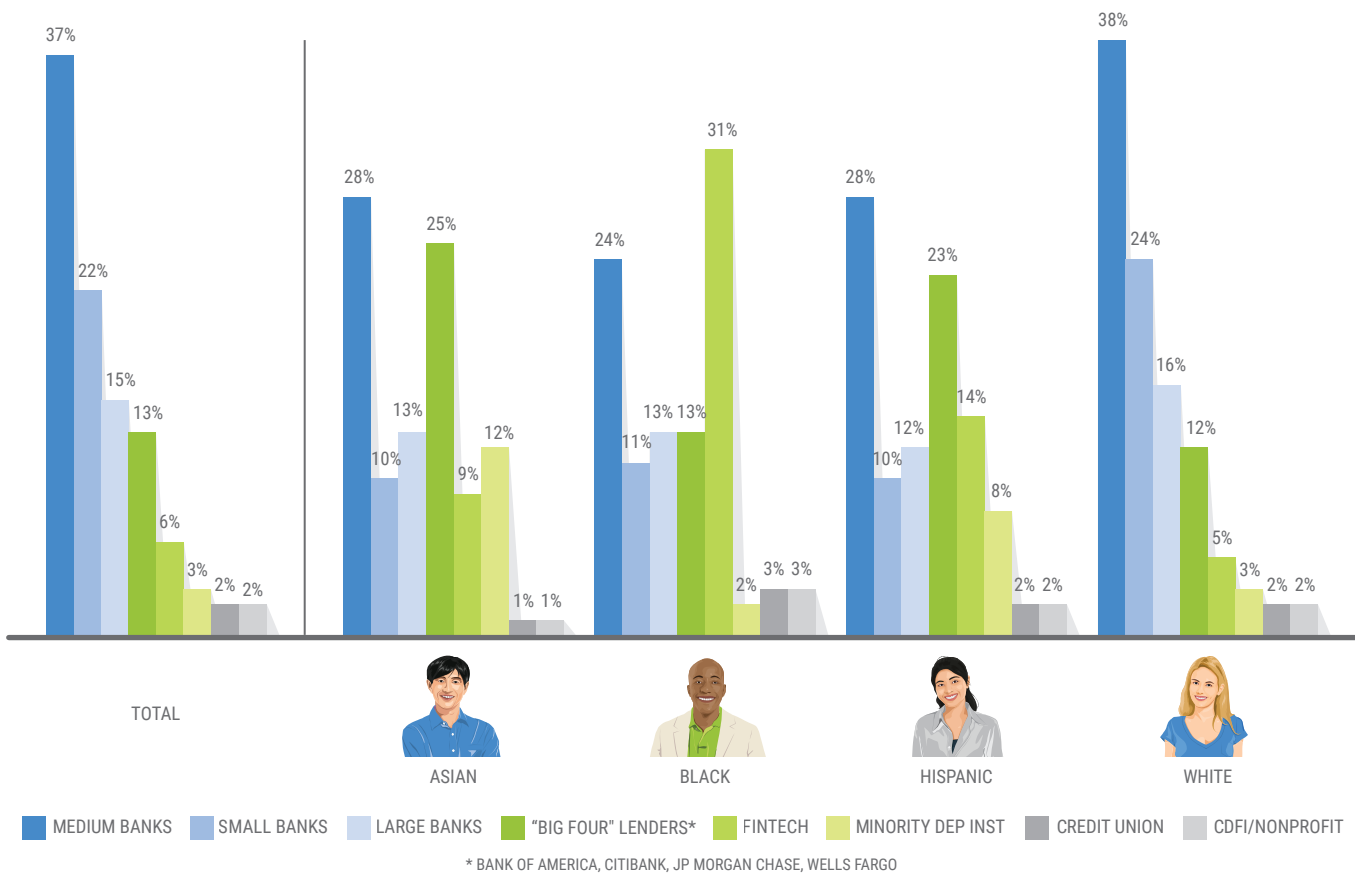
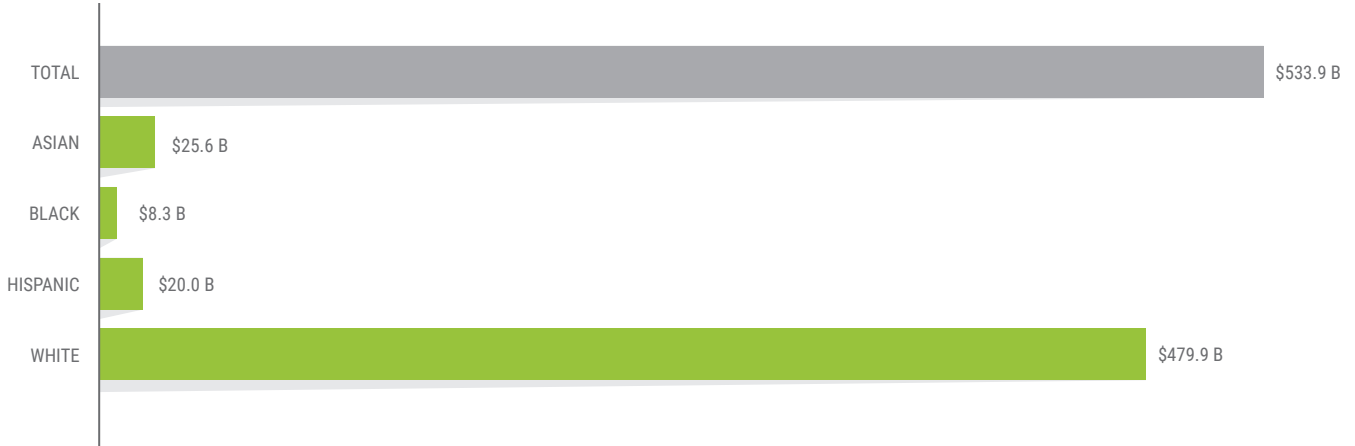
Yet despite their demonstrated ability to better reach businesses owned by people of color, these alternative lenders still make up a small piece of the business capital landscape – just 11% of the total value of PPP loans made came from such lenders. And in 2020, traditional small business loans amounted to \$446 billion – nearly 83 times the amount of total CDFI lending (\$5.4 billion).



**Fintech, CDFIs, and MDIs were more likely to lend to business owners of color than most other types of lenders. Despite their ability to better reach businesses owned by people of color, these alternative lenders make up a small piece of the business capital landscape – just 11% of the total value of PPP loans made came from such lenders.**

# ALTERNATIVE LENDERS AND EQUITABLE ACCESS

FIGURE 33. Distribution of PPP total loan value by lender type and race/ethnicity of business owner, 2021



**Source:** Kauffman analysis based on Howell et al. (2021)'s predicted share of borrowers by race/ethnicity.  
**Note:** Data reflects sample analyzed by Howell et al. (2021) and may not reflect the total value of PPP loans made.

## CAPITAL IS JUST ONE PIECE OF THE PUZZLE

While accessing the financial resources needed to start and grow their business is certainly a primary challenge facing entrepreneurs, **acquiring the knowledge and know-how to successfully establish and operate a business, as well as making connections with professionals that can provide the resources and support needed to navigate the process, are also challenges for entrepreneurs.**

Data from the EPOP survey, for example, show that 70% of start-ups experience financial challenges throughout the start-up process, 76% experience challenges with non-financial resources (including finding support and the time to pursue the idea), 71% experience challenges relating to business operations, and more than half face challenges reaching customers and/or with broader economic or market conditions. And despite having the benefit of experience to help guide them through the various ups and downs of business ownership, entrepreneurs with established businesses continue to struggle with many of these same challenges (though to a lesser extent) – 64% continue to face challenges relating to non-financial resources, 58% face financial challenges, 54% face unfavorable economic or market conditions, 52% have difficulty reaching customers, and 41% have general business operations challenges (Figure 34).

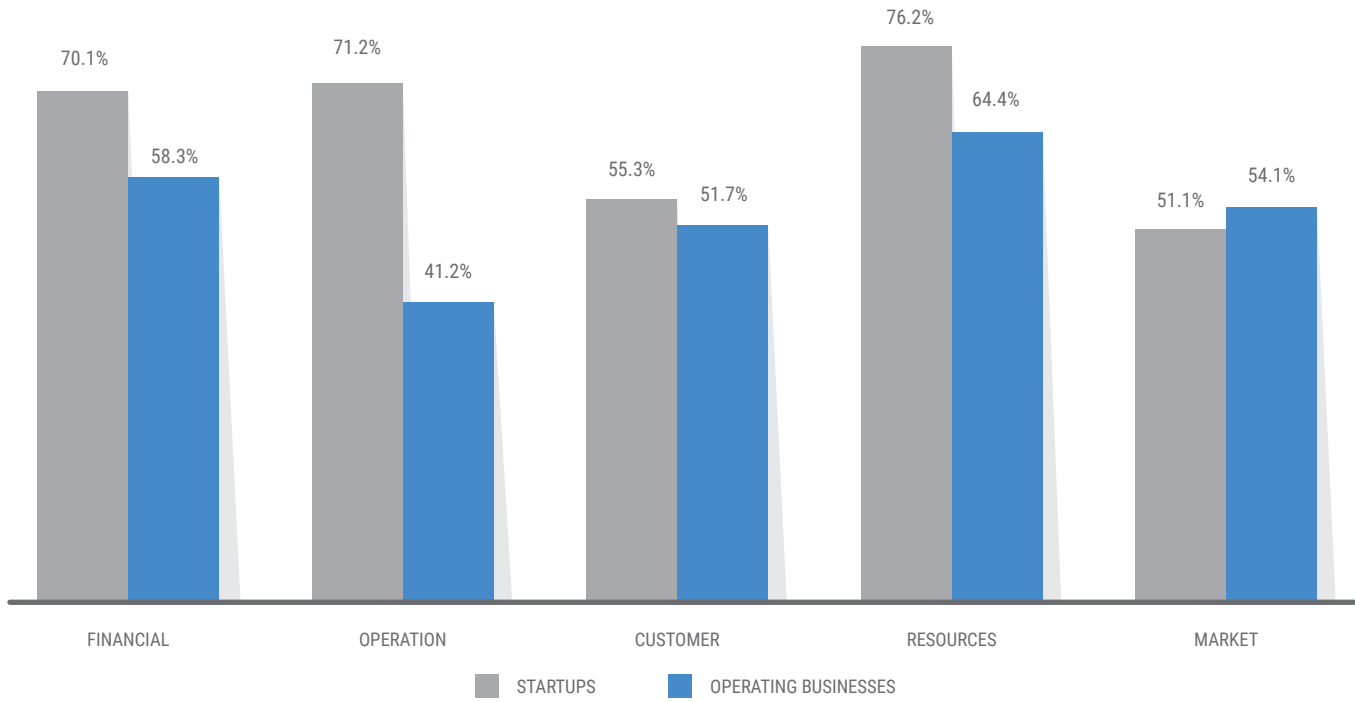
The EPOP data highlight a significant gap in support among startups and established businesses. Among startups, 22% reported struggles finding support, advice, or role models, 21% said that they had trouble getting support from their family or friends, and 13% had difficulty finding professional support (e.g. lawyers, accountants, or tax professionals). As a result, aspiring entrepreneurs are more likely to seek out advice and support from family members (61%) and friends or acquaintances (55%) than they are to consult with established business leaders (20%) or other business professionals such as lawyers or accountants (24%). As businesses become more established, their networks naturally expand and they are better able to access the support that they need to operate successful businesses, however, even among established businesses more than 10% reported having these same struggles with a lack of access to support.

**Aspiring entrepreneurs are more likely to seek out advice and support from family members and friends or acquaintances than they are to consult with established business leaders or other business professionals such as lawyers or accountants.**



# CAPITAL IS JUST ONE PIECE OF THE PUZZLE

FIGURE 34. Challenges faced among startups and established businesses, 2022



Source: Kauffman analysis of the 2022 Entrepreneurship in the Population Survey (EPOP).  
 Note: Entrepreneurs can select more than one challenge.

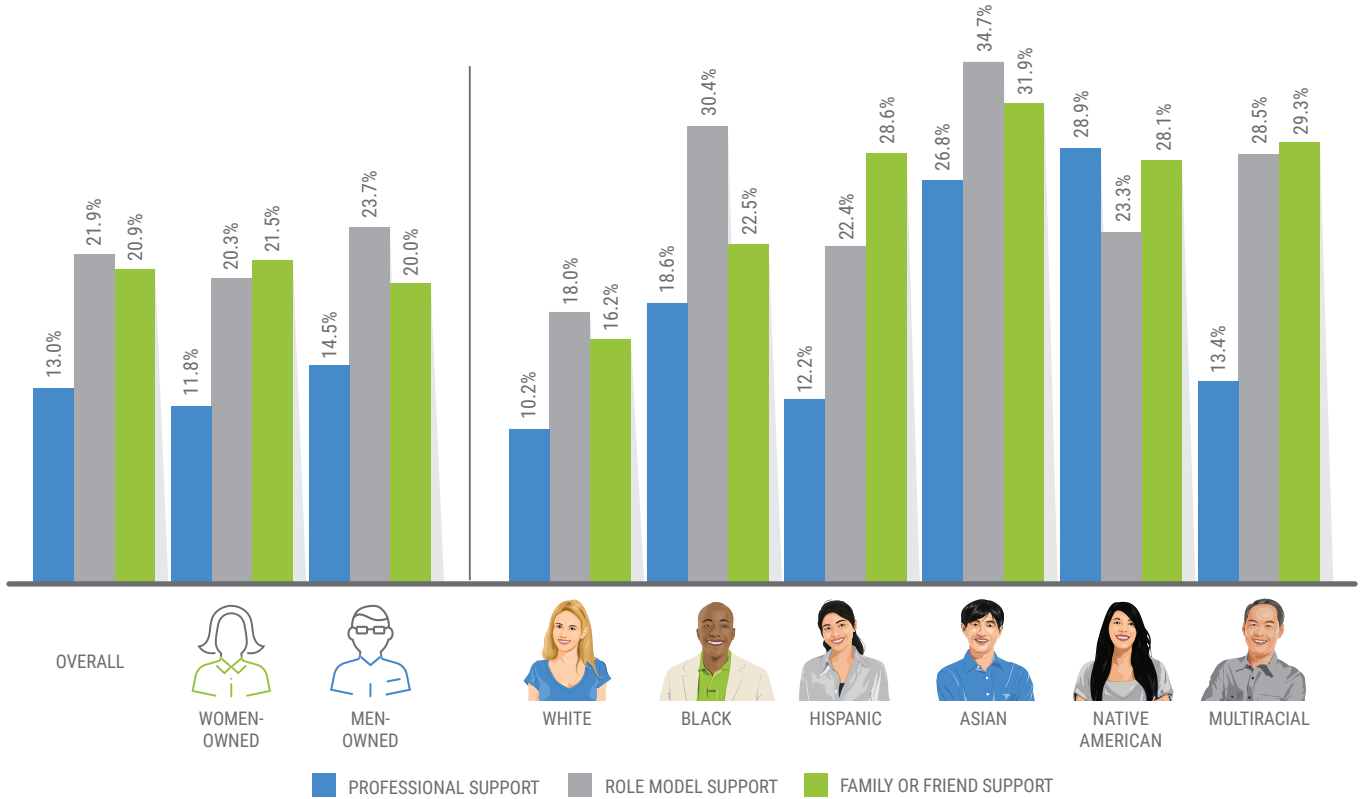
**71% of startups surveyed experience challenges relating to business operations, and more than half face challenges reaching customers and/or with broader economic or market conditions.**

This lack of access to support is even more prominent among businesses owned by people of color and can be a serious barrier for people of color in starting and growing a business. Among white aspiring entrepreneurs, 18% reported having trouble finding support, advice, or role models in their network compared with 22% of Hispanic, 30% of Black, 35% of Asian, 23% of Native American, and 29% of multiracial aspiring business owners (Figure 35). Similar trends exist among established businesses.

Navigating the administrative side of starting and running a business can also be challenging for many. As noted above, 70% of startups and 41% of established businesses face business operations challenges. The most common business operations challenge experienced by startups is simply not knowing where to start (58%), whereas among established businesses the biggest challenge is doing their taxes (23%). Unlike financial and non-financial resource challenges, business operations challenges tend to affect entrepreneurs at

# CAPITAL IS JUST ONE PIECE OF THE PUZZLE

FIGURE 35. **Start-up businesses facing challenges relating to finding support, 2022**



Source: Kauffman analysis of the 2022 Entrepreneurship in the Population Survey (EPOP). Note: Entrepreneurs can select more than one challenge.

## The most common business operations challenge experienced by startups is simply not knowing where to start, whereas among established businesses the biggest challenge is doing their taxes.

similar rates across different demographic backgrounds. Among startups, however, it is worth noting that not knowing where to start was cited as a challenge at much higher rates among Hispanic (62%), Asian (67%), and Native American (63%) entrepreneurs.

A lack of support and specific challenges relating to business operations also had direct implications on

businesses' ability to successfully apply for emergency financing (such as PPP or EIDL loans) during the COVID-19 pandemic. Many businesses that did not apply for support felt the program/process was too confusing or could not find a lender to accept their application. Lenders have also cited an inability to provide appropriate business documentation as a major challenge in accessing emergency financing.

# THE COST OF INACTION

**Access to adequate capital, business knowledge, and robust networks have all been tied to better business outcomes,<sup>59</sup> yet as we have shown above, both new and established businesses face significant gaps in each.** Without bold action and innovative efforts to address the capital, knowledge, and network gaps faced by entrepreneurs, fewer businesses will be able to start, and more businesses will continue to fail, with significant economic consequences not only for the business owners themselves, but for the U.S. economy overall.

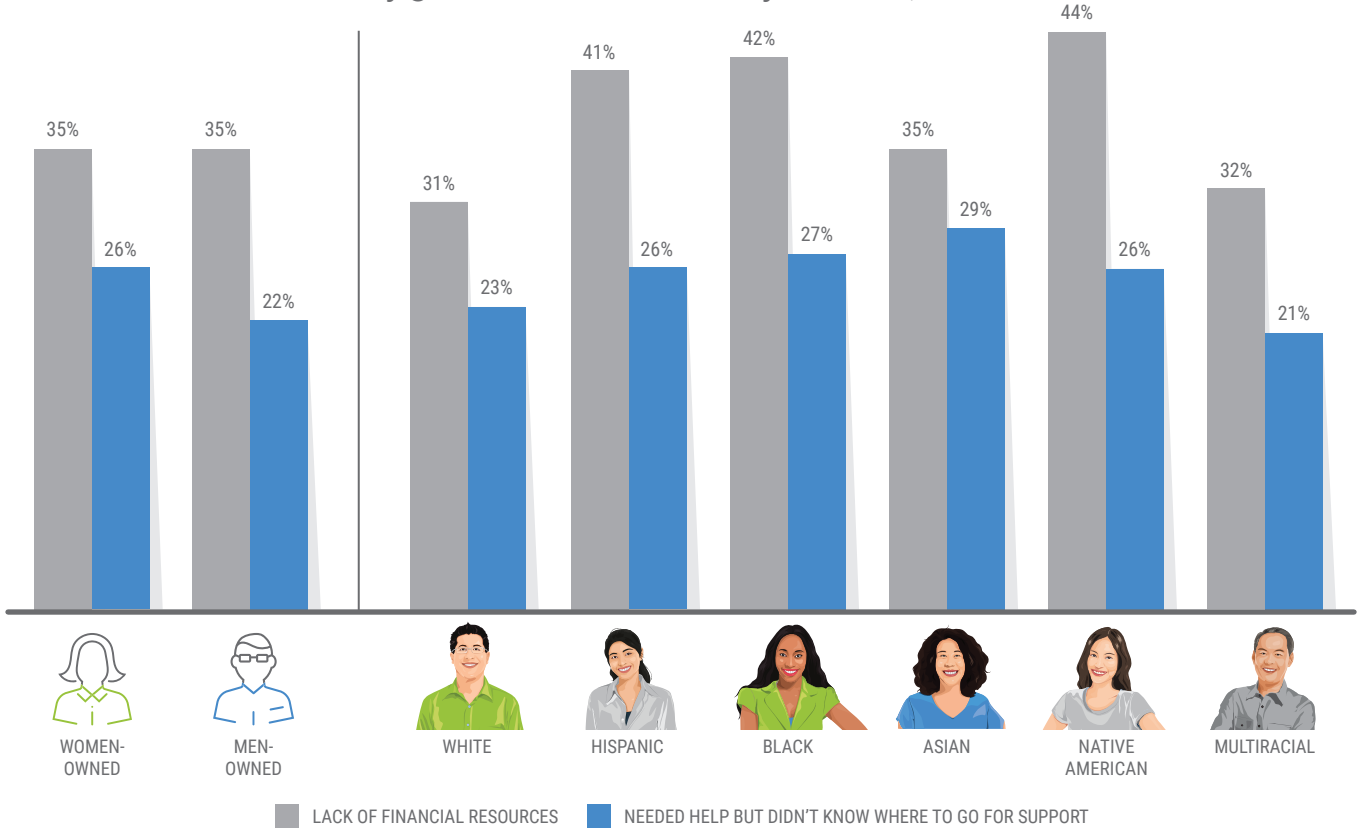
At the individual entrepreneur-level, a lack of financial resources and other supports are key factors in why many businesses never get off the ground – 35% of individuals who were actively engaged in trying to start a business but ultimately decided to stop cited a lack of financial resources as one of the primary reasons they stopped; an additional 24% said that they needed help but didn't know who to go to for support. A lack of financial resources is particularly problematic among entrepreneurs of color, with 41% of Hispanic, 42% of Black, and 44% of Native American entrepreneurs citing it as a primary reason they stopped pursuing starting their business, compared with 31% of white entrepreneurs (Figure 36).

These same challenges are also primary reasons why businesses end up closing. Among former business owners who experienced challenges accessing capital to cover their business operations, 64% said that this was a primary reason they closed their business. And among those who experienced challenges in finding support, advice, or role models in their networks, 52% said that this was a primary reason they closed their business. Significant disparities by both gender and race/ethnicity existed among former entrepreneurs. While 61% of men cited the inability to access capital as a primary reason why their business closed, 68% of women said the same; 55% of women reported closing in large part because they were unable to find support, advice, or role models



**35% of individuals who were actively engaged in trying to start a business but ultimately decided to stop cited a lack of financial resources as one of the primary reasons they stopped.**

FIGURE 36. Reasons for stopping pursuit of entrepreneurship by gender and race/ethnicity of owner, 2022



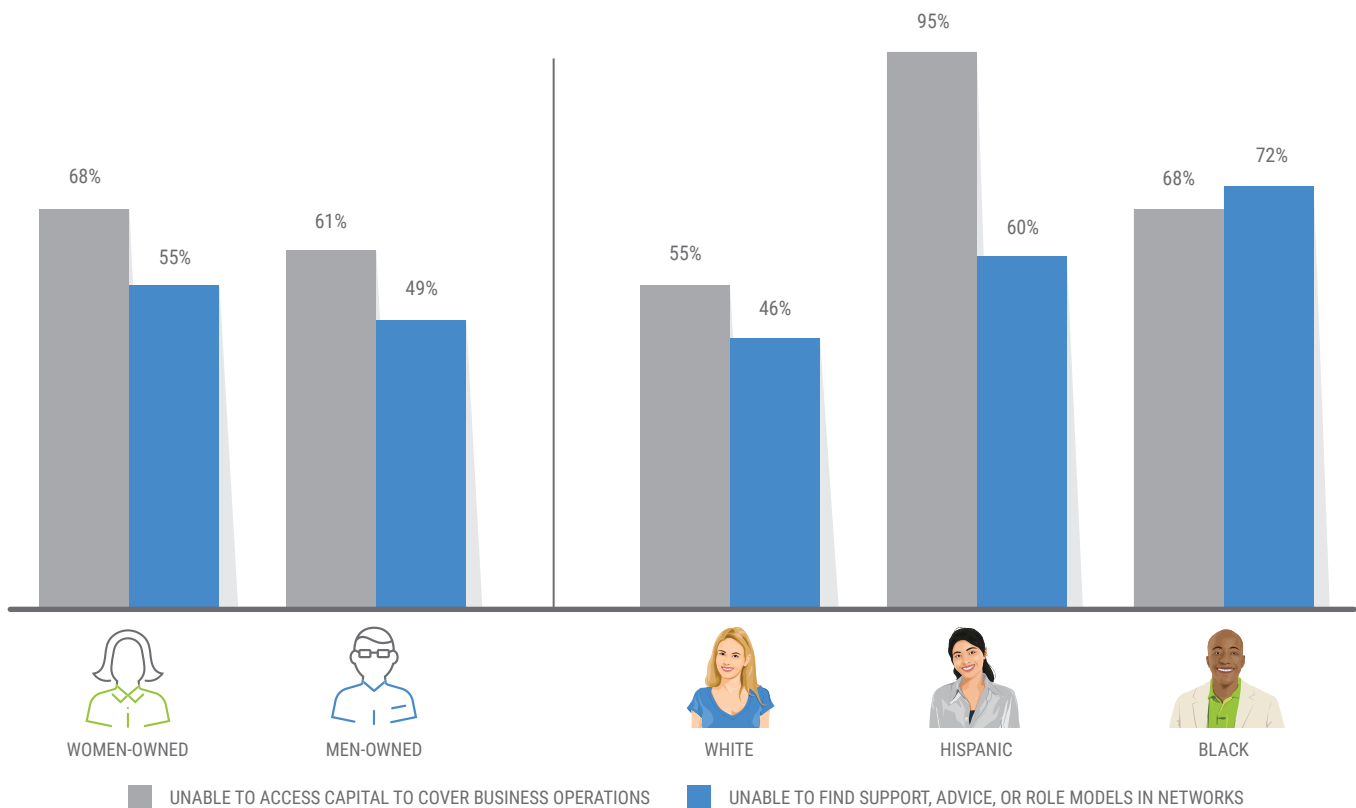
Source: Kauffman analysis of the 2022 Entrepreneurship in the Population Survey (EPOP).  
 Note: Entrepreneurs can select more than one reason for stopping pursuit of entrepreneurship.

A lack of financial resources is particularly problematic among entrepreneurs of color, with 41% of Hispanic, 42% of Black, and 44% of Native American entrepreneurs citing it as a primary reason they stopped pursuing starting their business, compared with 31% of white entrepreneurs.

compared with 49% of men. Disparities were even more pronounced by race/ethnicity – 95% of Hispanic and 68% of Black entrepreneurs closed their business because they were unable to access capital compared with 55% of white entrepreneurs; similarly, 60% of Hispanic and 72% of Black entrepreneurs closed their businesses because they were unable to find support compared with 46% of white entrepreneurs (Figure 37).

Coming out of the pandemic, many businesses are facing significant financial hardship. Among all businesses with employees, about half reported that their revenues had decreased somewhat or significantly as a result of COVID-19. Businesses owned by women and people of color are feeling these effects even more acutely – 53% of women-owned businesses reported that their revenues had decreased somewhat or significantly compared with 49% of businesses owned

FIGURE 37. **Primary reasons for business closure by gender and race/ethnicity of owner, 2022**

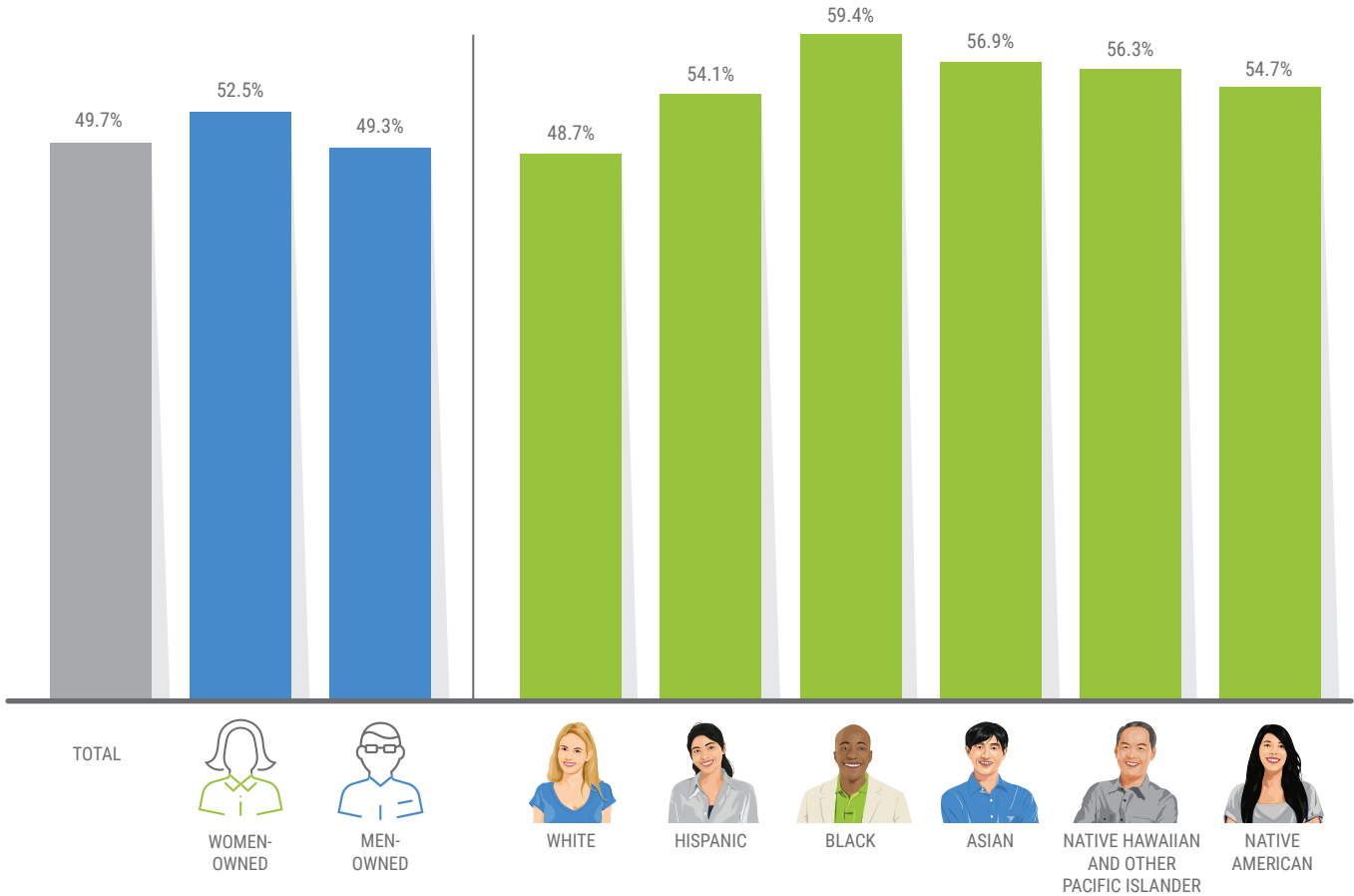


Source: Kauffman analysis of the 2022 Entrepreneurship in the Population Survey (EPOP).

Note: Shares reflect the percentage of businesses experiencing challenges relating to access to capital or finding support that indicated those challenges were a primary reason for closing their business.

**95% of Hispanic and 68% of Black entrepreneurs closed their business because they were unable to access capital compared with 55% of white entrepreneurs.**

**FIGURE 38. Share of businesses with employees reporting that revenues decreased somewhat or significantly as a result of COVID-19, 2021**



**Source:** Kauffman analysis of the 2022 Annual Business Survey for calendar year 2021.

**Note:** Data include only businesses with employees. Non-employer businesses are not represented in the Annual Business Survey data.

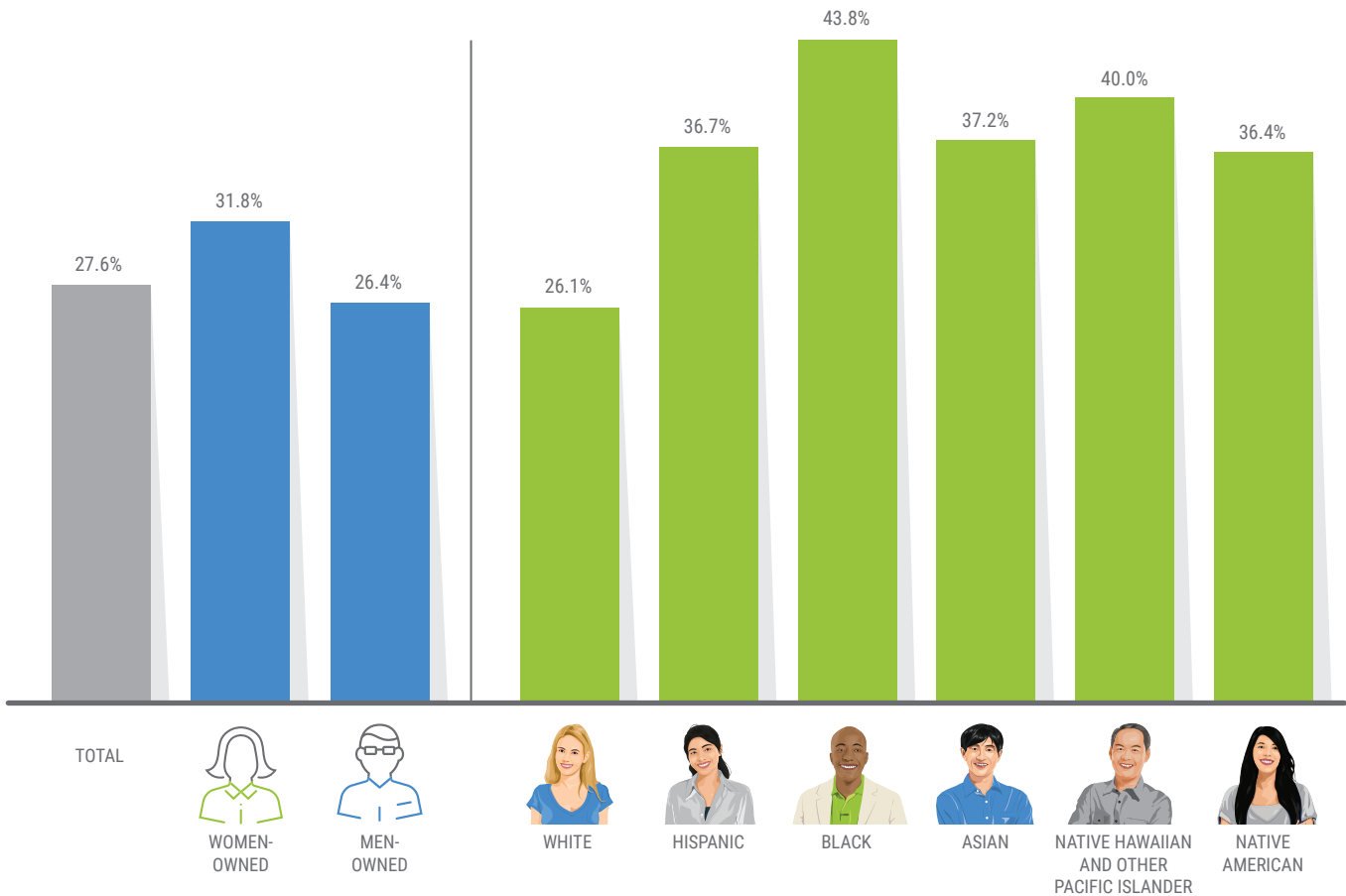
## Among all businesses with employees, about half reported that their revenues had decreased somewhat or significantly as a result of COVID-19.

by men; 59% of Black-owned, 57% of Asian-owned, and 54% of Hispanic-owned businesses reported the same compared with 49% of white-owned businesses (Figure 38).

As a result, more than a quarter of businesses with employees are very concerned about the financial health

of their business. This is especially true for businesses owned by people of color. At least 40% businesses owned by Black or Pacific Islander entrepreneurs said that they were very concerned about the financial health of their business compared with 26% of businesses owned by white entrepreneurs (Figure 39).

FIGURE 39. **Share of businesses with employees reporting that they are very concerned about the financial health of the business, 2021**



Source: Kauffman analysis of the 2022 Annual Business Survey for calendar year 2021.

Note: Data include only businesses with employees. Non-employer businesses are not represented in the Annual Business Survey data.

**At least 40% of businesses owned by Black or Pacific Islander entrepreneurs said that they were very concerned about the financial health of their business compared with 26% of businesses owned by white entrepreneurs.**

As we have seen throughout this report, a lack of access to not only capital, but also knowledge and networks is holding many entrepreneurs back from starting and growing successful businesses. More effective entrepreneurial support programming should therefore consider ways to integrate all three types of support. It should be noted, however, that the pandemic has significantly shifted the landscape of entrepreneurship,

with the rate of new entrepreneurs experiencing substantial growth since 2020<sup>60</sup> and notable shifts in the types of businesses being started. As a result, the capital and support needs of both new and existing businesses have likely also shifted in important ways, making it even more imperative to invest in policy and program innovations that can deliver the resources that businesses need to grow and thrive.

## Building a Capital Access Ecosystem in Kansas City

**Early experience during the COVID-19 pandemic highlighted stark disparities in the Kansas City metro area in who was able to access emergency funding through programs such as PPP.** The Kauffman Foundation began conversations in February 2020 with the Kansas City Civic Council and Greater Kansas City Chamber of Commerce regarding data that showed the need for funding to help small businesses recover from hardship. Subsequent studies of pandemic funding would demonstrate the need even more dramatically. An analysis conducted by University of Missouri Kansas City (UMKC) on businesses receiving PPP loans for at least \$150,000 showed that of the 4,677 PPP loans awarded to businesses in the Kansas City metro area, only 341 (about 7%) went to minority or women-owned businesses – 250 went to women-owned, 24 to Black-owned, 34 to Hispanic-owned, and 33 to Asian-owned.<sup>61</sup> A later study by the Urban Institute<sup>62</sup> further highlighted that access to capital is not equitably distributed within the Kansas City metro area with respect to place and race and that while alternative lenders such as CDFIs are better able to serve businesses that are considered “riskier” by more traditional lenders, awareness of their products and services is often low.

The Greater Kansas City Chamber of Commerce and KC Rising then issued a call to action to local agencies and organizations serving small businesses to accept an invitation to join a Capital Access Taskforce Committee to convene in order to get more capital into the hands of underserved entrepreneurs that need it. This taskforce was ultimately comprised of bank executives,

CDFIs, Entrepreneur Support Organizations (ESOs), foundations (including the Kauffman Foundation), local and federal government agencies, and entrepreneurs.

The Taskforce provided an opportunity for community stakeholders to come together and openly discuss challenges with regard to capital access in the Kansas City metro area from the entrepreneur, ESO, and lender perspectives and to learn from one another. Ultimately the conversations that took place through both Taskforce and subcommittee meetings helped to identify opportunities for the development of trainings and programs as well as targeted investments that could begin filling capital access gaps in the community. It also helped to inform Kauffman’s portfolio of investments in the Kansas City metro area. Further, because the Taskforce provided such a strong network of stakeholders who were invested in changing local conditions, Kauffman was able to benefit from the advice and feedback from the different stakeholders involved throughout its decisionmaking and program development processes, ensuring that its investments had a greater chance of success.

Below we highlight three of Kauffman’s major investments in the Kansas City metro area aimed at increasing access to capital among underserved entrepreneurs and what we know about their impact to date.

### 1. Kansas City COVID-19 Relief and Recovery Fund

Early discussions within the Taskforce centered on existing gaps in capital access (particularly PPP loans) faced by local entrepreneurs, particularly entrepreneurs

**Kauffman Foundation developed the KC COVID-19 Relief and Recovery Fund, which would enable financial institutions to deploy microloans with favorable terms to community entrepreneurs.**



of color and those in LMI communities and identifying solutions that group members could implement in order to address these gaps.

To that end, Kauffman Foundation developed the KC COVID-19 Relief and Recovery Fund, which would enable financial institutions to deploy microloans with favorable terms to community entrepreneurs. An initial \$800,000 was provided to the CDFI AltCap, which went on to inform our decision to directly capitalize three CDFIs to deploy loan funds in six Kansas City metro counties – Jackson, Johnson, Wyandotte, Cass, Clay, and Platte – with an intention to make capital available to entrepreneurs in low-to-moderate income communities, especially those historically unable to access capital due to their race or gender.

- **AltCap:** Kauffman granted \$5.3 million in December 2021 to deploy loans to area businesses and to cover operating expenses.
- **Holy Rosary Credit Union:** Kauffman granted \$3.3 million in June 2022 to seed a revolving loan fund to provide alternative financing options to qualifying businesses in Kansas City.
- **DreamSpring:** Kauffman granted \$5.3 million in December 2022 aimed at bridging funding gaps and nurturing an environment where small businesses, particularly those owned by people from historically underserved populations, can grow and thrive.

The decision to invest in CDFIs (as opposed to other types of financial institutions) was based on the landscape study of financial service providers in the area. CDFIs were the most connected in the communities that needed to be reached and had a track record of lending to underserved entrepreneurs

who wouldn't normally get access to capital through traditional lenders.

As of the writing of this report, AltCap has deployed \$1.3 million to date, Holy Rosary Credit Union has deployed \$2 million to date, and DreamSpring anticipates that they will deploy \$140 million over five years. In total the KC COVID-19 Relief and Recovery Fund has supported microloans with favorable terms to more than 179 entrepreneurs and there have been no defaults.

## 2. Kansas City Credit Enhancement Fund

Subsequent taskforce conversations highlighted a dissonance between a desire to address existing capital access gaps among underserved entrepreneurs and lender perceptions that lending to such entrepreneurs, particularly those in LMI areas, is riskier. The idea for the Kansas City Credit Enhancement Fund was inspired by these conversations and was designed as a way to change bank lending behavior by reducing the perceived risk of lending in LMI areas through the provision of a loan loss reserve fund that participating banks could draw on in the event that businesses defaulted on their loans.

We felt that it was important to get feedback and insights throughout the development process from both the financial institutions that would potentially be participating in the program and the ESOs that serve the entrepreneurs that would potentially receive loans through the program. To that end, we held two focus groups with financial institutions and two focus groups with ESOs (all of whom were also members of the Taskforce) to gather feedback and recommendations.

**The KC COVID-19 Relief and Recovery Fund has supported microloans with favorable terms to more than 179 entrepreneurs, and there have been no defaults.**

## The Inclusive Cultural Competency Experience Program was created to better prepare financial institutions to work with diverse communities.

Kauffman launched the Kansas City Credit Enhancement Fund in 2022 through a grant of \$9 million to LOCUS Impact Investing to manage the fund. In exchange for access to the loan loss reserve fund, participating banks must provide a proposal demonstrating what they intend to do differently to better serve entrepreneurs in LMI communities. Only loans made to businesses in LMI census tracts can be covered by the fund.

### 3. Inclusive Cultural Competency Experience Program

Taskforce conversations also highlighted many of the barriers that people of color and other underserved entrepreneurs face in accessing capital, their unique needs, and mistrust they may have in financial institutions as well as the challenges that financial institutions may face in working with these populations because they don't adequately understand their circumstances, experiences, and needs. These conversations inspired the creation of a peer-to-peer training program – the Inclusive Cultural Competency Experience Program – that would better prepare financial institutions to work with diverse communities.

The program was developed through a grant to the Urban Financial Services Coalition. It sought to increase the cultural competency of bankers as they engage entrepreneurs seeking financing for their businesses as well as to build connections between financial institutions and other resources and support organizations available to entrepreneurs in the Kansas City metro areas that can be partners. The program consisted of five sessions – the first focused on trust building, the second included a panel on regulators, the

third focused on building partnerships with ESOs, the fourth focused on DEI, and the fifth focused on allyship and accountability.

As of June 2023, the program has had 51 participants, 17 participating institutions, and 16 community partners involved with the facilitation of the program.

Because many of the investments discussed above have been made relatively recently, it is still too early to know the full magnitude of their impacts. Initial data from each initiative, however, demonstrates that these investments will likely go on to have significant impact in the Kansas City metro area.

### How can communities implement similar strategies?

The Capital Access Taskforce Committee was instrumental in bringing stakeholders from diverse backgrounds to the table to discuss challenges in the Kansas City capital access ecosystem and brainstorm innovative solutions that fit the needs of the community. Any community that is interested in building an ecosystem around capital access and supports for entrepreneurs should consider developing a similar taskforce and ensure that they bring stakeholders to the table. This includes financial institutions, ESOs, non-profits and philanthropy, government agencies, and entrepreneurs that represent and/or work with entrepreneurs from a variety of backgrounds. Ecosystem builders should regularly assess who is in the room and who isn't in the room and fill gaps as needed. This can help ensure that everyone has a voice and that the needs of everyone can be heard and addressed.

Bringing together stakeholders from different backgrounds can help communities identify solutions that may not be immediately obvious. In our work, for example, we found that by having conversations with entrepreneurs, financial institutions, and ESOs, we were able to develop solutions that not only got capital into the hands of underserved entrepreneurs but that also helped address some of the challenges and barriers that financial institutions faced in lending to these communities, which will hopefully lead to sustained changes in lending practices.

Effective ecosystem building also requires communities to conduct a market analysis of their region in order to understand who the different financial institutions, service providers, and other stakeholders are and what services and supports they provide. And the more that each stakeholder is aware of the other resources in the community, what they do, and how their services complement their own, the better able they are to serve as connectors to others in the community for entrepreneurs. This can make it exponentially easier for entrepreneurs to navigate the complex ecosystem of resources and supports, particularly when a lack of awareness of what is out there can so often prevent them from getting the help that they need.

When working with financial service providers on increasing access to capital among marginalized entrepreneurs, we found that it is important to understand that you need to meet them where they are. In the initial phases of the Taskforce work, it was clear that there were some stakeholders that didn't feel like there was a problem – that these businesses weren't

getting access to capital because they didn't meet the bank's requirements and there weren't any systemic issues at play. Ongoing conversations, trust-building, and patience are needed in such circumstances, and it can be helpful to bring in data to counter some of the preconceived notions that they may have about underserved entrepreneurs being more risky. We also found that in certain circumstances one-on-one conversations can be more productive, because in that setting people may feel more comfortable being candid and having honest conversations that can ultimately be more productive.

Finally, when considering making investments to deploy capital to underserved populations, communities should consider who is best to carry out the work. We chose CDFIs as our partners in this work in Kansas City because we felt that based on the landscape of financial service providers in the area that they were the most connected and were going to be the most effective in reaching Black and Latino entrepreneurs and driving successful outcomes. For other communities with different capital landscapes, other types of lenders may make more sense because they have stronger visibility, reach, experience working with underserved populations, or any number of other reasons. For this reason, communities should thoroughly evaluate their area's capital landscape before deciding on the right vehicle(s) for deploying capital to underserved entrepreneurs.

**When working with financial service providers on increasing access to capital among marginalized entrepreneurs, we found that it is important to understand that you need to meet them where they are.**

# WHAT CAN POLICYMAKERS, PROGRAM LEADERS, AND PHILANTHROPY DO TO ADDRESS THESE GAPS?

**The data presented throughout this report highlight the need for changes to policies and practices that continue to leave many businesses at a disadvantage in terms of access to funding, knowledge, and networks.**

To address these gaps, policymakers, program leaders, and philanthropy can...

### Remove barriers to capital access

#### ***Address wealth gaps that put some entrepreneurs at a disadvantage from day one***

Significant wealth gaps exist in the United States. The average Black and Hispanic households own between 15% and 20% of the net wealth as the average white household.<sup>63</sup> Similarly, families headed by women own just 55% of the net wealth of families headed by men.<sup>64</sup> These wealth gaps put entrepreneurs who are women and people of color at a distinct disadvantage because the majority of businesses rely on personal and family savings and assets to finance the start of their businesses. In 2017, for example, 26% of U.S. entrepreneurs who put forward any of their own resources to finance the start of their business put forward less than \$10,000 of their own capital, conversely only 12% put forward more than \$100,000. When exploring these figures by gender and race/ethnicity, however, we see that entrepreneurs are more

likely to put forward less than \$10,000 – women (33%), men (25%), white (28%), Black (31%), Hispanic (32%) – and less likely to put forward over \$100,000. Though to some extent this may be driven by differences in the industries that women and people of color tend to start businesses in and the corresponding start-up costs in those industries.

One recommendation made in America's New Business Plan that can address these wealth gaps is the creation of a baby bonds program, which would provide a seed grant at birth along with annual deposits made by the government. One study found that a hypothetical baby bonds program would reduce the median Black-white wealth gap from a factor of 15.9 to 1.4.<sup>65</sup>

#### ***Ensure that alternative lenders and funding programs are adequately funded***

As the country's experience administering several rounds of the PPP loan program demonstrated, alternative lenders such as CDFIs, MDIs, and fintech lenders are especially effective in reaching underserved entrepreneurs, yet such lenders make up a relatively small share of the overall funding pool in the U.S. and

# WHAT CAN BE DONE TO ADDRESS THESE GAPS

can have difficulty maintaining adequate fund balances with which to make loans.

America's New Business Plan provides several recommendations that would ensure that such programs and lenders continue to have the resources they need to reach underserved populations, including:

- Making the State Small Business Credit Initiative (SSBCI) program permanent
- Expanding the CDFI Fund's impact by allowing CDFIs to apply for both technical assistance (TA) and financial assistance (FA) in the same cycle
- Providing more funding to small and/or emerging CDFI Assistance (SECA) CDFIs
- Encouraging the capitalization of local institutions by backstopping "equity-like" investment in CDFIs and MDIs
- Working with philanthropic organizations to create funding pools that reduce risk and interest of CDFIs' short-term lending to businesses not eligible for SBA loans
- Establishing community deposit programs or expand existing community deposit programs to facilitate greater lending to new and small businesses
- Developing non-debt entrepreneurial capital catalyst grants

## ***Invest in innovations in new funding models***

We have also seen that despite financial need, many businesses are debt averse and/or may not qualify for traditional debt-based funding. Because of this, investments in the development and normalization of alternative funding models is a crucial next step in addressing the capital needs of entrepreneurs.

Models such as revenue-based investing and employee ownership are examples that should be explored further. In addition, catalyzing tech-based financial innovations which reduce biases and barriers experienced by businesses owned by women and people of color can also help move the needle on more equitable access to capital. As we have seen in the administering of the PPP program, these tools have shown that they can more effectively reach and serve businesses owned by people of color, but are not yet widely used.

## ***Address gaps in existing policies***

There is also work that can be done to improve the effectiveness of existing policies. For example, the Community Reinvestment Act (CRA) should be modernized through an equity lens, which would ensure that it is truly benefiting the underserved communities and entrepreneurs that it was intended to benefit. In addition, truth in lending laws are meant to protect consumers from predatory lending practices, but they don't typically apply to entrepreneurs applying for credit for commercial purposes. This is particularly problematic for businesses owned by people of color, as they are more likely to utilize alternative sources of capital (such as merchant cash advances), putting them at greater risk.

## **Improve access to business knowledge and promote an entrepreneurial mindset**

General business knowledge and an entrepreneurial mindset are also key components to a successful business, yet many aspiring entrepreneurs find themselves not knowing where to start and ill-equipped to manage the financial and day-to-day operations of their business. Incorporating entrepreneurial skill-building, real-world experiences, access to networks, business creation, and financial literacy throughout K-12 education can help prepare students with an entrepreneurial mindset and set them up for success if they choose to start a business. Such skills should also be incorporated into workforce training programs and more Entrepreneur Support Organizations (ESOs) should be able to receive funding for workforce development as a result.

## **Expand access to entrepreneurial support**

Networks are also critical to the success of entrepreneurs, yet most entrepreneurs rely primarily on friends and family to help them through the different challenges they face, particularly in the start-up phase. There is a need for greater connectivity within ecosystems, which can both reduce the burden of finding appropriate resources among entrepreneurs as

## CONCLUSION

well as build the visibility of existing resources within communities. It is likely that many entrepreneurs simply aren't aware of the different resources out there that offer support. However, it is also important for such service providers to focus on building relationships

within the community and among the entrepreneurs that they serve, as trust can be a major barrier to seeking help, particularly among more marginalized communities.

## CONCLUSION

**Since our inaugural Access to Capital for Entrepreneurs report in 2019, we have found that many of the barriers that existed for both startups and established businesses in accessing capital still exist and, in fact, some of these barriers have even been exacerbated by the COVID-19 pandemic, and at the same time, new barriers have emerged.** Undoubtedly, we have learned a lot about what works and what doesn't in getting emergency financing into the hands of the entrepreneurs that are most in need and most marginalized and these lessons learned may well prove useful in the work to come as we move beyond pandemic response.

Policymakers, program leaders, philanthropy, and corporations have a number of actions they can take and investments they can make in order to move the needle on capital access. Moving forward, however, what is clear is that no one entity can effect change on their own. Real systems-level change will take collaboration, partnerships, and thoughtful ecosystem building among policymakers, program leaders, philanthropy, and corporations.

### Policymakers

- Address the wealth gap that limits the ability of some entrepreneurs to start and grow businesses by investing in programs such as baby bonds.
- Ensure that alternative lenders and small business funding programs are both adequately funded and are made permanent through efforts such as expanding funding through SECA CDFIs, making the SSBCI program permanent, and the development of non-debt capital catalyst grants.

- Ensure that new policies promoting capital access incorporate an equity lens and that existing policies are modernized to center equity.
- Consider expanding the availability of funding that can go to ESOs for workforce development.

### Program Leaders

- Pilot and test new funding models and models of holistic entrepreneur support.
- Advocate for policies that can help move the needle on capital access and entrepreneur.
- Collaborate with workforce development programs to incorporate learning on the entrepreneurial mindset and how to start a business.
- Serve as a connector between entrepreneurs and other ESOs providing complementary supports.
- Be intentional about building relationships in the community so that trust can also be built.

## Philanthropy

- Invest in research and development of new funding models.
- Create funding pools that can reduce risk for funders like CDFIs who provide short-term lending to businesses not otherwise eligible for SBA loans.
- Catalyze technology-based innovations that can work to reduce biases and other barriers that hinder certain groups of entrepreneurs from accessing capital.
- Support existing ESOs who provide comprehensive services to entrepreneurs that is inclusive of access to capital, increasing business knowledge, and growing networks as well as the development of new programs that combine such services.

- Act as a connector within communities to facilitate entrepreneur awareness of and connections to ESOs as well as connections between ESOs doing complementary work.

## Corporate

- Advocate for policies that can help move the needle on capital access and entrepreneur success.
- Create or invest in funding pools that can reduce risk for funders like CDFIs.
- Invest in technology-based innovations that can work to reduce biases and thereby increase access to capital among underserved entrepreneurs.
- Act as a connector within communities to facilitate entrepreneur awareness of and connections to ESOs.

**Real systems-level change will take collaboration, partnerships, and thoughtful ecosystem building among policymakers, program leaders, philanthropy, and corporations.**



POLICYMAKERS



PROGRAM LEADERS



PHILANTHROPY



CORPORATE

← **COLLABORATION, PARTNERSHIPS, ECOSYSTEM BUILDING** →

# ENDNOTES

1. United States Census Bureau (2022b)
2. United States Census Bureau (2022a)
3. NORC (2022)
4. Federal Reserve Banks (2021)
5. Community Development Financial Institutions Fund (2022)
6. Federal Financial Institutions Examination Council (2022)
7. Federal Deposit Insurance Corporation (2023a)
8. U.S. Small Business Administration (2023a)
9. National Credit Union Administration (2023)
10. National Venture Capital Association (2023a)
11. Crunchbase (2023)
12. U.S. Bureau of Labor Statistics (2023), dataFab (2023)
13. Hwang et al. (2019)
14. Kauffman analysis of 2018 ABS data for calendar year 2017.
15. Kauffman analysis of 2022 EPOP data.
16. Hwang et al. (2019)
17. Hwang et al. (2019)
18. Derenoncourt and Kuhn (2022)
19. Kauffman analysis of the 2021 SBCS data.
20. Kauffman analysis of the 2019 FDIC and ACS data.
21. Kauffman analysis of the 2020 FDIC and dF-QCEW data.
22. Kauffman analysis of the 2020 FDIC and dF-QCEW data.
23. Federal Deposit Insurance Corporation (2023b)
24. Kauffman analysis of the 2019 FDIC and ACS data.
25. Kauffman analysis of the 2019 FDIC and ACS data.
26. Dollar values are in 2019 dollars.
27. Community Development Financial Institutions Fund (n.d.)
28. Wang (2021)
29. Inflated to real 2020 dollars; Source: Kauffman analysis of 2018-2020 CDFI data.
30. National Credit Union Administration (n.d.)
31. Data are in real 2020 dollars; Source: Kauffman analysis of 2020 NCUA and dF-QCEW data.
32. Federal Financial Institutions Examination Council (2020)
33. Kauffman analysis of the 2020 CRA and dF-QCEW data.
34. Kauffman analysis of the 2019 CRA and ACS data.
35. Federal Financial Institutions Examination Council (2020)
36. Kauffman analysis of the 2020 CRA and dF-QCEW data.
37. U.S. Small Business Administration (2023c)
38. U.S. Small Business Administration (2023b)
39. Kauffman analysis of the 2018-2020 SBA and 2020 dF-QCEW data.
40. Kauffman analysis of the 2018-2020 SBA and 2020 dF-QCEW data.
41. National Venture Capital Association (2023b)



42. Kauffman analysis of the 2020 NVCA (Pitchbook), Crunchbase, and dF-QCEW data.
43. Clay County, MO reported two VC deals but no deal value information was available.
44. Here, the gap refers to the categories of capital types where the predicted value at U.S. rates exceeds the actual value – that is, everything besides traditional small business loans.
45. U.S. Small Business Administration (2020; 2021)
46. Emmons and Dahl (2022)
47. Figure 27 and Kauffman analysis of 2020-2021 PPP and 2020 dF-QCEW data.
48. Fairlie (2021)
49. West and Sundaramurthy (2020)
50. West et al. (2020)
51. West and Sundaramurthy (2020)
52. Loan interviewers and clerks have a significantly lower n than the rest of the lending-related occupations, which likely explains its comparatively high volatility year to year.
53. Deloitte, Venture Forward, and National Venture Capital Association (2021)
54. Fairview Capital Partners, Inc. (2023)
55. Fairview Capital Partners, Inc., (2023)
56. The \$165 million figure differs from the \$44.4 million in investments for a number of reasons. Portfolio funds have not yet invested all of their capital and not all of the committed capital from Limited Partners (LP's) will be invested by funds. Funds typically have a 2% annual management fee based on committed capital over their 7-10 year fund life, which equates to 80-90% of committed capital going to investments and the remaining 10-20% of committed capital going to management fees.
57. Ewing Marion Kauffman Foundation (n.d.)
58. Kauffman analysis based on Howell et al. (2021)'s predicted share of borrowers by race/ethnicity
59. Unger et al. (2011), Hernández-Carrión et al. (2017), Fairlie and Robb (2010), and TruFund et al. (2021)
60. Fairlie (2021)
61. Small (2020)
62. Theodos et al. (2022)
63. Aladangady and Forde (2021)
64. Kent (2021)
65. Zewde (2020)

# REFERENCES

- Aladangady, Aditya, and Akila Forde. 2021. "Wealth Inequality and the Racial Wealth Gap." Board of Governors of the Federal Reserve System. <https://www.federalreserve.gov/econres/notes/feds-notes/wealth-inequality-and-the-racial-wealth-gap-20211022.html>.
- Community Development Financial Institutions Fund. 2022. "Data Releases." <https://www.cdfifund.gov/documents/data-releases>.
- . n.d. "CDFI Infographic." Washington, DC: Community Development Financial Institutions Fund. Accessed May 9, 2023. [https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi\\_infographic\\_v08a.pdf](https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi_infographic_v08a.pdf).
- Crunchbase. 2023. "Crunchbase." <https://www.crunchbase.com>.
- dataFab. 2023. "DataFab." <https://data-fab.org/>.
- Deloitte, Venture Forward, and National Venture Capital Association. 2021. "VC Human Capital Survey." <https://nvca.org/wp-content/uploads/2022/08/vc-human-capital-survey-3rd-edition-2021.pdf>.
- Derenoncourt, Ellora, and Moritz Kuhn. 2022. "Wealth of Two Nations: The U.S. Racial Wealth Gap, 1860-2020." Minneapolis, MN: Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/research/institute-working-papers/wealth-of-two-nations-the-us-racial-wealth-gap-18602020>.
- Emmons, William R., and Drew Dahl. 2022. "Was the Paycheck Protection Program Effective?" St. Louis, MO: Federal Reserve Bank of St. Louis. <https://www.stlouisfed.org/publications/regional-economist/2022/jul/was-paycheck-protection-program-effective>.
- Ewing Marion Kauffman Foundation. n.d. "Charitability Term Sheet." Ewing Marion Kauffman Foundation. Accessed May 9, 2023. <https://www.impactterms.org/download/charitability-term-sheet/>.
- Fairlie, Robert. 2021. "National Report on Early-Stage Entrepreneurship in the United States: 2021." Kansas City, MO: Ewing Marion Kauffman Foundation. <https://indicators.kauffman.org/wp-content/uploads/sites/2/2022/03/2021-Early-State-Entrepreneurship-National-Report.pdf>.
- Fairlie, Robert W, and Alicia M. Robb. 2010. "Disparities in Capital Access Between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs." Washington, DC: Minority Business Development Agency. <https://www.mbda.gov/sites/default/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf>.
- Fairview Capital Partners, Inc. 2023. "Woman and Minority-Owned Private Equity and Venture Capital Firms: 2022 Market Review." West Hartford, CT: Fairview Capital Partners, Inc. [https://fairview.cdn.prismic.io/fairview/86d13451-04d8-4b01-a13d-0e102d637dcb\\_Fairview++2022+Market+Review+of+Woman+and+Minority-Owned+Firms.pdf](https://fairview.cdn.prismic.io/fairview/86d13451-04d8-4b01-a13d-0e102d637dcb_Fairview++2022+Market+Review+of+Woman+and+Minority-Owned+Firms.pdf).
- Federal Deposit Insurance Corporation. 2023a. "Bank Data & Statistics." <https://www.fdic.gov/bank/statistical/index.html>.
- . 2023b. "Minority Depository Institutions Program." 2023. <https://www.fdic.gov/regulations/resources/minority/mdi.html>.
- Federal Financial Institutions Examination Council. 2020. "Findings from Analysis of Nationwide Summary Statistics for 2015 Community Reinvestment Act Data Fact Sheet." Arlington, VA: Federal Financial Institutions Examination Council. [https://www.ffiec.gov/hmcrpr/cra\\_fs20.htm](https://www.ffiec.gov/hmcrpr/cra_fs20.htm).

- . 2022. "CRA Aggregate & Disclosure Flat Files." 2022. <https://www.ffiec.gov/cra/craflatfiles.htm>.
- Federal Reserve Banks. 2021. "2021 Small Business Credit Survey Data Appendix for Employer Firms." 2021. <https://www.fedsmallbusiness.org/survey>.
- Hernández-Carrión, Carlos, Carmen Camarero-Izquierdo, and Jesús Gutiérrez-Cillán. 2017. "Entrepreneurs' Social Capital and the Economic Performance of Small Businesses: The Moderating Role of Competitive Intensity and Entrepreneurs' Experience." *Strategic Entrepreneurship Journal* 11 (1): 61–89. <https://doi.org/10.1002/sej.1228>.
- Howell, Sabrina T, Theresa Kuchler, David Snitkof, Johannes Stroebel, and Jun Wong. 2021. "Racial Disparities in Access to Small Business Credit: Evidence from the Paycheck Protection Program." *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3939384>.
- Hwang, Victor, Sameeksha Desai, and Ross Baird. 2019. "Access to Capital for Entrepreneurs: Removing Barriers." Kansas City, MO: Ewing Marion Kauffman Foundation. [https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport\\_042519.pdf](https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf).
- Kent, Ana Hernández. 2021. "Gender Wealth Gaps in the U.S. and Benefits of Closing Them." St. Louis, MO: Federal Reserve Bank of St. Louis. <https://www.stlouisfed.org/open-vault/2021/september/gender-wealth-gaps-us-benefits-of-closing-them>.
- Liu, Sifan, and Joseph Parilla. 2020. "New Data Shows Small Businesses in Communities of Color Had Unequal Access to Federal Covid-19 Relief." Washington, DC: Brookings. <https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/>.
- National Credit Union Administration. 2023. "Credit Union and Corporate Call Report Data." NCUA. <https://ncua.gov/analysis/credit-union-corporate-call-report-data>.
- . n.d. "What Is a Credit Union?" Accessed May 9, 2023. <https://mycreditunion.gov/about-credit-unions/credit-union-different-than-a-bank>.
- National Venture Capital Association. 2023a. "NVCA Yearbook." <https://nvca.org/nvca-yearbook/>.
- . 2023b. "What Is Venture Capital?" <https://nvca.org/about-us/what-is-vc/>.
- NORC. 2022. "EPOP - Public Use Files." <https://epop.norc.org/us/en/epop/researchers/public-use-files.html>.
- Small, Karra. 2020. "UMKC Analysis Finds Few Pandemic Loans Went to Women, Minorities." *Fox 4*, July 9, 2020. <https://fox4kc.com/news/umkc-analysis-finds-very-few-ppp-loans-went-to-businesses-owned-by-women-minorities/>.
- Theodos, Brett, Jorge González-Hermoso, and Ananya Hariharan. 2022. "Assessing the Small-Business Landscape in Metropolitan Kansas City." Washington, DC: Urban Institute. <https://www.urban.org/sites/default/files/2022-07/Assessing%20the%20Small-Business%20Landscape%20in%20Metropolitan%20Kansas%20City.pdf>.
- TruFund Financial Services, Greater Jamaica Development Corporation, and Harlem Entrepreneurial Fund. 2021. "NYC Black Entrepreneurs: Barriers, Challenges and Opportunities." New York, NY. <https://www.trufund.org/wp-content/uploads/NYC-Black-Entrepreneurs-Barriers-Challenges-and-Opportunities-.pdf>.
- Unger, Jens M., Andreas Rauch, Michael Frese, and Nina Rosenbusch. 2011. "Human Capital and Entrepreneurial Success: A Meta-Analytical Review." *Journal of Business Venturing* 26 (3): 341–58. <https://doi.org/10.1016/j.jbusvent.2009.09.004>.

## REFERENCES

- United States Census Bureau. 2022a. "Annual Business Survey (ABS) Program." <https://www.census.gov/programs-surveys/abs.html>.
- . 2022b. "Annual Survey of Entrepreneurs (ASE)." <https://www.census.gov/programs-surveys/ase.html>.
- U.S. Bureau of Labor Statistics. 2023. "Quarterly Census of Employment and Wages." <https://www.bls.gov/cew/data-overview.htm>.
- U.S. Small Business Administration. 2020. "Paycheck Protection Program (PPP) Report: Approvals through 12 PM EST 4/16/2020." Washington, DC: U.S. Small Business Administration. [https://www.sba.gov/sites/sbagov/files/2021-09/PPP%20Deck%20copy-508\\_4.16.pdf](https://www.sba.gov/sites/sbagov/files/2021-09/PPP%20Deck%20copy-508_4.16.pdf).
- . 2021. "Paycheck Protection Program (PPP) Report: Approvals through 05/31/2021." Washington, DC: U.S. Small Business Administration. [https://www.sba.gov/sites/sbagov/files/2021-06/PPP\\_Report\\_Public\\_210531-508.pdf](https://www.sba.gov/sites/sbagov/files/2021-06/PPP_Report_Public_210531-508.pdf).
- . 2023a. "7(a) & 504 FOIA." <https://data.sba.gov/dataset/7-a-504-foia>.
- . 2023b. "504 Loans." <https://www.sba.gov/funding-programs/loans/504-loans>.
- . 2023c. "Types of 7(a) Loans." <https://www.sba.gov/partners/lenders/7a-loan-program/types-7a-loans>.
- Wang, Andrew L. 2021. "How a CDFI Could Help Your Small Business." *NerdWallet* (blog). January 4, 2021. <https://www.nerdwallet.com/article/small-business/cdfi-loans>.
- West, Collin, and Gopinath Sundaramurthy. 2020. "Women VCs Invest in Up to 2x More Female Founders." Austin, TX: Kauffman Fellows. [https://www.kauffmanfellows.org/journal\\_posts/women-vcs-invest-in-up-to-2x-more-female-founders](https://www.kauffmanfellows.org/journal_posts/women-vcs-invest-in-up-to-2x-more-female-founders).
- West, Collin, Gopinath Sundaramurthy, and Marlon Nichols. 2020. "Deconstructing the Pipeline Myth and the Case for More Diverse Fund Managers." Austin, TX: Kauffman Fellows. [https://www.kauffmanfellows.org/journal\\_posts/the-pipeline-myth-ethnicity-fund-managers](https://www.kauffmanfellows.org/journal_posts/the-pipeline-myth-ethnicity-fund-managers).
- Zewde, Naomi. 2020. "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults." *The Review of Black Political Economy* 47 (1): 3–19. <https://doi.org/10.1177/0034644619885321>.

Table 1. Data sources used in this report

Data Source	Measure(s) Provided	Year(s) of Data Analyzed	Link to Access
Annual Business Survey (ABS) Data	Various measures of the need for capital and sources of capital used by startups and established businesses; Impact of COVID-19 on businesses' revenues and financial health	2018 (for calendar year 2017)	<a href="https://www.census.gov/programs-surveys/abs/data/tables.2018.List_1428666720.html#list-tab-List_1428666720">https://www.census.gov/programs-surveys/abs/data/tables.2018.List_1428666720.html#list-tab-List_1428666720</a>
Small Business Credit Survey (SBCS)	Degree that businesses' financing needs are met; Reasons for not applying for capital despite need	2019 and 2021	<a href="https://www.fedsmallbusiness.org/survey">https://www.fedsmallbusiness.org/survey</a>
Entrepreneurship in the Population Survey (EPOP)	Challenges faced among startups and established businesses; Reasons for stopping pursuit of entrepreneurship, Reasons for business closure	2022	<a href="https://epop.norc.org/">https://epop.norc.org/</a>
Community Development Financial Institutions (CDFI) Fund	Number and value of micro and business loans by loan size	2018–2020 3-yr average	<a href="https://www.cdfifund.gov/documents/data-releases">https://www.cdfifund.gov/documents/data-releases</a>
Community Reinvestment Act (CRA) Data	Number and value of small business loans by loan size; Number and value of small farm loans by loan size	2020	<a href="https://www.ffiec.gov/cra/craflatfiles.htm">https://www.ffiec.gov/cra/craflatfiles.htm</a>
Federal Deposit Insurance Corporation (FDIC)	Bank branches and deposits	2020	<a href="https://www.fdic.gov/bank/statistical/index.html">https://www.fdic.gov/bank/statistical/index.html</a>
National Credit Union Administration (NCUA) Credit Union and Corporate Call Report Data	Number and value of commercial loans	2020	<a href="https://ncua.gov/analysis/credit-union-corporate-call-report-data">https://ncua.gov/analysis/credit-union-corporate-call-report-data</a>
Small Business Administration (SBA)	Number and value of 7(a) program loans by type; Number and value of 504 program loans	2018–2020 3-yr average	<a href="https://data.sba.gov/dataset/7-a-504-foia">https://data.sba.gov/dataset/7-a-504-foia</a>
National Venture Capital Association (NCVA); Crunchbase	Number and value of VC deals	2020	<a href="https://nvca.org/nvca-yearbook/">https://nvca.org/nvca-yearbook/</a> ; <a href="https://www.crunchbase.com/home">https://www.crunchbase.com/home</a>

## APPENDIX

Current Population Survey (CPS)	Share of job holders by race/ethnicity in lender occupations and the economy overall	2010–2022	<a href="https://www.bls.gov/cps/">https://www.bls.gov/cps/</a>
American Community Survey (ACS)	Person of color population; census tracts with majority-people of color populations; population ages 25+ years old	2010, 2019, and 2020	<a href="https://data.census.gov/">https://data.census.gov/</a>
Quarterly Census of Employment and Wages, data-Fab release (dF-QCEW)	Private sector establishments and jobs	2020	<a href="https://www.bls.gov/cew/data-overview.htm">https://www.bls.gov/cew/data-overview.htm</a> ; <a href="https://data-fab.org/">https://data-fab.org/</a>

Table 2. Distribution of PPP total loan value by race/ethnicity of business owner and lender type (for sample analyzed by Howell et al. (2022))

Lender Type	Total Loan Value (\$B)	Asian	Black	Hispanic	White
All	\$533.9	5%	2%	4%	90%
Medium Banks	\$197.7	4%	1%	3%	93%
Small Banks	\$118.6	2%	1%	2%	95%
Large Banks	\$81.8	4%	1%	3%	91%
"Big Four" Lenders (Bank of America, Citibank, JP Morgan Chase, Wells Fargo)	\$69.2	9%	2%	7%	82%
Fintech	\$29.5	8%	9%	10%	73%
Minority Dep Inst	\$18.6	16%	1%	9%	74%
Credit Union	\$10.3	3%	2%	4%	91%
CDFI/Nonprofit	\$8.2	5%	3%	4%	89%

**Source:** Mass Economics analysis based on Howell, Sabrina T and Kuchler, Theresa and Snitkof, David and Stroebel, Johannes and Wong, Jun, Lender Automation and Racial Disparities in Credit Access (November 11, 2022). Available at SSRN: <https://ssrn.com/abstract=3939384> or <http://dx.doi.org/10.2139/ssrn.3939384>.

**Note:** Shaded cells indicate values higher than share of all PPP loan value





EWING MARION  
**KAUFFMAN**  
FOUNDATION

4801 ROCKHILL ROAD  
KANSAS CITY, MISSOURI 64110  
816-932-1000  
[www.kauffman.org](http://www.kauffman.org)