Minority-Owned Businesses: Making the Connection

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October 22, 2014
Minority Capital Access Forum
Minority Business Advocacy Power Panel

The views expressed are the author’s and do not necessarily represent those of the Federal Reserve Bank of Chicago or the Board of Governors of the Federal Reserve System.
Why Minority Businesses?

- Minority businesses play an increasingly important role in the US economy
- Fastest growing, an increasing component of small businesses
- Minorities tend to have strong entrepreneurial disposition

**Sources:** U.S. Census, Kauffman Firm 2004-2007 Survey
Why a Minority Capital Access Forum?

Financing per job created is lower for young minority enterprises

<table>
<thead>
<tr>
<th></th>
<th>Total Financing 2004-2007</th>
<th>Financing per Job Created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority</td>
<td>$ 162,358.00</td>
<td>$ 52,374.00</td>
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<tr>
<td>Non-Minority</td>
<td>$ 227,272.00</td>
<td>$ 95,492.00</td>
</tr>
<tr>
<td>Total</td>
<td>$ 214,338.00</td>
<td>$ 85,055.00</td>
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</tbody>
</table>

Why a Minority Capital Access Forum?

- Inadequate capital access, a constraint to growth
- Differences in capital access, regardless of firm size
- Differences in capital growth with time

**Sources:** Robert Fairlie “Troubling Realities of Capital Limitations Faced by MBEs” Congressional Briefing, 2010. Data: Kauffman
The Detroit Business Landscape

Financial Access across Neighborhoods
some room for improvement

Bank CRA-Reported Lending Gap Analysis

- Predicted lending greater than actual (172 tracts)
- Predicted close to actual (632 tracts)
- Actual lending greater than predicted (224 tracts)

SBA Loans

Number of SBA 7(a) Loans per 1,000 Businesses,

Source: Toussaint-Comeau and Newberger, 2014 /Authors’ Calculations, Michigan SBA District Office, HUD, U.S. Census, FFIEC
Estimated CRA and SBA Lending Differences Associated with Racial/Ethnic Characteristics of the Business Location

Source: Toussaint-Comeau and Newberger, 2014 /Authors’ Calculations, Michigan SBA District Office, HUD, U.S. Census, FFIEC
A Survey to Assess Resource Networks and Financing Needs of Minority Businesses across life cycles

**Birth Stage**
- Establishing the firm
- Finding customers
- Start-up funding

**Adolescent Stage**
- Financing
- Profitability
- Growth

**Maturity Stage**
- Refining strategy
- Managing success
- Continuing growth
CDPS Minority Business Owners Resource Networks Survey
Most Important Needs of businesses (factor analysis)

Most Important Needs of Business

birth stage

adolescent stage

maturity stage

Source: Toussaint-Comeau and Newberger, 2014
CDPS Minority Business Owners Resource Networks Survey

Resource utilization (factor analysis)

- Birth stage
- Adolescent stage
- Maturity stage

- Seminars from nonbank local institutions
- Online media
- Technical assistance
- Advertisement
- Professional service
- Other seminars

Source: Toussaint-Comeau and Newberger, 2014
CDPS Minority Business Owners Resource Networks Survey

Benefits for using local resources (factor analysis)

Source: Toussaint-Comeau and Newberger, 2014
CDPS Minority Business Owners Resource Networks Survey
Barriers to using resources (factor analysis)

Source: Toussaint-Comeau and Newberger, 2014

- unaware of what training opportunities are available
- resources not being adequate for business owners
- cost of training
- resources are inconvenient
- limited access to alternative sources of capital
Multi-prong strategies is needed to connect minority business owners with resources, which address several resource needs at a time

- Increase lending and funding opportunities
- Supplement private capital with public funds
- Continue efforts to open targeted lending programs channels
- Support intermediaries, facilitate/augment linkages
- Support meaningful business networking opportunities