

Investing Together to Build from Within: How Funding Micro-businesses and Entrepreneurs of Color May Be the Key to Recovery and Inclusive Economic Growth

By: Jill Fink, The Merchants Fund, and Peter Gonzales, The Welcoming Center for New Pennsylvanians

Ask any Philadelphian where to get a cheesesteak and they'll speak passionately about the virtues of Pat's over Geno's or why Dalessandro's is better than either. We'll tell you where to find the creamiest oat milk latte (Ultimo), the best (and most affordable) seamstress for alterations (Soriya Bridal), and the best spot for your pho and banh mi cravings (Pho 20). Favorite food truck...where do we begin? Ask a dozen people and you'll get a dozen different answers, all delivered with unwavering certainty and passion. And they'll all be right. We are a city of neighborhoods and communities, from Chinatown to Fishtown to Germantown to Brewerytown, each unique with its own flavor of Philly because of the independent, local small businesses that bring vibrancy to the corridors and give life to the tucked away corners.

The reasons -- economic and social -- for supporting small businesses have been well-documented. We revisit a few of them in this moment when so many -- up to 7.5 million -- are at risk of permanent closure due to the pandemicⁱ. [Note: The Small Business Administration's (SBA) definition of "small" includes businesses up to 250 people, even 1,500 in some cases, depending on industry. For the purposes of this article, we are focused on a subset of very small and micro-businesses that are independently owned and operated, employing fewer than 20 (often fewer than 10) people.]

Local businesses cultivate community well-being and cohesion

From barber shops and salons to coffee shops and bodegas, independent businesses not only bring neighbors together, but the business owners are often the community leaders, problem solvers, and innovators. Research has shown that communities with a larger share of local businesses have more social capital, stronger social ties, higher levels of civic engagement, improved public health outcomes, and better success solving problems.ⁱⁱ

Independent, locally owned businesses recirculate more revenue into the local economy

On average, 48% of each purchase at local, independent businesses is recirculated locally, compared to less than 14% of purchases at chain stores. Restaurants and service providers generate an even larger multiplier effect because they are labor-intensive hence a greater percentage of revenue goes to local payroll.ⁱⁱⁱ Almost 50 times more money is returned to the local economy by spending with an independent business than buying from an online mega-retailer.^{iv}

Small business ownership reduces inequality and expands the middle class

Research finds that counties with a higher percentage of local small businesses outperform their peers on critical economic indicators: they have stronger per capita income growth, faster employment growth, and lower poverty rates.^v

Entrepreneurship leads to job creation and higher wages

The Institute for Local Self-Reliance (ILSR) reports that *“cities that achieve higher rates of entrepreneurship and new business creation than the national average are better off. They generate more jobs, which in turn lifts wages. While cities may be tempted to focus only on tech startups, expanding opportunities for residents to launch businesses that meet community needs in retail, services, food production, and other sectors can have even greater impact.”*^{vi}

In Philadelphia, where nearly one in four residents lives in poverty (a sobering statistic that is likely to worsen given the pending recession), small businesses are particularly important to residents of under-resourced neighborhoods who have greater dependence on them than their more affluent neighbors. Individuals with less economic means and who rely more heavily on public transportation tend to shop closer to home and to purchase what they need in smaller quantities. (In a time of social distancing, these are some of the very things - - using public transportation and leaving the home more often -- that put an already more vulnerable population at an even greater health risk.)

In Pennsylvania, 99.6% of all private sector employers are small businesses who in turn employ nearly half of all workers in the state^{vii} (prior to the pandemic). In Philadelphia in 2013, there were roughly 27,000 small business establishments -- employing the majority of the City’s workers, producing more than \$31 billion in payroll annually, and generating about \$1.2 billion dollars in wage tax revenues^{viii}.

Immigrants started more than 90% of the new businesses along commercial corridors since 2000^{ix}, creating jobs and bringing new energy and cultural vitality to the city.

What’s at Stake?

“While we’re all affected, the burden has fallen most heavily on those least able to bear it...The loss of thousands of small and medium sized businesses across the country would destroy the life’s work and family legacy of many businesses and community leaders and limit the strength of the recovery when it comes. These businesses are a principal source of job creation, something we will need sorely as people seek to return to work.”

Jerome Powell, Chair, Federal Reserve (5/13/20)

Small and micro-businesses now face an existential threat due to coronavirus (COVID-19). Our neighborhoods and communities, from small towns to big cities, will lose the very establishments that enhance our lives and create our jobs while small merchants will lose their livelihoods.

Not only has the formation of new businesses fallen sharply over the last two decades^x, the number of small retailers also fell by 85,000 from 2005 to 2015^{xi}, all while Amazon's market share has grown to 38% of all online retail sales^{xii} and Walmart controls more than a quarter of all grocery sales^{xiii}. As the number of small businesses decline, we're witnessing a period of worsening economic inequality, decreasing economic mobility, and accelerated hoarding of profits by larger firms^{xiv}.

It's too soon to tell what the full impact of COVID-19 will be for small businesses, but all indications are that it will be catastrophic. In just the first few months of the pandemic, it is estimated that approximately 35.7 million Americans employed by small businesses are at risk of unemployment^{xv}. If the recent past is any indication, during the Great Recession (2007-2009), small businesses were responsible for more than 90% of net job loss in 16 large metro areas; Philadelphia was one of the metro areas hardest hit^{xvi}. While major federal funding will be needed to mitigate the loss of nearly 25% of small businesses, local initiatives that coordinate access to resources and engage communities of color that have experienced decades of disinvestment will be crucial to any effort to promote inclusive economic recovery and growth.

“What we are learning from this experience is that we are truly not alone in this fight, there are countless businesses and families that need help. When I say it's a matter of life and death it truly is: people are losing their dreams, everything they've worked for, built for their families, I know folks that can't even provide meals for their children and it's heartbreaking.”

-Young Cho, Flaming Basil



Young Cho and Kathy Xayamoungkhoun are young, immigrant, first-time business owners who sell Thai/Laotian cuisine from their food truck. They received a relief grant from TMF, but are still worried about providing for their family.

Photo Credit: Flaming Basil

Aside from The Merchants Fund (TMF) which has been operating in Philadelphia for more than 160 years, foundations do not traditionally make grants to individual business owners. A few national foundations like Kauffman, Kellogg, Surdna, and Kresge, have been investing in the growth of entrepreneurial ecosystems in low-income communities across the country, and we need more to follow their lead. In this time, we will need to coordinate federal, state, and local government funding with philanthropy to support both individual entrepreneurs and community-based organizations that work in partnership with each other to build wealth. Fortunately, a proven model already exists and is being implemented in Philadelphia by the Welcoming Center for New Pennsylvanians and their local partners.

Over the past 24 years, the Neighborhood Development Center (NDC) in Minneapolis/St. Paul established an approach to economic development that builds on the assets and determination of residents to increase their own wealth and rebuild their neighborhoods from within. Over the past five years, with funding from the Kellogg and Kauffman Foundations, the NDC model has been shared through the “Build from Within Alliance,” which currently includes organizations in seven cities from Anchorage to Miami. Members of the Alliance are focused on creating a complete ecosystem of entrepreneurship within inner city, low-income, and predominately minority and immigrant neighborhoods to include business training, business services, risk-tolerant lending, and real estate activities. Each city in the Alliance has its own unique challenges, but that allows for learning from each other and adjusting the NDC approach as each city sees fit. Hosting in-person convenings twice a year and online exchanges, the Alliance fosters peer-learning, coaching, and program tool development, and an evaluation process that promotes continuous improvement and collective impact.

In Philadelphia, the Welcoming Center implements the NDC model through strategic collaborations with community-based organizations that know their neighborhoods best and have already identified a need for offering business planning services to existing and budding entrepreneurs. Using NDC’s business planning curriculum, the Welcoming Center runs 12-week classes in the neighborhoods, which are hosted by a local organization. Culturally competent training is central to building trust in any neighborhood, while also providing community members with access to resources that have not been available elsewhere. The classes are offered in multiple languages to small-sized groups, allowing for authentic community engagement and effectiveness.

Participants in the classes are then connected to lenders, typically CDFIs like FINANTA and Women's Opportunity Resource Center, who specialize in character-based lending that focuses more on the attributes, experience, and social assets of the individual beyond their credit score, collateral, and cash.

Whether working with a lender or not, entrepreneurs are offered technical assistance to improve their competencies essential for success in the marketplace like financing and accounting practices, marketing and sales activities, managing costs, or negotiating a lease. The Merchants Fund has played a critical role over the past several years in helping pay for additional coaching and technical assistance or covering the cost of equipment and supplies. Entrepreneurs consistently report that one of the greatest values they gain from this

approach is feeling like they are not alone. The new relationships they have built through the classes, the coaching, and the technical assistance has fostered a deeper connection to their own communities.

Building resilience and ensuring that all communities are able to access the resources needed to recover and grow economically in the months and years ahead, will require an investment in both individuals and entrepreneurial ecosystems. The NDC model offers both and can easily be adopted to meet the challenges and opportunities that are unique to each community.

Economic crises are especially hard on small businesses, and the pandemic is uniquely damaging, especially on those that rely on foot traffic and social interaction. Still, it is small businesses that have played an oversized role in economic recovery and job creation coming out of prior recessions. If we want to preserve the local, independent businesses we cherish -- from taco stands and panaderias to dry cleaners and hardware stores -- and protect the life's work and jobs that come with them, we need to act now.

Do what you can, with what you've got, where you are.

Squire Bill Widener (via Teddy Roosevelt)

Author bio

Jill Fink has been an agent for social change throughout her career. She has a background in nonprofit leadership, higher education, and social impact entrepreneurship, always aligning her work with her values and a higher purpose. Jill owned Mugshots Coffeehouse, a founding B-Corp, for 13 years. She credits her experience as an entrepreneur with her ability to serve small business owners effectively and with empathy at The Merchants Fund, where she has served as Executive Director since 2018. She is an appointed member of the Mayor's Food Policy Advisory Council and volunteers at Ronald McDonald House with her dog and sidekick, Josie.

Peter Gonzales

As President and CEO of the Welcoming Center for New Pennsylvanians since 2012, Peter actively promotes the inclusion of immigrants of all skill and education levels in the economic growth of our region. He spent several years directing the revitalization of a commercial corridor in lower north Philadelphia for Project H.O.M.E. and then managed an immigration law practice before coming to the Welcoming Center. Peter served on the transition teams of Mayor Kenney and Governor Wolf and currently serves on the boards of Philadelphia Works, Inc., the Chamber of Commerce of Greater Philadelphia, the Douty Foundation and The Merchants Fund.

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