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WORCESTER BLACK SMALL BUSINESSES AND RACIAL
INEQUALITY IN WEALTH

SHAMEN RADCLIFFE

MAY 2017

A MASTER'S RESEARCH PAPER

Submitted to the faculty of Clark University, Worcester, Massachusetts, in
partial fulfillment of the requirements for the degree of Master of Arts in the
department of International Development, Community, and Environment

And accepted on the recommendation of

Ramón Borges-Méndez, PhD Chief Instructor

ABSTRACT

WORCESTER BLACK SMALL BUSINESSES AND RACIAL INEQUALITY IN WEALTH

SHAMEN RADCLIFFE

This research presents findings from scholarly literature, two background cases, and three key informant interviews about why Black small businesses might receive less loan assistance through the U.S. Small Business Administration (SBA) than White small businesses. Specifically, it addresses whether racial inequality in wealth explains why Black small business owners receive less loan assistance than their White counterparts in the City of Worcester. By examining existing literature around topic, this research offers policy recommendations to improve conditions for Black small businesses and their minority counterparts in the small business market.

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DEDICATION

I would like to thank my Mother and Father for seeing my potential at very young age and those who have encouraged to m rise above adversity. Because of you all, I will be the first in my family to earn a graduate degree.

Rest In Peace Dad.

ACKNOWLEDGEMENTS

I wish to thank Professor Borges-Méndez for his guidance, support, and encouragement throughout the tedious research process that has kept me going.

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I. Introduction

Minority small owned-businesses continue to be the mechanism of employment in low-income and underserved communities. Their business growth depends on capital access, which remains to be one of the most important factors that limit the establishment, expansion, and growth of minority small-owned businesses. Thus, greater capital access for minority small-owned businesses is crucial to support their growth and the possibility of reducing the unemployment rate in low-income and minority communities.

The Small Business Administration (SBA) is a U.S. government agency that provides assistance to small businesses through capital access, entrepreneurial development, government contracting, and advocacy (SBA, “About the SBA”), where Maria Contreras-Sweet is the 24th and current Administrator. The SBA offers a variety of loan programs, such as the 7(a) guaranty program (SBA’s most common loan program and includes financial help for small businesses with special requests), micro loan program (provides small and short-term loans to small businesses), and the CDC/504 loan program (offers financing for major fixed assets such as equipment or real estate). For minority small businesses, the SBA’s 8(a) Business Development Program helps minority-owned firms “develop and grow their businesses through one-to-one counseling, training workshops, and management and technical guidance. The program provides access to government contracting opportunities, which allows minority small-owned businesses to become solid competitors in the federal marketplace” (SBA, “Starting & Managing”). However, it is difficult to determine the merit of SBA lending programs for minority small

businesses because of the decline of loan assistance among the Black population. Unfortunately, Black small businesses have experienced less SBA loan assistance than any other racial-ethnic group. According to Hyra and Doughty (2014), the distribution of SBA 7(a) loans has declined to 2% for the Blacks in 2014 compared to other racial-ethnic groups (Hyra and Doughty, 2014). Therefore, the purpose of this paper is to examine why Black small businesses in the City of Worcester receive less loan assistance than their White counterparts. Integrating case studies, from the cities of Milwaukee and Detroit, provides a deeper understanding about the disproportionate representation of the Black population and the difficulties that Black small businesses face compared to their White counterparts. Three key informant interviews, from the Massachusetts Business Development Center (MSBDC) of the SBA housed at Clark University, Worcester Regional Chamber of Commerce, and MassDevelopment, was included to explore why Black small business receive less loan assistance than White small businesses in the City of Worcester. Through policy recommendations, this paper provides suggestions for the SBA to improve business support for Black small businesses and their minority counterparts.

II. Review of Literature

2.1 Personal Wealth

Since the median net worth of Blacks is substantially lower than Whites, Robb, Fairlie and Robinson (2009) suggests that low levels of personal wealth among Blacks is

unfavorable when applying to loan assistance than White small businesses. Because racial inequality in wealth across demographic groups is apparent in the United States, Robb and Fairlie (2007) argue that the median net worth of Whites are about eleven times higher than the median net worth of Blacks. Because there is evidence that median level of Black households is substantially lower than white households, Blacks are also more likely to have lower asset levels than whites. Therefore, racial inequality in wealth for minorities has negative outcomes for business creation and accessing financial capital for their businesses.

Low levels of wealth among Blacks align to less access to start-up capital and results in black small business owners having less startup capital than their white counterparts. Since business creation is often supported by owner's equity and investors commonly require a significant amount of owners' investment of capital as an incentive and collateral, home equity is vital in requiring access to start-up capital for small business owners. Because of this, Robb and Fairlie (2007) argue that low levels of human capital limits the ability of Black firm owners to effectively run their businesses and restricted access to financial capital results in the incapability of successfully running their businesses. Because of this, Black firms rely more on owner equity than white firms, which shows that black small business face difficulty in obtaining external capital and rely more on credit cards for start-up capital than white small business owners. Therefore, since Blacks have lower levels of human capital than whites, Black small businesses use debt financing at a lower percentage than white small businesses.

2.2 Credit History

Cavalluzzo, Calvalluzzo, and Wolken (2002) suggest that Black firms are charged higher interest rates for loans approved than White businesses and pay higher interest rates when approved. Since White small businesses pay the lowest rates on all types of loans, they also pay the lowest rates on lines of credits. Therefore, one of largest differences between White and Black small business is credit scores.

Robb, Fairlie and Robinson (2009) argue that there are a low proportion of Black firms with high credit scores compared to White firms. Since half of all Black small business have low credit scores, as oppose to White small business with a smaller percentage of low credit scores, Black firms are at an disadvantage to apply for loans because of low credit scores. Because of this, Robb, Fairlie and Robinson (2009) claims that lower credit scores among Black small business explain the gap in access to financial capital and racial gap in new debt investment, which negatively effect Black firms to obtain new equity investments and restricts their ability in financing their business.

Blanchflower, Levine, and Zimmerman (2003) claim that Black firms are twice as likely to have loan applications rejected than White firms because of their credit history. Since there is evidence that denial rates of Black firms increase as competition in the lender markets decline, Black firms are denied on their loan requests at a higher percentage than white small businesses. This suggests that the variables of credit history for minority owned firms, especially for Black small business, are more risky than white small businesses. Unfortunately, Black small businesses have a higher rate of bankruptcy than

White small businesses and are more likely to be delinquent on business responsibilities.

Thus, Cavalluzzo, Cavalluzzo, and Wolken (2002) found that there is higher denial rate for minority small business than White small business because of fear of being denied on their credit loan requests.

Although the main reason for higher denial rates among minority small business is because they did not meet lender's criteria, Black small businesses apply less to bank loans than White small businesses because of the fear of having their loan applications denied. Because of this, Fairlie, Robb and Robinson (2016) argue that Black firms are less likely to report that their loan requests are always approved than white small businesses. Since the denial rate for loan request is significantly high, Black firms are also considered to be less creditworthy than White small businesses and are more likely to report that they face financial constraints to support their businesses.

2.3 Characteristics of Business Owner

On average, Black small business owners are younger than White small business owners. Robb, Fairlie and Robinson (2009) argues that young Black small business owners have less industry and start-up experience, compared to White small business owners, which contributes to Black small business owners facing difficulty in securing startup and financial capital for their businesses. Younger Black business owners are also not able to invest as much equity in their business, as opposed to white small business owners, which explains racial disparities in startup capital. Since younger Black firm owners may be

constrained by lower level of personal wealth, the lack of success among Black small-owned businesses to White small-owned businesses results in lower sales and survival rates, less profits, and higher rates of business closure. Therefore, Black small businesses are less likely to have team ownership and it limits their ability to access startup capital compared to White small businesses.

2.4 Expanding Financial Capital

Yougjin and Coleman (2009) argue for the need of a public response and programs that will ensure that Black small business owners, as well as other minority firm owners, will have access to financial capital. By implementing the Community Reinvestment Act with community outreach programs, they suggest that it will increase information on improving credit scores, credit and business counseling, financial assistance, etc. Since increasing financial assistance to Black small business can be improved by addressing discrimination in the lending market, Robb et al. (2007) suggest that technical assistance programs could assist minority-owned businesses, which would increase Black firms access to credit markets for their business endeavors. This would include technical assistance programs to help minorities start and operate a business, apply for loans, financial literacy and accounting training, individual development accounts (IDAs), and first-time homeowner programs that could help minority firms build financial and human capital to effectively run their businesses. In addition to the creation of technical assistance programs, Newberger and Comeau (2014) argue that the Small Business Administration

(SBA) should focus on educational efforts in small business lending through SBA District Offices, SCORE chapters, Small Business Development Centers, Women Business Centers, and Certified Development Companies to help minority small businesses benefit from the expanding 7(a) and 504 programs.

Newberger and Comeau (2014) also suggest that the SBA should create strategic partnerships with specific investors to increase financial access to Black small business owners. In efforts to produce better equity results from the SBA lending programs. Although the SBA has taken steps to increase loan assistance to minority owned businesses, they suggest that the SBA need to expand and address equity concerns about their loan guaranteed programs. Because of socioeconomic and social vulnerability factors in low-income populations, a place-based lending strategy in minority neighborhoods could improve access to financial capital to Black small businesses. Therefore, they argue that the SBA borrower and lending fees should be reduced or eliminated and the guarantee amounts should increase in efforts of closing the financial gap between Black and White small businesses.

III. Methodology

This study addresses whether racial inequality in wealth connects to why Black small business owners receive less loan assistance than their White counterparts in the City of Worcester. Although there is evidence about the decline of loan assistance among other minority businesses, this study is focusing exclusively on Black small businesses.

This research helps us to understand the connection between race, geography, and access to capital as it affect small business opportunities. The question is whether Black small business in the city can receive more access to financial capital through the U.S. Small Business Administration (SBA). This research was conducted in four primary steps: a literature review and the establishment of why Black small business receive less loan assistance than White small businesses, lessons collected from background studies that could be applicable to Black small businesses in Worcester, a background of Worcester, three key informant interviews to understand why Black small businesses receive less loan assistance than White small businesses through SBA, and policy recommendations was designed to primarily inform the results.

3.1 Available Literature

A review of available literature that outlined the decline of small business lending among Black small businesses was explored. Several important topics emerged from the literature such as low levels of personal wealth, low credit scores, lack of collateral, etc. among Blacks compared to Whites. An evaluation of two background cases from the cities of Milwaukee and Detroit was done to understand why Black small business receive less loan assistance than White small businesses and how it could be related to Black small businesses in the City of Worcester. The diverse sources of data helped inform whether racial inequality in wealth explains why Black small businesses receive less loan assistance than White small businesses in the city. In order to understand the possibility of whether

racial inequality in wealth explains why Black small business receive less loan assistance than their White counterparts, the following steps were taken. Research for this paper examined the literature for recommended best policy recommendations with the intention that Black small businesses could receive additional access to capital through the SBA.

3.2 Key Informant Interviews

For a reliable source of information and feedback, three key informants who are involved in the small business lending community were interviewed. In order to understand the different perspectives on why Black small businesses receive less loan assistance than White small businesses, the participants provided their thoughts of how Black small businesses can obtain additional access to capital. The participants were asked: a) whether the current structure of the SBA was being used effectively for Black small businesses, b) why Black small businesses receive less loan assistance than White small businesses, c) what newer ideas might expand access to capital for Black small businesses and minority small businesses as a whole, and d) what type of programming(s) is needed for provided additional resources to minority small businesses. The three key informants included people with experience working with local minority small businesses:

- John Rainey, Central Regional Director of Massachusetts Small Business Development Center (MSBDC) Network at Clark University
- Roy Angel, Vice President and Commercial Loan Officer of the Central Region MassDevelopment

- Stuart Loosemore, Esq., Director of General Counsel and Director of Government Affairs and Public Policy at the Worcester Regional Chamber of Commerce

3.3 Recommendations

To support or disprove my hypotheses, this study includes policy recommendations to understand how the SBA can increase access to capital for Black small businesses and their minority counterparts. The policy recommendations addresses how advanced ideas and developing additional programs can help to increase access to capital for all minority small businesses

3.4 Limitations

The methodological limitations of this study are outlined below, which highlights the need for further research and additional work. As it relates to this project, there is a lack of perspective of why Black small businesses receive less SBA lending than White small businesses from Worcester Black small business owners. There is also a lack of what success looks like for Black small businesses and their minority counterparts because of physical and financial conditions in low-income and minority locations.

IV. Background Cases: Milwaukee and Detroit

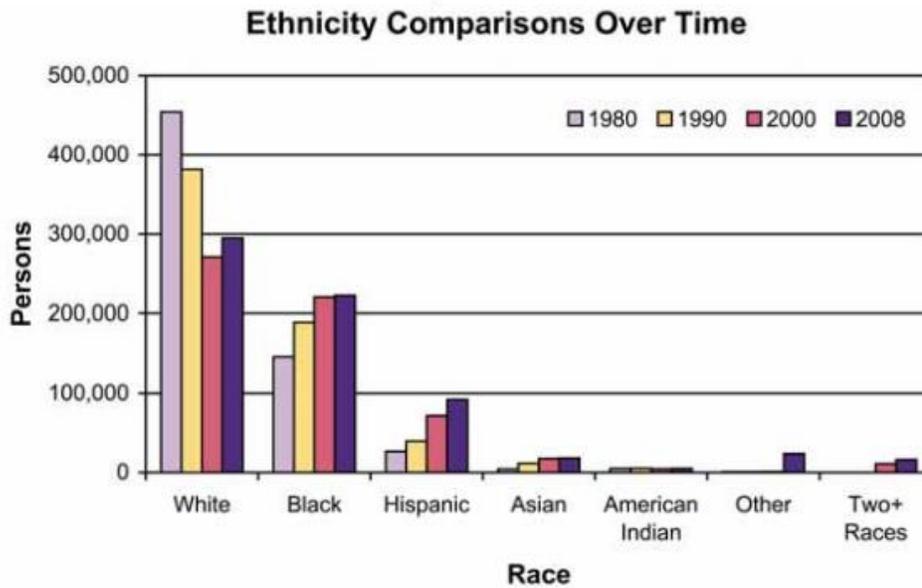
4.1 Milwaukee

Population by Race and Ethnicity

Like several cities, Milwaukee experienced significant decline in population during the 1950's and 1960's as a result of the migration of city residents to suburbs (Milwaukee's Comprehensive Plan, 2010). Although the city's population dropped to 596,974 in 2000, which is a 19% decline from its historic population of 741,324 in 1960, the city's current population is stabilized at 604,477 and Milwaukee is the 23rd largest city in the country

Milwaukee is considered to be the most racial-ethnic diverse city in Wisconsin, since it is a minority-majority city (Milwaukee's Comprehensive Plan, 2010). In the City of Milwaukee, the population of Blacks, Hispanics, and Asians has increased and majority of younger population are from racial-ethnic groups. (Milwaukee's Comprehensive Plan, 2010).

Figure 1.

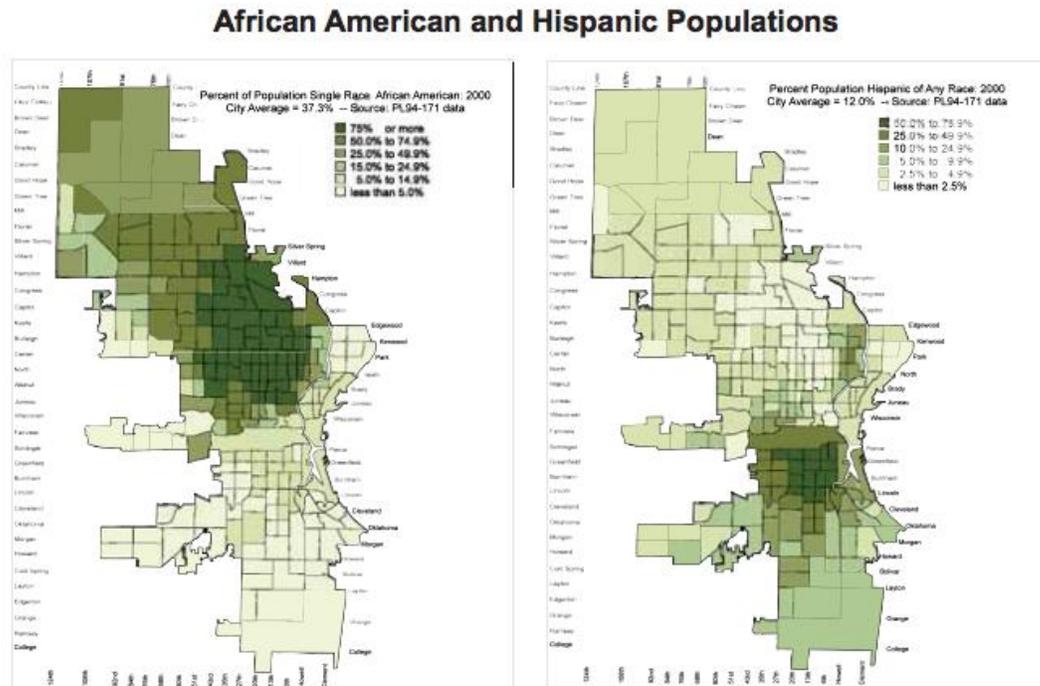


Source:

<http://city.milwaukee.gov/ImageLibrary/Groups/cityDCD/planning/plans/Citywide/plan/Data.pdf>

The racial and ethnic structure of Milwaukee continues to change, since the population of Whites has declined in the census years of 1980, 1990, and 2010 (Milwaukee's Comprehensive Plan, 2010). Because the populations of Blacks, Hispanics, Asians has increased, majority of the racial-ethnic groups are heavily condensed in certain locations throughout the city (Milwaukee's Comprehensive Plan, 2010). Blacks are primarily located near the north side and Hispanics live near the south side of the city (Milwaukee's Comprehensive Plan, 2010).

Figure 2.



Source:

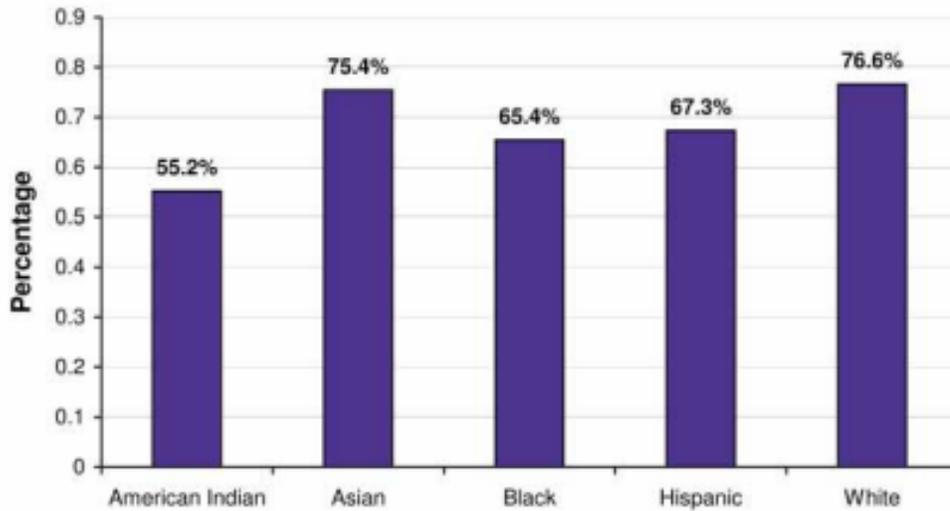
<http://city.milwaukee.gov/ImageLibrary/Groups/cityDCD/planning/plans/Citywide/plan/Data.pdf>

Education Attainment

In the City of Milwaukee, Whites are more likely than other racial-ethnic groups to graduate with a high school degree. Two-thirds of minority groups have graduated from high school, while four-fifths of Whites have received a high school degree (Milwaukee's Comprehensive Plan, 2010). Sadly, Blacks have the second lowest high school graduation rate compared to Hispanics and Asians (Milwaukee's Comprehensive Plan, 2010).

Figure 3.

High School Graduation Rate by Race and Ethnicity



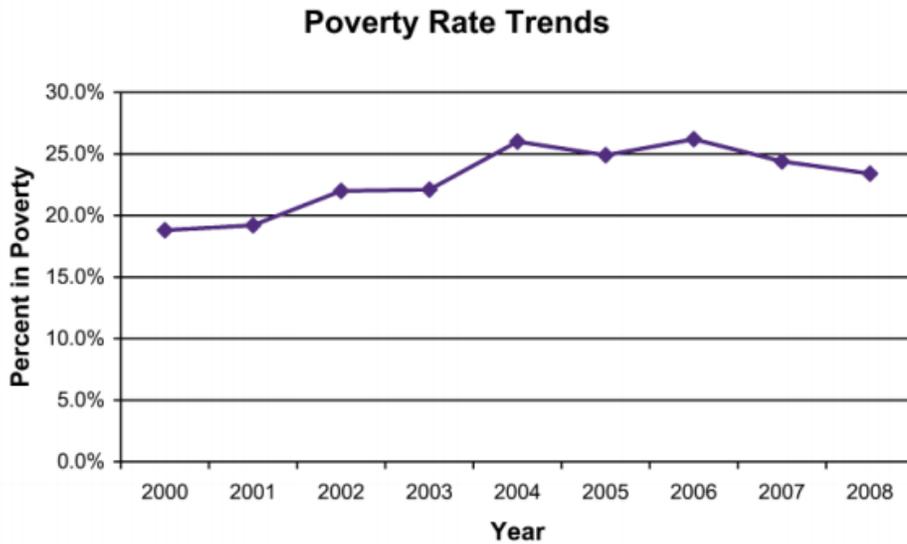
Source:

<http://city.milwaukee.gov/ImageLibrary/Groups/cityDCD/planning/plans/Citywide/plan/Data.pdf>

Poverty

The poverty rate in Milwaukee has continued to be the same, above 20%, since 2002 (Milwaukee's Comprehensive Plan, 2010). In 2006, the city's poverty rate increased to 26.2% and it continues to be an issue throughout low-income and minority neighborhoods (Milwaukee's Comprehensive Plan, 2010). Unfortunately, 47% of Milwaukee's households in low-income and minority neighborhoods earned less than \$35,000 per year (Milwaukee's Comprehensive Plan, 2010).

Figure 4.



Source:

<http://city.milwaukee.gov/ImageLibrary/Groups/cityDCD/planning/plans/Citywide/plan/Data.pdf>

Overview of the Milwaukee's Black Population

The Black population of Milwaukee has experienced significant inequalities, by living in one of the most socioeconomically depressed areas in the country. It is currently the country's most segregated metropolitan, has one of the largest Black unemployment rates, and the highest racial income disparity among the 50 largest metropolitan areas in the country (Levine, Williams, & Madison, 2013). Majority of Blacks have low paying jobs and are six times more likely to be rejected for financial assistance than their White counterparts because of low credit scores. Therefore, knowing the disparities among

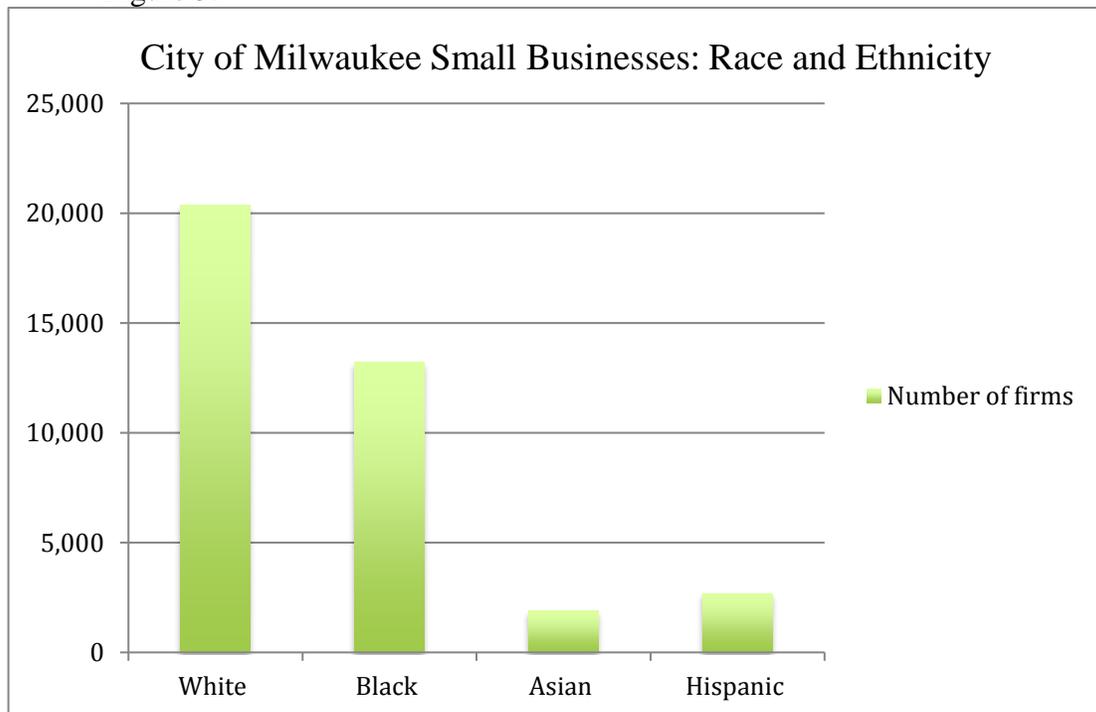
Milwaukee's Black population can testify to the challenges that Black small businesses in face to survive compared to their White counterparts.

Milwaukee: Challenges of Black Small Businesses

According to the 2012 U.S. Census, there are a total of 38,017 small businesses in the City of Milwaukee. Specifically, there are:

- 20,358 White small businesses
- 13,219 Black small businesses
- 1,891 Asian small businesses
- 2,685 Hispanic small businesses

Figure 5.



Source:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2012_00CSA01&prodType=table

Black small businesses in Milwaukee are struggling because of the lack of access to capital. They receive unyielding competition from white small businesses that are better financed and have difficulty obtaining access to venture and working capital that is required for business growth and success (Bonds, 2007). Since Black small businesses in Milwaukee face competition from key corporations, Bonds (2007) argue that majority of Black businesses in Milwaukee cannot compete against White small businesses that are located in low-income and minority neighborhoods. Bonds (2007) also claims that a lot of Black small business owners do not have suitable skills in financial management, business planning, and marketing to run a successful business, which has contribute to the ongoing failure of Black small businesses in the City of Milwaukee.

Although the number of Black small businesses have doubled between 1997-2007 from 3,872 to 8,054, Milwaukee continues to have one of the lowest business participation rate (BPR) for Black business owners in the country (Levine, Williams, & Madison, 2013). With improvements in closing the gap for BPR for Black small businesses in the City of Milwaukee, there still remains a massive racial disparity in BPRs in the area. In 2007, the BPR rate for White business owners was 86.7% and the black BPR was 32.5% (Levine, Williams, & Madison, 2013).

4.2. Detroit

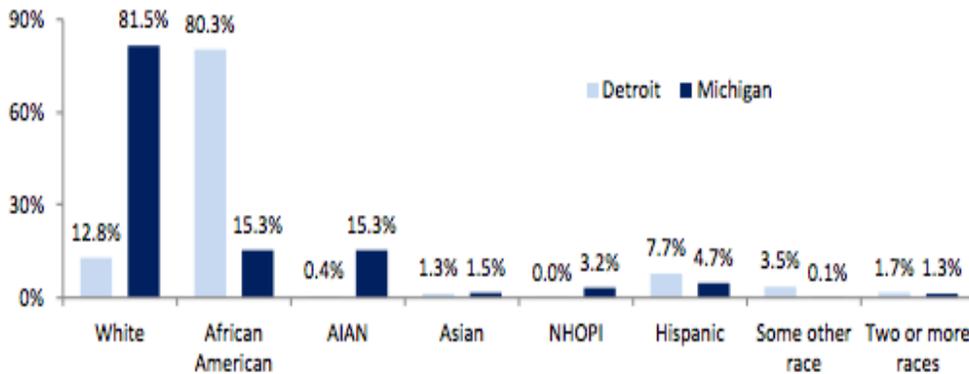
Population by Race and Ethnicity

The City of Detroit is the largest city that is located in Michigan and has a population of 688,700. Since 2010, the population has declined because the city lost about 22,600 residents to domestic out-migration (Murembya and Guthrie, 2015). The decline in the population was significant between 2000 and 2010, which deepened during the years of the Great Recession in 2008 and 2009 (Murembya and Guthrie, 2015).

According to the 2013 U.S. Census, Blacks are majority of Detroit's population (80.3%), while Whites are majority of the state population (81.5%). Whites are 12.8% of Detroit's population, while Blacks are 15.3% of the state's population (Murembya and Guthrie, 2015). There is also a higher percentage of Hispanics in Detroit than state of Michigan (4.7%) and a small proportion of a population with two or more races (Murembya and Guthrie, 2015).

Figure 6.

City of Detroit Population by Race and Ethnicity, 2013



Source: http://milmi.org/Portals/137/publications/Detroit_City_Demographic_and_Labor_Mkt_Profile.pdf

Education Attainment

In the City of Detroit, it is estimated that 17 % of Blacks and 34 % of Hispanics did not graduate with a high school degree, while only 9% of Whites did not graduate (Murembya and Guthrie, 2015). Six percent of Blacks and 15% of Hispanics have graduated with a Bachelor’s degree, while 30% of Whites have received a Bachelor’s degree (Murembya and Guthrie, 2015).

Figure 7.

**Detroit Region Educational Attainment
of People Over the Age of 25 (By Percentage)**

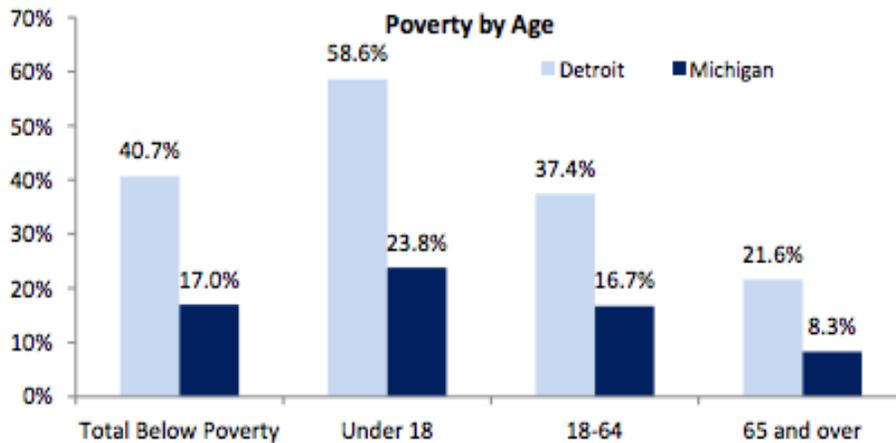
	All		White		Black		Hispanic		Asian	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
< High School	18	12	15	9	26	17	37	34	14	12
Only High School	29	28	30	29	30	30	25	24	10	10
Some College	24	24	24	24	26	29	19	21	9	11
Associate	7	8	7	8	6	8	5	6	5	5
Bachelors	15	17	16	18	8	10	9	9	30	33
Graduate	9	10	9	11	5	6	6	5	32	30

Source: <https://datadrivendetroit.org/files/NWRKS/Detroit%20Profile%20Final%20Nov2012.pdf>

Poverty

About 40.7 % of Detroit’s residents are experiencing poverty. In 2013, the city was near 24 points above the statewide poverty line (Murembya and Guthrie, 2015). Sadly, 58.6% of children and 22% of residents that are 65 and over are living poverty (Murembya and Guthrie, 2015).

Figure 8.



Source:

http://milmi.org/Portals/137/publications/Detroit_City_Demographic_and_Labor_Mkt_Profile.pdf

Overview of Detroit's Black Population

The city of Detroit is characterized by extreme socioeconomic inequalities within low-income and minority neighborhoods. Due to the lack of services, there is a significant proportion of Blacks that are living in economically disadvantaged neighborhoods in the City of Detroit (Darden, Rahbar, Jeizirski, Li, & Velie, 2009). Since Detroit is considered as one of the most segregated areas in the country, there remains a significant poverty rate among Black neighborhoods. With respect to this, the unemployment among Black workers reached to 25% in 2010 (Metropolitan Opportunity Unit Ford Foundation, 2012). Thus, knowing the discrepancies of Detroit's Black population can attest to the problems that Black small businesses face to succeed compared to their White counterparts.

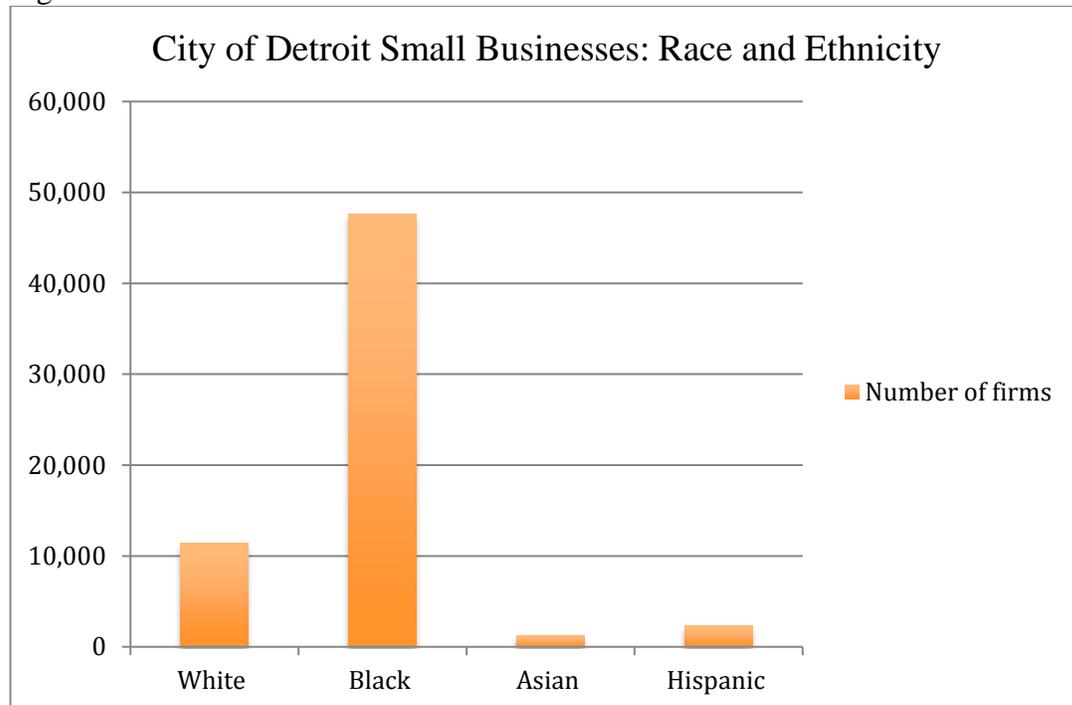
Detroit Challenges of Black Small Businesses

According to the 2012 U.S. Census, there are a total of 61, 868 small businesses.

Specifically, there are:

- 11,395 White small businesses
- 47, 640 Black small businesses
- 1,269 Asian small businesses
- 2,306 Hispanic small businesses

Figure 9.



Source:

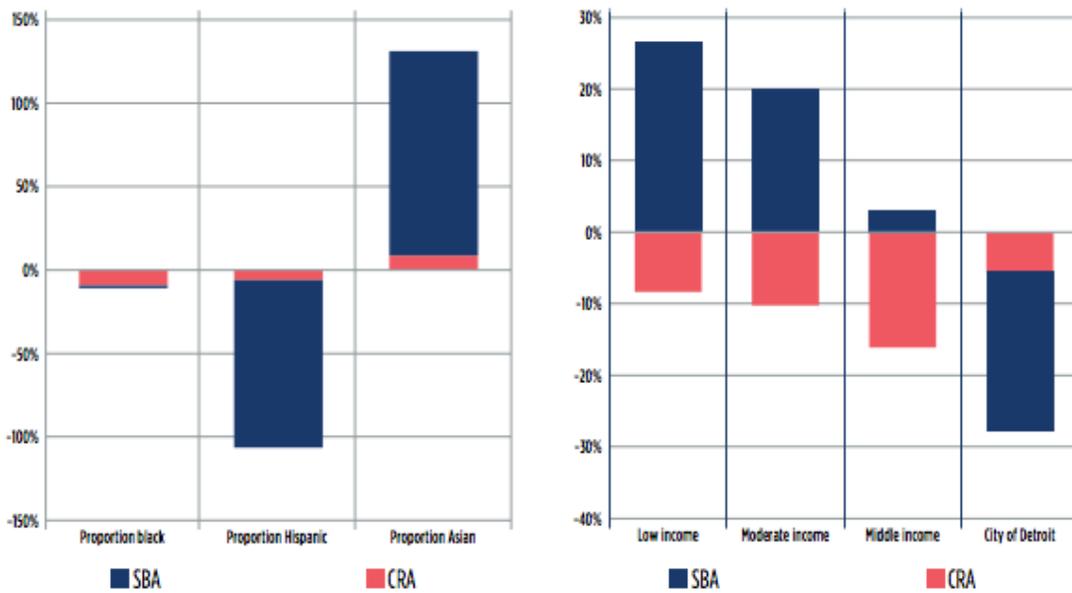
https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2012_00CSA01&prodType=table

Although the City of Detroit has one of the largest Black populations in Michigan and growth rate of Black-owned businesses, there continues to be a decline in small

business lending among low-income Black neighborhoods relative to other racial-ethnic neighborhoods. According to Comeau and Newberger (2014), Blacks in low-income neighborhoods usually have fewer businesses of any size in regards to revenue. Therefore, “neighborhoods that are both low-income and predominately Black are associated with decreased SBA lending and low-income neighborhoods that are non-black have higher SBA lending” (Comeau and Newberger, 2014). Even though Comeau and Newberger (2014) suggests that there have been efforts to expand SBA lending through geographically targeted programs throughout the city, in efforts of increasing capital to minority small businesses, there remains underlying issues that has an impact in increasing SBA lending to Black low-income neighborhoods.

Figure 10.

2012 Lending Associated with Racial-Ethnic Neighborhood and Income Characteristics



Source: <https://www.chicagofed.org/publications/profitwise-news-and-views/2014/pnv-spring2014>

4.3. Findings from Background Cases

Background cases from the cities of Milwaukee and Detroit highlights the need for key stakeholders, community organizations, and business associations to maximize access to capital for Black small businesses. Although there is a significant amount of Black small businesses in both cities, Blacks in low-income neighborhoods are more likely to be unemployed than their White counterparts. With respect to this, both cities must guarantee the needs of Black small businesses, and their minority counterparts as a whole, to ensure that their needs will be understood and addressed. However, creating such community

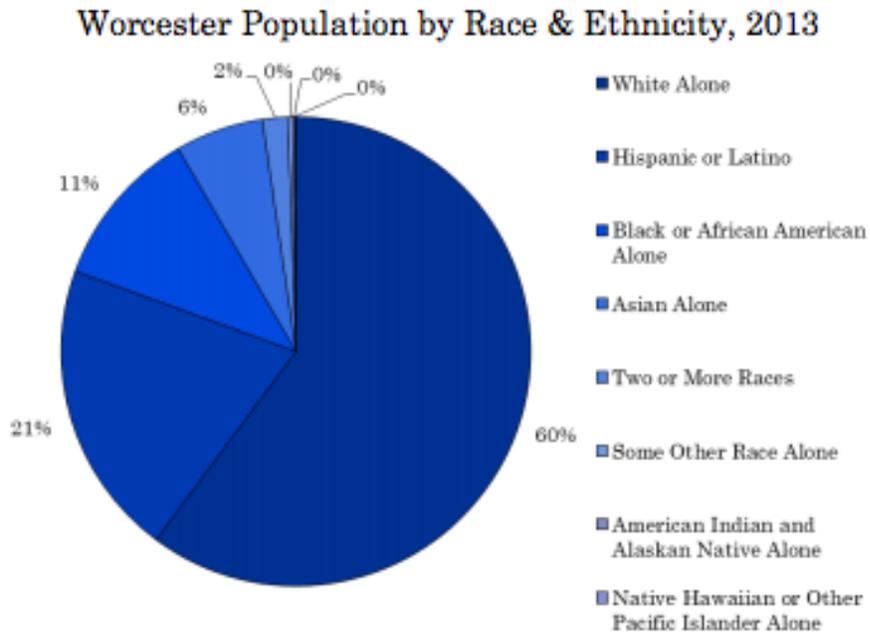
partnerships requires extensive effort from key stakeholders, community organizations, and business associations to support Black small businesses. Therefore, understanding Milwaukee's and Detroit's Black populations can align to the struggles that Black small businesses face compared to their White counterparts in the City of Worcester.

V. Applicability to Worcester

Population by Race and Ethnicity

According to the 2013 U.S. Census, the city of Worcester has a current population of 184, 815. It is the 131st largest city in the country, 2nd largest city in New England, and contains a heavily concentrated population of racial-ethnic low moderate-income residents (Worcester Regional Research Bureau, 2015). It is a diverse racial-ethnic and immigrant city, where in 2013, 13% spoke Spanish and 16% spoke another language (Worcester Regional Research Bureau, 2015). With respect to Worcester's population by race and ethnicity, Whites are the majority of the population. Hispanics or Latinos are the largest minority group in the city and makes up 21% of the population, while Blacks are the second largest minority group of the racial-ethnic population.

Figure 11.



Source: <http://www.wrrb.org/reports/economic-development/2015/02/worcester-almanac-2015/>

Education

Despite the variety of educational institutions, which provides higher education opportunities for Worcester residents, the levels of educational attainment connects with the poverty rate of the population. In 2013, 7,556 of the population did not graduate with a high school degree and 18,439 residents did not graduate from college (Worcester Regional Research Bureau, 2015).

Figure 12.

Educational Attainment in Worcester, 2013	
Population 25 Years and Over	115,608
Less than 9th Grade	9,215
9th to 12th Grade, No Diploma	7,556
High School Graduate, Includes Equivalency	36,427
Some College, No Degree	18,439
Associate's Degree	9,410
Bachelor's Degree	21,149
Graduate or Professional Degree	13,412

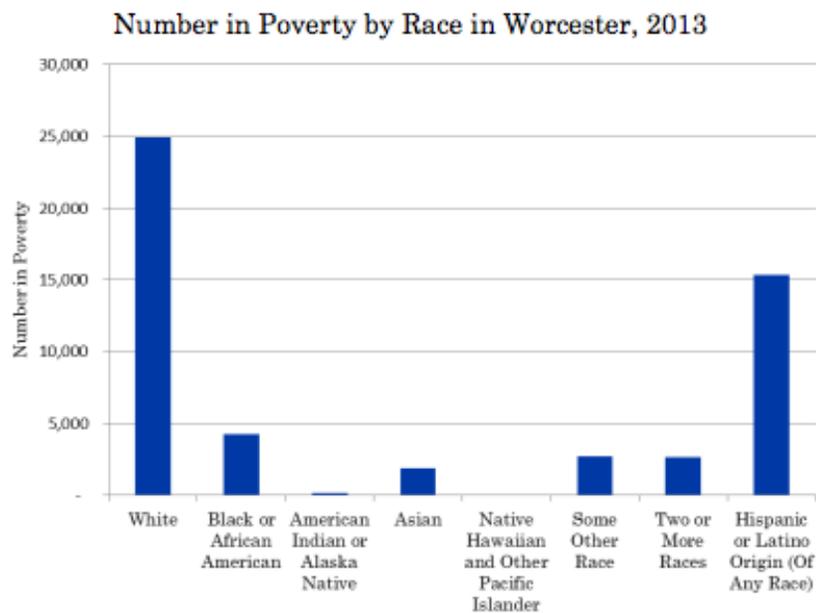
Source: <http://www.wrrb.org/reports/economic-development/2015/02/worcester-almanac-2015/>

Poverty

Since 2014, the unemployment rate in Worcester has been 5% making it only slightly above the state average. Although the City of Worcester was a booming industrial city in the late 19th and first half of the 20th century, the fall of industrial manufacturing left a permanent scar on the city's job market. The downtown area is characterized by high concentrations of poverty with limited access to economic opportunity. With respect to this, the poverty rate among Blacks and Hispanics is higher compared to the Whites. According to the 2013 U.S. Census, Hispanics has the highest rate of poverty among other racial-ethnic groups (42.1%) and Blacks have the second largest rate of poverty (19.6%).

Sadly, 15,307 of Hispanics experience poverty, while 4,263 of the Black population are living in poverty (U.S. Census, 2013).

Figure 13.



Source: <http://www.wrrb.org/reports/economic-development/2015/02/worcester-almanac-2015/>

Overview of Worcester Black Population

Since the City of Worcester does not have concentrated racial-ethnic neighborhoods, as opposed to the cities of Detroit and Milwaukee, there is not heavily condensed Blacks living in certain locations throughout the city. However, because of Worcester's poverty and unemployment rate, it shows that Blacks in low-income neighborhoods are faced with socioeconomic inequalities and are limited to economic

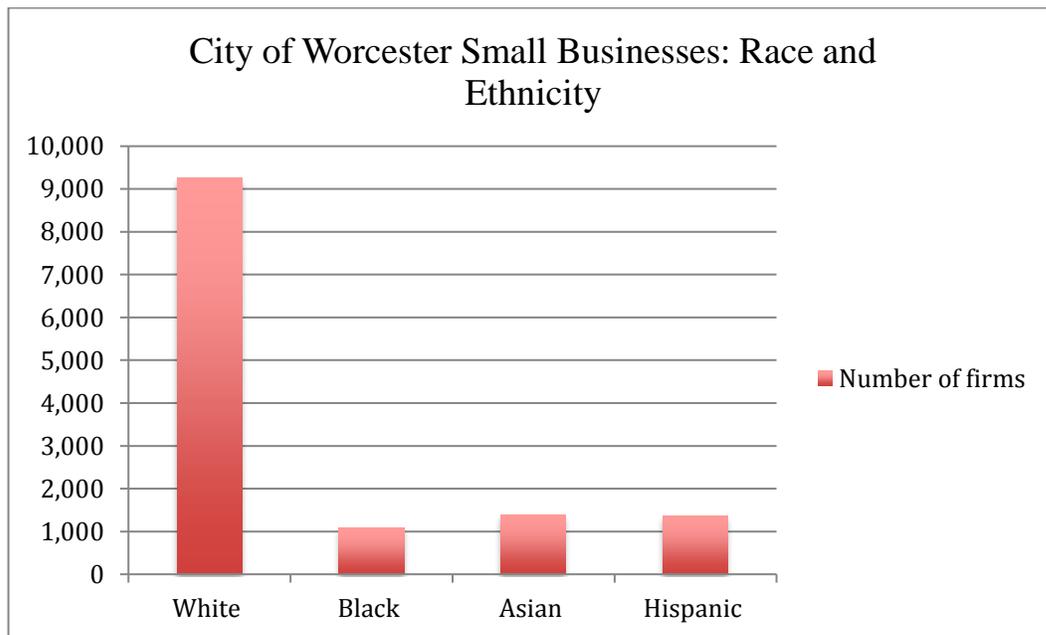
opportunities along with their minority counterparts. Therefore, knowing the socioeconomic inequalities in the City of Worcester reveals the difficulties that Black small business owners face to become successful compared to their White counterparts.

According to the 2012 U.S. Census, there are a total of 13, 085 small businesses.

Specifically, there are:

- 9,250 White small businesses
- 1,074 Black small businesses
- 1,391 Asian small businesses
- 1,361 Hispanic small businesses

Figure 14.



Source:

https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2012_00CSA01&prodType=table

By interviewing three key informants, from the Massachusetts Small Business Development Center (MSBDC) of the SBA housed at Clark University, Worcester Regional Chamber of Commerce, and MassDevelopment, I obtained in-depth information about factors that might explain why Black small businesses receive less loan assistance than White small businesses through the SBA.

The Massachusetts Small Business Development (MSBDC) of the SBA housed at Clark University

The Massachusetts Small Business Development (MSBDC) of the SBA housed at Clark University provides “one-to-one free comprehensive and confidential services focusing on, business growth and strategies, financing and loan assistance as well as strategic, and marketing and operational analysis” (Clark University, “A Business Advising Center of the Massachusetts Small Business Development Center Network”) for small businesses. The MSBDC also provides low cost educational training programs across the state for small businesses that are in need. This is achieved by providing business advisory services, government contracting, international trade assistance, etc. through a network of skilled professionals that are supported by a network of federal, state, educational, and private sector partners.

John Rainey is the MSBDC Central Regional Director at Clark University, where he provides free and confidential one-to-one management advice and technical assistance to prospective and existing small businesses. Mr. Rainey assist clients in developing their

business plans, marketing plans, financials, cash flows, and other areas critical to ensure a successful venture. He acts as a guide for financing to small businesses, while recommending or introducing small business owners to the appropriate federal, state, or local financing sources. In addition, Mr. Rainey works with local banks and the SBA, while assisting start-up, early stage, expanding, and troubled businesses in the area

From his perspective, Mr. Rainey claims that Black small businesses receive less loan assistance than their White counterparts in the City of Worcester because of the five c's of credit. The five c's of credit is a system used by banks and lenders to determine creditworthiness of potential borrowers, and evaluates five characteristics of the borrower and conditions of the loan through character, capacity, capital, collateral, and conditions. Compared to White small business, he argued that Black small businesses have a lower amount of collateral compared to White small businesses. In addition, he stated that Black small business owners lack the inability to meet loan payments from prospective lenders because of low personal wealth and credit scores. With respect to this, he believes that Blacks are working to survive and are more likely to not receive loan assistance because of their socioeconomic status. Therefore, due to his professional experience, he stated that Black small business owners have less experience than White small businesses, are not as affluent, and lack awareness of the type of small business lending programs that are available. He recommends that there should be more micro lending programs and educational-community awareness of how Black small businesses can become eligible to receive loan assistance through the SBA.

Worcester Regional Chamber of Commerce

The Worcester Regional Chamber of Commerce offers a variety of programs to help shape public policy and specific industry needs, businesses tap into higher resources for staffing and training, and educational programs that help businesses to develop their personal skills and to learn new practices that can save them time and money in the competitive small business market.

Stuart Loosemore, Esq is the General Counsel and Director of Government Affairs and Public Policy at the Worcester Regional Chamber of Commerce. In his role, Mr. Loosemore oversee legislative and regulatory policy agenda at the federal, state and municipal levels. He serves as the registered lobbyist for the Chamber before state agencies, legislative committees, administrative boards and municipal boards and committees, analyze legislative initiatives, laws, and policy changes, provides analysis of legislative matters that have an impact on members and businesses within the community, and distribute information to the local businesses. In addition, he provides internal briefings on legislative and policy changes affecting the Chamber's programs and staff, operates as liaison between the Chamber and Worcester's neighborhood business associations, develops, in coordination with the President and CEO, and the Public Policy Committee, the Chamber's public policy positions, implement strategies for effective advocacy, organizes industry specific roundtables, from within the Chamber's membership, sets legislative agendas, invites pertinent guest speakers, and create meeting agendas to maximize member participation and effectiveness. Lastly, he negotiates all

contractual matters involving the Chamber and ensures compliance with all contractual obligations for the duration of executed contracts, while preparing legal documents and filings for the Chamber and its 501(c)(3) foundation.

From his experience, Mr. Loosemore argues that Black small businesses in the City of Worcester receive less loan assistance than White small businesses because of their credit history. He stated that Black small business owners in the area have low credit scores, while some do not have credit at all. Because of this, Mr. Loosemore claims that low credit scores or the lack of credit prevents Black small businesses from obtaining loan assistance and to flourish in the small businesses market compared to their White counterparts. In addition, he believes that the characteristics and personal wealth of Black small businesses owners plays a role in the amount of loan assistance that is provided to them. With respect to this, Mr. Loosemore stated that there should be new regulations to help to expand access to capital for Black small businesses and minority small businesses as a whole. Specifically, he believes that new regulations should target at minority and immigrant small businesses. Therefore, Mr. Loosemore explained that the most effective way to connect capital to Black small businesses and their minority counterparts is through micro lending programs. Since there is a significant amount of minority small businesses owners that do not qualify for loan assistance through banks, Mr. Loosemore stated that the expansion of micro lending programs would increase the chances of minority small businesses to obtain capital.

Currently, the Worcester Chamber of Commerce advocates for 2,300 small businesses owners in the Worcester region. Since Mr. Loosemore continues to mobilize small businesses in the area to get involved with the Worcester Chamber of Commerce, he believes that there should be conversations between institutions that focus on small business lending with minority small businesses to increase awareness about the type of programs that is offered through the SBA. He claims that continuous educational programs will increase awareness, since Black small businesses are busy with everyday life hurdles. With respect to this, he believes that minority small businesses should be aware of such institutions that focus on small businesses lending, such as the MSBDC, to help them with their business plans and to let them know about type of resources that are available.

MassDevelopment

With a focus on financing and development impacts of Massachusetts economy in cities and towns across the Commonwealth, MassDevelopment provides low-cost and innovative financing options to various organizations (e.g. manufactures, health care institutions, arts and cultural facilities, human service providers, etc.), sustainability redevelopment surplus properties, real estate developers, and municipalities, while strengthening Commonwealth's Gateway Cities and stimulating Massachusetts manufacturing and defense sectors. With the mission to help grow communities throughout the Commonwealth by supporting projects and activities related to economic development, MassDevelopment provides a variety of different programs and services to improve access

to capital or to lower the cost of capital to businesses and organizations throughout the state.

As Vice President and the Commercial Loan Officer of the Center Region at MassDevelopment, Roy Angel provides private companies, small businesses, real estate developers, non-profit organizations, and institutions with direct financing for various projects. Specifically, Mr. Angel provides debt financing to help remove blight, improve neighborhoods, create jobs, and to expand the tax base that will provide opportunities to the citizens of the Commonwealth. Since MassDevelopment acts like a commercial bank, in which the organization put their balance sheet assets at risk toward various projects and initiatives that are undertaken by customers, Mr. Angel evaluates processes, recommend approvals, close new loans, and maintains and manage portfolio of loans that guarantees a totaling of about \$50 million.

From his experience, Mr. Angel argues that the lack of access to capital is one of the major obstacles that Black small businesses and other minority small business face as a whole to start, manage, and grow their businesses. Since the majority of small businesses typically seek financing assistance through conventional financial institutions, Mr. Angel stated that Black small businesses have a hard time doing so because they lack experience. Like their minority counterparts, he claimed that Black small businesses in the area lack decent financial record keeping, depth of management, and are sometimes intimidated by small business lending institutions because of their personal wealth and credit history. With respect to the lack of personal wealth and credit history, he firmly believes that Black

small businesses receive less loan assistance than their White counterparts because of the lack of awareness about the type of programs that are available. He believes that many Black small businesses and their minority counterparts do not know where to go, where to start, and what types of small business lending institutions are in the area. Because of this, Mr. Angel stated that Black small businesses are more likely to use their own personal capital or turn to friends and family as their primary way to meet direct financing needs.

In regards to the SBA, Mr. Angel claims that the SBA has made strides and efforts to make it easier for Black small businesses and their minority counterparts to obtain access to capital through the various programs and resources in the community. Although Mr. Angel is not an expert on the various SBA programs or how the SBA operates, since MassDevelopment rarely participate in their programs or services to small businesses throughout the state, he believes that the SBA has streamlined the approval process over the last 15-20 years for certain banks to process loan requests under their 7(a) guaranty program that are under \$100,000 or \$150,000. He stated that banks are essentially on their own to approve and process small business loans for Black small business, which is subject only to some form of reporting, post-audit by the SBA, or regulators once the loans are on their books. Furthermore, he specified that banks might cite the Community Reinvestment Act (CRA) to make capital available for Black small businesses and minority businesses in the Worcester community. Although Mr. Angel believes that the current structures of the SBA are being used effectively for Black small businesses, he stated that there should be additional programs available to the neighborhoods that Black small businesses are located

in. Since the City of Worcester, along with Springfield, Holyoke, Fall River, New Bedford, Lowell, and Lawrence, is one of the urban centers of Massachusetts, he argued that Black small businesses in the community with loan request would have a higher level of priority in obtaining financial assistance.

While Mr. Angel believes that MassDevelopment has done a pretty good job at trying to encourage and facilitate programs and resources to Black small businesses and their minority counterparts in Worcester and throughout the state of Massachusetts, he believes that there is still room for improvement. Since most of MassDevelopment loans start at about \$100,000, for various reasons that are not meant to be exclusive to small businesses, he stated that MassDevelopment is not reaching out the population of small businesses and organizations that have capital needs of less than \$100,000. With respect to Black small businesses in the Worcester community, he argues that there are numerous resources or alternative financing sources (regionally, locally and nationally) that have arisen over the last 25 years in order to make it easier to obtain access to capital. One of the several resources or alternative financing sources is micro loans. Because of this, Mr. Angel claimed that micro loan funds must be able to raise capital (at a reasonable cost) and be able to lend it out at a profit in order to create sustainability and long-term maximization of resources to Black small businesses and their minority counterparts.

5.1. Findings from Worcester Black small businesses

Although there are current resources and small businesses lending institutions, such as the Massachusetts Small Business Development Center (MSBDC), Worcester Regional Chamber of Commerce, and MassDevelopment, there remains a lack of awareness about the type of lending and educational programs that are available to Black small businesses and their minority counterparts in the City of Worcester. Even though it is suggested that micro lending programs are most effective for Black small businesses to access capital, as a result of their lack of collateral, character, personal wealth and low credit scores, it increases their chances to be at risk if they are unable to make loan payments in a timely fashion. Therefore, since the SBA is aware of the distribution of lending between Blacks and Whites, it is highly suggested that the U.S. Small Business Administration (SBA) implement policy recommendations to increase access to capital for Black small businesses and their minority counterparts.

VI. Discussion

6.1. Policy Recommendations

This section will present policy recommendations for the U.S. Small Business Administration (SBA) with respect to improving business support for Black small businesses and their minority counterparts. These policy recommendations are informed by interviewing three key informants, from the MSBDC of the SBA housed at Clark University, Worcester Regional Chamber of Commerce, and MassDevelopment, and is intended as a guide to meet SBA's objective of helping minority-owned firms develop and grow. To this end, the recommendations set out below represents themes that the SBA should form the basis of policy towards minority small businesses.

A need for clear objectives and coherent programmes for minority small businesses

If business support for minority small businesses is to be more effective, then there needs to be more clarity of objectives, so that applicable programming can be developed to achieve SBA's objective for minority small businesses. In this regard, the SBA may need to focus on increasing the penetration of minority business owners that have been excluded or poorly provided for. This may involve the SBA working closely with federal government departments, local authorities, voluntary bodies, etc., since minority owned firms are constrained by the structural conditions of the markets, location, and declined access to capital.

Support for minority small businesses into the mainstream

A key element for addressing support for minority small businesses is the necessity to draw minority owned firms into the mainstream business support system. Since it is evident that minority owned firms are often critical of attempts by publicly funded support institutions/organizations to address their particular needs, the key challenge for policymakers is to redefine the mainstream market for business support around diversity and recognizing that minority small businesses are a significant part of the mainstream. By doing so, the SBA will increase its sources and business support for minority small businesses.

Engagement Strategy

If the SBA is to be successful in supporting minority small businesses, there needs to be a significant effort to engage with the communities that minority owned firms are located in. A successful engagement strategy will require actions that include: a) representation for minority small businesses from all racial-ethnic groups, b) an outreach strategy to engage minority small businesses with more formalized promotional approaches, such as advertising through social media that are most widely used by low-income and minority communities, c) mechanisms for minority small businesses and key stakeholders to influence SBA policy in order to establish ongoing dialogues, d) transparent monitoring and annual reporting of performance of individual SBA franchisees

with respect to targets of minority owned firms targets, and e) recruitment campaigns and practices that encourage more business advising for minority owned firms.

Access to Finance

Although the question of whether or not minority small business face discrimination in obtaining loan assistance has still to be fully answered, minority owned firms continue to have personal financial barriers. Thus, the SBA should emphasis on the benefit of community finance as a tool for business engagement in the locations of minority owned firms. The SBA should also partnerships with banks in low-income neighborhoods, to develop an imitative to target the promotion of alternative finance options for minority small businesses.

Client-focused business support for minority small businesses

There is a clear need for the SBA to build stronger connections with different low-income and minority communities, in order to make better use of resources that exist within them. This includes existing minority entrepreneurs and business organizations that can offer mentoring and informal network support to potential minority owned firms with skills that could be used to support business development. Where such networks already exist, there would seem to be possible benefits in the SBA seeking to build and strengthen what is there and, where it is does not exist, to take on a facilitating role for minority small businesses.

6.2. Conclusion

This paper attempted to analyze why Black small business receive less loan assistance than White small businesses in the City of Worcester. By including two background cases and three key informant interviews, this paper shows that racial inequality in wealth connects to why Black small business receive less loan assistance than their White counterparts. Black small businesses ultimately receive less loan assistance than White small businesses because of the lack of personal wealth, which relates to low credit scores, lack of collateral, and unawareness about the type of financial and educational programs that are currently available. Even though Black small businesses pose as a challenge for small business lending institutions, since it can be difficult to determine their ability to repay loans, it is imperative to increase the proportion of loan assistance to the Black population. Removing barriers to capital access faced by Black small businesses and their minority counterparts is potentially important for the expansion of job creation in low-income and minority communities. Thus, it is vital for the SBA to engage with communities that minority small businesses are located, to make stronger connections with various low-income and minority communities, and to create initiatives to provide alternative financial programs for minority small businesses. Since the City of Worcester is committed in supporting its diverse and dynamic small businesses, this paper have demonstrated the ability for Black small businesses and their minority counterparts thrive in Worcester's economy, increase diversity and inclusion, and enhance neighborhood vibrancy throughout the city.

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