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## **The Lifeblood of the American Economy: Addressing Equitable Opportunities for Latino/Hispanic Small Businesses**

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### **Executive Summary**

This brief highlights the disparities faced among small Latino-owned businesses in the United States and the need to address education for working capital, technical support and contract securement. The Federal Deposit Insurance Corporation's 2021 Survey revealed that 9.3% Hispanic or Latino households are unbanked, while 24.1% of Hispanic or Latino households are underbanked, meaning they hold alternative forms of payments remittance transfer providers and check cashers in addition to their bank accounts.[1] Elected officials, academic research, lending institutions and private stakeholders play an essential role in building equitable opportunities to bolster Latino-owned businesses. It is critical to understand the historical disparities Latino businesses encounter in order to scale and develop themselves as seasoned entrepreneurs. It is important to analyze the necessities of these entities in order to maintain a level playing field for America's economic engines.

*"Investing in communities that have been traditionally left behind is a fundamental matter of better [return on investment] for this country... and a matter of our democracy."*[2]

### **Investing in a community that has been left behind:**

A McKinsey report found "Latinos face barriers similar to those overcome by waves of immigrants before them." [3] Factors such as income, wealth and inter-generational mobility are improving throughout generations but economic gaps still persist. Latinos are historically at a disadvantage when it pertains to building wealth. Latino Americans make 73 cents for every dollar earned by White Americans.[4] They continue to encounter discrimination when trying to secure financing, scale their business, and ensure food security.[5] Moreover, generational wealth within Latino households is one-fifth of that of White counterparts.[6] Latinos also face language and economic barriers within financial services due to high rates and fees.[7] They are more likely to be unbanked compared to their White counterparts because of bank account fees, not being able to meet balance requirements and distrusting banks.[8]

### **Lending for Competitive Growth**

In 2023, policy makers introduced a bicameral bill that would stop predatory lending for small business financing. This bill would give oversight to the Consumer Financial Protection Bureau and also require small business lenders

to provide additional information to borrowers when pertaining to annual percentage rates, financing charges for loans, loan terms, payment amounts and collateral requirements.[9] Last year alone, Small Business Administrator Isabel Guzman announced that the Biden Administration doubled the amount of loans given to Latino-owned small businesses, reaching \$3 billion dollars for fiscal year 2023.[10]

*"Small businesses are the lifeblood of the American economy. But for too long, predatory lenders have taken advantage of businesses in need of capital by offering loans and similar products with unclear terms and exorbitant interest rates."*

-Representative Nydia Velázquez, Ranking Member of Business[11] Speech on protecting small businesses from predatory lending

### **Securing Equitable Opportunities through Capital and Contracts:**

As one of the fastest growing demographic, Hispanic-owned businesses have grown 34% in the last 10 years.[12] According to the U.S. Department of Treasury, nearly 25% of new entrepreneurs in 2021 were Latinos, and they saw a 25% increase in revenues over the COVID-19 pandemic and recovery . [13] The Department of Treasury

leads billion-dollar program implementations for underserved and underinvested communities through the State Small Business Credit Initiative, the Emergency Capital Investment Program (ECIP) and the Local Fiscal Recovery Fund.[14]

*“They didn’t have the right paperwork. They didn’t know how to fill out the forms.... We can help our communities all we want but if we don’t teach them the system, if we do not teach how to understand the tax laws and the system, they can’t get to where they need to go.”[15]*

Nely Galan, *Self-Made* Author, U.S. Department of Treasury, Freedman’s Bank Bureau on helping business owners during the Covid-19 pandemic attain [Payment Protection Program] loans

The State of Latino Entrepreneurship Report from the Stanford Graduate School of Business indicated that Latino-owned employer businesses outperformed White-owned businesses in revenue through annual payroll, and Latino-owned businesses grew by 34%, while White-owned businesses decreased by 7% in terms of revenue.<sup>16</sup> Existing resources continue to remain in place for Latino-owned businesses seeking financial assistance. The 2022 Report indicated three in ten Latino-owned businesses requested financing for business credit cards (11%), personal or family savings (10%), business loans from national banks (9%), personal credit cards (8%), and business loans/investment from family and friends (5%). The primary reasons for seeking capital were to expand business (16%) and to meet operating expenses (12%) (see figure below).[17] The report was conducted with over 5,000 Latino-owned businesses generating over \$10,000 and categorized

as an “employer business” with the firm having one employee in addition to the business owner.[18]

On average, Latino-owned businesses receive federal government contracts that are 31 times smaller than White-owned businesses.[19] Moreover, Latino-owned businesses tend to obtain state-level contracts that are 35 times smaller on average than the contracts that White-owned businesses receive.[20] Most White-owned businesses report that securing a corporate contract took them less than six months while Latino-owned businesses took over a year to secure the same type of contracts.[21] Accessto working capital proves to be essential for growth among Latino-owned businesses. For example, Vital Foods, a poultry business in Georgia, started with three employees and now has 1,200 employees since its establishment in 2015.

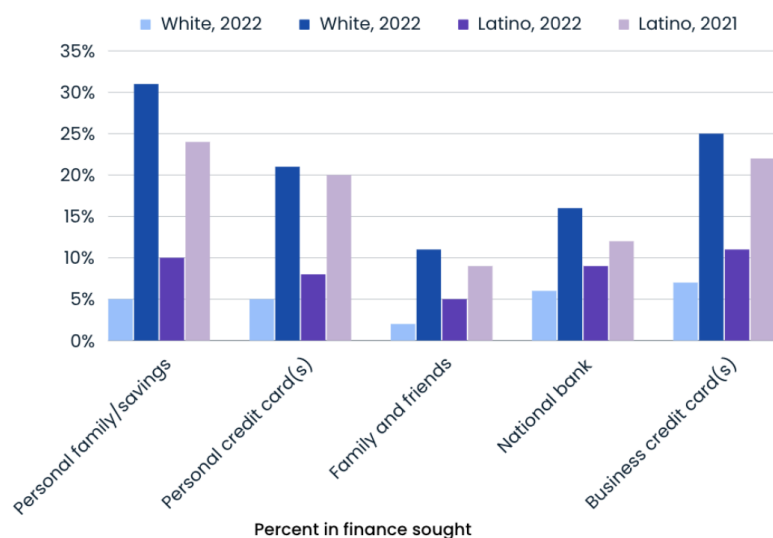
*“Five days after submitting my working capital application, I received the money. The funding enables us to begin operations in*

*our new plant in South Carolina, and to process enough meat up to our standards to meet the two million pounds per week goal.”[22]*  
- Vital Foods, CEO Carlos Lomas

*At a Glance: Marking their Entrepreneurial Footprint*

Despite existing resources and exponential growth, Latino-owned businesses still face financial need. The Federal Reserve Bank reported that Hispanic-owned firms were most likely to apply to a large bank at a rate of 57% compared to 41% of White-owned firms.[23] Hispanic-owned firms were fully approved for loans, lines of credit, and merchant cash advances at a rate of 32% compared to White-owned firms who were approved at a rate of 55%.[24] A separate report by the U.S. Department of Commerce documented the performance of Hispanic-owned businesses for fiscal year 2022. For Hispanic Americans business owners, \$526,409,018 worth of contracts were reported, with construction being the leading industry sector.[25] In 2023, 10,000 Latino companies participated in a biz2credit Latino Small Business

**CHANGE IN TOP FORMS OF FINANCING SOUGHT, 2022 V 2021**



Source: Slei Survey of U.S. Business Owners, 2021 and 2022

Credit Study. Florida was found as a state with a higher concentration of Latino-firms applying for financing at 25.73% followed by California at 18.39%.[26] On a global scale, Latino businesses leave their economic footprint when it comes to international trade. 40% of all trade between the United States and Mexico enters through Laredo, Texas where small-medium businesses are involved in transportation and warehousing. [27]

### **Necessitating an Expansion on Hispanic-Serving Institution Platforms for the Next Generation of Latino-Business Leaders**

The U.S. Department of Commerce's Minority Business Development Agency serves as a lead federal agency to assist minority business enterprises in overcoming social and economic disadvantages dating from the Nixon administration in 1969.[28] The Minority Business Development Act of 2021 was created to focus on programs that continue to build partnerships with academic institutions from minority serving institutions. During fiscal year 2022, a \$1.8 million grant was given to Hispanic Serving Institutions among other minority serving institutions. [29] The expansion for entrepreneurial education sets a pipeline for students in apprenticeship programs, and support for business and management education.[30] Despite these significant efforts, there needs to be tangible findings reported among Hispanic Serving Institutions.

*"...Serving vulnerable communities across the country has allowed me to witness first-hand the inequities that keep minorities from their full potential. In my service to the MBDA and this Administration, I will aim to be a change agent for minority businesses and help evolve their generational wealth."*[31]

-Deputy under Secretary of Commerce for Minority Business Development, Jessica Cavazos

### **Setting an Economic Trajectory Despite Disproportionate Wavelengths**

*"America's more than five million Latino-owned small businesses create jobs, deliver over \$800 billion to our economy every year, and add to our nation's global competitiveness—and they could do even more if we invested in them equitably."*[32]

Small Business Administrator, Isabella Casillas Guzman referenced Latino-owned businesses, Annual National Association for Latino Community Asset Builders (NALCAB) Conference

The Latino community faces disparities because of the lack of expansion in their social capital. Despite the ongoing challenges, historically-speaking, Latino communities continue to present themselves as the highest growing demographic and leading the business sector at faster rates than White counterparts through performance in payroll and job creations. Latino-owned businesses outpaced White-owned Businesses in revenue growth during the same period and their annual payroll grew twice as fast. During the pandemic (2019-2022), the median growth rate in revenue for Latino-owned businesses was 25% compared to 9% for White-owned businesses, and the median three-year compound annual growth rate for Latino-owned businesses was 7% compared to 3% for White-owned businesses.[33] Moreover, their biggest breakthrough goes into raising capital, inventory and effectively marketing to new and returning customers.[34] In a report conducted for Hello Alice alongside the U.S. Hispanic Chamber of Commerce, Hispanic owners reported their biggest

challenges were finding a loan, growing their business, and building awareness for their business.[35]

### **Designing A Future of Transformative Capital Readiness**

The Small Business Administration created the Community Navigator Pilot Program under the American Rescue Plan to reduce barriers to underrepresented and underserved entrepreneurs through financial assistance, access to capital, contracts and procurement.[36] This program gives grantees an opportunity to serve as a lead organization and "deploy trusted messengers to work with businesses in targeted communities." [37]

The El Paso Hispanic Chamber of Commerce was a grantee of the Pilot Program focused on supporting over 2,000 businesses and submitting more than \$78 million in financing requests including outreaching technology to digital deserts through an AT&T partnership.[38]

El Paso Hispanic Chamber of Commerce provides:

- Financial packaging assistance
- Technical assistance to contractors for small business certification
- Marketing and outreach
- Virtual training + business referrals
- Mobile business consulting

A survey conducted by the U.S. Office of Economic Development found only 11% of 1500 respondents indicated they had a relationship with their bank and 84% of El Paso small businesses needed financial service resources translated.[39] A city like El Paso relies on Community Development Financial Institutions as a resource to fund Latino-owned businesses.[40]

Community Development Financial Institution Funds are community-focused and provide financial products and services for low-income, minority communities.[41] These banks and credit unions are not like your traditional bank; they accommodate communities that are unable to access banking services.[42]

Data Shapes Stories and Policy  
 Latino entrepreneurs account for 82% of new startups in the United States today.[43] A Hispanic Small Business Economy report noted that among Latino businesses, 11% of small businesses are housed in the food & beverage industry, 94% have 10 or fewer employees, and 78% reported annual revenue of less than \$100,000.[44] Among respondents of a survey, 30% said raising capital was a concern, 24% cited growing a business, and 89% respondents indicated inflation impacts their business. 96% of businesses reported having a desire for new technologies to improve processes.[45]

*“We were trying to teach [business owners] how to fish, but many couldn’t afford the fishing pole.”[47]*

-Norma Zúñiga Cardoza, Vice President of the Georgia Hispanic Business Center at the Chamber

In this context, it is important to prioritize the needs of Latino-owned businesses on local, state and national levels to ensure education pipelines are created, working capital is ensured, and lending protections are established through decision makers and Latino business resource specialists. Incomplete data remains a challenge. Conducting thorough examinations of current disparities is essential to formulate impactful policy recommendations.

### Endnotes

“No matter how we define “small businesses,” there’s no question they drive economic growth and are created the way most businesses are: as small start-ups”[47]

- Latino and Hispanic are used interchangeably to describe the narrative of individuals from Latin American descent and/or Spanish speaking countries
- Small businesses are categorized by varying factors of annual revenue, the number of employees, and a spectrum of NAICS codes by industry type [48]
- To compete for government contracts, it is important to note, the Small Business Administration operates on a requirements through registrations, firm size and compliance [49]

SCORE, a network mentorship program for small businesses published a funding guide for Hispanic and Latino business owners:[50]

- Access to Capital for Hispanic-Latino Entrepreneurs
- Accion Opportunity Fund
- Camino Financial
- Community Development Fund Institutions (CDFI Funds)
- Grants.gov
- Hello.Alice
- Minority Business Development Agency
- Hispanic American Banks and Credit Unions
- U.S. Small Business Administration
- U.S. Hispanic Chamber of Commerce
- Verizon Small Business Digital Ready Program

### Additional resources include for loans and grants:[51]

- Business Consortium Fund
- Digitalundivided
- Latino Economic Development Center
- National Association for the Self-Employed
- USDA Rural Business Development Grants

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