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COVID-19 AND ENTREPRENEURIAL FIRMS

Seeding an Inclusive and Equitable Recovery

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SMARTINCENTIVES

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I. EXECUTIVE SUMMARY

In the spring of 2020, as the COVID-19 pandemic began to unfold and it became clear that the emerging public health threat was also a threat to businesses and the economy, policymakers responded by providing emergency funding aimed at keeping businesses and the economy afloat. In this report, we examine these federal, state, and local recovery funds and the extent to which various programs address the inequities experienced by small and new firms – particularly businesses owned by Black, Indigenous, or People of Color (BIPOC), businesses owned by women, and businesses owned by individuals in historically under-resourced communities. We highlight some of the more inclusive and equitable programs and processes that have been developing in some states and local governments as part of this recovery. Although data on impact and reach is still limited, we discuss the information available about outcomes of these relief and recovery programs and provide insights about how to support entrepreneurs.

Key Insights

Following a review of existing federal, state, and local programs aimed at assisting small and new businesses struggling in the midst of COVID-19, we offer three key insights. These insights may help inform more equitable design of future relief and recovery policies and programs for small and new businesses. These insights include:

- **Programmatic equity and inclusion goals can complement economic growth objectives. Including entrepreneurs and small business owners from diverse backgrounds in the development of such programs can improve their design.** Previous research has shown that closing gaps in economic outcomes would add significantly to GDP.[1] It is likely that equity and inclusion efforts in entrepreneurship policy and programs, specifically, could also have significant economic impact. When people of the broader community are active participants in the development process, they can help more effectively identify the types of services that are most needed among different types of entrepreneurs.
- **Program designers need more guidance from federal and state government on the development of reporting metrics.** While there are numerous resources that provide examples to small business, entrepreneurial support organizations, and program leaders of what metrics to track, how to collect data, and how to report on it, there are no specific requirements for which metrics should be tracked or how and when they should be tracked and reported on, leaving program designers to determine their own strategies.
- **The tracking of equity and inclusion metrics should be paired with purposeful program design and feedback loops.** Programs should consider the unique needs of the communities they are serving and provide wrap-around supports that can help businesses make the best use of the funds they receive. Tracking not only participation metrics, but also business outcomes, can help program leaders better understand the impact the program is having and illuminate ways in which the program can better provide assistance to small businesses to maximize survival and overall resilience.

[1] Shelby R Buckman et al., "The Economic Gains from Equity," Working Paper (San Francisco: Federal Reserve Bank of San Francisco, April 2021).

II. ENTREPRENEURIAL FIRMS AND SMALL BUSINESSES DURING COVID-19

When COVID-19 began to take hold in the U.S. in the spring of 2020, the economic effects were staggering. Early estimates found that the number of active business owners in the U.S fell by 22% between February and April 2020. Businesses owned by women and people of color were particularly hard hit. This drop was 41% among Black-owned businesses.[2] Employment also fell by 21% during these early months and employment losses were disproportionately felt among lower wage workers.[3] The unemployment rate more than tripled between the fourth quarter of 2019 and the second quarter of 2020, rising from 3.6% to 13%. Unemployment in Q2 of 2020 was higher among women compared to men (14.1% vs. 12.1%) and highest among Hispanic/Latino workers (17%) and Black/African American workers (16.3%), compared to 14.4% among Asian workers and 12.2% among white workers.[4] **Given the magnitude of the effects of COVID-19 on businesses and the broader economy, federal, state, and local officials began to mobilize to bring relief and support to businesses and the workforce.**

Federal relief and recovery funds

Between March 2020 and March 2021, the federal government passed four pieces of legislation that included small business relief provisions to be distributed via federal, state, and local programs. A little less than $1.3 trillion for financial assistance to small businesses was authorized across the four federal economic stimulus bills that funded 12 programs (Figure 1).[5] The definition of "small business" varied significantly in these congressional actions and programs, from businesses with 500 or fewer employees to those with fewer than 20 or even 10 as the programs finetuned their targets. These definitions changed based on the size of the loan and/or the round of funding. Notably, age of the firm was not a criterion. Despite this definition, some startups were able to access funds due to many programs tying assistance to economic distress and revenues. Pre-revenue startups, however, were unlikely to receive these capital infusions.

In addition to the federal small business assistance programs in Figure 1, the Coronavirus Aid, Relief, and Economic Security (CARES) Act[6] established the $150 billion CARES' Coronavirus Relief Fund (CRF)[7] for states, the District of Columbia, U.S. territories, and municipalities over 500,000 in population making only 171 municipalities eligible.[8] With close to 36,000 local governments in the U.S.,[9] this means that the majority of local city and county governments only received funding via their state or territory.

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[2] Robert W Fairlie, "The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey," Working Paper (NBER, June 2020).
[3] Tomaz Cajner et al, "The U.S. Labor Market During the Beginning of the Pandemic Recession," Working Paper (NBER, May 2020).
[4] BLS, "Unemployment rises in 2020, as the country battles the COVID-19 pandemic" (Monthly Labor Review, June 2021).
[5] California Legislative Analyst's office, "Federal Assistance for Businesses Affected by COVID-19," Budget and Policy Post, March 26, 2021, https://lao.ca.gov/Publications/Report/4215
[6] Congress.gov, "H.R.748 - CARES Act," 116th Congress (2019-2020) https://www.congress.gov/bill/116th-congress/house-bill/748/
[7] National Conference of State Legislatures, "State Actions on Coronavirus Relief Funds" (June 2021) https://www.ncsl.org/research/fiscal-policy/state-actions-on-coronavirus-relief-funds.aspx
[8] U.S. Treasury, "Coronavirus Relief Fund: Listing of Eligible Units of Local Government," U.S. Department of the Treasury, December 2020, https://home.treasury.gov/system/files/136/Eligible-Units.pdf
[9] National League of Cities, "Cities 101 — Number of Local Governments," National League of Cities, 2022, https://www.nlc.org/resource/cities-101-number-of-local-governments/

Figure 1. Federal Small Business Assistance Programs

Federal Financial Assistance to Businesses Across Four Federal Economic Stimulus Bills *(in Billions)*	**CARES Act (H.R. 748)**	**PPP and Health Care Enhancement Act (H.R. 266)**	**Response and Relief Act (H.R. 133)**	**American Rescue Plan Act (H.R. 1319)**	***Total Business Assistance by Program***
Small Business Administration (SBA)					**$1,139.1**
Paycheck Protection Program (PPP)	$349.0	$321.3	$284.5	$7.3	$962.1
Debt relief for borrowers with SBA guaranteed loans	$17.0	—	$3.5	—	$20.5
Funding for Economic Injury Disaster Loan (EIDL) program	—	$50.0	—	—	$50.0
Emergency $10,000 EIDL advances	$10.0	$10.0	$20.0	$15.0	$55.0
Shuttered Venue Operators Grant program	—	—	$15.0	$1.3	$16.3
Restaurant Revitalization Fund grant program	—	—	—	$28.6	$28.6
Other SBA programs	$1.0	$2.1	$2.0	$1.5	$6.6
U.S. Department of the Treasury					**$156.0**
Support for emergency Federal Reserve programs	$454.0	—	- $429.0	—	$25.0
Loans to passenger and cargo air carriers	$46.0	—	—	—	$46.0
Grants for payroll support to passenger and cargo air carriers	$32.0	—	$16.0	$15.0	$63.0
Support for Community Development Financial Institutions	—	—	$12.0	—	$12.0
State Small Business Credit Initiative	—	—	—	$10.0	$10.0
Total Business Assistance	***$909.0***	***$383.4***	***- $76.0***	***$78.7***	***$1,295.1***

Notes: CARES = Coronavirus Aid, Relief, and Economic Security. The negative value under H.R. 133 for the support of emergency Federal Reserve programs comes from the fact that H.R. 133 ended the emergency lending programs established by the CARES Act because the pandemic's effect on the economy had not been as serious as predicted. This change reduced the amount of funding available to support outstanding loans from $454 billion to $25 billion. Funds for the Paycheck Protection program are for authorized funds only and do not capture actual funds appropriated, disbursed, or rescinded.
Source: California Legislative Analyst's office. "Federal Assistance for Businesses Affected by COVID-19." Budget and Policy Post, March 26, 2021. https://lao.ca.gov/Publications/Report/4215.

Not included in Figure 1 is the Consolidated Appropriations Act of 2022 passed in March 2022 that provides the Small Business Administration with a total of $1 billion through September 2022. This represents an increase of $109 million over the FY 2021 enacted level to support investments in programs to help underserved entrepreneurs access capital and contracting opportunities via increasing allocations for SBA entrepreneurial development programs, e.g. Growth Accelerators, Small Business Development Centers, Veterans Outreach, and Women's Business Centers, Microloan Technical Assistance, the Federal and State Technology Partnership Program, and Regional Innovation Clusters.[10]

[10] NAR, "2022 FY Federal Omnibus Bill: NAR Priorities," www.nar.realtor, March 2022, https://www.nar.realtor/washington-report/2022-fy-federal-omnibus-bill-nar-priorities

The American Rescue Plan (ARP) Act[11] addressed fund distribution eligibility and established the $350 billion Coronavirus State and Local Fiscal Recovery Funds (SLFRF)[12] for eligible state, local, territorial, and Tribal governments. These ARP funds enabled local city and county governments to access direct funding through the *local* portion of the SLFRF.[13] These state and local relief and recovery fund infusions made the state and local small business and entrepreneurial firm programs profiled below possible.

A theme that dominates the federal, state, and local distribution of funding to entrepreneurial firms and small businesses is that relief and recovery funds were intended to assist businesses and nonprofits that suffered a disproportionate effect from the pandemic's shutdowns. While programs vary regarding how they define such businesses, the focus – in general, across relief and recovery programs – was on the following types of businesses:

- Restaurants, bars, and other food and beverage service providers
- Travel and tourism destinations, including lodging providers and hospitality businesses
- Live event venues and movie theaters
- Conference and meeting facilities
- Ice skating rinks, indoor water parks, and bowling centers
- Gyms, fitness centers, and indoor recreation facilities

Despite this initial emphasis on getting aid to the businesses that were hurt most by the pandemic, many small businesses encountered difficulty in accessing early relief funds. The implementation of the Small Business Administration's Paycheck Protection Program (PPP), for example, highlighted barriers to accessing relief for new and small firms. Early PPP rounds required that a business had to suffer a large decline in revenues (e.g., 25% to 30%), and sole proprietors, independent contractors, and self-employed people could access the program only through a set of rules that tied the size of the loan to business profitability.

The initial rounds of PPP also highlighted inequities in access to relief among the most marginalized businesses. Communities of color, for example, have less access to banking that can support businesses, and businesses in communities of color are the most cash-constrained and the least likely to have existing relationships with large banks.[14] Because the PPP was initially funded through the CARES Act, and funding for additional rounds of PPP loans was provided through subsequent pieces of legislation, there was an opportunity to adjust how the program was administered in an effort to address such inequities in access to relief funds.[15] These efforts, however, were met with mixed success, as we discuss below.

[11] Congress.gov, "H.R.1319 - American Rescue Plan Act of 2021" 117th Congress (2021-2022) https://www.congress.gov/bill/117th-congress/house-bill/1319
[12] U.S. Treasury, "Coronavirus State and Local Fiscal Recovery Funds," U.S. Department of the Treasury, 2021, https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds
[13] Ibid.
[14] JPMorgan Chase & Co. Institute, "Place Matters: Small Business Financial Health in Urban Communities," September 2019, https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-place-matters.pdf; Federal Reserve Bank System, "Small Business Credit Survey: 2020 Report on Employer Firms," 2020, https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2020/2020-sbcs-employer-firms-report
[15] Ashley Brown and Greg Brown, "What COVID-19 Taught Us About Equitable Entrepreneurship," *The Kenan Institute* (blog), September 22, 2021, https://kenaninstitute.unc.edu/kenan-insight/what-covid-19-taught-us-about-equitable-entrepreneurship/

The first round of federal PPP loans was open for applications between April 3 and April 16, 2020, and it consisted of 1.6 million loans.[16] As banks played a significant role in determining the flow of money, underbanked regions received very little of these funds. Instead, funds largely went to regions that were less adversely affected by the pandemic. Furthermore, some loans went to large and public firms and thus were criticized since they were designed to support small businesses.[17] There is also some evidence that there was inequity in the implementation of the program based on the demographics of a local area. Research finds that first round PPP loans "varied considerably based on neighborhood demographics, with small businesses in majority-white neighborhoods receiving PPP loans more quickly than small businesses in majority-Black and majority-Latino or Hispanic neighborhoods."[18]

The second round of PPP loans (which was open for applications between April 27 and August 8, 2000 and consisted of 3.6 million loans)[19] was authorized by H.R. 266, the Paycheck Protection Program and Health Care Enhancement Act.[20] In response to concerns about inequities in access to relief funds, $30 billion was set aside in this second round for community development financial institutions (CDFIs) – community financial institutions that are more likely to serve low-income, rural, and communities with higher populations of people of color.[21] Additionally, FinTech and other online lenders, which are often more active in communities with higher populations of people of color, were approved by the SBA to service PPP loans at this stage.[22] Even with these changes, however, analysis of the second PPP round suggests that although communities with higher proportions of people of color received a disproportionately larger share of the number of disbursements, the total value of these loans remained lower in areas where people of color made up a larger share of the population.[23] This finding may be related to the fact that businesses owned by people of color are often smaller and have lower revenues,[24] but it nevertheless highlights the difficulties some businesses had in accessing relief.

Further, the delay in incorporating these changes likely had negative consequences for cash-constrained businesses in underserved communities. An analysis by the JPMorgan Chase Institute, for example, showed significant differences in the median number of cash buffer days between businesses operating in majority Black or Hispanic communities and those operating in majority white

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[16] U.S. Small Business Administration, "Paycheck Protection Program (PPP) Report: Approvals through 12 PM EST 4/16/2020," April 2020, https://www.sba.gov/sites/default/files/2021-09/PPP%20Deck%20copy-508_4.16.pdf
[17] Brown and Brown, "What COVID-19 Taught Us About Equitable Entrepreneurship."
[18] Sifan Liu and Joseph Parilla, "New Data Shows Small Businesses in Communities of Color Had Unequal Access to Federal COVID-19 Relief," *Brookings* (blog), September 17, 2020, https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/
[19] Robert W. Fairlie and Frank Fossen, "Did the $660 Billion Paycheck Protection Program and $220 Billion Economic Injury Disaster Loan Program Get Disbursed to Minority Communities in the Early Stages of COVID-19?" (National Bureau of Economic Research, January 2021), https://doi.org/10.3386/w28321
[20] Betty McCollum, "H.R.266 - 116th Congress (2019-2020): Paycheck Protection Program and Health Care Enhancement Act" (2020), https://www.congress.gov/bill/116th-congress/house-bill/266
[21] Ben Horowitz, "COVID-19: Connecting Small Businesses to Pandemic Relief Is a Struggle, CDFIs Say, Federal Reserve Bank of Minneapolis," May 19, 2020, https://www.minneapolisfed.org:443/article/2020/covid-19-connecting-small-businesses-to-pandemic-relief-is-a-struggle-cdfis-say
[22] Sifan Liu and Joseph Parilla, "New Data Shows Small Businesses in Communities of Color Had Unequal Access to Federal COVID-19 Relief," *Brookings*, September 17, 2020, https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/
[23] Fairlie and Fossen, "Did the $660 Billion Paycheck Protection Program and $220 Billion Economic Injury Disaster Loan Program Get Disbursed to Minority Communities in the Early Stages of COVID-19?".
[24] Lucas Misera, "An Uphill Battle: COVID-19's Outsized Toll on Minority-Owned Firms," Community Development Briefs, October 8, 2020, https://www.clevelandfed.org/newsroom-and-events/publications/community-development-briefs/db-20201008-misera-report

communities prior to the pandemic.[25] The delay that majority Black and Hispanic communities experienced in accessing PPP relief funds, then, may have put businesses in these communities in an even more precarious financial position given their limited cash buffers.

Later economic stimulus legislation attempted to address these issues and expand PPP eligibility, enabling it to assist more businesses.[26] The Kenan Institute, a nonpartisan business policy think tank, explains: “Notable changes to PPP included prioritizing businesses with 20 or fewer employees, and allowing sole proprietors and contractors to be eligible, of whom a majority are women or people of color.”[27] These reforms are correlated with increased loans to small businesses in low to moderate income communities by 62%; expanded lending to the smallest businesses by 35%; tripled lending to microbusinesses; increased loans to rural small businesses by 40%; and expanded the number of loans made by CDFIs by a factor of six.[28]

III. STATE AND LOCAL RESPONSES AND ADAPTATIONS

Although CARES Act funding to states filtered down to local governments, the American Rescue Plan Act (ARP) in March of 2021 provided both state and all local governments access to direct funding. As a result, these governments could be more creative and flexible in designing programs that were sensitive to local conditions while still adhering to the U.S. Treasury’s guideline on fund expenditures.[29] As with past programs to support small businesses and entrepreneurial firms, governments injected aid across financial, fiscal, and services mechanisms[30] (see Figure 2), focusing on those suffering most from the impact of the pandemic. **Our review suggests that states and local governments have learned from the early problems with the distribution of PPP and are structuring relief and recovery programs to address the uncertain and long-run nature of the pandemic[31] as well as the inequitable path of the current recovery.**

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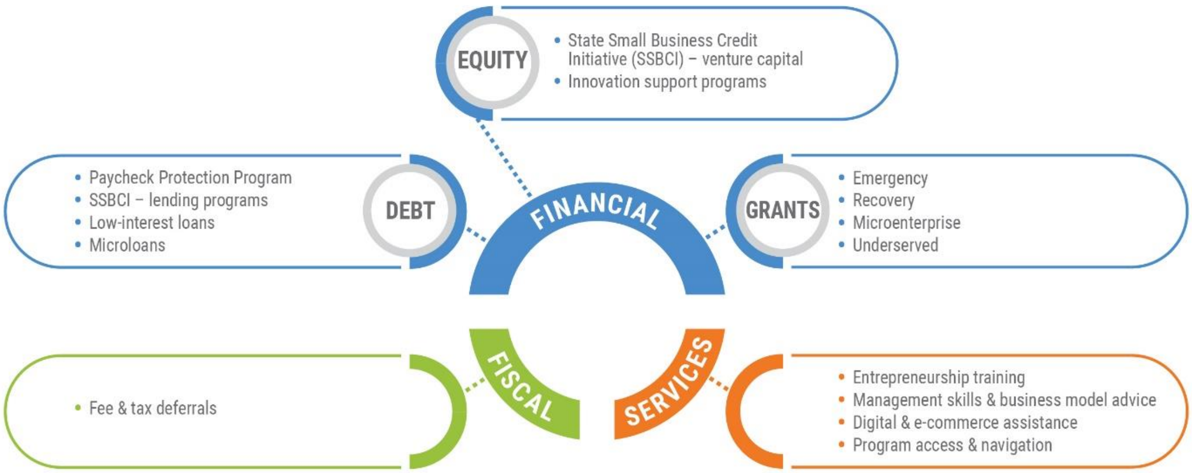
[25] JPMorgan Chase Institute, “Place Matters: Small Business Financial Health in Urban Communities,” September 2019, https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/institute/pdf/institute-place-matters.pdf
[26] The White House, “Biden-Harris Administration Increases Lending to Small Businesses in Need, Announces Changes to PPP to Further Promote Equitable Access to Relief,” The White House, February 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/22/fact-sheet-biden-harris-administration-increases-lending-to-small-businesses-in-need-announces-changes-to-ppp-to-further-promote-equitable-access-to-relief/
[27]Ashley Brown and Greg Brown, “What COVID-19 Taught Us About Equitable Entrepreneurship,” *Kenan Institute* (blog), September 22, 2021, https://kenaninstitute.unc.edu/kenan-insight/what-covid-19-taught-us-about-equitable-entrepreneurship/
[28] The White House, “New Data Show Progress on Biden-Harris Commitment to Equity in Emergency Small Business Relief,” The White House, March 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/11/fact-sheet-new-data-show-progress-on-biden-harris-commitment-to-equity-in-emergency-small-business-relief/
[29] Mark Muro et al., “The American Rescue Plan’s secret ingredient? Flexible state and local aid.” *Brookings*, April 2, 2021, https://www.brookings.edu/blog/the-avenue/2021/04/02/the-american-rescue-plans-secret-ingredient-flexible-state-and-local-aid/
[30] Hackler, Darrene and Ellen Harpel, “Incentives for Entrepreneurial Firms” (Ewing Marion Kauffman Foundation, August 2021).
[31] Darrene Hackler, “COVID-19 Economic Recovery Is Economic Development’s Long Game,” *Smart Incentives* (blog), May 11, 2020, https://smartincentives.org/covid-19-economic-recovery-is-economic-developments-long-game/

Figure 2. Relief and Recovery Program Typology



We explore these three key types of business relief policies and programs that state and local governments leveraged:

- ***Financial*:** The creation of small business low-interest loans and grant programs at the state and local levels helped those with less access to traditional banking institutions and provided additional funding for CDFIs.
- ***Fiscal*:** Temporary tax relief benefited businesses depending on the state and local tax structures (sales, income, and/or property taxes).
- ***Services***: Technical support and assistance to businesses was offered to make business owners aware of funding options and help them complete applications as well as build their capacity to operate under the new pandemic circumstances. For example, programs recognized that the service-sector recession hurt face-to-face businesses and assisted these businesses with establishing their online presence and pivoting their existing business models to survive in the post-pandemic economy.

The predominant focus of these programs was and continues to be on small businesses. While there were initially only a few programs designed solely for entrepreneurial firms, some governments have since modified eligibility requirements to allow new and young firms to access the funding.

What do we mean by "entrepreneurial firm"?

The definition of "entrepreneurial firm" varies widely in different contexts. For many researchers, entrepreneurial firms are new or young firms – specifically, businesses that are less than five years old. However, few state and local incentive programs define their target market or eligibility guidelines in this way.[32] In economic development circles, entrepreneurial firms are often defined as the small subset of businesses that are innovation- or technology-based and have high growth potential. As we illustrate throughout this report, existing small businesses are often the focus of pandemic-sponsored funds and programs, though there are programs that we profile that are designed for new and young firms.

As of early 2022, policy responses are still evolving, especially as ARP (American Rescue Plan Act) federal funds continue to be deployed across the country. States and local governments are in the early stages of the decision-making and/or implementation processes and can obligate funds to programs until December 31, 2024, with the requirement that governments must expend all funds by December 31, 2026. The timeline enables flexibility for governments to address the long and deep inequitable effects of the pandemic. Two late 2021 surveys suggest that governments are focusing on creating programs for small businesses, although the direction they will take is still unclear. The National League of Cities' 2021 survey of city fiscal conditions indicated that more than half (54%) of local government respondents included the need to address the negative impacts of the pandemic on small businesses, nonprofits, and households among their top three priorities.[33] International City/County Management Association (ICMA's) September 2021 report, however, highlighted differences across specific priority areas between larger local governments that received their ARP funds directly and smaller "non-entitlement Community Development Block Grant" local governments.[34] While 28% of all local government respondents indicated an intention to pursue small business projects, this share was larger among larger direct recipients (43%) than among smaller non-entitlement governments (21%).[35] Unfortunately, the responses to these surveys do not reveal the specific approaches cities will take to address the impacts of the pandemic, and survey results do not allow us to consider variation in these approaches between small and large cities.

The remainder of this report provides a snapshot of government programs that are assisting small businesses and new firms in a variety of ways. It provides early insight into state and local governments' approaches to recovery, and it explores the extent to which programs address equity in these efforts.

[32] Hackler, Darrene and Ellen Harpel, "Incentives for Entrepreneurial Firms" (Ewing Marion Kauffman Foundation, August 2021).
[33] Christiana McFarland and Michael A. Pagano, "City Fiscal Conditions 2021" (National League of Cities, October 2021), https://www.nlc.org/wp-content/uploads/2021/10/2021-City-Fiscal-Conditions-Report-2021.pdf
[34] U.S. Department of Housing and Urban Development defines non-entitlement communities as those that receive Community Development Block Grant funding via the state that HUD allocates on a formula basis. For ARP, "non-entitlement unit of local government" means a "city" that is not a metropolitan city and is serving a population under 50,000. See U.S. Treasury, "Non-Entitlement Unit of Local Government Definitional and Data Methodology," 2021, https://home.treasury.gov/system/files/136/NEU_Methodology.pdf
[35] Laura Goddeeris, "Local Leaders Identify Top Priorities and Processes for Rescue Plan Funds," September 22, 2021, https://icma.org/articles/article/local-leaders-identify-top-priorities-and-processes-rescue-plan-funds

Financial incentives: loans, grants, and venture capital

At the federal level, the State Small Business Credit Initiative (SSBCI) – which was reauthorized under ARP and provides $10 billion to expand access to capital for small businesses – will have an important effect on this category of financing programs. It is, however, still too early to determine the magnitude of its impact, and in early April the Senate introduced legislation that would rescind $2.3 billion from the program.[36] SSBCI funding may be used by recipient jurisdictions (states, Tribal governments, territories, and the District of Columbia) for venture capital, loan participation, loan guarantee, collateral support, and capital access programs. Recipient jurisdictions must describe how funds will be used for small businesses and start-ups that would otherwise lack opportunities for growth-supporting capital. The U.S. Treasury released guidance on November 10, 2021, and full applications were due for states, the District of Columbia, and territories on February 11, 2022. Eligible municipalities located in states that do not apply for SSBCI must have completed applications by March 11, 2022. Tribal governments have a deadline of September 1, 2022.
SSBCI includes allocations to promote equity in capital access. First, of the $650 billion of the main capital allocation, $500 million of the main capital allocation will be allocated to Tribal government programs. Second, SSBCI includes $1.5 billion to be allocated for businesses owned by socially and economically disadvantaged individuals (SEDI), of which Tribal governments will likely receive an allocation of $100 million. Third, there is a $1 billion incentive allocation for recipient jurisdictions that demonstrate robust support for SEDI-owned businesses through the distribution of the original SEDI-owned business allocation. Fourth, there is a $500 million allocation for very small businesses with less than ten employees. And finally, SSBCI includes a $500 million allocation for technical assistance funding so that recipients can assist small businesses applying for SSBCI program funding.

Related to SSBCI's equity goals, the Treasury issued an interim final rule in March 2022 on the collection of demographics-related data of those who own or control small businesses that participate in SSBCI. Each participating jurisdiction must submit an annual report that includes self-certified SEDI demographics-related business status; minority-owned or controlled business status; women-owned or controlled business status; veteran-owned or controlled business status; and the race, ethnicity, gender, sexual orientation, Middle Eastern or North African ancestry, and veteran status with which principal owners identify. These demographics are required for each business that receives an SSBCI loan, investment, other credit or equity support, and technical assistance.[37] Annual reports will also need to include transaction-level data, including small business characteristics, and a summary of performance results, which appear to be based on the plan and proposed metrics each state submits with its own application.[38]

At the state and local government levels, we identified a predominance of loan and grant programs among state and local small business recovery initiatives, which is consistent with existing small business and entrepreneurial support programs. The most significant change is the new emphasis on distributing the funds to pandemic-affected sectors and traditionally underserved businesses. For example, the California Rebuilding Fund offers loans of up to $100,000 via community-based lenders (CDFIs) to small businesses, with a focus on those in economically disadvantaged and historically

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[36] SSTI, "Senate Proposes $2.3 Billion Cut to SSBCI," April 7, 2022, https://ssti.org/blog/senate-proposes-23-billion-cut-ssbci
[37] U.S. Treasury, "State Small Business Credit Initiative; Demographics-Related Reporting Requirements (31 CFR Part 35)," *Federal Register* 87, no. 47 (March 10, 2022), https://www.govinfo.gov/content/pkg/FR-2022-03-10/pdf/2022-04843.pdf
[38] U.S. Department of the Treasury, "State Small Business Credit Initiative Capital Program Policy Guidelines," U.S. Department of the Treasury, accessed January 14, 2022, https://home.treasury.gov/system/files/256/SSBCI-Capital-Program-Policy-Guidelines-November-2021.pdf

under-banked areas of the state.[39, 40] Similarly, New Hampshire provided emergency financial relief grants for businesses and nonprofit organizations affected by COVID-19 that were unable to access support from other state and federal programs.[41] The Working Washington Small Business Grant program focused on the hardest-hit industries and target underrepresented, historically marginalized populations and underserved small businesses.[42, 43] And at least nine states used CARES Act federal relief funds to create small business grant programs that target women- and BIPOC-owned businesses.[44] Some states modified existing programs, like Michigan's already existing Capital Access Program, which provides micro-business and small business loans ranging from $5,000-$250,000 through CDFIs with a focus on serving women- and BIPOC-owned businesses.[45] With the equity requirements in many programs, it is likely that more of these programs will be developed. Although it is still too early to determine the overall effectiveness of many programs, in the section below, we profile a few governments that are reporting on these results.

At the city level, we see most cities shoring up their small business communities, aggregating capital through partnerships and funding mechanisms. San Francisco, California for example, used the infrastructure of the California Rebuilding Fund to start a new SF Small Business Recovery Loan Fund designed to provide 0% interest loans of up to $100,000 to San Francisco small businesses. The program is being administered through the California Rebuilding Fund in partnership with Kiva and local CDFIs, including Main Street Launch, Mission Economic Development Agency, CDC Small Business Finance, Pacific Community Ventures, and the National Asian American Coalition.[46] Such a loan program is a common model and becoming more acceptable as multi-sector partnerships and crowdfunding rise to fill gaps. U.S. SBA's Small Business Development Centers (SBDCs) require matches to their federal capital since the SBA provides 50% or less of the operating funds for each state SBDC. The local SBDCs find sponsors to provide the rest. Umpqua Bank's Small Business Empowerment Program builds on multi-year partnerships with business-focused nonprofits and CDFIs to remove barriers to key areas of support. The partners include Oregon-based MESO (Micro Enterprise Services of Oregon), Washington-based Business Impact NW, and California-based Centro Community Partners, and Kiva. They will provide entrepreneurs of color and in historically disadvantaged communities access to technology, low-cost financing, and technical assistance and expertise.[47]

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[39] California Infrastructure and Economic Development Bank (IBank), "California Rebuilding Fund," 2021, https://ibank.ca.gov/small-business/california-rebuilding-fund/

[40] CAMEO, "California Rebuilding Fund – CALoanFund.org," n.d., https://cameonetwork.org/california-rebuilding-fund/

[41] State of New Hampshire, "New Hampshire GAP Fund," Governor's Office for Emergency Relief and Recovery, accessed October 12, 2021, https://www.goferr.nh.gov/covid-expenditures/new-hampshire-gap-fund

[42] State of Washington, "Inslee Announces Additional COVID-19 Financial Support," November 20, 20202, https://www.governor.wa.gov/news-media/inslee-announces-additional-covid-19-financial-support

[43] "Small Business Grants Report," Startup Washington, accessed October 6, 2021, http://startup.choosewashingtonstate.com/links/crisis/covid-19-resources/small-business-grants-report/

[44] Jackson Brainerd and Emily Maher, "States Mind Their Own Businesses," *National Conference of State Legislators Fiscal Policy* (blog), March 31, 2021, https://www.ncsl.org/research/fiscal-policy/states-mind-their-own-businesses.aspx

[45] Michigan Economic Development Corporation, "Northern Initiatives Program," 2021, https://www.michiganbusiness.org/services/access-capital/northern-initiatives-program/

[46] City and County of San Francisco, "Mayor Breed Launches $12 Million San Francisco Small Business Recovery Loan Fund," July 8, 2021, https://sfmayor.org/article/mayor-breed-launches-12-million-san-francisco-small-business-recovery-loan-fund

[47] Umpqua Bank, "Umpqua Bank Launches Small Business Empowerment Program With $2 Million To Support Minority, Women Entrepreneurs," February 2, 2022, https://www.prnewswire.com/news-releases/umpqua-bank-launches-small-business-empowerment-program-with-2-million-to-support-minority-women-entrepreneurs-301473507.html

What about new businesses?
Some state and local financial support programs are now open to new businesses. For example, the Maine Economic Recovery Grant program adapted its rules to include early-stage businesses, defined as those less than a year old.[48] Colorado's Microloans Program provides small loans to start-ups and entrepreneurial small businesses that are underserved by traditional debt markets, with a preference for those in rural areas. The state also has a Disproportionately Impacted Business Startup and Growth Loan Program under development.[49, 50] The City of Tulsa, in partnership with Tulsa Economic Development Corporation (TEDC), dedicated $1.1 million for zero interest loans to provide financial assistance to small business owners and entrepreneurs affected by COVID-19.[51] Phoenix's Microbusiness Resiliency Grant awards up to $5,000 for solo practitioners, entrepreneurs, and microbusinesses with fewer than five employees.[52]

Fiscal incentives: tax relief

Tax-based incentives for small, young, and new firms tend to be less popular because these companies have relatively low levels of taxable income. It is not uncommon for small business owners to reinvest all profits in the business.[53, 54] These businesses have also not been a major part of the relief and recovery response beyond tax filing extensions and various tax holidays. The federal government provided an extension for tax filing and payment deadlines until July 15, 2020, that originally occurred between April 1, 2020, and July 14, 2020. The ARP included tax credits, notably the Employee Retention Credit and Paid Leave Credit, to assist small businesses.[55, 56]

Some states offered tax relief in response to the pandemic, helping older, more financially stable businesses. For example, Maryland's RELIEF Act of 2021 supported small businesses with $200 million in sales tax credits based on a sliding scale.[57] New Mexico provided a gross-receipt tax deduction for restaurants for a four-month tax holiday.[58] California provided small business taxpayers with less than $5 million in taxable annual sales with two rounds of a 12-month, interest-free payment

[48] State of Maine Department of Economic and Community Development, "Maine Economic Recovery Grant Program," 2020, http://www.maine.gov/decd/economic-recovery-grants/faq
[49] Colorado Office of Economic Development and International Trade, "Colorado Microloans," accessed October 18, 2021, https://oedit.colorado.gov/colorado-microloans
[50] State of Colorado Office of Economic Development and International Trade, "FY 2022 Performance Plan," August 2021, https://oedit.colorado.gov/sites/coedit/files/2021-08/oedit_performance_plan_final_v4.pdf
[51] City of Tulsa, "City, TEDC Launch Resilience and Recovery Fund; Zero Interest Loans Offered to Businesses Affected by COVID-19," April 1, 2020, https://www.cityoftulsa.org/press-room/city-tedc-launch-resilience-and-recovery-fund-zero-interest-loans-offered-to-businesses-affected-by-covid-19/
[52] City of Phoenix, "Phoenix Microbusiness Resiliency Grant," accessed January 4, 2022, https://www.azcommerce.com/covid-19/financial-resources/phoenix-microbusiness-resiliency-grant/
[53] Lyle Roggow and Ron Brown, "State of Oklahoma Incentive Evaluation Commission," 2018.
[54] Hackler and Harpel, "Incentives for Entrepreneurial Firms".
[55] U.S. Internal Revenue Service, "Coronavirus Tax Relief: Filing and Payment Deadlines," 2020, https://www.irs.gov/coronavirus/coronavirus-tax-relief-filing-and-payment-deadlines
[56] U.S. Department of the Treasury, "Small Business Tax Credit Programs," U.S. Department of the Treasury, accessed March 10, 2022, https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/small-business-tax-credit-programs
[57] Governor of Maryland, "The RELIEF Act of 2021," Governor of Maryland, 2021, https://governor.maryland.gov/reliefact/
[58] New Mexico Taxation and Revenue, "Department Issues Guidance on $600 Rebates, Restaurant GRT Relief," March 11, 2021, https://www.tax.newmexico.gov/wp-content/uploads/2021/03/Release-Bulletin-on-COVID-relief.pdf

plan for up to $50,000 of sales tax liability on tax due on returns with original due dates between December 15, 2020, and April 30, 2021.[59]

Some local governments also took fiscal action with deferred payment deadlines for utilities, taxes, and licensing fees. San Francisco, for instance, gave tens of millions of dollars in fee and tax deferrals, in addition to offering assistance for businesses applying for state and federal funding.[60]

Services incentives: technical assistance

Grant and loan assistance dominated the distribution of funds. However, technical assistance for small businesses and entrepreneurs helped them navigate the myriad of resources provided by federal, state, and local governments. Outreach for technical assistance programs generally targeted BIPOC- or women-owned businesses and historically disadvantaged communities affected by the pandemic.

At the state level, California, for example, provided a $20 million one-time 2021-22 general fund investment in California Workforce Boards to continue the Social Entrepreneurs for Economic Development (SEED) program that started with $10 million the year before. SEED provides micro-grants and entrepreneurial training to immigrants with limited English proficiency and/or undocumented individuals who want to start businesses that address a social problem or meet a community need. The program also supported contracted community-based organizations (CBOs) to deliver targeted community outreach that was linguistically and culturally competent for small business development education and training.[61] Illinois invested $9 million in a community navigator program and expansive outreach support infrastructure.[62] Massachusetts invested $3.8 million into the new Empower Digital's Grant Program for the Development of Digital Capabilities, administered by its Massachusetts Growth Capital Corporation.[63, 64] The technical assistance helps small businesses access grant programs and loans, in addition to helping them build business management skills, resilience, and other support in navigating the impact of the pandemic. This effort targeted support for business owners from socially and economically disadvantaged groups[65] around digital and online technology to help them pivot away from brick-and-mortar business models.[66]

At the local level, Arlington County, Virginia recrafted its BizLaunch program to enable the County's small businesses and entrepreneurs to understand that a major pivot may be essential to finding a

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[59] California Department of Tax and Fee Administration, "California COVID-19 State of Emergency," accessed January 4, 2022, https://www.cdtfa.ca.gov/services/covid19.htm

[60] City and County of San Francisco, "Mayor Breed Launches $12 Million San Francisco Small Business Recovery Loan Fund."

[61] California Employment Training Panel, "Social Entrepreneurs for Economic Development (SEED) Grant Guidelines," January 21, 2021, https://etp.ca.gov/wp-content/uploads/sites/70/2021/03/101-07-2022_SEEDGrant-Summary.pdf

[62] "New Grant Program to Accelerate Small Business Recovery," Chicago Defender, August 11, 2021, https://chicagodefender.com/new-grant-program-to-accelerate-small-business-recovery/

[63] Mass.gov, "Baker-Polito Administration Announces $30 Million in Additional Support for Massachusetts Small Businesses," June 16, 2021, https://www.mass.gov/news/baker-polito-administration-announces-30-million-in-additional-support-for-massachusetts-small-businesses

[64] Mass Growth Capital Corporation, "Empower Digital Grant Program," 2022, https://www.empoweringsmallbusiness.org/what-we-offer/empowerdigital

[65] The program had application resources translated into ten languages. https://www.mass.gov/info-details/eohed-programs-and-grants-business-and-innovation

[66] Mass.gov, "Baker-Polito Administration Announces Partnerships for Recovery, $774 Million Economic Recovery Plan," October 22, 2020, https://www.mass.gov/news/baker-polito-administration-announces-partnerships-for-recovery-774-million-economic-recovery-plan

new niche and attracting and retaining customers. Specifically, ReLaunch has three specific programs with multilingual support:

1. ReVitalize helps to strengthen businesses with assistance in financial management and sourcing capital, branding and marketing, digital presence, business knowledge, legal structures, and strategic planning.
2. ReNew makes businesses aware of tools and resources to streamline and expand.
3. ReBuild focuses on a business' online footprint, including websites, ecommerce, and marketing. Arlington County has doubled its hours for ReBuild due to demand, the need for multilingual support, and social distancing requirements.

Similarly, Long Beach, California created BizCare pop-ups to assist small businesses in neighborhoods that have been most affected by the COVID-19 pandemic. The pop-ups provide business owners with in-person support to help them learn about resources and complete non-profit, local, state, and federal grant applications at no charge. Pop-up services are provided in English, Spanish, and Khmer.[67]

IV. ASSESSING PROGRESS ON DIVERSITY, EQUITY, AND INCLUSION

The ARP included multiple efforts to make the distribution of funds more equitable – from increasing the pool of approved PPP lenders to including community banks, CDFIs, FinTech, and other online lenders and requiring states and localities to report on equity in the use of the SLFRF funds. Although the intent was to reach businesses that the pandemic affected most severely, it is not yet clear if this goal was accomplished. Weaknesses in reporting and tracking of recipients will limit the government's ability to determine if the funds truly helped the intended population of businesses. Promisingly, some state and local governments are working to improve their data and reporting systems.

As state and local governments seek to extend the reach of their programs, they are using new metrics to describe their success. The most common practice appears to be increased reporting on award distributions by industry, demographic, and location categories. The Rebuild Virginia Economic Recovery Fund, for example, reported as of April 1, 2022, the percentage of awards to women-owned businesses (38%), BIPOC-owned (37%) businesses, and businesses in low-income communities (36%).[68] San Francisco also reports on demographics for the 1,938 grants and loans awarded as of July 2021, 75% went to minority-owned businesses and 53% went to women-owned businesses.[69]

Vermont's Agency of Commerce and Community Development (ACCD) administers a CARES Act CRF funded Economic Recovery Grants program that includes a set-aside of $2.5 million for women-owned businesses and $2.5 million for minority-owned businesses – both must have 0-5 employees. The grant materials were translated into Arabic, Bosnian, French, Nepali, Somali, Spanish, Swahili, and Vietnamese.[70] ACCD reported that its set-aside goals were exceeded – 44% of the awardees

[67] City of Long Beach, "Long Beach BizCare Pop-Up," September 13, 2021, https://www.longbeach.gov/?trumbaEmbed=view%3Devent%26eventid%3D154940742#tab2
[68] State of Virginia, "Rebuild VA," Rebuild VA, October 1, 2020, https://www.rebuildva.org
[69] City and County of San Francisco, "Mayor Breed Launches $12 Million San Francisco Small Business Recovery Loan Fund," July 8, 2021, https://sfmayor.org/article/mayor-breed-launches-12-million-san-francisco-small-business-recovery-loan-fund
[70] Vermont Commission on Women, "Economic Recovery Grants for Vermont's Small Minority/Women Owned Businesses," accessed January 4, 2022, https://women.vermont.gov/economic-recovery-MWBE

were women- or minority-owned, and these businesses received just over $30 million, representing 23% of the $131.5 million of total grants awarded. Notably, the Vermont data do more than report on single categories, breaking down recipients by gender and race: 6% were minority-women-owned businesses and received $4.4 million, and 33% were women-owned and received $21.6 million. Vermont also reported data on the funds appropriated to the Vermont Community Loan Fund for Women & Minorities, showing that $4,952,280 was disbursed in grants to 611 organizations. The average grant was $8,242, the median was $5,273, and the minimum was $210.[71]

Minnesota's Department of Employment and Economic Development has established an objective to reduce the disparities faced by populations with barriers to employment. The department has created annual equity goals for every program focused on reducing disparities based on race, ability level, or geography. Examples of goals include increasing the number of loans to Indigenous businesses and to emerging BIPOC-owned businesses and ensuring that at least 25% of Launch Minnesota Innovation Grants go to start-up founders representing women, BIPOC, Greater Minnesota (outside of the Minneapolis-St. Paul area), and veterans.[72] Minnesota's reporting on COVID-related relief and recovery funds also reflects this commitment. For example, the Minnesota Small Business Relief Program grant for Minnesota-owned and operated businesses that demonstrated COVID-19 financial hardship provides detail on grants by location and indicates if they are micro-businesses or women-, BIPOC- or veteran-owned businesses.[73]

Fayetteville, North Carolina and San Jose, California serve as examples of local governments that adopted creative approaches to enhance equity. Fayetteville expanded an existing small business loan program supported by the general fund to create an emergency $250,000 grant program. The city wanted to ensure greater equity in its reach of businesses, so it removed the match requirement, lowered the credit score requirement, and partnered with the Greater Fayetteville Chamber of Commerce and Center for Economic Empowerment and Development (CEED) to target minority- and women-owned businesses. As a result of this effort, 96% of recipients were minority-owned businesses and 60% were women-owned businesses.[74]

Along the same lines, San Jose created an equity-focused Microenterprise Grant Program using $2.5 million of its CARES Act Community Development Block Grant funding. The program provided grants of up to $15,000 for working capital needs to low-income, small businesses with 5 or fewer full-time employees. The city translated the application and supporting documents into Spanish, Vietnamese, and Traditional and Simplified Chinese. Although grants were available to all city businesses, one-on-one outreach targeted six specific zip codes[75] to reach high-poverty neighborhoods that have numerous small business owners of color, immigrant-owned businesses, women-owned businesses,

[71] Vermont Agency of Commerce and Community Development and Vermont Department of Taxes, "COVID-19 Economic Recovery Grant Program," March 11, 2021, 8, https://accd.vermont.gov/sites/accdnew/files/documents/Final%20ACCD%2BTAX%20Economic%20Recovery%20Grant%20Programs%20Report%20-%202021-03-31.pdf
[72] Minnesota's Department of Employment and Economic Development, "Equity Goals," Minnesota Department of Employment and Economic Development, 2020, https://mn.gov/deed/assets/deed-equity-goals_tcm1045-419584.pdf
[73] "Minnesota Small Business Relief Grant Funding Map 2020," Minnesota Department of Employment and Economic Development, accessed November 9, 2021, https://mn.gov/deed/business/financing-business/deed-programs/emergency-programs/relief/relief-grant-fund-map.jsp
[74] "Homegrown Tools for Economic Deveopment: Fayetteville, North Carolina," January 2021, https://homegrowntools.unc.edu/wp-content/uploads/2021/02/FayettevilleNC-casestudy-1-1.pdf
[75] These zip codes include 95111, 95112, 95113, 95116, 95122, and 95127.

and micro-businesses.[76] These neighborhoods also were significantly affected by the pandemic-induced recession and experienced the highest rates of COVID-19 in the county.

Overall, the program received 182 applications and awarded 61 grants of $15,000, with a total allocation of $915,000. All of the recipients were low-moderate income (i.e., the total family income of the business owner was at or below 80% of the area median income by family size); 95% of the recipients were BIPOC-owned businesses; 52% were in the targeted zip codes; and 43% were women-owned businesses. San Jose's targeted outreach and criteria (low income, specific zip codes, etc.) may allow for more equitable results.[77]

While these data and reporting efforts represent progress over past practices, some state and local governments are finding that these data points may not fully answer stakeholder questions about equity and inclusion. California's COVID-19 Small Business Relief Grants program uses ARP fiscal relief funds and illustrates both the promise and the challenge of expanded reporting efforts. California's Office of Business and Economic Development is the administrative agency that is utilizing $1.5 billion of ARP fiscal relief funds[78] plus $2.5 billion in state funds to offer a competitive $4 billion grant program for underserved micro and small businesses, nonprofits, and nonprofit cultural institutions impacted by COVID-19 and related health and safety restrictions. The maximum grant was $25,000, and the size of the grant depended on the business' or organization's revenue. Grants were distributed by the California Office of Small Business Advocate (CalOSBA) over nine rounds as of October 2021.[79, 80]

The program has multiple equity criteria and prioritized industry sectors that were significantly affected by the pandemic. The legislature approved over $50 million for outreach to historically underserved communities and undercapitalized business owners, including women- and minority-owned businesses.[81] However, based on our review of the program, several problem areas have surfaced in its administration and reporting that may limit its impact and the ability to determine how well the program has served its intended audience. First, CalOSBA redirected funding that was supporting regular small business services into technical assistance to help businesses apply for grants, but no other funds were backfilled to replace these services. Second, although the intent was for applications and webinars to be available in multiple languages, webinars were only live translations of the English content. Third, the agency has not reported on applicants and only reports on "selected awardees" – businesses that meet all eligibility requirements and receive final approval for the grant. Although this practice is common, it makes it impossible to assess equity in access to the program for the targeted population.

As of August 2021, selected awardee information was available through round six.[82] These data included business demographic information such as low/moderate-income owner; minority-owned

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[76] Nanci Klein, "2020 City Small Business Grants Update" (City of San Jose, 2021), https://www.sanjoseca.gov/home/showpublisheddocument?id=68890
[77] Nanci Klein, "2020 City Small Business Grants Update" (City of San Jose, 2021).
[78] State of California, "California State Budget 2021-22," July 2021, https://www.ebudget.ca.gov/2021-22/pdf/Enacted/BudgetSummary/FullBudgetSummary.pdf.20-21," 19.
[79] Gabriel Petek, "Overview of the Spending Plan," August 2021, https://lao.ca.gov/reports/2021/4448/2021-Spending-Plan-082421.pdf
[80] California Office of the Small Business Advocate. "California Small Business COVID-19 Relief Grant Program," https://careliefgrant.com/
[81] "Joint Hearing on Women- and Minority-Owned Businesses Small Business COVID-19 Grant Program," § Committee on Jobs, Economic Development, and the Economy (2021), https://ajed.assembly.ca.gov/content/small-business-covid-19-grant-program
[82] Joint Hearing on Women- and Minority-Owned Businesses Small Business COVID-19 Grant Program.

business broken down by women; African American, Hispanic or Latino, Asian, Native, other Pacific Islander: veteran status; rural location; nonprofit status; and highly impacted industry. As of October 19, 2021, however, the data is no longer available on the website, and the only mention of the program is that it is now closed.

V. EARLY INSIGHTS ON RELIEF AND RECOVERY BUSINESS INCENTIVES

The pandemic's effects on businesses and the business incentive landscape will have implications for years to come. Working towards an inclusive and equitable recovery will require local and state leaders, entrepreneurial support organizations (ESOs), and entrepreneurs themselves to play a role in shaping these efforts. In closing, we offer three key insights to help guide these endeavors.

Key Insight #1 Programmatic equity and inclusion goals can complement economic growth objectives. Including diverse groups of entrepreneurs and small business owners in the development of such programs can improve their design.

Many of the relief and recovery fund programs profiled in this report target the firms that have suffered the most during the pandemic, recognizing the challenges facing BIPOC- and women-owned firms, as well as those in historically under-resourced locations. These approaches to pandemic business assistance suggest there is an increased awareness of the limits of previous program design and of efforts to serve businesses more universally. As a result, we see more examples of such intentional actions in the relief and recovery programs reviewed in this report than in those we reviewed in our pre-pandemic analysis of business incentives and assistance programs.[83] Yet not all governments and programs are taking this approach.

Local and state leaders and policymakers have an opportunity to learn from these programs and adopt equity and inclusion goals and metrics in their own programs. Incorporating such goals can complement economic growth objectives and increase economic prosperity for both historically marginalized populations and the economy more broadly.[84] Previous research, for example, has shown that closing gaps in employment, education, hours, and efficient labor utilization by race, ethnicity, gender, and age would result in about $1.4 trillion in additional output in the U.S.[85] While little research has specifically focused on the economic impact of equity and inclusion efforts in entrepreneurship policy and programs, the broader research literature on the economic impact of reducing inequalities and fostering more inclusive communities suggests that efforts in the entrepreneurship space may also have significant economic impact.

Our review of existing programs and lessons that have emerged suggests a shift toward a greater equity focus in entrepreneurship programs and makes visible ways that various stakeholders can support this shift. This includes embedding requirements on the use of any government programs that are contracting or providing funds to ESOs. In concert, ESOs should strive to establish programs with equitable outreach and content that is culturally competent and assess their programs on the success

[83] Hackler and Harpel, "Incentives for Entrepreneurial Firms."
[84] Christina Stacy and Olivia Fiol, "Inclusive Recovery to Increase Equity" (Washington, D.C.: Urban Institute, May 2021), https://www.urban.org/sites/default/files/publication/104247/inclusive-recovery-to-increase-equity.pdf
[85] Buckman et al., "The Economic Gains from Equity."

of those businesses. ESOs need to remain flexible and use this feedback to modify and improve outcomes for entrepreneurial firms' bottom lines.

More generally, research has highlighted a number of practices that can be adopted by policymakers and program leaders to ensure that the economic recovery is both equitable and inclusive. One of the most important recommendations is that **community and ecosystem stakeholders should be involved early and often throughout the recovery planning process**.[86] Evidence from research projects using a community-engaged approach, for example, has shown that community engagement often leads to more meaningful research questions being asked and results that are framed and disseminated in a way that is more likely to benefit the communities who are closest to the issue.[87] Tapping into the unique expertise of impacted communities can promote bidirectional capacity building and empower community members to effect change.[88] It follows then, that inclusion of a diverse group of entrepreneurs in both program input and feedback will very likely improve the design of government and ESO programs. The participation of these entrepreneurs will be especially helpful in determining the types of services that are needed most by each type of entrepreneur and during each phase of business development. These efforts necessarily require authentic discussions with a commitment to co-creation rather than top-down program development.

Key Insight #2 Program designers need more guidance from federal and state government on the development of reporting metrics.

Many state and local governments are not yet reporting or making available data on program funding distributions. This absence of data hampers assessment and evaluation of the impact of incentives. ARP's compliance requires annual Recovery Plan Performance Reports on the use of SLFRF funds with respect to equity. Plans must address "priority areas for an equitable economic recovery, including provisions that prioritize equity, focus on economically distressed areas, support community empowerment, encourage strong labor practices, and spotlight evidence-based interventions."[89]

The U.S. Department of the Treasury provided examples of how different state and local governments had developed equity goals as well as tools and measurements to track progress in meeting those goals, stopping short of prescribing equity metrics to track.[90] The city of Austin, Texas, for example, launched several interactive dashboards that report updated metrics on different city relief programs. While each program has its own metrics, most tracked number of applications, number of approved applications, total amount of approved funding, average funding amount, and,

[86] Stacy and Fiol, "Inclusive Recovery to Increase Equity"; Poethig et al., "Inclusive Recovery in US Cities."
[87] Kristina Staley, "Exploring Impact: Public Involvement in NHS, Public Health and Social Care Research" (Eastleigh: INVOLVE, October 2009). Darrene Hackler and Ellen Harpel, "Reflecting Community Priorities in Economic Development Practices" (Smart Incentives, December 2020), https://smartincentives.org/wp-content/uploads/33591_SmartIncentives_Report.pdf
[88] Kerry Strand et al., "Community-Based Research and Higher Education: Principles and Practices" (San Francisco, CA: Jossey-Bass, 2003); Sasha Costana-Chock, "Design Justice: Community-Led Practices to Build the World we Need" (Cambridge, MA: MIT Press, 2020).
[89] U.S. Treasury, "Recipient Compliance and Reporting Responsibilities," U.S. Department of the Treasury, accessed October 21, 2021, https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/state-and-local-fiscal-recovery-funds/recipient-compliance-and-reporting-responsibilities
[90] U.S. Treasury, "Driving Equity with State and Local Fiscal Recovery Funds," https://home.treasury.gov/system/files/136/SLFRF-Equity-Webinar.pdf

where applicable, demographic information on applicants such as gender, age, and race/ethnicity.[91] The state of Colorado developed a performance management system to ensure a process of continuous improvement. As part of this effort, a comprehensive guide to performance management was developed that outlines the process of developing effective goals and metrics to measure progress in achieving those goals. Although the guide was specifically meant to ensure that state employees are trained in evaluation and process improvements, it can also be a useful tool for other organizations or governments to use when developing their own equity and inclusion goals.[92]

Other resources have been compiled that share best practices in data collection and analysis that center racial equity. Actionable Intelligence for Social Policy, for example, created a toolkit for centering racial equity throughout the data life cycle. In it, they outline the ways in which racial equity can be centered from the planning stage all the way to the reporting and dissemination stage as well as identify common problematic practices and suggestions for alternative positive practices that should be used instead. Examples of positive practices in action are provided throughout. As noted above, meaningful community engagement throughout the process of developing equitable data systems is critical.[93]

While resources such as the ones noted above can help program designers as they work to develop their own equity reporting strategy, there are no specific requirements for which metrics should be tracked or how and when they should be tracked and reported on. For now, therefore, it remains incumbent upon the program designer to determine its equity reporting. Our review of the publicly available state recovery plans that were due August 2021 indicates that there are few details on equity measures and little transparency about the distribution processes across outlined programs. Leaders and policymakers should seek to improve accountability, and ESOs that serve a diverse group of entrepreneurs – including BIPOC, women, and those in historically under-resourced locations – should use their platforms to elevate these steps.

Key Insight #3 The tracking of equity and inclusion metrics should be paired with purposeful program design and feedback loops.

The absence of equity guidelines, reporting, and assessment fails to embed a structure to support more equitable and transparent governance. The absence of real guidance on equity goals, metrics, and data collection from the federal government will likely result in large variation of how state and local governments interpret equitable recovery and intentions in their policy design and implementation. The federal SBA PPP program did not require the collection of demographic information in subsequent rounds even though this was an identified flaw. The absence of requiring demographics failed to provide governments with an equitable example of dispersing relief and recovery funds. The SSBCI's interim rule on demographic data collection holds promise. Still, there is a substantial need to address the structural issues that impact equity, such as the implicit biases in

[91] See for example their dashboard reporting metrics on the city's Small Business Relief Grant: https://app.powerbigov.us/view?r=eyJrIjoiNDMxMjVkNmUtYjBiNC00YjBkLTk5ZjUtZTVmNjA5MTdlNjlkIiwidCI6IjVjNWUxOWY2LWE2YWItNGI0NS1iMWQwLWJlNDYwOGE5YTY3ZiJ9
[92] "Colorado Performance Management Guidelines" (January 2022). https://docs.google.com/document/d/1Or51AkWJx3BAD0NP-xfPHzkJq8ZEaS3voMah9NfojI0/edit
[93] Actionable Intelligence for Social Policy, "A Toolkit for Centering Racial Equity Throughout Data Integration," (Philadelphia, PA: AISP, May 2020). https://aisp.upenn.edu/wp-content/uploads/2020/08/AISP-Toolkit_5.27.20.pdf

decision structures as well as collecting data on business results and survival along the way to further improve assistance to the diverse challenges of businesses during the recovery.

This report highlights how, alongside financial and fiscal incentives, state and local governments used relief and recovery funds to provide services, technical assistance and support, and training programs. These programs should consider the unique needs of the communities they are serving and provide supports that are tailored to meet those needs. Such programs should not only be tracking who they are serving and how, but they should ideally also be tracking business outcomes and survival rates that could be used to better understand the impact the program is having on small businesses and illuminate ways in which the program can address knowledge gaps and better provide assistance to businesses during the recovery to maximize survival and overall resilience.

Embedding equity into incentive programs will require a change in existing program design, monitoring, evaluation, and reporting. **Program design must focus on outreach and attempt to improve the understanding of techniques that can reach underserved businesses and those that are harder to reach.** Knowledge that the pool of applicants reflects a state or local economy's business population can provide greater confidence that the awardees will also be representative and that the program is serving those it was designed to help. Data collection systems must identify the "just right" metrics that toe the line between representing program performance (which may not be particularly meaningful to the community) and community socioeconomic conditions (which may be too broad)[94] and ensure that business reporting is not overly burdensome. Monitoring and evaluation processes need to provide meaningful short-term analyses and comparisons that can help identify program modifications to enable it to meet objectives and reach targeted businesses. These system changes can enable greater transparency in reporting.

The costs of creating a purposeful design, maintaining flexibility for modifications, and changing reporting requirements are not insignificant. Yet, leaders, policymakers, and ESOs should recognize that such investment is a necessary approach to ensure that existing program award structures and processes become more equitable and inclusive for all small businesses and new entrepreneurial firms. Ultimately, building the capacity and pathways for all entrepreneurs to participate in the economy will increase the overall local economic growth potential.

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