

The cover features a dark blue background on the left with white text. On the right, a photograph shows a city skyline at dusk with a bridge in the foreground. A large orange rectangle is positioned at the top left, and a blue rectangle is at the bottom right.

Greater Richmond Small Business Ecosystem Assessment

Building a more inclusive,
resilient Richmond

SPRING 2021

next street **COMMONFUTURE.**

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Executive Summary

Richmond – the Commonwealth of Virginia’s state capital coined as the River City – is one of America’s most historic cities. Anchored by Virginia Commonwealth University, the Federal Reserve Bank of Richmond, and seven Fortune 500 companies, the city and surrounding counties (Chesterfield, Henrico and Hanover) are home to a diversified economy that employs and serves the region’s diverse population of over one million residents. Richmond is rich in Black culture and history; the city’s Jackson Ward neighborhood is known as the “birthplace of Black capitalism” where the first Black-owned bank in the country was established in 1889, and where many Black-owned businesses thrived.¹ However, the region’s communities of color have long faced systemic inequality. Once the capital of the Confederacy, Richmond has a legacy of redlining practices and inequitable land use policies that devalued and displaced Black-owned businesses and residents. Today, deep socioeconomic disparities persist across the region along racial and ethnic lines. Addressing these disparities requires solutions that build wealth across all communities in the region, including solutions that provide equitable avenues to entrepreneurship and small business ownership.

The advent of the COVID-19 pandemic and mounting civil unrest in response to acts of racial injustice has worsened these existing inequities and magnified financial distress among small businesses owned by people of color (POC).² Since the start of the pandemic, Black-, Latino(a)-, and Asian-owned businesses have had higher closure rates than White-owned businesses nationwide.³ Over the same time period, POC-owned firms have faced larger cash balance and revenue declines compared to non-Latino(a), White-owned firms. The impact of the crisis has been particularly severe among Black- and Asian-owned businesses.⁴

At this critical moment, this report examines Richmond’s unique historical context and the current state of play of the region’s small business communities and supporting ecosystem, with a specific lens on businesses owned by POC and the COVID-19 response and recovery. This assessment culminates in a set of recommendations and a proposed path forward aimed at narrowing racial gaps across several dimensions – including business ownership, revenue, and employment – throughout the Greater Richmond region over the next five years.



1 Source: Todd, 2019
2 Note: In this report, ‘people of color’ refers to demographics outside of non-Hispanic. White populations, with a focus on Black, Hispanic, and Asian populations
3 Source: National Bureau of Economic Research, 2020
4 Source: JPMorgan Chase Institute, 2020

This report highlights the barriers that entrepreneurs and small business owners of color in Richmond face and the additional support they and those serving these entrepreneurs need to succeed, as gathered from data analysis, interviews, and local stakeholder convenings. Major takeaways include:

1 **There are disparities in small business ownership, revenue, and employment across Greater Richmond that persist for entrepreneurs of color.** While Black and Latino(a) residents make up 29% and 7% of the population, respectively, they only own 5% and 2% of all employer small businesses. Furthermore, Black- and Latino(a)-owned employer businesses in the region employ fewer staff and generate less revenue than White-owned businesses.

2 **There has been a historic unmet demand of \$5 billion in capital for small businesses in Richmond annually, with disproportionately low rates of lending in Black and Latino(a) neighborhoods on the East and South sides.** The capital landscape has an emerging but limited presence of alternative lenders and equity providers needed to meet the capital demand of POC-owned businesses. This unmet demand has been magnified through the COVID-19 crisis, as illustrated through the inequitable access to the first rounds of Paycheck Protection Program (PPP) funding via the U.S. CARES Act.

3 **Richmond is home to a culture of innovation that fosters high-growth startups; however, additional resources are needed to grow micro businesses in communities of color.** Over 90% of Black- and Latino(a)-owned businesses in the region are sole proprietorships. To support their growth, they need tailored technical assistance and access to affordable back-office services such as IT services, accounting, and human resources support.

4 **Business owners of color in Greater Richmond lack awareness and access to the services they need to startup, sustain, and scale their businesses.** Richmond's small business ecosystem relies on informal and relationship-driven connections; however, business owners of color lack access to networks that facilitate access to existing business services. Moreover, many available resources in the area are membership-based and therefore inaccessible to business owners who cannot afford them. With the region's growing Latino(a) and immigrant communities, there is also a heightened need for culturally and linguistically competent services to best serve them.

5 **Richmond's small business ecosystem requires heightened coordination and the corresponding resources across the city and surrounding counties needed to best serve the region's small businesses.** Across the region, few formal coalitions exist to advocate for city- and region-wide small business priorities, coordinate ecosystem initiatives, and facilitate referrals across local providers. Further, local business support organizations (BSOs) and community lenders face financial constraints that limit their capacity. The average budget size of BSOs in Richmond is less than that of comparable cities such as Indianapolis and St. Louis.



In response to these challenges, the research identified critical needs in equitable access to capital, customers, and services that were reaffirmed by local stakeholders. There is an opportunity to meet small businesses owned by POC where they are, provide them with services that have a transformational impact on their businesses, and create wealth and vibrancy in their communities. To do this, the small business ecosystem will need to focus on the following ecosystem pillars:



Ecosystem Building and Collaboration: Establish and sustain coalitions and digital hubs to connect business owners, capital and service providers, funders, and other stakeholders across the small business ecosystem



Tailored Small Business Support: Establish and enhance small business services to increase access and availability of tailored business support for entrepreneurs of color



Access to Flexible Capital: Expand the availability and access of flexible capital to strengthen businesses, community financial institutions, and responsible investors



Avenues for Market Opportunities: Expand growth opportunities for business owners of color by developing new sales channels through digital, neighborhood-based, and regional forums

The region's economic vitality, presence of corporations and anchor institutions, and momentum from recent small business relief initiatives leave it well equipped to create a stronger, more equitable small business ecosystem. The collection of leaders gathered throughout this project are committed to significantly narrowing ethnic and racial gaps in business ownership, revenue, and employment across Greater Richmond within the next five years, with the long-term goal of narrowing ethnic and racial disparities, by focusing on the ecosystem pillars detailed later in the report.

Introduction and Context

An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.⁸

Small businesses are core to the national economy.

In the U.S., roughly 30 million small businesses employ half of the private sector workforce and have created approximately 60% of all new jobs since 1995.⁵ In communities, small businesses serve as a critical means to build community and individual wealth, with an estimated 68% of revenue generated by local businesses staying within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.⁶ Small business families also have an estimated median net worth five times higher than that of families with a head of household working for other employers.⁷

Despite their critical role in communities, small business owners of color face institutional and systemic barriers in accessing capital and customers and encounter gaps in service provision that stifle their businesses' sustainability and growth. Loan denial rates are twice as high for small business owners of color compared to White business owners, while loan sizes are 39% smaller for business owners of color approved for loans.⁸ Moreover, while there are many public and private sector supplier diversity programs, business owners of color report that they continue to struggle to access large contracts due to lack of access to networks and marketplace discrimination.⁹ Non-native English-speaking entrepreneurs also face barriers in finding culturally and linguistically competent support services; 22% of Asian and Pacific Islander entrepreneurs report not knowing where to find free help in their language.¹⁰

5 Source: Mills, 2016

6 Source: Civic Economics, 2004

7 Source: Federal Reserve, 2006

8 Source: Blanchflower, 2003

9 Source: U.S. Department of Commerce Minority Development Agency, 2010

10 Source: National CAPACD, 2019

The COVID-19 pandemic has amplified the challenges facing small business owners of color.

An estimated six million small businesses closed through the first six months of the crisis – representing over 19% of small firms nationally – and approximately 60% of these firms are expected to stay closed permanently.¹¹ Between March and June 2020, businesses owned by people of color faced even higher closure rates, with 41% of Black-owned businesses, 32% of Latino(a)-owned businesses, and 26% of Asian-owned businesses permanently shuttered nationwide.¹² Over the same time period, cash balances of Black-owned firms and revenues of Asian-owned firms declined by over 25% and 60%, respectively, while Latino(a)-owned firms experienced larger cash balance and revenue declines than that of non-Latino(a), White-owned firms.¹³ Even as businesses begin to recover through the reopening of local economies, disparities persist in the recovery. Altogether, this crisis has dramatically exacerbated existing inequities and financial distress among small businesses owned by people of color.

To develop a more equitable small business environment nationwide, Next Street and Common Future partnered to conduct research and drive a community-centric process to develop solutions for businesses owned by people of color. Next Street is a mission-driven advisory firm dedicated

to mobilizing capital, customers, and capabilities to small businesses and entrepreneurs who have been systematically held back, with national expertise in equitable small business ecosystems. Common Future is a network of leaders (re)building an economy that includes everyone. Through leadership and field building, capital aggregation and deployment, project incubation, and strategy consulting, Common Future connects and empowers wealth holders and wealth builders who believe in the power of entrepreneurship, business, and asset ownership to restore community wealth. These organizations brought their collective strengths to the work – Next Street’s expertise in small business and data analysis and Common Future’s insights in community building and uplifting voices – to conduct a rigorous analysis, shaped and grounded by local communities. The research and process spanned across nine cities and localities across the U.S., including Richmond, and are centered around community engagement and fostering a network of relationships among local community organizations and leaders to catalyze solutions focused on racial equity and recovery from the COVID-19 pandemic.

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11 Sources: Opportunity Insights, 2020; SBA, 2019; Yelp Local Economic Impact Report, 2020

12 Source: National Bureau of Economic Research, 2020

13 Source: JPMorgan Chase Institute, 2020

How We Approached the Research

From November 2020 to February 2021, Next Street and Common Future studied the local economic and social context of Richmond, the core capital and service needs of local entrepreneurs and small business owners of color, and the gaps present in the small business support ecosystem. The research was then synthesized and shared with a coalition of local stakeholders to inform strategies co-created to address the historical inequities for small businesses owned by POC, deepened by the COVID-19 crisis. This project balanced quantitative and qualitative data analysis with community

engagement to deepen the network among local businesses, community organizations, and economic development and civic leaders by presenting a common language and set of facts for the ecosystem. Drawing on first-person data collection and engagement with those directly impacted by local conditions and leveraging publicly available datasets, webinars, and virtual events, this work aimed to elevate locally relevant insights that inform a better way forward for the Greater Richmond's small business communities.

KEY FOCUS AREAS AND DEFINITIONS

Through the course of the research for this project, several key definitions were used about the type of businesses focused on this work:



Defining “Small Business Ecosystem”

This report defines a “small business ecosystem” as a system of interdependent actors and relations directly or indirectly supporting the creation, sustenance, and growth of new ventures in a city or locality. Key elements of a strong ecosystem, as defined by the Kauffman Foundation and drawing from Next Street’s and Common Future’s collective experiences in regions across the U.S., include expertise that can help businesses grow, knowledge and resources to help small businesses, champions and conveners, access points and stories that help understand how to interact with the ecosystem, and robust social capital. Critical elements required to make an ecosystem inclusive include conversations about entrenched racism and inequities across a diverse network of key actors, systems that are designed to change beliefs, values, priorities and power structures, and processes for decision-making that results in more equitable outcomes and access to opportunity for underserved groups.



Defining “Small Business”

This report defines “small businesses” as firms with 50 full-time employees or fewer, including micro-businesses, mom-and-pop businesses, and sole-proprietors or non-employer businesses. For cases in which data on this definition of small businesses is unavailable, the category of “employer businesses” is used. Employer businesses are defined as businesses with at least one, but fewer than 50 full-time employees.



Defining Geographic Focus

Based on the availability of quantitative data, most of the content in this report defines the Greater Richmond region at the county level (Chesterfield, Hanover, Henrico and Richmond City counties). Broader geographic areas (including data at the metropolitan statistical area- and state-level) are referenced where county-level data is not available.



Demographic Breakdown

This report specifically focuses on businesses owned by POC, defined as populations outside of the non-Latino(a) White population – with a specific focus on Black and Latino(a) business owners. Census definitions are used for these demographic groups throughout the analysis performed.

RESEARCH ACTIVITIES

This report uses relevant data and insights from several sources, including prior reports, publicly available datasets, and insights from local stakeholders and small businesses. Potential data limitations that should be considered in the context of the overall research findings can be found in Appendix I.



RESEARCH TRACK	ACTIVITIES
Interviews and focus groups	Interviewed and hosted focus groups with over 30 local economic development stakeholders, capital and service providers, and business owners to understand their perspectives on the Greater Richmond small business ecosystem and the needs of local business owners of color.
Secondary research	Aggregated, analyzed, and synthesized nearly 30 different sources, including relevant studies, local strategic plans, surveys, webinars, events, and other analyses to inform the analysis of Richmond’s historical economic and social context and its small business communities (listed in Appendix).
Small business landscape	Analyzed census and other publicly available data to understand the current small business landscape in Richmond, including business size, industry, location, and ownership information among POC.
Business services landscape	Analyzed data collected from a sample of 38 business support organizations, including data on specialization and breadth of services, leadership demographics, and funding.
Capital landscape	Analyzed publicly available data and surveys on the flow of debt and equity capital to measure the current supply of capital available to small businesses in Richmond and to estimate and forecast small business capital demand before and during the COVID-19 pandemic.
Broad stakeholder engagement	Convened coalitions of over 30 local stakeholders that leveraged their knowledge of the Richmond small business landscape to provide project and strategic direction and co-create strategies to create a more inclusive small business ecosystem.



KEY STAKEHOLDERS

To ensure that this effort built upon the collective knowledge of individuals throughout the small business ecosystem, we brought together a variety of stakeholders who informed our approach and findings. A list of all stakeholders can be found in the Acknowledgements section. These include:

Project Leads: Two local small business ecosystem leaders – Carol Reese, ReeSources Inc., and Shirley Crawford, Women’s Business Center, Richmond – who played a critical role in shaping and executing the work. The project leads served as primary points of connection between the project team and communities and worked directly with the research team to support and execute key elements of the research.

Working Group: A group of 17 local stakeholders with expertise in the needs of business owners of color and an understanding of and connections to the local small business ecosystem. The Working Group helped shape the direction of the project, provided feedback on project direction on a monthly basis and helped to draw connections and find synergies across the ecosystem.

Advisory Council: A steering committee of 33 local leaders and small business owners across the small business ecosystem. Members included small business owners, business support organizations, capital providers, government representatives, philanthropic organizations, and anchor institutions. The Advisory Council provided on-the-ground insights and advocated for the work within their networks.

Research Team: An integrated team of advisors from Next Street and Common Future with collective expertise in community-led, small business development. The research team led the quantitative and qualitative research and project management with the Working Group and Advisory Council and facilitated the workshops across local stakeholder groups.

What We Found

HISTORICAL CONTEXT OF RICHMOND

Richmond is the capital and the fourth most populous city in the Commonwealth of Virginia. Greater Richmond, encompassing the city and surrounding counties of Chesterfield, Hanover, and Henrico, is home to over one million residents across the region's over 1,200 square miles. The area benefits from a diverse population, with Black and foreign-born individuals representing 29% and 10% of the population, respectively. Richmond's population has shown modest growth of 1.1% per annum (p.a.) from 2013 to 2018, driven by a rise in the region's Latino(a) and Asian populations.

Unique assets support the region's economic vitality, including the relative strength of its financial services and life sciences industries and its corporate and anchor institutions that serve as large employers and investors in the local economy. The local financial sector is centered around the Federal Reserve Bank of Richmond and includes Fortune 500 companies Genworth Financial and Markel Corporation; together, the sector employs over 5,500 financial services workers.¹⁴ The Virginia BioTechnology Research Park, located adjacent to the Virginia Commonwealth University (VCU) Medical center, is a fixture in the local health and life sciences industry, housing over 60 businesses, labs, and research centers that employ over 2,000 health sciences workers. VCU is also a key contributor to the region's vitality; the university generates an economic impact of \$4 billion annually, is the region's largest employer, and serves as a pipeline to a distinguished talent pool.¹⁵ Local anchor institutions and large corporations have a track record of investing in the local startup ecosystem, exemplified by Fortune 500 company Dominion Energy's continued support of the Dominion Energy Innovation Center, an advanced technology accelerator located in Hanover County.

However, Richmond's economic prosperity is not shared amongst all, rooted in the city's deep racial history. A monument commemorating the Confederate general Robert E. Lee remains in place today on Monument Avenue, its perseverance serving as a symbol of Richmond's place as the capital of the Confederacy. Richmond has also been an emblem of Black prosperity, particularly in the city's Jackson Ward neighborhood dubbed "the birthplace of Black capitalism."¹⁶ However, historic redlining practices and land use policies have since assailed the neighborhood and city's Black communities.

The consequences of Richmond's racial history are evident today, represented in the city's neighborhood segregation, disparities in income, employment and homeownership, and displacement. Racial and ethnic groups remain concentrated in certain neighborhoods despite relative diversity in several areas such as downtown and near university campuses. Residents of color within segregated communities face disparities in income, employment, and homeownership. The median household income for White households is \$59,000, compared to \$28,000 for Black households.¹⁷ Furthermore, Black residents face barriers in homeownership stemming from historical disinvestment and current discriminatory practices. Today, Black home-loan applicants must overcome lower loan approval rates regardless of their income level.¹⁸ Moreover, recent gentrification in Black neighborhoods, such as East End, has replaced low- to moderate-income Black residents with wealthier White residents; since 2000, the number of Black residents decreased by nearly 6,500, despite overall population growth.^{19,20} Meanwhile, as the fastest-growing racial or ethnic population in the region, Latino(a) residents face similar economic hardships. The median income for Latino(a) households is \$37,000, compared to \$59,000 among non-Latino(a) White households. Latino(a) residents also experience a home-loan denial rate nearly two times higher than their non-Latino(a) White counterparts.^{21,22}

With all these considerations, communities of color in Richmond disproportionately face challenging socioeconomic conditions, pointing to a need for increased economic opportunity through means like small business ownership.

14 Source: Greater Richmond Partnership, 2021
15 Source: Center for Urban and Regional Analysis at VCU, 2016
16 Source: The Atlantic, 2016
17 Source: Statistical Atlas
18 Source: Housing Opportunities Made Equal of Virginia, Inc., 2019
19 Source: NCRC, 2019
20 Source: City of Richmond, 2020
21 Source: Statistical Atlas
22 Source: Housing Opportunities Made Equal of Virginia, Inc., 2019

SMALL BUSINESS LANDSCAPE

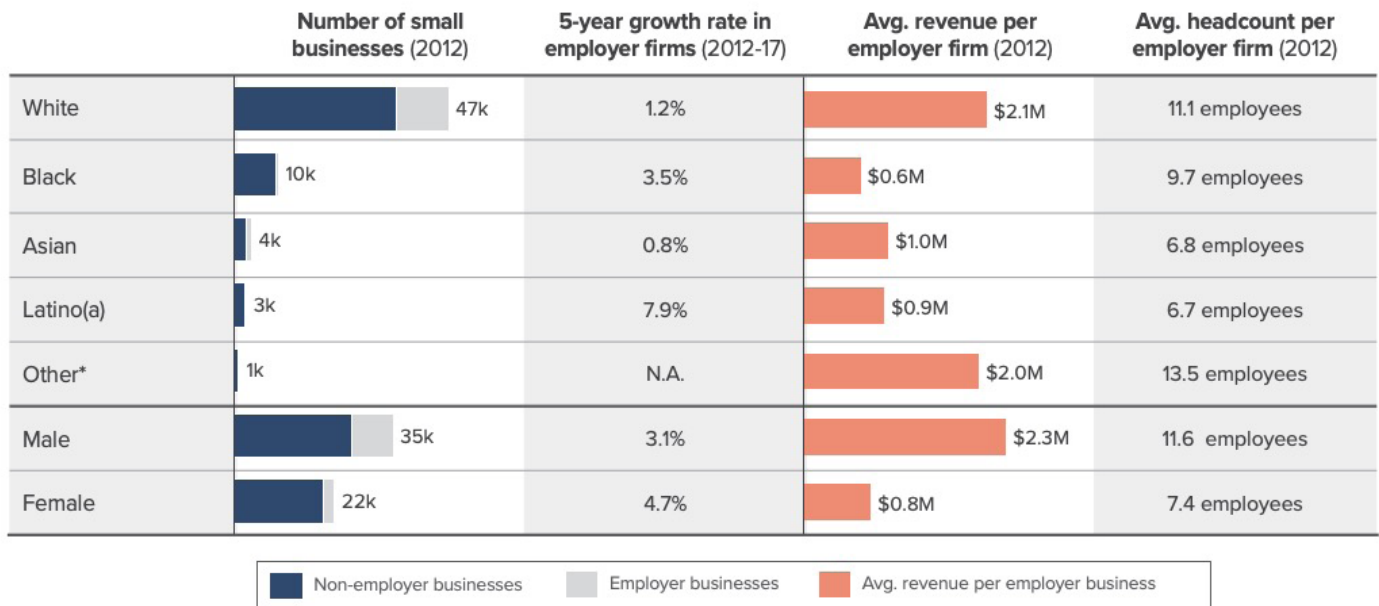
Small businesses are a critical driver of the Greater Richmond economy. However, the region’s residents of color own disproportionately fewer and smaller businesses when compared to their White counterparts, compounding the inequities described previously in this report.

The Greater Richmond region houses a robust small business ecosystem with approximately 25,000 employer small businesses in 2017 that accounted for 94% of all employer businesses. Separately, there were also an estimated 74,000 non-employer sole proprietorships in the region. These small employer firms and sole proprietorships accounted for 35% of the local workforce.²³

These local small businesses make up a well-diversified economy with the most representation among Professional Services (13%), Retail Trade (13%), and Healthcare and Social Assistance (11%) sectors. Meanwhile, Biotech—an emerging, high-growth sector supported by the VA Bio+Tech Park—has experienced notable growth in the region.²⁴

Across the region, 50% of employer small businesses were “micro businesses” that employ between one and four employees. This micro business rate is lower than other cities with robust small business ecosystems— such as in Atlanta, where nearly 57% of employer businesses employ between one and four employees.

Figure 1: Small business ownership, revenue, and employment by race and ethnicity



Note: * Other includes populations of Native Hawaiian and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau
 Source: U.S. Census Survey of Business Owners (2012); U.S. Annual Business Survey (2017)

23 Note: Figures assume sole proprietorships serve as primary form of employment for self-employed individuals
 24 Source: Greater Richmond Partnership, 2020

The number of employer businesses in Richmond increased from 2012 to 2017, primarily driven by Black and Latino(a) firms that grew at 5.2% p.a. and 7.9% p.a. over the same period, respectively. Despite recent growth in business ownership among POC, disparities in business ownership persist. While Black and Latino(a) residents make up 29% and 7% of the population, they only own 5% and 2% of all businesses, respectively.²⁵ These ownership disparities are paired with revenue and employment imbalances, with Black, Latino(a), and Asian owned businesses historically earning less revenue and having fewer employees than their White-owned counterparts, as shown in Figure 1.²⁶ Furthermore, over 90% of Black and Latino(a)-owned businesses in the region are non-employer, sole proprietorships, indicating barriers to growth for local POC-owned businesses.

In Richmond, local business owners of color further expanded on the drivers behind ownership and revenue disparities through feedback provided in focus groups and the Working Group. Among the ten small business owners engaged for this assessment, all cited difficulty in marketing and customer acquisition required to grow. Specifically, they noted a lack of access to networks for entrepreneurs of color that connect to business opportunities and procurement channels. They also vocalized challenges for maintaining sufficient cash flow to manage how large contracts are administered.

“ I worked with a hospital that said they were committed to diversity and inclusion, but when I was contracting with them their payment terms were inconsistent and hard for me to manage as a small business. To strengthen a commitment to diversity, equity and inclusion, large institutions need to adjust their contracting terms to work for POC-owned businesses.”

- CEO, Commercial Cleaner

Moreover, focus group participants stated that access to growth capital and difficulties managing their cash flow, bookkeeping, and procuring financial statements were also barriers to growth. Specifically, business owners cited a lack of banking relationships and distrust in the traditional financing landscape after historically being denied support. These barriers are further entrenched for Spanish-speaking business owners due to a lack of culturally and linguistically appropriate resources and services offered in the ecosystem.

“Accessing growth capital has been an issue for Spanish speaking business owners. There aren’t resources to translate and help businesses navigate the process. The issue I see frequently in my community is that people can’t find support and ultimately give up – they figure they can make it through with the money they have.”

***- Program Manager, Financial Opportunity Center,
Southside Community Development and Housing Corporation***

It is important to note that the small business statistics highlighted in this report are a snapshot in time and that during the COVID-19 pandemic, numerous small businesses have been and will be forced out of operation. The full impact of this crisis on the total number of establishments in the region is still unknown and will not be fully measured in this report.

25 Source: U.S. Census American Community Survey, 2016; U.S. Census Survey of Business Owners and Self-Employed Persons, 2012

26 Source: U.S. Census Survey of Business Owners and Self-Employed Persons, 2012

Impact of the COVID-19 pandemic

The public health measures adopted to reduce the spread of COVID-19, including the state’s order to close certain non-essential businesses in March 2020 and the other restrictions on local business practices, have devastated small businesses across the region. During this period, many small businesses were forced to temporarily close or reduce operations, incurring significant revenue losses and others permanently shuttering. In the city of Richmond, the number of small businesses open decreased by 1% from January 2020 to January 2021.²⁷ However, despite most Richmond businesses remaining open, total small business revenue decreased by 28% over the same period. Meanwhile, the number of business closures have been more significant in the surrounding counties of Chesterfield, Hanover, and Henrico, with nearly a quarter of businesses temporarily or permanently closed in January 2021 compared to a year prior.²⁸ Comparable to the city, total revenue for small businesses located in the outer counties decreased by 18% to 39% during the same period.

To better understand current and emerging needs of small businesses during this pandemic, this analysis focused across three main segments that were adapted from a segmentation developed by the Brookings Institution.²⁹ Industries were grouped across segments based on immediacy and severity of the impact felt by businesses, as shown in Figure 2.

Figure 2: COVID-19 risk segmentation by industry

	Hardest Hit <i>"How do I stay in business?"</i>	Impacted but Surviving <i>"How can I pivot or evolve?"</i>	Insulated with Potential <i>"How can I maintain and grow?"</i>
Description	Non-essential businesses that have had to close or significantly adjust operations and face high risk of closure	Essential businesses that have lost revenue due to reduced spending from consumers and non-essential businesses	Essential businesses that have been able to continue operations and supply critical goods and services
% of small businesses^ in Greater Richmond (2017)	24%	27%	48%
Key industries	<ul style="list-style-type: none"> • Food service & drinking places • Personal & laundry services • Motor vehicle & parts dealers • Miscellaneous store retailers • Gasoline stations • Clothing & clothing accessories stores 	<ul style="list-style-type: none"> • Specialty trade contractors • Administrative & support services • Real estate • Construction of buildings • Merchant wholesalers & durable goods 	<ul style="list-style-type: none"> • Professional & technical services • Ambulatory health care services • Membership associations & organization • Insurance carriers & related activities • Repair & maintenance

Note: Segments adapted from an industry segmentation framework developed by the Brookings Institution; ^ Includes businesses with between 1 and 49 paid employees
 Source: Brookings Institution; Moody's Corporation; U.S. Census County Business Patterns (2017)

27 Source: Opportunity Insights, 2020
 28 Source: Opportunity Insights, 2020
 29 Source: Brookings Institution, 2020

From historical surveys of owner demographics in Virginia, Black-owned businesses operated more in the Insulated with Potential industries given the relative concentration of Black business ownership in healthcare industries such as Ambulatory Healthcare Services, Social Assistance, and Residential Care Facilities. Latino(a)-owned businesses operated more in Impacted but Surviving industries, given the relative concentration of business ownership in Construction industries such as Specialty Contractors and Construction of Buildings.³⁰ This dynamic does not follow national trends; across the country, small businesses owned by POC have been disproportionately represented in the most affected industries like leisure, hospitality, and retail. Figure 3 showcases the full demographic breakdown by COVID-19 risk segmentation.

Despite operating in less impacted industries, POC-communities in Richmond are disproportionately impacted by COVID-19. In February 2021, Black residents in Richmond were hospitalized at four times the rate of their White counterparts.³¹ As such, POC-owned businesses operating in less impacted sectors needed tailored support to ensure the safety of their employees. The City of Richmond provided 500 personal protective equipment (PPE) kits to small businesses in January 2021, but additional supplies and health protocol training is needed to serve the full need. Meanwhile, POC-owned businesses operating in the Hardest Hit industries still face a high risk of closure and need additional relief to maintain operations.

The COVID-19 pandemic has compounded many entrenched barriers in accessing capital, customers, and services existent before the crisis that have kept these businesses from sustainability and growth.

Figure 3: COVID-19 risk segmentation breakdown of Virginia-based businesses, by race and ethnicity



Source: Brookings Institution; Moody's Corporation; US Census Bureau, County Business Patterns (2016)

30 Source: U.S. Census County Business Patterns Data, 2017
 31 Source: Richmond Times Dispatch, 2021

CAPITAL SUPPORT LANDSCAPE

The Richmond small business capital landscape is characterized by a significant shortage of capital to meet small business needs, a gap in small dollar loans offered by non-traditional lenders needed to best serve POC-owned businesses, and disproportionately low rates of traditional lending for neighborhood-based businesses in Black and Latino(a) neighborhoods. These market dynamics result in a capital landscape reliant on national and regional banks with few alternative lenders and equity investors to meet the region's immense capital demand, creating a challenging environment for business owners and entrepreneurs of color to raise capital for their businesses. To understand the dynamics of the capital support landscape in Richmond, the research team examined the capital demand and supply for small businesses within the region.

Debt and equity capital demand in Richmond declined between 2016 and 2019, as illustrated in Figure 4. This decline was, in part, driven by small business tax relief resulting from the 2017 Tax Relief Bill and by declining trust in traditional financial institutions among some demographic groups.^{32,33} Over this period, estimated demand dropped most significantly for the region's Black small business owners.³⁴

Concurrently, small business capital supply in Richmond has increased modestly since its trough following the financial crisis in 2008. However, from 2012 to 2017, total capital supply decreased by 0.2% p.a. to an estimated \$826 million, with the supply of debt decreasing to \$793 million. Debt capital supplied in the region is primarily sourced through non-SBA guaranteed bank lending which declined by 0.8% p.a. to \$739 million in 2017.

Meanwhile, Richmond has low SBA and community development financial institution (CDFI) lending levels compared to other localities with similar numbers of small businesses, such as San Antonio or Atlanta, limiting the products accessible for businesses owned by POC. To service the approximately 25,000 small employer businesses and 74,000 sole proprietors in the region, traditional, non-CDFI lenders made \$47 million in SBA loans in 2017, while CDFIs made an additional \$6 million in SBA and non-SBA lending; CDFI lending in the region has primarily been sourced by non-local lenders, with few CDFIs based in Richmond. The guarantee provided by SBA loans offer critical risk mitigation in creating access to loans for POC-owned businesses. Low representation of SBA lending coupled with low levels of CDFI funding indicate a gap in financing for those businesses traditionally underserved or turned away from traditional financial institutions.



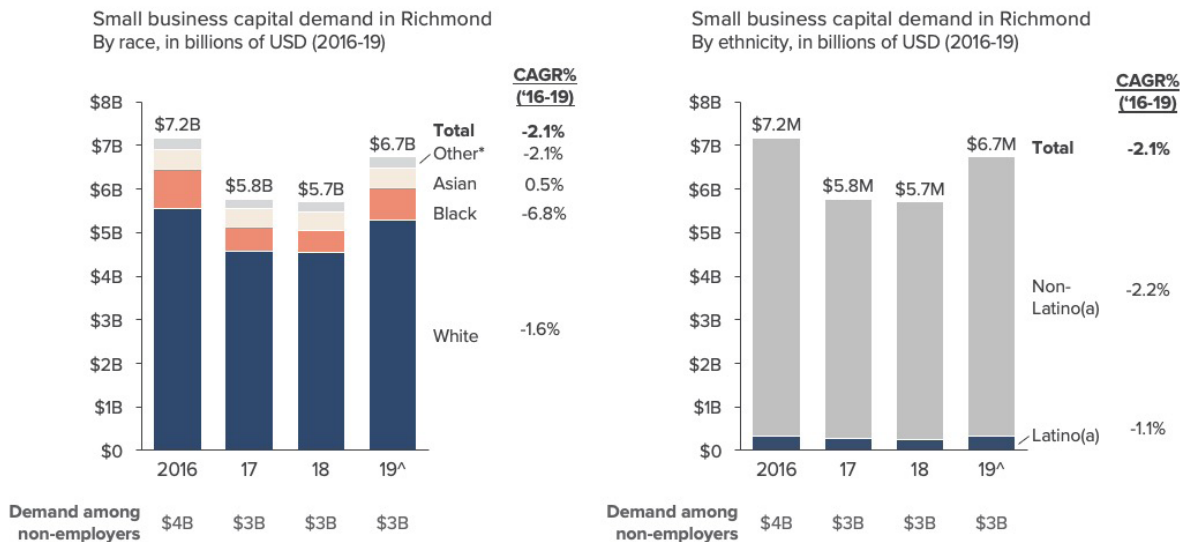
32 Source: Pepperdine Private Capital Markets Project, 2018

33 Source: Federal Reserve Small Business Credit Survey - Report on Minority Businesses, 2016-2018

34 Note: Detailed capital demand and supply methodology can be found in the appendix, p. [33-34]

Although the gap between capital demand and supply has declined incrementally in recent years, capital supply has not met the significant demands in the region. In 2017, there was an estimated \$5 billion gap between small business capital supply and demand.³⁵ Examining debt capital, there was a dearth in the supply of mid-sized loans (between \$100,000 and \$250,000)³⁶ across all debt sources and small loans (under \$100,000) made by SBA and CDFI lenders which are essential to the growth of the region's micro businesses. This was consistent with national trends—for capital providers across the country, small- to mid-sized loans have the same fixed expenses to process and underwrite of larger loans but result in lower loan revenues, making them less profitable for lenders. Further investment is needed for CDFIs and nonprofit loan funds to serve as vehicles that narrow the tremendous gap in supply and demand for small- and mid-sized loans. Given the limited availability of community microlending, POC-owned businesses must rely on bank capital for growth; however, bank lending is often inaccessible to POC-owned businesses due to inflexible underwriting criteria that prioritizes credit histories and personal collateral. These dynamics limit POC's ability to start or become employer businesses and provide an explanation for the large concentration in non-employer businesses and limited micro business presence.

Figure 4: Estimated small business capital demand in Richmond



Source: U.S. Census County Business Patterns, U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

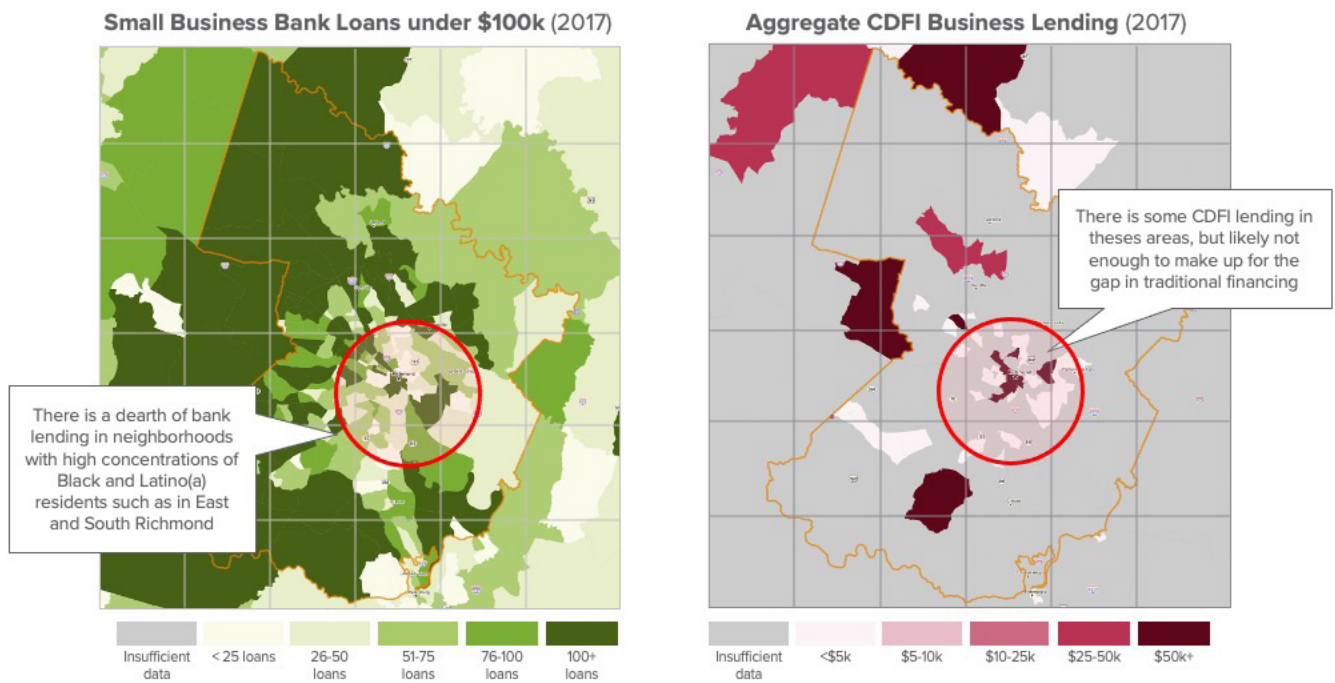
35 Note: the gap in capital demand and supply based on estimated capital demand and supply figures in 2017. Detailed capital demand and supply methodology can be found in the appendix, p. [33-34]

36 Sources: Aggregate statistics sourced from Freedom of Information Act (FOIA) data to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report

Moreover, the supply of equity capital in Richmond grew to \$33 million in 2017 but represented fewer than 15 total equity investments.³⁷ The number of equity investments was limited across all series, creating challenges for businesses seeking growth capital to scale their business.^{38,39} While Richmond’s burgeoning Biotech startup ecosystem has brought interest among equity investors, entrepreneurs of color in the city are concentrated in moderate growth industries, such as Healthcare, Social Assistance, and Construction, and thus have limited access to equity investment opportunities. To best orient these business owners to sustain and grow their businesses, there is a need for more low-cost, flexible products across the continuum of capital.

When examining small business owners’ ability to access capital geographically, there were disproportionately low rates of commercial bank lending and limited CDFI lending in neighborhoods with high concentrations of Black and Latino(a) residents, as evidenced in Figure 5. This is most pronounced in neighborhoods in East and South Richmond.⁴⁰ There is a need to grow the pool of responsible lending to meet the significant unmet demands in these areas. Additionally, there is a need to further connect existing capital providers in the region with community-based organizations in these neighborhoods to create greater awareness of financing options provided by local financial institutions and increase connectivity across the hyper-localized ecosystems.

Figure 5: Bank and CDFI lending in Greater Richmond by census tract



37 Source: PwC / CB Insights MoneyTree Report
 38 Note: Series funding aligns to a company’s expansion stage – while there is no standard funding threshold for Series A or Seed funding, an analysis over 38 Series B deals in June 2020 indicated the median Series B median was \$26 million
 39 Source: Fundz Database, 2020
 40 Source: CRA and CDFI Fund data for the City of Richmond, and Chesterfield, Hanover and Henrico Counties, accessed through PolicyMap

In this crisis, while some small businesses in Richmond have adapted to position themselves for growth, most small businesses have tried to offset lost revenue, creating short-term increased demand for emergency funding at the start of the COVID-19 pandemic, and long-term reduced demand for traditional financing through the recovery. Many businesses were largely unprepared to weather a disruption in business lasting more than a few weeks—prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.⁴¹ As such, many businesses sought flexible, emergency financing from federal, state, and local sources, including loans made available by the Paycheck Protection Program (PPP) of the U.S. CARES Act and relief grant funds from the City of Richmond and Chesterfield County. However, emergency funding was difficult for businesses owned by POC to access as PPP lenders prioritized existing and larger borrowers, the distribution of relief grants was constrained by local capacity limitations, and federal and local funding were largely restricted to employer businesses. Moreover, local stakeholders indicated that many entrepreneurs of color struggled to access emergency funding due to inexperience in financial management and procuring required financial documents. The Consolidated Appropriations Act (CAA) in 2021 authorized additional provisions and funding to the PPP program in January 2021. In this second round of funding, CDFIs and nonprofit loan funds were granted an early-application period in an effort to distribute dollars more equitably; however, the impact was limited in Richmond, given the relatively small presence of community lenders and capacity constraints that local community lenders face.

In the months after the advent of the pandemic, median small business cash balances fell 12.7% compared to pre-pandemic levels.⁴² In the months after the onset of the pandemic and amidst the following recessionary environment, it is expected that there will be a subsequent decrease in capital demand driven by fewer small businesses able to take on additional traditional debt or seeking investment capital given expectations that fundraising will be more difficult due to tighter underwriting and investment policies.

In numeric terms, the research team estimated an initial surge of capital demand in Richmond peaking at \$2.1-\$2.4 billion in the second quarter of 2020, with decreased demand through a

Prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.⁴⁸



‘recovery’ period between \$0.8-\$1.3 billion through the end of the calendar year. Subsequently, a ‘post-recovery’ period with stabilized and flattening demand is expected, rising slowly each quarter to an estimated \$1.1-\$1.9 billion by the end of 2021.⁴³

With the research team’s forecast, it was important to note that small business capital demand can serve as a proxy of the small business ecosystem’s health, while higher longer-term demand for traditional financing correlates with a more robust ecosystem. To ensure that capital demand reaches levels prior to the COVID-19 crisis, an integrated small business ecosystem response among capital and service providers should serve as a method to promote the overall health of small businesses and the supporting ecosystem and accelerate recovery.

41 Source: JPMC Institute, 2019
42 Source: JPMC Institute, 2020
43 Note: Detailed capital demand and supply methodology can be found in the appendix, p. [33-34]

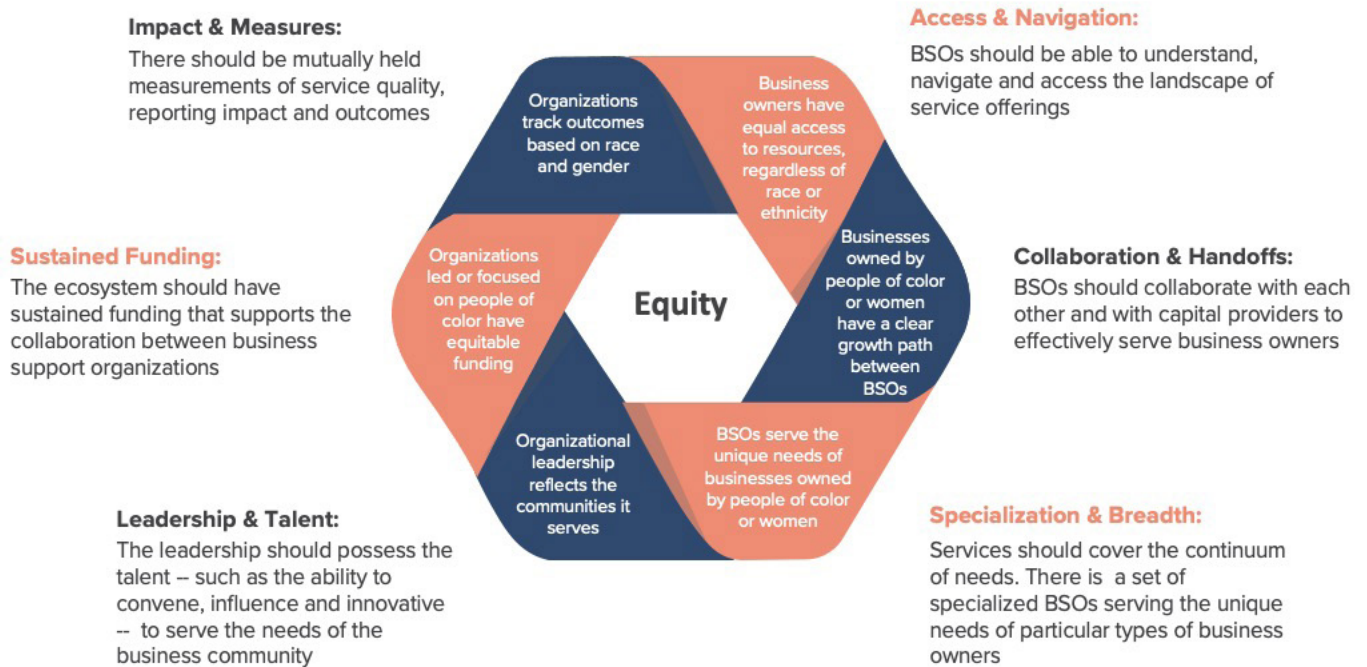
BUSINESS SUPPORT LANDSCAPE

The Richmond business support landscape is characterized by numerous available resources and a culture of innovation that drives support to high-growth startups in the area. However, there are gaps in awareness, navigation, and availability of culturally and linguistically competent resources to serve business owners of color, particularly those in moderate-growth industries, in Richmond’s Black and Latino(a) communities. Access to resources in Richmond is largely relationship-driven; however, people of color commonly lack access to networks that would allow them to tap into these resources. Furthermore, many available resources in the region are membership-based and therefore are inaccessible to business owners who cannot afford them.

Across Richmond, business support organizations (BSOs) regularly work often with one another on a one-to-one basis, creating siloes in the support ecosystem. There is a need for greater coordination across the ecosystem and for players to coalesce around common goals, a shared set of metrics, and formalized modes of collaboration.

To further assess Richmond’s business support landscape, the research team analyzed a sample of 38 providers and a survey of 8 providers based in Richmond, examining the critical elements of a business support landscape across the following areas depicted in Figure 6.

Figure 6: Critical elements in the local business support landscape



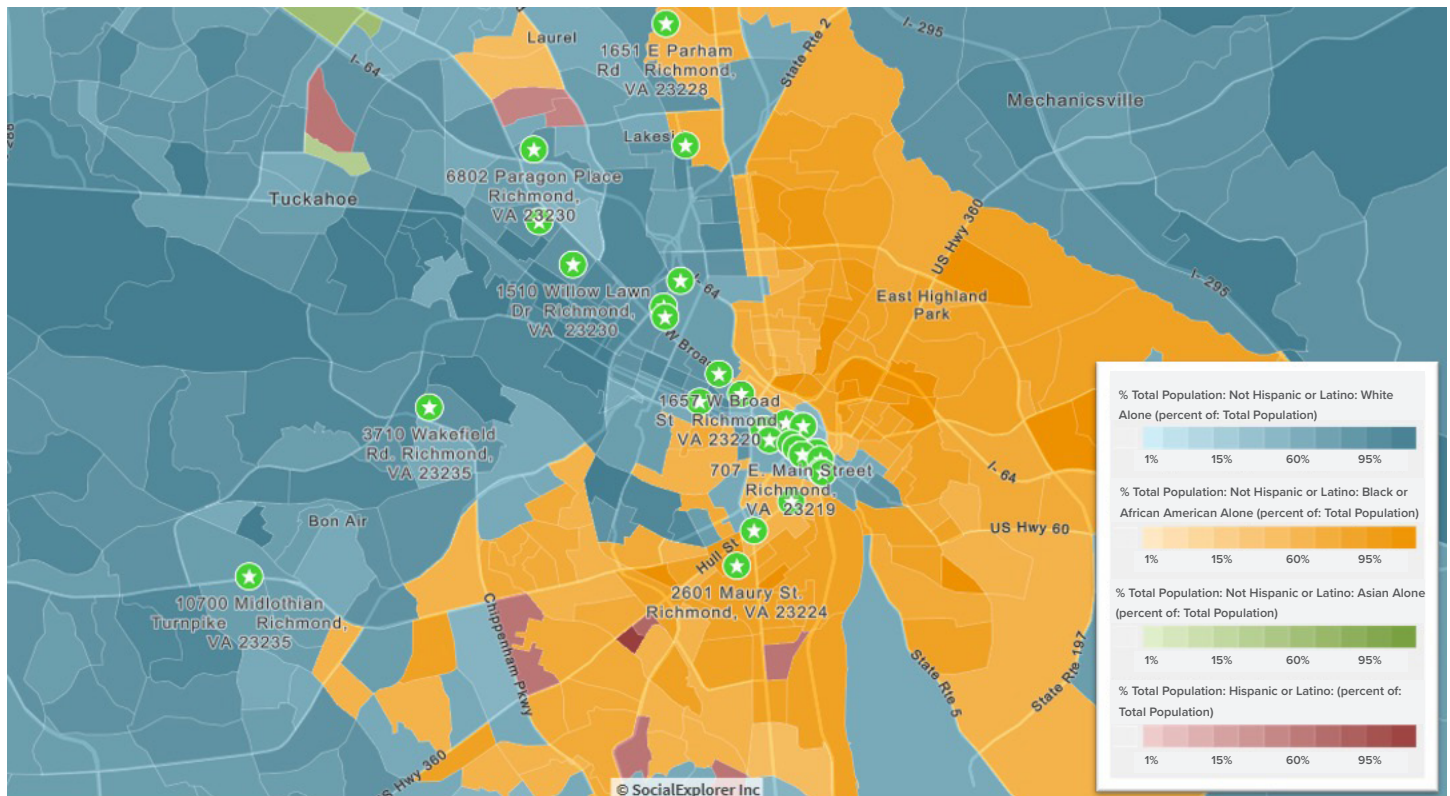
Access and Navigation

As shown in Figure 7, many of the 38 BSOs inventoried were clustered centrally or located in predominantly White neighborhoods. Working group participants indicated that services located downtown were difficult to access for residents located in the outer Richmond region. Furthermore, there was a shortage of business support on the Southside of Richmond, where a large Latino(a) population resides. To better serve this population, there is an opportunity for additional culturally and linguistically appropriate outreach to and services for Spanish-speaking business owners.

Through convenings with the Working Group, it was surfaced that Richmond is relationship driven. Social networks can provide business owners with critical access to support, information,

and resources. Focus group participants indicated that social networks for POC business owners—particularly women of color—are limited. Greater networking infrastructure, specifically for business owners of color, is needed to promote social capital that expands awareness of services, capital, and knowledge about growth opportunities. Also, Richmond lacks a centralized resource hub through which business owners can navigate the services they need. Many available services in the region are membership-based, limiting access for business owners who do not see the value in membership or cannot afford the fees charged by membership organizations.

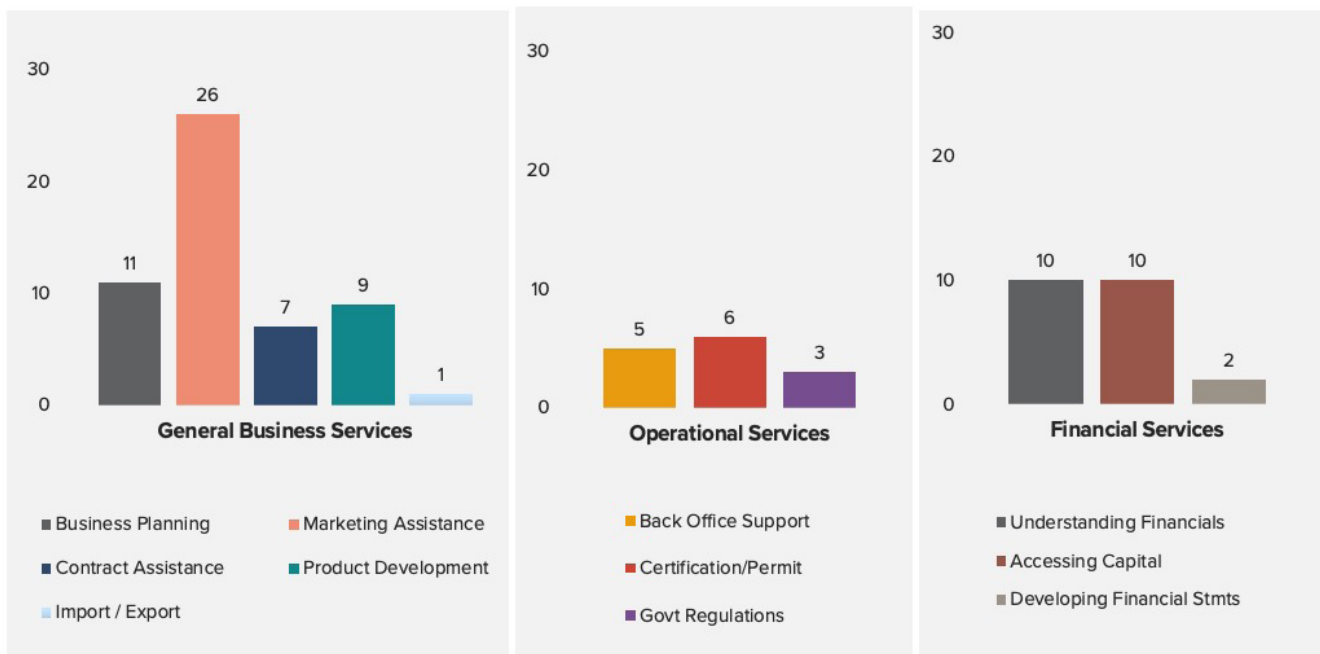
Figure 7: Geographic distribution of BSOs in Richmond
Number of Business Support Organizations inventoried (n = 38)



Specialization and Breadth

Available business services should cover the continuum of needs of small businesses across various stages in the ecosystem. In Richmond, the business support landscape offers a wealth of marketing assistance but is limited in business planning services, back-office support, government regulation navigation, and financial management assistance, as shown in Figure 8.

Figure 8: Concentration of business service categories in Richmond
Number of Business Support Organizations inventoried (n = 38)



While there is a robust startup ecosystem for businesses in high-growth industries, there is a need for greater support for businesses in moderate growth industries. Working group members indicated a need for high touch technical assistance solutions that are tailored to business stage. This means additional support for startups, businesses looking to sustain their operations and support for businesses in moderate-growth industries looking to expand. Tailored business planning services would provide necessary support in setting and achieving short- and long-term goals to sustain and grow small businesses across business stages. Moreover, few inventoried BSOs offered back-office services—including IT services, accounting, human resources support—leaving a gap for business owners in accessing services that can help their businesses achieve greater financial stability, streamline operations, and increase capacity for non-back office tasks.

Nearly 30% of inventoried BSOs offered services to help businesses understand their financials and access capital; however, businesses largely struggled to access COVID-19 relief funding provided by the SBA due to not knowing how to prepare financial statements and not having access to resources that would support them with procuring financial statements. A greater emphasis on deeper, one-on-one support in developing financial statements is needed to increase capital readiness among the region's small businesses.

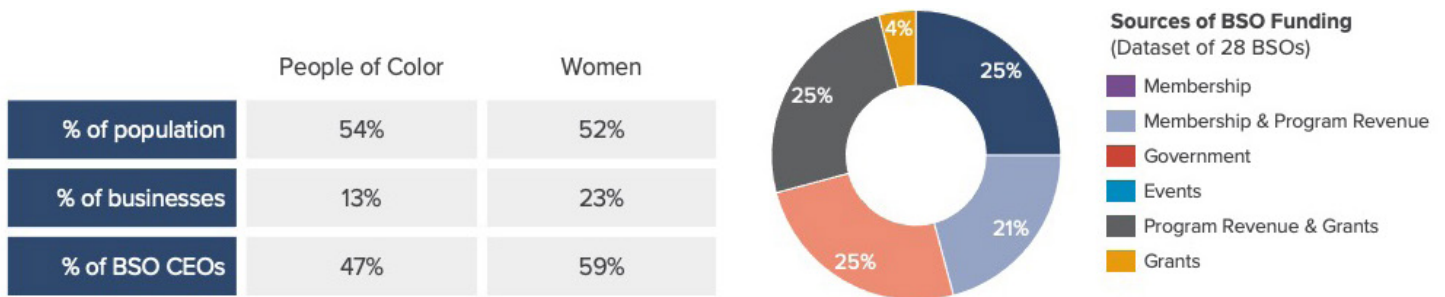
Meanwhile, only three of 38 inventoried BSOs provided support in navigating government small business regulations. As the capital of Virginia and home to numerous state and local government entities, Richmond has an opportunity to develop an entity to monitor policy changes and subsequent implications that affect small business owners, a function often fulfilled by local chambers and merchant associations in other markets.

Leadership and Talent + Sustained Funding

Ideally, organizational leadership reflects the communities it serves, and Richmond has proven to be fertile ground for people of color and women seeking to lead mission driven organizations serving entrepreneurs and businesses in the region. As shown in Figure 9, of 28 BSOs inventoried with public financial information, leadership of local BSOs largely mirrored the proportion of people of color and women in Richmond.

To sustain or grow their capacity, BSOs in Richmond need additional funding. The average budget size of 28 inventoried BSOs was \$2 million, which is lower than average budget sizes in comparable cities such as Indianapolis and St. Louis. This need is felt on the ground in the ecosystem; five of eight surveyed BSOs prioritized the need for additional funding over other needs such as networking and staff expertise. As shown in Figure 9, BSOs' budgets were diversified across funding sources, with nearly half of BSOs at least partially rely on membership fees. Additional funding must come through streams outside of membership fees to increase access to services for business owners who do not see the value in membership or cannot afford the fees charged by membership organizations.

Figure 9: Distribution of business support organizations by demographic and source of funding
 Number of Business Support Organizations inventoried (n = 28)



*Sample size with reported budget was significantly smaller than other leadership types. Larger sample size is needed to draw conclusions.





Collaboration and Support

Strengthening collaboration among the region's business support organizations, neighborhood-level community organizations, and capital providers is a critical step to improving the region's ecosystem for business owners and entrepreneurs of color. Within the region, BSOs tend to be collaborative with at least one other BSO. Of eight surveyed BSOs, all of them regularly met with other technical assistance providers. However, often organizations are collaborating with a limited number of other entities and only half of surveyed BSOs were somewhat aware of the well-known technical assistance providers.

Although the BSO ecosystem is somewhat collaborative, less than 40% of the surveyed BSOs tracked referrals made to and from their organization. There is a need to increase efficiencies by tracking referrals and ensuring quality service throughout the entrepreneur's journey by providing hand-offs between organizations to needed services.

Further, there is an opportunity for BSOs to form new and strengthen existing strategic partnerships with capital providers. Formal collaboratives amongst BSOs and capital providers can be leveraged to increase capital access to POC-owned businesses through financial management and capital readiness assistance, and direct connections from capital providers to BSO clients. Working group members noted little coordination between the region's municipalities and counties, as well a need for heightened coordination between government entities and the small business landscape. Specifically, coordination is needed amongst ecosystem stakeholders and the City of Richmond to accomplish the goal of creating a more equitable economy as outlined in their master plan, Richmond 300:

A Guide for Growth. An example of how local government can better integrate with the small business landscape is by connecting local workforce development efforts with BSOs. Such connections can support the growth of small businesses by providing hiring assistance and pipelines to skilled labor which is needed to compete on larger scale procurement contracts. Large corporates also direct funding towards workforce development initiatives, with the goal of building a larger local talent pool. An alternative solution for large corporates is to increase their support of the small business ecosystem. By doing so, they can create additional jobs for small businesses which in turn, attracts and builds a larger local talent pool.

Impact and measures

The right set of mutually held measurements of service quality that report impact and outcomes help BSOs hold one another accountable and make for a more efficient ecosystem. However, in Richmond, metrics held amongst individual organizations have generally not been held mutually and commonly are not made available to the public. Half of surveyed BSOs regularly collected financial health or business size indicators and only half of surveyed BSOs released impact reports. Local stakeholders like Activation Capital have made strides in recent years to promote data collection and sharing to aggregate ecosystem-wide metrics in a segment of the small business ecosystem. Building off these efforts to create a shared, ecosystem-wide set of goals and metrics is critical to galvanize a coordinated effort towards systemic change.

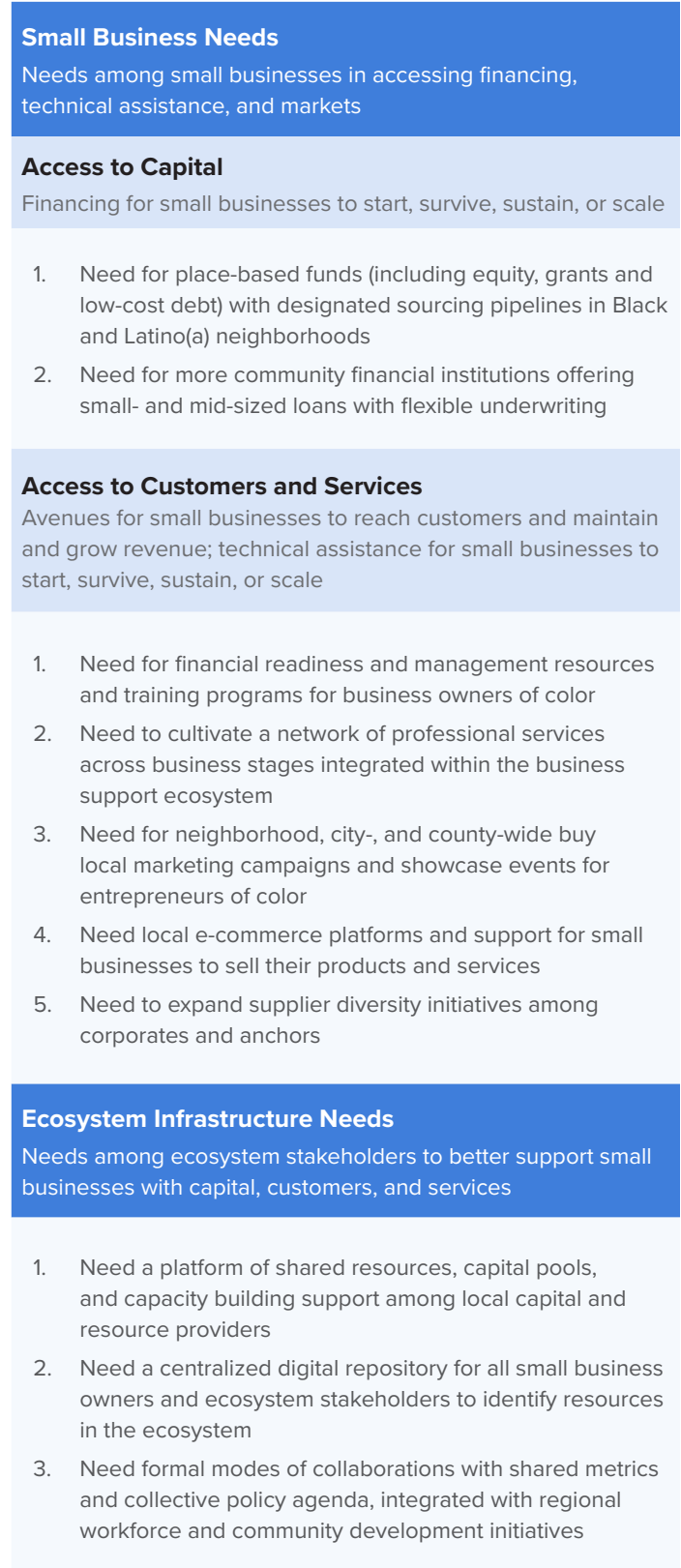
GAPS AND NEEDS IN THE ECOSYSTEM

From the research and insights from local stakeholders, it is clear that Richmond's small businesses owned by POC face significant barriers in accessing capital, customers, and services. Extensive quantitative and qualitative research surfaced 25 challenges impeding the success of small businesses owned by POC. The research team worked with 18 local leaders of the small business ecosystem in the Working Group and 33 leaders in the Advisory Council, representing a broader cross-section of the region's small business ecosystem, to refine the long list of gaps into a shorter list of priority focus areas. Through two initial workshop sessions, the groups discussed and further developed the gaps analysis and then completed a survey to prioritize the final ten high-priority gaps (see Figure 10). Afterward, the groups came together in two additional working sessions to brainstorm strategies to address those gaps – drawing on the region's assets and unique dynamics of the existing Greater Richmond small business ecosystem.

Local leaders aligned on the most significant challenges facing business owners of color in accessing capital, customers, and services, along with the greatest needs to support the ecosystem stakeholders who support small businesses. In accessing capital, stakeholders prioritized the need for place-based funds in Black and Latino(a) neighborhoods and more alternative and community financial institutional lending with flexible underwriting standards. Leaders aligned on the need for additional financial readiness and management services and the need to cultivate a network of affordable professional services that would increase access to accounting, legal and tax services. Leaders also looked to expand small business growth opportunities through prioritizing buy local marketing campaigns, e-commerce support, and expanded supplier diversity initiatives. At the ecosystem level, stakeholders aligned on the need to build capacity among local BSOs and capital providers, create a centralized digital resource repository to increase awareness and access of business services, and formalize an ecosystem-wide collaboration across the Greater Richmond region.

The COVID-19 pandemic further entrenched institutional barriers and disproportionately affected POC-owned businesses. In particular, this crisis exposed the greater need for place-based funds to increase capital access in POC communities, small- and mid-sized loans with flexible underwriting to help businesses sustain their operations or pivot their business model, as well as the need for financial readiness and management resources to support loan readiness and financial planning among small businesses.

Figure 10: Prioritized small business and ecosystem needs



Emerging Solutions

This research culminated in a set of ecosystem strategies designed to move Greater Richmond towards a shared vision of creating a more equitable small business environment that narrows the racial wealth gap in the region. The research team worked with the Working Group and Advisory Council through an iterative and collaborative process to advance a robust collection of solutions to address the priority ecosystem gaps. Throughout the solutions design process, the Working Group and Advisory Council developed strategies that recognize and harness the region's size, diversity, and existing assets. Strategies were designed to address root causes and create the enabling infrastructure to respond to the prioritized gaps. The strategies were developed from local stakeholder input and national best practices for place-based ecosystems and build from local momentum and existing initiatives that can be further formalized and expanded.

These solutions are organized under four key strategic pillars and recommended to address the broad set of capital, customer, and services needs among small business owners of color in Greater Richmond:



ECOSYSTEM BUILDING AND COLLABORATION

Establish and sustain coalitions and digital hubs to connect business owners, capital and service providers, funders, and other stakeholders across the small business ecosystem. Ecosystem building and collaborative efforts should build off emerging momentum created by new or emerging efforts in Greater Richmond. Examples include collaboratives and convenings (e.g., the Virginia Minority Business Commission, Activation Capital's community engagement committee, and ChamberRVA's Shared Values Summit), resource aggregation efforts (e.g., Business One Stop and Make in RVA), and new investment funds (e.g., the Activation Capital's Ecosystem Direct Investment Fund) dedicated to increasing capacity amongst local service providers.

Coalition building: Establish and sustain a formal coalition to coordinate ecosystem initiatives, share best practices and resources, and track and report ecosystem-wide metrics

Digital resource hub: Introduce a digital small business hub that integrates a database of resources with an online community forum and small business success stories

Shared resource pools: Secure multi-year grant support for local capital and service providers to build capacity and, in turn, support ecosystem efforts



TAILORED SMALL BUSINESS SUPPORT

Establish and enhance small business services to increase access and availability of tailored business support for entrepreneurs of color. Efforts to increase access and availability of tailored business support for entrepreneurs of color should center racial equity, incorporating principles of antiracism and cultural competency in service provider trainings to ensure organizations are equipped to deliver services appropriately. Further, these strategies should be inclusive of neighborhood-level service providers with brand-equity in Black and Latino(a) communities to provide greater access to tailored business support in these areas and facilitate shared learnings across disciplines.

Shared professional services: Create subscription-based shared services platform that allows small business owners of color to access high-quality professional services for an affordable monthly fee

Financial health programming: Engage credit building experts to 'train-the-trainer' among local business support organizations to provide tailored credit counseling and financial health training

Capacity building: Engage capacity building experts to 'train-the-trainer' to enhance local capital and service providers' nonprofit management strategies, provide tailored business services, and leadership development



ACCESS TO FLEXIBLE CAPITAL

Expand the availability and access of flexible capital to strengthen businesses, community financial institutions and responsible investors. Work to expand access to flexible capital should build from emerging partnerships between service and capital providers, local government, funders and anchors created in response to COVID-19 (e.g., We CARE RVA Rebuild Project and the Chesterfield County Microenterprise Relief Fund) and active place-based funds (e.g. the state's Opportunity Virginia Fund).

Shared grant pools: Create shared grant fund pools for local community financial institutions to expand their equity on balance sheets

Catalytic capital pools: Form catalytic pools of capital dedicated for community lenders and responsible investors seeking to invest in targeted neighborhoods in Greater Richmond

Loan loss reserves: Establish a loan loss reserve fund to loosen balance sheet constraints among local community financial institutions to do more lending



AVENUES FOR MARKET OPPORTUNITIES

Expand growth opportunities for business owners of color by developing new sales channels through digital, neighborhood-based, and regional forums. Efforts to grow avenues for market opportunities for business owners of color should integrate existing infrastructure to promote local Black-owned businesses (e.g., BLK RVA and Blocal) while developing similar forums for other business owners of color. Further, work to expand purchasing from business owners of color should build from the enhanced focus on racial equity by local anchors such as Virginia Commonwealth University and its hospital system's strengthened supplier diversity programs.

Neighborhood program: Establish neighborhood-based programs that bring together local ecosystem stakeholders to offer wraparound business services that blend business education, capital, and market opportunities

Anchor collaborative: Create collective of anchor institutions with shared commitment and incentive to expand purchasing from small businesses owned by people of color

Digital directory: Create a single, searchable directory of local small businesses to increase awareness and direct consumers to their websites

These community-informed solutions point to the necessity to take immediate action to support small business owners of color and the supporting ecosystem, with actionable steps towards addressing prioritized needs surfaced in this report. To illustrate how these solutions can be actualized, the following callouts on the Coalition Building and Financial Health programming strategies provide additional context on local assets to build on and comparable examples of similar solutions in other peer American cities.

Envisioning ‘Coalition Building’

The Need:

Richmond is home to many ecosystem stakeholders that support the growth and sustainability of business owners; however, organizations and local government entities lack coordination and often work with one another on a one-to-one basis. This has resulted in inefficiencies in facilitating referrals, sharing best practices, measuring ecosystem-wide impact, and planning and tracking towards ecosystem-wide goals. Greater coordination is needed to accelerate Richmond’s goal of creating a more equitable economy as outlined in the city’s master plan, Richmond 300: A Guide for Growth, through increasing connectivity amongst service and capital providers, facilitating fundraising and resource sharing, and getting collective buy-in of ecosystem-wide goals.

The Solution:

To create a more inclusive, connected small business ecosystem in Richmond, stakeholders can form formal modes of ecosystem-wide collaborations to share best practices, facilitate referrals, organize resources, coordinate ecosystem-wide initiatives and collective policy agendas, and track and report metrics. This coalition should be governed by democratically appointed leaders tasked to promote ecosystem priorities, secure sustained funding, and regularly convene ecosystem stakeholders and local small business owners to foster long-term success of the region’s small business communities.

There is an opportunity to integrate ecosystem-wide collaboration with existing efforts while engaging a broader set of representatives from all communities to create a more equitable small business ecosystem. Existing coordination efforts and convenings include Activation Capital’s community engagement committees and ChamberRVA’s Shared Values Summit. There is an opportunity to integrate ecosystem-wide collaboration with these efforts while engaging a broader set of representatives from all communities to create a more equitable ecosystem. An integrated network of BSOs, capital providers, neighborhood-level organizations, and local government can revolutionize how Richmond business owners access advice, opportunities, and resources by facilitating hand-offs, improving service offerings through collective resource sharing, and creating system-wide change by aligning on and tackling long-term ecosystem-wide priorities.

Example Models:

Cities across the country have adopted numerous coalition models to facilitate small business ecosystem collaboration. The Chicago Inclusive Growth Coalition (CIGC) is a Chicago-wide coalition led by two “Ecosystem Builders” that work collectively to convene ecosystem stakeholders and coordinate initiatives to advance equitable and inclusive growth for underserved businesses. The CIGC operates as a network of local stakeholders without formal legal governance and is funded through long-term commitments by three local philanthropies. Other coalitions, like the D.C.-based Coalition for Nonprofit Housing and Economic Development (CNHED) and the Atlanta Wealth Building Initiative (AWBI), have formal governance and financing structures, with appointed boards of directors and sustained membership revenue models.

Envisioning ‘Financial Health Programming’

The Need:

Historically, business owners of color in Greater Richmond have struggled to access affordable, flexible capital to grow and sustain their businesses. Many local business owners of color, particularly those who own and operate neighborhood-based businesses, report having less formal experience managing their business financials (including financial planning, bookkeeping, and preparing financial statements). These challenges impact local POC business owners’ ability to raise capital through banks and other mainstream sources. Meanwhile, lower credit scores, limited credit history, and language barriers further hamper fundraising success, resulting in low banking rates among Black and Latino(a) business owners, and concurrently, higher usage of payday lenders and other high-cost alternative financial services.

At the start of the COVID-19 pandemic, these dynamics were highlighted in the inequitable distribution of emergency funds among the region’s business owners of color, with fewer business owners of color successfully approved for the Paycheck Protection Program loans available through the U.S. CARES Act. While several local banks (e.g., Fulton Bank and Atlantic Bank), have offered financial education programs to entrepreneurs in the region, these resources lack operating capacity and strong relationships in communities of color that are needed to successfully reach business owners. There has been momentum within initiatives that support personal financial health, including programs through the Cities for Financial Empowerment Fund. Meanwhile, local BSOs and neighborhood-level organizations have networks and brand-equity to reach Black and Latino(a) communities, yet do not all have the expertise to deliver financial health trainings.

The Solution:

To increase access to capital and grow financial acumen among Richmond’s business owners of color, ecosystem stakeholders can engage credit building experts to train local BSOs to provide one-on-one counseling. This “train-the-trainer” model is designed to enhance organizational capabilities and expertise in supporting small business clients with financial management advice and education. This solution can activate collaboration amongst local service and capital providers to share best practices in providing culturally competent financial management training and facilitate connections to capital for businesses with strong relationships with local BSOs. Furthermore, financial health programming can be designed and sustained to grow expertise amongst local BSOs to deliver quality financial acumen training, enabling local businesses to build greater resilience and financial stability.

Example Models:

Across the country, there are financial health programming models that serve as examples to consider or learn from in Richmond. The Financial Health Network, a national nonprofit dedicated to improving the financial health of their communities in the U.S., offers consulting services to organizations to plan financial health strategies and design products and services that promote financial health among individuals and small business owners. Through these consulting services, the Financial Health Network provides organizations with tools and guidance to establish their own financial health programming.

The Federal Deposit Insurance Corporation (FDIC) also offers a model that prepares capital and service providers to deliver financial management trainings to small businesses. The FDIC developed a no-cost financial acumen curriculum, Money Smart for Small Business (MSSB), in multiple languages and provides “train the trainer” sessions and resources for organizations to train their staff to deliver the curriculum to their small business clients. Organizations that deliver the curriculum are encouraged to join the Money Smart Alliance to share learnings, provide feedback on the curriculum and be listed in an online directory of members.

Conclusion and Call to Action

The time to act is now. As part of a broader national initiative across the nine cities and localities, the Greater Richmond small business ecosystem is at a crossroads with the opportunity to lead, learn from, and coordinate with other cities to build a more equitable small business ecosystem across the U.S.

The research team recommends immediate action on the strategies articulated in this report, starting with the steps below to fulfill the vision of closing racial gaps in business ownership, revenue, and number of employees across the Greater Richmond region. The below priority measures will provide a strong foundation to drive execution and capitalize on existing local momentum across the other recommendations articulated in the report.



1

Organize a coalition of funders.

Bring together groups of funders to resource the next two phases of work – planning and implementation – and coordinate an immediate infusion of local funding to curtail further closures of small businesses owned by POC.

2

Identify Ecosystem Builders.

Designate local organizations with the influence to drive regional collaboration efforts forward. Ecosystem builders will be responsible for ensuring execution across the region and activating impact tracking across different initiatives.

3

Formalize the Advisory Council and align on priorities with responsibilities for execution.

Continue gathering people involved in this work and include others to foster collaboration, allow initiatives currently underway to expand and deepen, and develop implementation plans that are driven by and represent the needs of small businesses and the organizations that support them.

4

Take immediate action on any “low hanging fruit” solutions or areas where the businesses need support urgently.

With businesses continuing to face instability due to the COVID-19 pandemic, implement programs to provide immediate relief as quickly as possible.

Acknowledgements

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This project and was made possible with the collaboration of key partners in the Richmond ecosystem. These individuals supported this project through participating in the Advisory Council and Working Group, sharing local perspectives, and guiding research

to ensure that findings bring real value to Richmond’s small business owners. We greatly appreciate their engagement and commitment to this work.

In particular, the research team would like to recognize Carol Reese, ReeSources Inc., and Shirley Crawford, Women’s Business Center, Richmond, for their contributions and commitment to serving as Project Leads in Richmond.

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Members denoted in bold were also members of the Working Group

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About the Research Team

The core research team would also like to acknowledge the contributions from Next Street and Common Future, who partnered together to produce this report and underlying research. They also acknowledge DRA Resources who led the research of the business services landscape.

Unless otherwise specifically stated, the views and opinions expressed in the report are solely those of Next Street and Common Future and do not necessarily reflect the views and opinions of JPMorgan Chase & Co. or its affiliates.

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They also acknowledge DRA Resources whom led the research of the business services landscape

Appendix

APPENDIX 1: DATA ANALYSES AND POTENTIAL LIMITATIONS

Small Business Landscape

The quantitative analysis combined data from several national, publicly available sources. Multiple data sources originate from the U.S. Census, but pose some minor inconsistencies in the data between sources.

Seven primary data sources were used to analyze the small business landscapes.

- U.S. Census Survey of Business Owners and Self-Employed Persons (SBO), 2012 data (latest available, provides business owner demographics / business characteristics by 2-digit NAICS code)
- U.S. Census American Community Survey (ACS) Public Use Microdata Sample (PUMS), 2018 5-year data set (provides workforce data by 2-6 digit NAICS code)
- U.S. Census Longitudinal Employer-Household Dynamics (LEHD) Quarterly Workforce Indicators (QWI), 2017 data (provides business data by 2-6 digit NAICS code)
- U.S. Census County Business Patterns (CBP), 2011-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Business Survey (ABS), 2017 data (latest available, provides business revenue and employee data by business owner demographics)
- U.S. Census Non-employer Statistics (NES), 2007-2017 data (provides non-employer firm data)
- Opportunity Insights Womply Dataset, 2020 data (provides small business revenue and closure data)

The most recent publicly available data consistently available from all datasets is from 2017 (apart from SBO); given this disparity in year that data was collected, it is possible that the data does not accurately represent current business dynamics.

Capital Landscape

Capital Supply Methodology

Four primary data sources were used to analyze the small business and capital landscapes.

- Federal Financial Institution Institutions Examination Council (FFIEC) Community Reinvestment Act (CRA) report data made available from the Freedom of Information Act, 2008-2017 data
- Small Business Administration 504 and 7(a) lending databases made available from the Freedom of Information Act, 2008-2017 data
- CDFI Fund Program Awardee Data Release, 2008-2017 data
- PwC and CB Insights MoneyTree Report, Series A or Series B or Series C or Series D or Growth Equity or Seed / Angel or Convertible Note or Other, 2008-2017 data

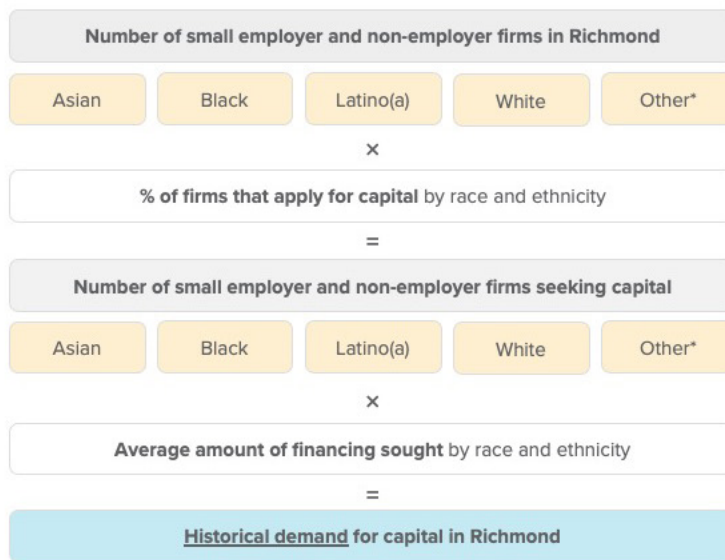
The data provided in this report is representative, but not necessarily comprehensive, of the capital providers located and operating in the Greater Richmond region. There are some limitations and considerations that should accompany any analysis of this capital landscape dataset:

- FFIEC CRA data does not fully represent bank loans to small businesses, as only banks above a certain asset threshold are required to report CRA loans. Banks are also required report all loans under \$1 million to businesses, indicating that some loans may actually be to businesses with more than 50 employees
- CDFI Fund data underrepresents loans to small business because not all CDFIs in the Greater Region report full loan data. As a result, the research team adjusted the data to estimate CDFI loans by scaling up estimates in this report to increase accuracy
- Equity data publicly available from the PwC and CB Insights MoneyTree Report is aggregated across the Richmond, VA metropolitan area, which may overrepresent equity deals made specifically to businesses located in the city of Richmond, and Chesterfield, Hanover and Henrico counties

Capital Demand Methodology

The research team used a bottoms-up methodology that to directly estimate the historical demand for financing from small businesses across demographic groups in the Greater Richmond region, as shown in Figure 11.

Figure 11: Methodology to estimate historical small business capital demand



Note: * Other includes populations of American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau

Applying this methodology to forecast capital demand in 2020 and 2021, the research team made key assumptions to three forecast scenarios that measure the degree of impact the COVID-19 pandemic and resulting economic recession.

Figure 12: Forecast assumptions for small business capital demand

	Number of small businesses	% of firms that apply for capital	Avg. amount of financing sought
Base case Expected scenario with assumptions that analysts deem most likely to occur	Net growth in employer and non-employer firms equal to median growth rates during financial crisis (2007-10) ⁴⁴	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys ⁴⁵ From 20Q4-21Q4, proportion seeking financing assumed to decline due to lower revenue expectations ⁴⁶	Amount sought to decline relative to lower expected revenue, assuming a direct relationship between revenue and capital demand ⁴⁷
Optimistic forecast Scenario based on a moderately severe recession due to C-19	Net growth in employer and non-employer firms equal to growth rates during the latter years of the financial crisis (2008-10) ⁴⁴	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys ⁴⁵ From 20Q4-21Q4, proportion seeking financing assumed to decline due to moderate revenue expectations ⁴⁶	Amount sought to decline relative to moderate expected revenue, assuming a direct relationship between revenue and capital demand ⁴⁷
Pessimistic forecast Scenario where C-19 recession results in conditions seen at the height of Great Recession	Net growth in employer and non-employer firms equal to growth rates at the height of the financial crisis (2007-09) ⁴⁴	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys ⁴⁵ From 20Q4-21Q4, proportion seeking financing assumed to decline due to significantly lower revenue expectations ⁴⁶	Amount sought to decline relative to significantly lower expected revenue, assuming a direct relationship between revenue and capital demand ⁴⁷

Four primary data sources were used to estimate historical and estimated small business capital demand.

- U.S. Census County Business Patterns (CBP), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Nonemployer Statistics (NES), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Survey of Entrepreneurs (ASE), 2016 data (latest available, business owner demographics / business characteristics by 2-digit NAICS code)
- Federal Reserve Small Business Credit Survey, 2016-2019 survey results (latest available, provides data on capital demand trends by demographics / business characteristics)

The data sourced to estimate capital demand in this report provides a directional representation of capital demand but may not precisely account for capital demand among all small businesses operating in the Greater Richmond region. There are some limitations in the datasets used to estimate capital demand that require additional considerations and assumptions:

- U.S. Census County Business Patterns and Nonemployer Statistics data is available up to 2016. To estimate the baseline number of small employer and non-employer firms following 2016, the research team scaled the total firms reported in 2016 by the annualized growth rate from 2014 to 2016
- U.S. Census Annual Survey of Entrepreneurs data is available up to 2016. To estimate the business ownership demographic breakdown by race and ethnicity across the historical and forecast period, the research team assumed that the breakdown remains fixed at 2016-levels
- The Federal Reserve Small Business Credit Survey measured capital demand among small businesses across the U.S. As a result, the small business capital demand dynamics measured in the annual surveys may not fully represent the small business sentiments in the Greater Richmond region

44 Note: Estimated based on historical data sourced from U.S. County Business Patterns and Non-Employer Statistics

45 Source: Goldman Sachs 10,000 Small Businesses, 2020

46 Note: Based on a logistic regression model assessing the relationship between the percentage seeking financing and the aggregate small business debt-to-income ratio

47 Note: Revenue decline expectations are based on the relative levels compared to estimated 2019 revenues, with expectations ranging from 25% to 90% of 2019 levels

APPENDIX 2: RESEARCH SOURCES

Interviews

- Chief Operating Officer, Activation Capital
- Executive Director, BizWorks
- Director of Strategic Initiatives, Community Foundation for Greater Richmond
- CEO & Owner, Legacy Management by Ty
- Co-Founder, The Jackson Ward Collective
- President & CEO, The Metropolitan Business League
- Financial Opportunity Center Program Manager, Southside Community Development & Housing Corporation
- Director of Community Innovation and Marketing, Virginia Community Capital

Inventory of Business Support Organization in Greater Richmond

- 804RVA
- AccelRVA
- All About Presentation
- Art Works Inc
- Boss Babes RVA
- Build, RVA
- Carolinas Virginia Minority Supplier Development Council
- Central Virginia African American Chamber of Commerce
- ChamberRVA
- Chesterfield Economic Development
- City of Richmond - Department of Economic Development
- City of Richmond - Office of Minority Business Development
- Community College Workforce Alliance
- Gather
- HATCH
- Jackson Ward Collective
- Metropolitan Business League
- NAWBO Richmond
- Novel Coworking
- Pinq
- SBA-Richmond District Office
- SCORE Richmond
- SisterFund
- Southside Community Development & Housing Corporation
- Startup Virginia
- Studio Two Three
- Synapse
- The Savory Commissary Kitchen
- Virginia Asian Chamber of Commerce
- Visual Arts Center of Richmond
- The Women's Business Center of Metro Richmond
- Virginia Commonwealth University - Office of Procurement Services
- Venture Richmond
- Virginia Chamber of Commerce
- Virginia Department of Small Business and Supplier Diversity
- Virginia Hispanic Chamber
- W.O.M.B.: Woman-Owned Minority Businesses
- WHIMBY

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