The Color of the Capital Gap

November 28, 2023
Access to capital remains a top concern of Massachusetts small businesses

Top ‘major concerns’ of Massachusetts small business owners

- **Rising operating costs due to inflation**: 74%
- **Wages keeping up with inflation**: 61%
- **Getting capital**: 60%
- **Difficulty finding qualified and reliable employees**: 54%
- **Difficulty hiring enough employees**: 46%
- **Fewer customers coming in**: 43%
- **Supply chain problems**: 40%
- **Health risks due to COVID-19**: 27%
- **Employee mental health**: 24%
- **Higher than usual turnover**: 23%
- **Issues with business space**: 16%

Source: MassINC Polling Group, The View from Main Street: A survey of Massachusetts businesses with under 500 employees, September 2022.
Businesses of color report greater challenges accessing capital than White-owned businesses

Mass. small businesses citing ‘getting capital’ as a major concern by race and ethnicity

Source: MassINC Polling Group, The View from Main Street: A survey of Massachusetts businesses with under 500 employees, September 2022.
Black- and Latinx-owned businesses are more likely to apply for financing

Share of businesses that applied for a loan, line of credit, or merchant cash advance (2022)

- White: 40%
- Latinx: 44%
- Black: 48%
- Asian: 40%

Source: Federal Reserve.
Businesses of color are denied financing at nearly 2x the rate of white-owned businesses

Best outcome on application(s) for a business loan by race and ethnicity (2022)

- White: 57% received full amount, 13% received most, 12% some, 18% denied
- Black: 20% received full amount, 19% received most, 50% some, 11% denied
- Latinx: 38% received full amount, 16% received most, 32% some, 14% denied
- Asian: 33% received full amount, 15% received most, 22% some, 31% denied

Source: Federal Reserve.
More than half of startups of color are completely denied for loans

Best outcome on startups’ application(s) for a business loan, line of credit, or cash advance by race and ethnicity (2022)

- White-owned Startups
  - Received the full amount (100%): 45%
  - Received some (1%-50%): 29%
  - Denied (0%): 27%

- Startups of color
  - Received the full amount (100%): 17%
  - Received some (1%-50%): 30%
  - Denied (0%): 53%

Source: Federal Reserve.
Black and Latinx-owned businesses were less likely to apply for and receive COVID relief

Share of businesses that applied for and received Paycheck Protection Program loans (2021)

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<thead>
<tr>
<th></th>
<th>Applied</th>
<th>Did not apply</th>
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<tbody>
<tr>
<td>White</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Black</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Latinx</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>Asian</td>
<td>13%</td>
<td>87%</td>
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<table>
<thead>
<tr>
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<th>Received the full amount (100%)</th>
<th>Received most of the amount (51% – 99%)</th>
<th>Some some of the amount (1%–50%)</th>
<th>Denied (0%)</th>
</tr>
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<tbody>
<tr>
<td>White</td>
<td>9%</td>
<td>7%</td>
<td>14%</td>
<td>70%</td>
</tr>
<tr>
<td>Black</td>
<td>34%</td>
<td>24%</td>
<td>11%</td>
<td>31%</td>
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<td>Latinx</td>
<td>24%</td>
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<td>11%</td>
<td>14%</td>
<td>21%</td>
<td>55%</td>
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Source: Federal Reserve.
Massachusetts areas with majority people of color receive fewer small business bank loans

Massachusetts bank small business loans dollars per 100 small businesses

Source: Federal Financial Institutions Examination Council.
Mass. Black and Latinx-owned startups receive a disproportionately low share of venture funding

Massachusetts Black and Latinx share of venture capital funding and population (2022)

Source: Boston Business Journal.
Financing shortfalls for businesses of color have risen from pre-pandemic levels

Small business application financing shortfalls* by race and ethnicity, 2019 and 2022

51% 69% 65% 62%
55% 84% 64% 74%

2019 2022

White  Black or African American  Hispanic  Asian

Source: Federal Reserve.
*Shortfall includes receiving less than the full amount that was requested in the application (specifically "some", "most", and "none" of the amount requested).
Loan denials for businesses of color are up and most acutely for Black-owned businesses

Small business financing application denials by race and ethnicity, 2019 and 2022

- Black or African American: 38% in 2019, 38% in 2022
- Hispanic: 33% in 2019, 31% in 2022
- Asian: 24% in 2019, 20% in 2022

Source: Federal Reserve.
The size of the capital gap for Massachusetts businesses of color has increased

Estimated annual unmet demand for small business financing from businesses of color in Massachusetts:

- **2019**: $574M
- **2022**: $603M (an increase of +5%)