

**Dalberg**

# Why supporting minority-led small businesses is key to New York City's recovery

Targeted and outsized Federal, State, and Local support is needed urgently and must be carried through the recovery period



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## New York's most diverse communities are fighting on all fronts, and the survival of their small businesses is critical to their recovery

New York City is incredibly diverse. Minorities account for more than half of its population, and it has [the highest number of minority-owned businesses](#) per 1,000 residents of any major city in the country. An examination of the effects of Covid-19 on New York's minority-led small businesses and the communities they anchor reveals important lessons for policymakers and businesses around the country.

Due to [historical and structural inequalities in New York City](#), Covid-19 is disproportionately hurting minority communities, which are now battling across a broad range of health and socio-economic fronts. Not only did small businesses (those fewer than 500 employees) in majority Latinx and African American neighborhoods enter the crisis with weaker balance sheets than their counterparts in majority white neighborhoods, they also likely have [struggled to access urgently needed federal funding](#) provided through the recently extended Paycheck Protection Program (PPP).

The economic hardship experienced by minority-led small businesses will only add to the challenges their communities are facing with elevated rates of Covid-19 infection and mortality.

Minority businesses owners are not the only ones suffering. Our research suggests that, in New York, more racially diverse neighborhoods host larger shares of minority-owned small businesses. We also found that these businesses tend to employ minorities at levels proportional to their local demographics. Moreover, micro-enterprises, those employing under 20 people, are disproportionately minority-led and are amongst the most vulnerable in the unfolding economic crisis. Minority-owned small businesses and micro-enterprises are represented across economic sectors and in all five boroughs. Indeed, some of the least resilient sectors — those affected earliest by the lockdown, like accomodation, retail, and food service — account for significant numbers of minority-owned businesses and employ large numbers of minorities.

A risk to minority-owned businesses is a risk to the entire city. The loss of these businesses will not only shatter the livelihoods of their owners but also the livelihoods of the countless, disproportionately minority, New Yorkers they employ. These businesses are an integral part of the social and cultural fabric of the communities they anchor. Losing them could mean losing the critical neighborhood services, healthy business districts, and safe sidewalks they support, not to mention the vibrancy of street life that is core to the city's identity.

Support of minority-led small businesses can both mitigate the immediate impact of Covid-19 and position NYC for a recovery that is equitable — one that provides the extra support needed to rebuild the most vulnerable communities and increase their resilience to future crises.

To achieve this, action is required at several levels. The federal government can do more to prioritize and ring fence support within its next stimulus package, and city and state governments can help fund and scale proven financing and business development channels tailored to support small businesses in target neighborhoods. These efforts will empower businesses to adapt throughout the crisis response, the recovery, and into the "new normal."

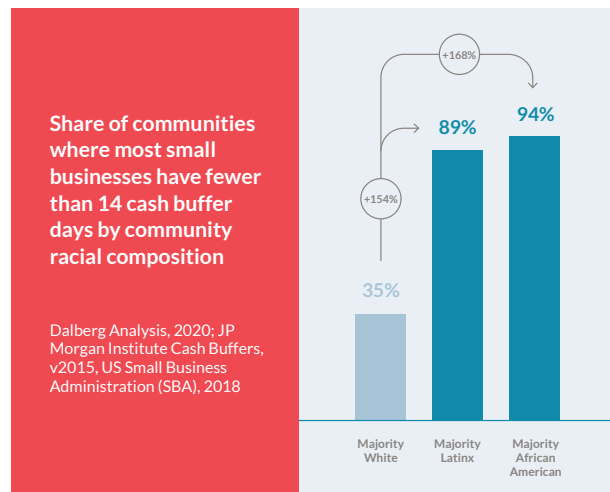


Fig. 1

Going into the Covid-19 crisis, ~90% of small businesses in majority African American and Latinx communities had just 14 days cash buffer on hand, compared to just 35% of small businesses in white majority neighborhoods.

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Minority-led small business anchor communities and serve as key drivers of equitable growth and employment across the five boroughs

Nearly six weeks into the crisis, we spoke to minority-led small business owners around New York City and dug into the data to better understand how Covid-19 is affecting them, their employees, and the communities they serve. It became clear that the scale and urgency of the crisis is growing with each passing week. Lise Epperlein Muldering, from CaptureShowroom, a multi brand wholesale showroom in the Garment District, explained

*"I think May is going to be a giant disaster if some of this money doesn't get into some of our hands, because nobody is going to have money to pay anything! In NYC we have been closed longer than anywhere else!"*

Minority owned small businesses account for a third of NYC's total small businesses, and are spread across the five boroughs, with ownership rates reflecting the demographics of the communities they serve.

New York's diversity is evident in its small business ownership, with the highest number of minority-led businesses per capita of all major US cities. Latinx, African American, and Asian American

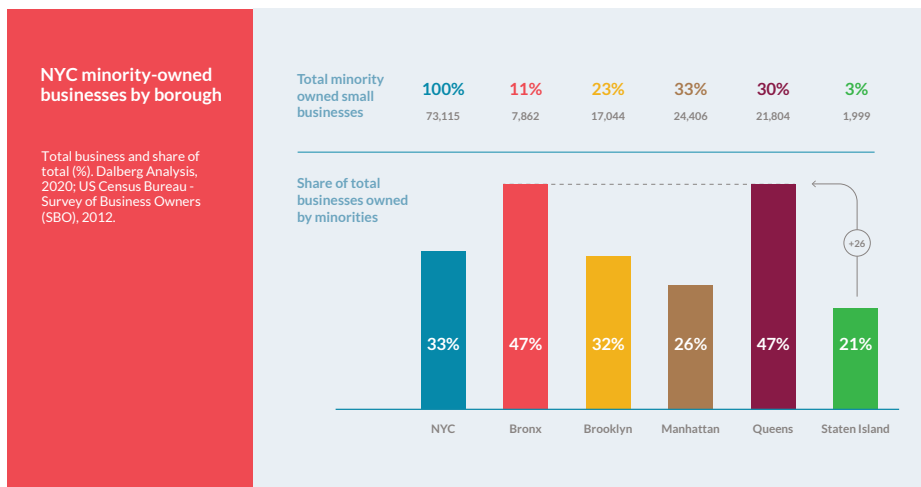


Fig. 2

Minority-owned small businesses account for a third of NYC's total small businesses and are spread across the five boroughs. They account for nearly half of all small businesses in the Bronx and Queens, two of the city's most diverse boroughs.

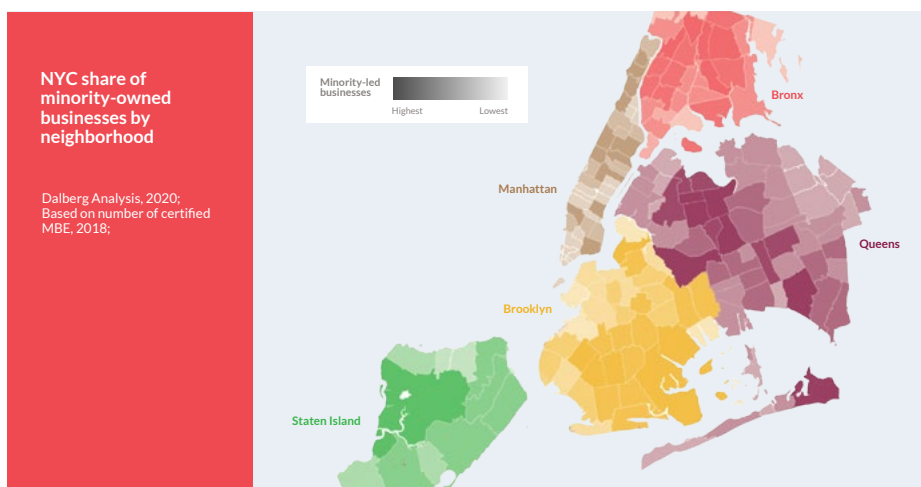


Fig. 3

While minority-owned businesses are spread across the city, within each borough they tend to cluster in more diverse neighborhoods based on records of certified Minority Business Enterprises (MBE).

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people make up 29%, 22%, and 13% of the city's population, respectively. Based on a 2010 study, majority white neighborhoods represent 23.7% of the city, while majority African American communities represent 18.3% and mixed minority areas represent 23.6%. Of New York City's over 200,000 small businesses, 33% are minority owned, with the proportion varying by borough, zip code, and industry.

almost half of all small businesses - their importance to the local community and its economy cannot be overstated.

**Minority-owned small businesses tend to employ minorities at levels proportional to their neighbourhood demographics.**

To effectively target support and channel funds to make up for emerging gaps in federal initiatives like the Paycheck Protection Program, it is essential to understand where minority-led small businesses are located. As might be expected, they are [often located within the city's most diverse neighborhoods](#). The chart and heat map below show that nearly 47,000 minority-owned small businesses, or 64% of the city's total, are concentrated in Brooklyn, Queens, and the Bronx, the city's most diverse boroughs. Moreover, in both Queens and the Bronx, minority-led businesses account for

Minority-led businesses provide critical jobs to their neighborhoods. The risk of economic dislocation posed by this crisis puts entire communities in jeopardy. Furloughs and bankruptcies would be particularly disastrous for boroughs like Queens and the Bronx where minority-owned businesses make up a significant proportion of the workforce. In addition to generating revenue and jobs, these businesses act as critical community anchors, providing services, security, and cultural vibrancy to the city's neighborhoods.

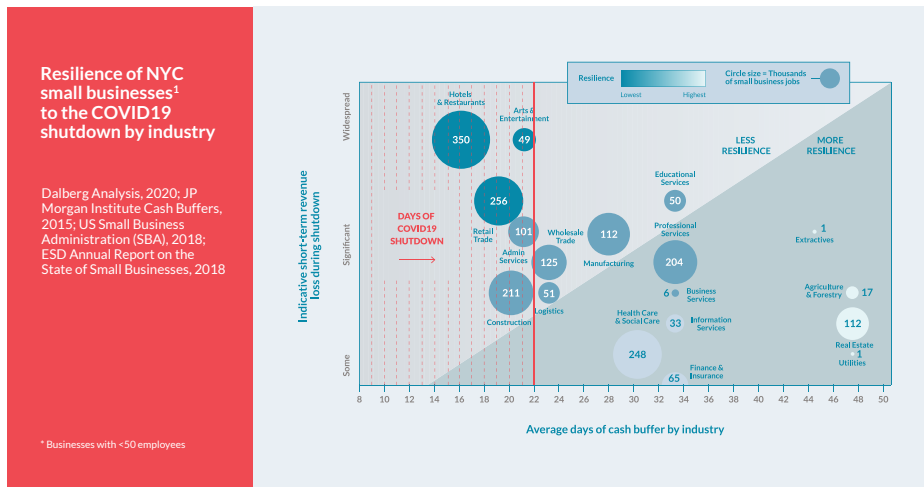


Fig. 4

The small businesses most vulnerable to the covid-19 shutdown are hotels and restaurants, retailers and cultural organisations - based on the relative impact on their revenue (the vertical axis) and their cash buffers (the horizontal axis).



Fig. 5

Across the entire city there are many minority-led small businesses within the most vulnerable industries - hotels and restaurants, retail trade, and arts and entertainment - especially in The Bronx, Queens and Brooklyn.

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Some of the most vulnerable sectors to the covid-19 crisis – those affected earliest and most broadly by the lockdown – have a huge number of minority owned small businesses.

Small businesses have been hit hardest in sectors like retail, accomodation, and food service. These sectors saw the steepest decline in revenue, and because they also tend to maintain the lowest cash buffers, they likely endured earlier and more rapid layoffs. [Census data](#) suggests that in New York these sectors include high numbers of minority-owned businesses. This represents yet another adverse effect on minority communities. Maritza Huerta, who advises and advocates for Latinx-owned small businesses, described how the crisis is affecting 'Suzy's Cleaning', a housekeeping business for which she advocates:

*"Before Covid-19 they had 10 employees and between them would clean 15 houses a day with each housekeeper making about \$500 a week. Now, only two each day to clean 2 houses. There's not enough work to go around so the women rotate shifts based on who needs it the most that week."*

Micro-enterprises account for a very large share of minority-led small businesses and are among the most vulnerable in the unfolding economic crisis.<sup>1</sup>

NYC has more than 220,000 small businesses employing nearly 2 million New Yorkers. Ninety-five percent are considered micro-

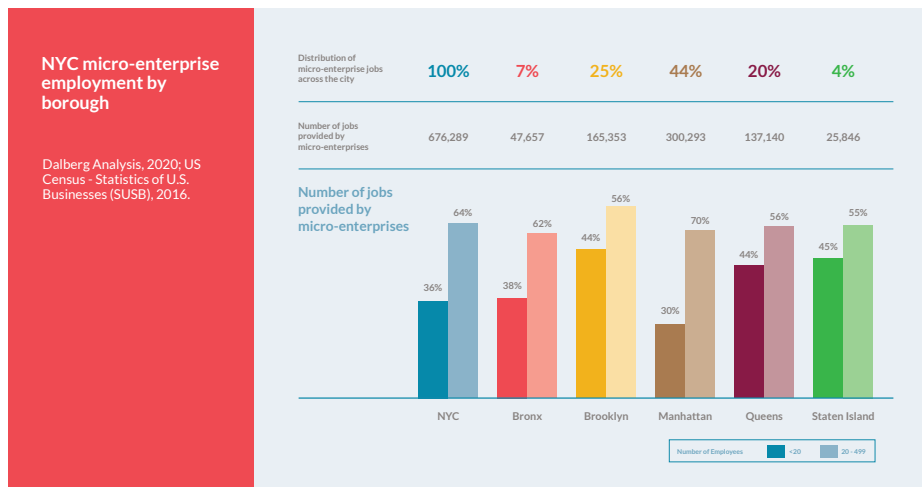


Fig. 6

Disproportionately minority owned micro-enterprises employ nearly 700,000 New Yorkers, accounting for almost half of small business employment in Brooklyn, Queens and Staten Island. These companies and jobs are amongst the highest risk in the Covid-19 crisis.

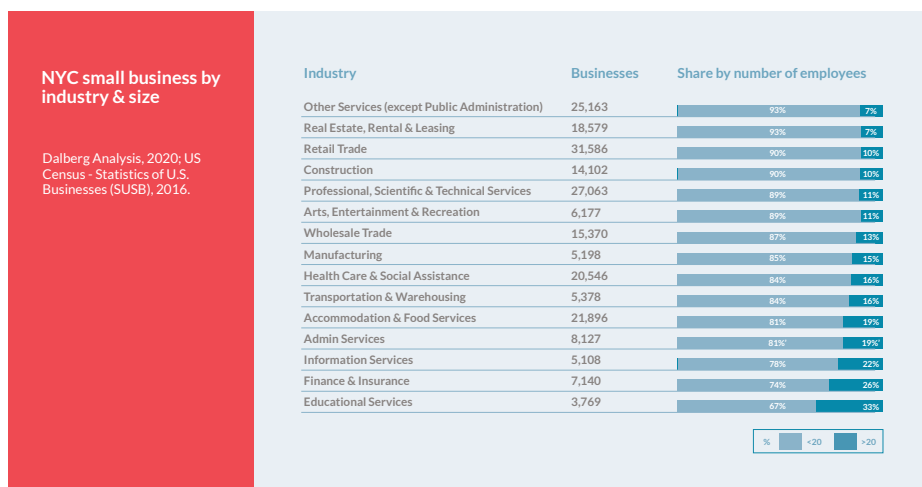


Fig. 7

New York's micro-enterprises account for the vast majority of businesses across all major economic sectors – should they be allowed to fail it will affect industries across the economy.

1 - Precise data is limited on minority ownership by business size, falling separately in the Census Bureau's [SBO](#) and [SUSB](#) data sets. The annual survey of entrepreneurs (ASE) shows that minority-owned small businesses on average employ just 8 people, 50% fewer than the average nonminority-owned small business.

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enterprises, businesses with less than 20 workers. While small businesses employ [almost half](#) of the city's workforce, micro-enterprises employ nearly 700,000 New Yorkers. Not only did they come into the crisis with relatively weak balance sheets and [lower than average credit scores](#), but many may also lack the resources necessary to effectively access federal support programs like the PPP. Four weeks into the crisis, they are under immense pressure.

As illustrated in the chart below, micro-enterprises are prevalent throughout the city and provide over a quarter of all jobs in Brooklyn, Queens, and Staten Island. Moreover, micro-enterprises consistently account for the majority of businesses across industries. Ignoring them would negatively impact the entire economy.

*"I'm doing it on my own. Nobody is helping me. I could potentially, I guess, call my accountant, but I'm not in a position to pay extra for those things or figure that out."*

*Shannon Darin, from Artist Babysitting*

**The health effects of Covid-19 are hitting New York's minority communities especially hard compounding pressure on their small businesses**

**The vulnerability of micro-enterprises represents a risk for the entire city.**

As of April 27th, New York City has experienced nearly 160,000 cases and over 17,000 confirmed and probable deaths. This accounts for 15% of total infections and nearly 30% of deaths in

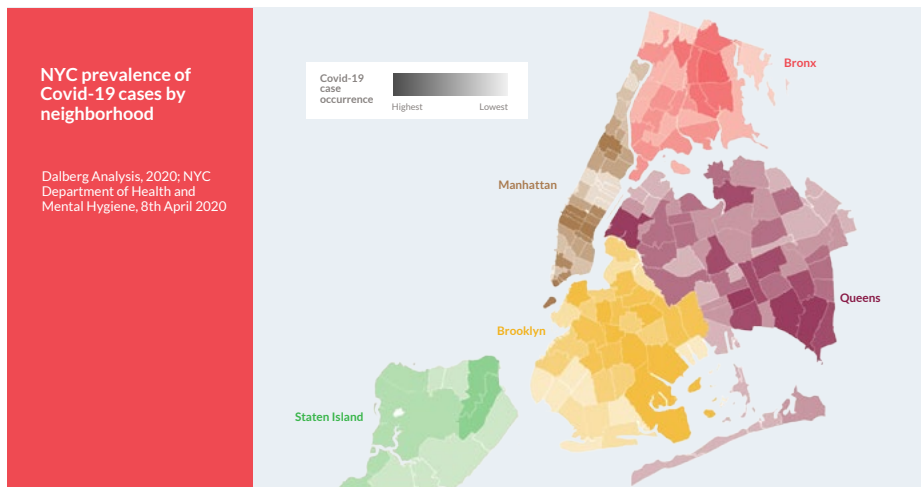


Fig. 8

Covid-19 infections and mortality is especially high in minority neighborhoods across the city with Queens, Brooklyn and the Bronx accounting for the vast majority of cases and deaths, with potentially lasting effects for small business recovery.



Fig. 9

While mobility levels are well below yearly averages, they have dropped least in New York's outer boroughs. A deeper look shows that this is driven by working week mobility suggesting it is driven by people's continued need to commute.

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the US. However, due to [historical and structural inequalities in New York City](#), the virus is [disproportionality affecting minority communities](#), especially in the city's most diverse [boroughs](#) and neighborhoods. They are suffering some of the highest rates of infection and mortality in the country.

The disparity in Covid-19 infection and mortality rates is in part due to income-associated health vulnerabilities, but it also stems from the fact that minorities are more exposed. [72% of front-line essential workers are minorities](#), leading the healthcare response and keeping the city's essential economic services like food delivery, sanitation and public transit moving. An analysis of mobility trends highlights this point.

While [Manhattan has seen a 90% drop in mobility](#), Brooklyn has dropped by just 75% and the more diverse boroughs of Bronx and Queens have dropped by only 60–65%. This is driven mainly by residents' continued need to travel for work. Moreover, [mobility data analysis by the New York Times](#) has shown clear correlation with socio-economic status -- the wealthiest Americans are much moving less, while the poorest are moving relatively more, in many cases because they are not able to work from home and cannot afford to forgo income.

Moreover, minority groups face gaps in access to quality and affordable healthcare in comparison to their white counterparts. For Latinx communities, this problem is compounded by the fear of deportation as ICE raids continue through the crisis. This discourages them from seeking testing or care when they experience Covid-19 symptoms.

New York City's minority communities are battling on several fronts. At the same time, these communities are also fighting to keep their small businesses afloat. It is not yet clear how long lockdowns will last or how the recovery will be managed, especially in the hardest hit minority-neighborhoods.

In shaping post social-distancing virus control measures and the re-opening of the economy, we must carefully consider community-level dynamics to ensure we anticipate and minimize lasting economic and social consequences. How we support minority-led small businesses and the communities they serve will be critical. To ensure a healthy and prosperous New York, we must deliver an equitable recovery by providing extra support to the city's most vulnerable communities and by helping them rebuild for a more resilient future.

## Federal Support through the Paycheck Protection Program is not enough

The government's main program for small business support, the Paycheck Protection Program (PPP), initiated on April 3 as part of the CARES tAct, is likely too little too late. Analysis by the University of Chicago suggests that up to 40% of small businesses in the hardest hit sectors, including restaurants and retail, have already laid off their workforces and closed their doors. On April 16th, the fund ran out of cash, though congress is negotiating a top-up, this reflects the outsize scale of the need for support amongst small businesses. The next round of stimulus, under negotiation as of this writing, is unlikely to fully address their needs.

Banks have struggled to get PPP funds out the door. At the time of writing, though all \$350 billion had been allocated through loans, analysis and [reporting](#) suggests little of it had gotten out the door yet. These significant delays in federal aid are likely to hurt minority-led businesses (especially small ones) the most.

*"In theory, this money was supposed to go out and go out really fast, but I don't know anybody that has seen the money"*

*Lise Mulderig from CaptureShowroom*

Making matters worse, the government has moved the goalposts on loan terms (from 10 to 2 years) and interest rates (from 0.5% to 1%). These changes increase the perceived costs and risks of borrowing through the program and undermine business owners' trust in the PPP's terms. Furthermore, it weakens the notion that the loans will ultimately operate like forgivable grants and dissuades already wary minority business owners from applying.

## Three levels of targeted support to minority businesses will lay the foundation for a sustainable recovery

Based on our analysis, we have developed three levels of recommendations. First, we believe the Federal Government needs to increase direct and immediate financial support to minority-led businesses, especially the smallest ones. Second, New York City and State will need to employ concrete initiatives, tailored by neighborhood and industry, to help businesses navigate the recovery. And third, small businesses will need to utilize these resources and their own creativity to adapt to the

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changing business climate. Additional targeted support will help them evolve and align with the “new normal.”

**Federal Government – Prioritize and ring fence support for the most vulnerable small businesses in the next stimulus package**

Countries have taken very different approaches to support small businesses in response to Covid-19. Germany's [short-time compensation model](#) is an example of direct distributions with less red tape. There are also cases where support has been more targeted, such as the [UK's Retail, Hospitality and Leisure Grant Fund \(RHLGF\)](#).

Drawing from these examples, the Federal Government should specifically direct additional stimulus funding toward minority and women-owned businesses and should allocate funds to the creation of a “Navigator” program to help these firms access available programs. Support could also target boroughs or even industries that were hit earliest and hardest.

Alongside PPP loans, the Federal Government should provide direct grant funding such as [COVID-19 Emergency Relief Funds](#), which have not yet focused on small businesses. These grants

should carve out a significant portion of financial support for minority-led businesses. Grants can be provided more quickly than loans and can carry fewer conditions, thus decreasing perceived risk and increasing uptake. This is needed, considering the institutional barriers that minority-led small businesses face when applying for loans. Even outside the context of a pandemic, minority-led businesses are 30% less likely to apply for loans and are three times more likely to fear being denied.

**New York City and state governments – fund, scale, and use proven financing and business development channels to tailor support for small businesses across neighborhoods**

At a local level, new and existing customers have inundated business development actors and community banks with requests, seeking funding and advice about how to navigate the Covid-19 crisis. Of the 34 CARES-accredited financial institutions serving New York, 20% had stopped accepting applications by April 10th. Community development financial institutions (CDFIs) were under-represented among these accredited institutions. A greater focus on such distribution channels, as well as Minority Development Institutions (MDIs), Lender Mortgage Institutions (LMIs), credit unions, and online lenders, will be critical in the next phase of federal stimulus. City and state governments must do more to

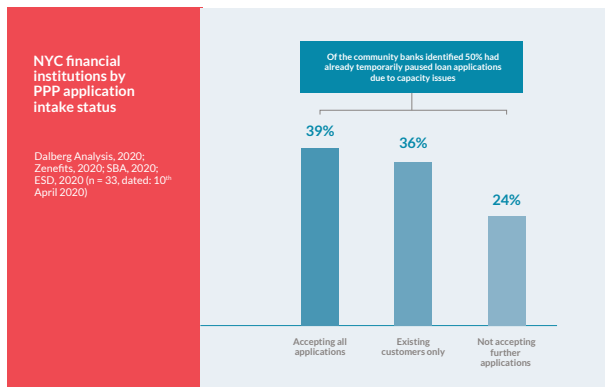


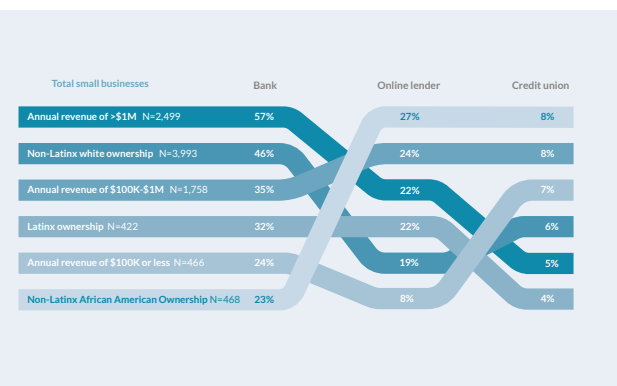
Fig. 10

The Federal Paycheck Protection Program was stretched from the start. Over a third of banks in New York only accepted applications from existing customers and a quarter stopped accepting new applications on the 10th April.

**Minority-led businesses are much less likely to have existing relationships with banks**

% of employer firms. Adapted from Federal Reserve Banks Small Business Credit Survey, 2020

Fig. 11  
Survey data emphasizes the limited existing relationships between banks and minority-led small businesses. Conversely it also shows the importance of online lenders and credit unions which had limited or late PPP approval status.





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identify community banks and other providers with deep roots in small business communities.

Minority businesses are much less likely than white-owned businesses to have existing banking relationships. Just 23% of African American-owned and 32% of Latinx-owned businesses maintain such relationships compared to 46% of white-owned businesses. Conversely, African American-owned businesses, for example, are much more likely to have used online lenders (41%) and Credit unions (8%). It is welcome news that [online lenders like Paypal are now being accredited](#) to provide loans, but this could have been anticipated from the start.

In addition to funding, small businesses need more support services. [The South Bronx Business Lab](#) has seen a 60-fold increase in the number of enquiries and support requests. As community banks and small business assistance networks become over-stretched, these are the most primed channels by which to provide non-financial support to the hardest hit small businesses and communities. [Partnership for New York City](#) has already mobilized volunteers to help small businesses navigate the application process for both PPP and EIDL loans.

Looking forward, because many businesses will have closed before they could access resources, a further support mechanism, such as an MWBE Recovery and Startup Fund, could be established to aid particularly affected communities.

*“Our team is getting 100’s of calls a day, our services are being stretched. Firms are needing basic support to prepare for PPP and EIDL*

*so there is definitely a need to focus on what happens after this to help build longer term business capacity”*

*Selama Yemeru, Third Avenue BID*

**Small Businesses – Businesses must adapt throughout the crisis response, the recovery, and into the “new normal”**

*“So it went from a shock, to a bandaid, to the complete transformation surgery, to now kinda feeling like ok if we can hold on we are gonna come out stronger and better than before.”*

*Maritza Huerta, Owner of The Twins PR and Business Advisor at Support Latino Business*

Small businesses will likely need to adapt through three time horizons: 1) during the initial crisis response when businesses must keep some revenue flowing, 2) during the recovery, when likely constraints on movement continue to impact the economy until a vaccine is developed and 3) post-Covid-19, when a “new normal” brings new competition and shifting customer expectations. Emerging examples of adaptation include Bodegas that reach customers through [newly launched delivery service aggregators](#) and fashion companies that have switched gears to [produce facemasks](#). However, given the likelihood of heightened [hygiene concerns](#), other businesses, such as nail salons, [where 80% of staff are minority workers](#), will face longer-term adaptation challenges as they work to attract customers back to their establishments.

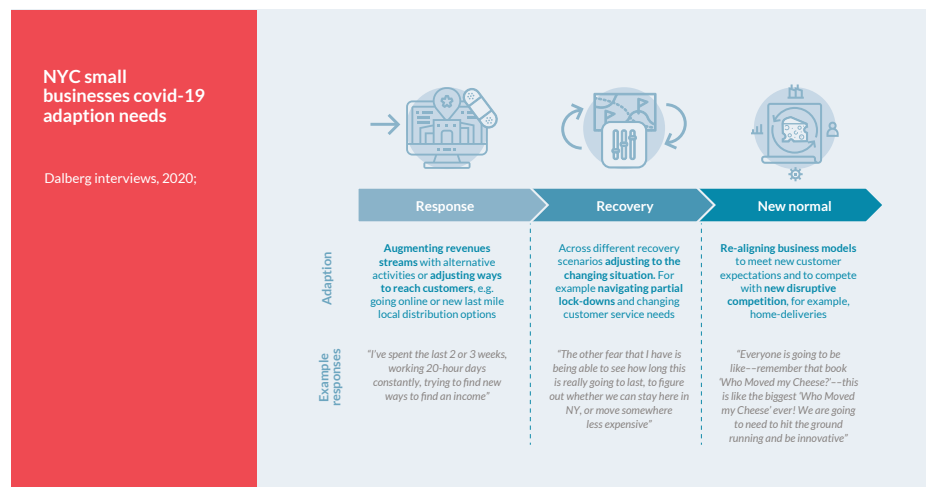


Fig. 12

Minority-led businesses are already adapting creatively to the crisis and thinking ahead to the future. Not only do they urgently need money to survive in the short term they will also need longer term support when adapting to the new normal.

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While small businesses can be agile, they are more vulnerable if forced to adapt quickly. They are unlikely to have the necessary resources, knowledge, technology, or economic margin for error to pivot quickly and effectively. Evolving their business models cannot be the only solution. They need financial support, assistance navigating assistance programs, and access to technology and training to adapt their businesses.

The enormous and immediate impact of Covid-19 has left small businesses with few options to adapt in the short term. If federal funding is further delayed, businesses will have to seek alternative solutions. A growing pool of additional, non-federal funding is becoming available. Aggregators such as [CovidCap](#) are making these funds easier to find. Examples such as [Bumblee](#) offer an easy to access application process that flows directly through their app, lowering the barriers that come with the complexity of applying for funding. More “navigator” programs are needed to help small businesses to find support.

*“ I don't know if the SBA thing will work-out. Sarah Blakely of Spanx is doing a grant specifically for female businesses owners, it's only \$5,000 dollars, but \$5,000 dollars makes an impact to me and to my needs, and will help me pay for rent in May.”*

*Lise Epperlein Mulderig, Women-led  
small business owner of CaptureShowroom*

At risk of being left behind, minority owned businesses are turning to their customers and community for support. Some, despite the strong headwinds, are developing and implementing new business and delivery models in a matter of days. Others are forming small-businesses partnerships to promote each other's products and services, and to pool customers. Better positioned businesses are fundraising for harder hit counterparts within their networks. While the ingenuity of these businesses owners and their communities will ensure many survive the covid-19 crisis, it is imperative that policymakers and philanthropic givers do everything in their power to minimize the potentially unprecedented damage.

*“Something our whole little tribe of entrepreneurs believes is that you can't wait for help to come from the top down. It's just too bureaucratic for them to figure it out, and then process it and apply and then wait. So we really have to take back power on our own when we see someone who needs help.”*

*Maritza Huerta, Owner of The Twins PR and  
Business Advisor at Support Latino Business*

## Join us

*Dalberg is actively looking to partner with private, public, and philanthropic actors to advance action toward a more equitable recovery for small business. For further details and to discuss collaborations, please contact Michael Mori ([michael.mori@dalberg.com](mailto:michael.mori@dalberg.com)) and Kiran Willmot ([kiran.willmot@dalberg.com](mailto:kiran.willmot@dalberg.com)).*