Background Information | Senate Bill 323: Small Business Loan Program

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Background Information for the Senate Committee on Revenue and Economic Development
Prepared by the Kenny Guinn Center for Policy Priorities

Introduction

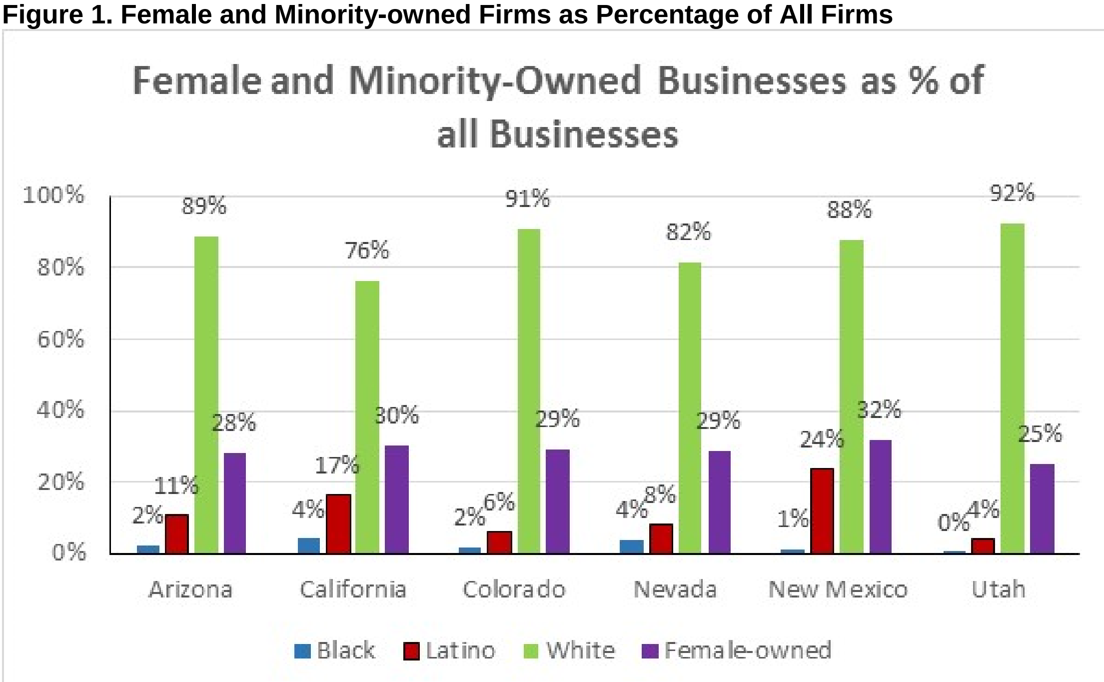
In June 2014, the Guinn Center published a policy report titled, *The State of Latinos in the Intermountain West,* which analyzed questions of access to capital among Latino families and businesses. Based on our research, we submit the following for consideration by members of the Senate Committee on Revenue and Economic Development.

Access to capital is limited for female and minority-owned businesses

One critical element in strengthening the overall infrastructure of opportunity is access to capital for small businesses and individual entrepreneurs. Across the Intermountain West region, female and minority-owned firms are a small percentage of businesses and have less access to business loans.

Across the Intermountain West region, Latino and African American owned firms typically represent a small percentage of firms. Figure 1 shows the percentage of female and minority-owned firms throughout the Intermountain West in 2007. Only 29 percent of businesses in Nevada are female-owned; only 8 percent of businesses are owned by Latinos; and only 4 percent are owned by African-Americans.

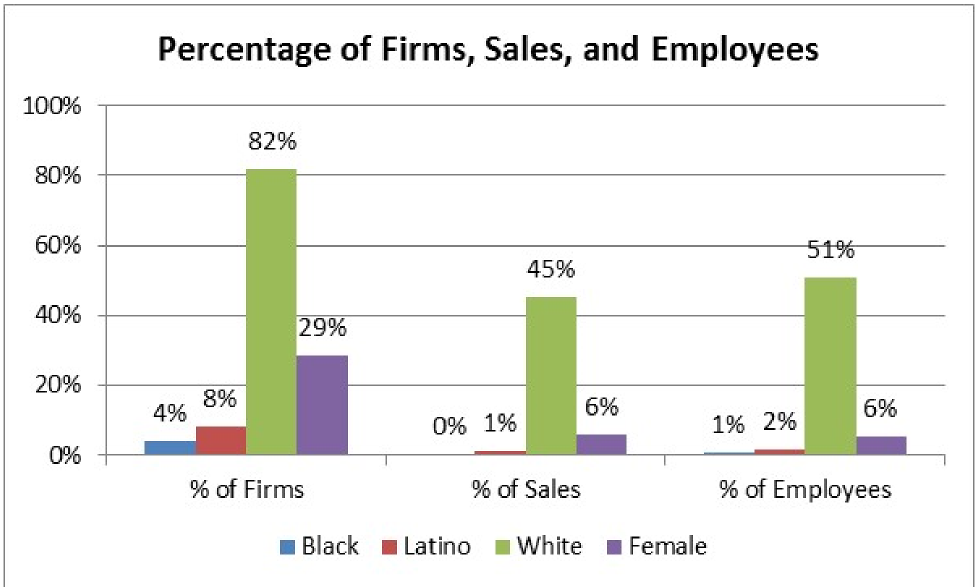
Figure 1. Female and Minority-owned Firms as Percentage of All Firms



Source: U.S. Department of Commerce, Census Bureau, Survey of Business Owners (2007)

Figure 2 shows that women and minority-owned businesses make up a very small percentage of total business receipts and total employment in Nevada. Comparing Figures 1 and 2, the percentage of receipts and employment for women and minority owned businesses is much smaller than the percentage of women and minority owned businesses in Nevada. For example, Nevada's Latino businesses accounted for 1.4 percent of receipts and 2 percent of employees in 2007, but these numbers are very small considering that Latino firms accounted for 8 percent of all firms in Nevada.

Figure 2. Receipts and Employment at Female and Minority-owned Firms as Percentage of All Nevada Firms



Source: U.S. Department of Commerce, Census Bureau, Survey of Business Owners (2007)

Table 1 shows the distribution of Nevada female and minority-owned businesses by industry in 2007. Latino owned businesses are largely in 'Other' (25 percent) and administration and support, waste management, and remediation services (16 percent). Female-owned business are concentrated in 'Other' (25 percent) and other services (except public administration) (16 percent).

Table 1. Nevada Women and Minority owned Businesses by Industry, 2007

Businesses by Industry: 2007				
Percent	African American	Latino	White	Female
Construction	3%	10%	8%	2%
Retail	8%	9%	10%	11%
Real estate and rental and leasing	9%	10%	15%	14%
Professional, scientific, and technical services	11%	9%	16%	15%
Admin. & support & waste mgmt. & remed. services	9%	16%	8%	10%
Arts, entertainment, and recreation	11%	7%	6%	8%
Other services (except public administration)	21%	15%	11%	16%
Other	27%	25%	26%	25%

Source: U.S. Department of Commerce, Census Bureau, Survey of Business Owners

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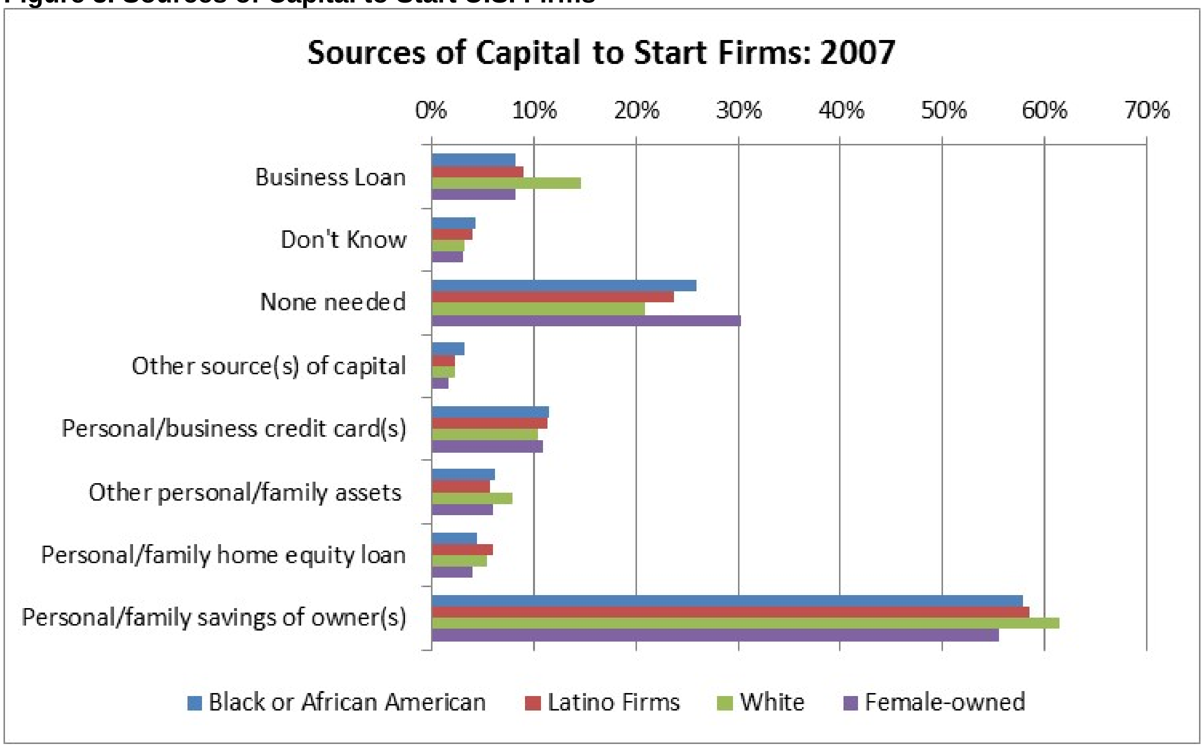
The United States Census surveys businesses every five years about sources of capital used to start firms. Figure 3 shows that the sources of capital for U.S. firms in 2007. The main source of capital for all firms was personal/ family savings of owners. Only 9 percent of Latino firms received a business loan, while only 8 percent of female-owned and African-American owned businesses received a business loan.

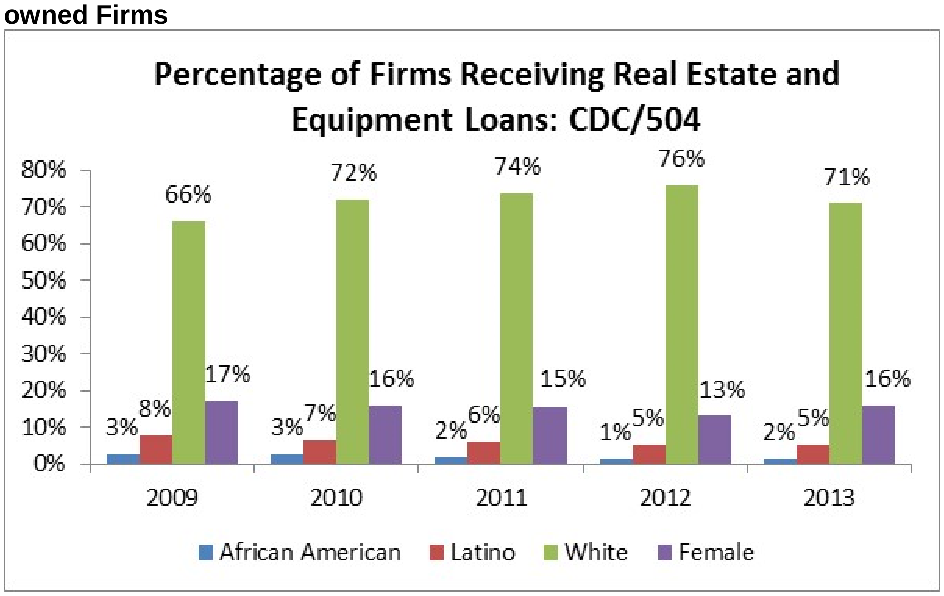
Figure 3. Sources of Capital to Start U.S. Firms



A major source of business loans is through the Small Business Administration. The Real Estate and Equipment (CDC/504) Loan Program provides financing for major fixed assets such as equipment or real estate. The General Small Business 7(a) Loan Program is the most common program, and provides loans to businesses to establish a new business or to assist in the acquisition, operation, or expansion of an existing business. Latino and African American businesses consistently only received 2 to 8 percent of loans in these programs on a national basis from 2009 to 2013. Female owned businesses consistently only received 16 to 22 percent of loans in these programs on a national basis from 2009 to 2013 (see Figures 4a and 4b).

Figure 4a. Small Business Administration Loan Funding Provided to U.S. Female and Minority-owned Firms

Figure 4b. Small Business Administration Loan Funding Provided to U.S. Female and Minority-owned Firms

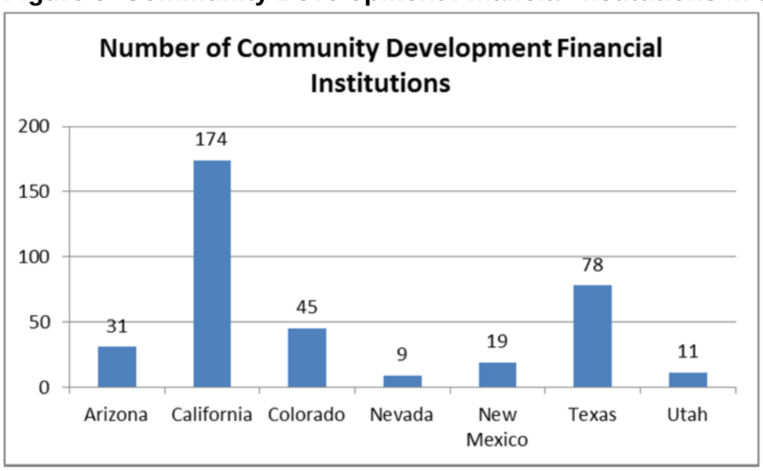


Businesses can also access capital though microenterprise development institutions that provide microloans and microcredit to small-scale entrepreneurs. There is tremendous variation in the number of microenterprise institutions that operate in the Intermountain West. In 2010, California boasted 40 microenterprise institutions that served over 25,000 individuals and more than 10,000 businesses. Until 2014, Nevada only had 1 microenterprise institution. However, in 2014, Accion International, a nonprofit microenterprise development institution, opened its doors in Nevada. In the last 8 months, Accion has provided small micro-loans to 77 clients for a total value of $800,000. The 2011 Kauffman Index of Entrepreneurial Activity ranked Nevada 7th in the nation on entrepreneurial activity. The lack of microenterprise institutions in Nevada suggests a missed opportunity to provide Nevada's entrepreneurs, as well as others, with financial instruments and opportunities to start and grow their businesses.

Community development financial institutions (CDFIs) can provide additional financial resources to communities, individuals, and entrepreneurs. According to the U.S. Treasury, CDFIs "provide a unique range of financial products and services in economically distressed target markets, such as: mortgage financing for low-income and first-time homebuyers and not-for-profit developers; flexible underwriting and risk capital for needed community facilities; and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas." CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

There is tremendous variation in the number of CDFIs operating in states in the region (see Figure 5). Based on information provided by the U.S. Treasury Community Development Financial Institutions Fund Award Database, California has the greatest number of CDFIs. Nevada is the state with the fewest number of CDFIs.

Figure 5. Community Development Financial Institutions in the Intermountain West



See full report: *The State of Latinos in the Intermountain West* at http://guinncenter.org/wp-content/uploads/2014/06/Guinn_State-of-Latinos-In-the-Intermountain_West_June_2014.pdf

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