

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, Committee on Small Business, Subcommittee on Underserved, Agricultural, and Rural Business Development
FROM: Jared Golden, Chairman
RE: Subcommittee Hybrid Hearing: The Role of Community Navigators in Reaching Underserved Businesses
DATE: March 18, 2021

On Thursday, March 18, 2021, at 10:00 a.m. (EST), the Subcommittee on Underserved, Agricultural, and Rural Business Development will hold a hybrid hearing on the new Community Navigator Pilot Program, created through the American Rescue Plan Act of 2021. The hearing will provide Members an opportunity to learn more about the program and how it can leverage existing community partners to enhance outreach to underserved communities. The hybrid hearing will take place via WebEx, information to be provided separately.

Panelists

- Ms. Rebecca Shi (She), Executive Director, American Business Immigration Coalition, Chicago, Illinois
- Ms. Bridget Weston, CEO, Service Corps of Retired Executives (SCORE), Herndon, Virginia
- Ms. Pilar (Pee-lar) Guzman (Gooz-man) Zavala (Za-va-la), CEO, Half Moon Empanadas, Miami, Florida
- Mr. Bruce Strong, State Director, Minnesota SBDC, St. Paul, Minnesota

Background

The coronavirus pandemic has hit small businesses particularly hard over the course of the last year, with many small businesses having to pivot their business models or close their doors. Congress created the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) Advances in the CARES Act to help millions of small businesses stay in operation and keep employees on the payroll, but many minority-owned and rural small businesses found themselves at the end of the line while larger, well-connected businesses accessed programs right away. The Community Navigator Pilot Program, as established in the American Rescue Plan Act of 2021, has the potential to strengthen outreach to underserved businesses by partnering with organizations with deep roots in their communities.¹

¹ H.R. 1319, 117th Cong. (1st Sess. 2021).

Impact of COVID-19 on Minority-Owned Small Businesses

According to the U.S. Census Bureau's 2019 Annual Business Survey, in 2018 approximately 18.3 percent of all U.S. businesses were minority-owned.² Small businesses constitute the majority of these firms given that small firms, defined as independent businesses with less than 500 employees, comprise 99.9 percent of all businesses in the U.S..³ Of the 18.3 percent, approximately 332,000 businesses were Hispanic-owned, 578,000 businesses were Asian-owned, 125,000 businesses were Black or African American owned, 24,000 businesses were owned by American Indian and Alaska Native, and 6,600 businesses were owned by Native Hawaiian and Other Pacific Islanders.⁴

Research from the National Bureau of Economic Research (NBER) has shown that COVID-19 has had a disproportionate impact on minority-owned small businesses, with a higher number of minority firms closing than their white counterparts.⁵ Between February and April 2020, the number of actively working, self-employed Black business owners decreased by 41 percent.⁶ Similarly, the same group of Hispanic business owners decreased by 32 percent and Asian business owners decreased by 26 percent.⁷ Minority-owned firms that remain open are experiencing harsher financial conditions and have less cash-on-hand than white firms.⁸ This cash-crunch may be compounded by the difficulty minority firms, especially Black-owned firms, have had in accessing federal COVID relief.⁹

While the inclusion of set-asides for underserved communities and expanded access at non-traditional banking institutions in later iterations of PPP have been an improvement, the initial rollout left many underserved businesses shut out. Many minority-owned firms had their applications turned down during the first and second rounds of PPP funding, causing application fatigue and frustration.¹⁰ In addition to having access issues at traditional lending institutions in the early stages of PPP, there are geographic disparities among PPP recipients and concentrations of minority-owned businesses. In the first round of funding, six loans were approved for every 1,000 people living in ZIP codes with the greatest proportion of white residents, nearly twice the rate of loans approved for people living in the 20 percent of ZIP codes with the smallest proportions of white residents.¹¹

² Press Release, The U.S. Census Bureau, *Annual Business Survey Release Provides Data on Minority-Owned, Veteran-Owned and Women-Owned Businesses*, (Jan. 28, 2021), <https://www.census.gov/newsroom/press-releases/2021/annual-business-survey.html> [hereinafter "Census Bureau Press Release"].

³ *Id.*

⁴ Census Bureau Press Release, *supra* note 2.

⁵ Federal Reserve Bank of Cleveland, *An Uphill Battle: COVID-19's Outsized Toll on Minority-Owned Firms*, (Oct. 8, 2020), <https://www.clevelandfed.org/newsroom-and-events/publications/community-development-briefs/db-20201008-misera-report.aspx>.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ U.S. House of Representatives Committee on Small Business, *The State of Black-Owned Businesses in America*, (February 26, 2020), https://smallbusiness.house.gov/uploadedfiles/bob_report_final.pdf.

¹⁰ Associated Press, *Minority-owned businesses were last in line to receive loans, latest PPP data show*, CBSNEWS, (January 4, 2021), <https://www.cbsnews.com/news/minority-owned-businesses-were-last-to-receive-ppp-loans-adding-to-their-despair/>.

¹¹ *Id.*

Besides PPP access concerns, underserved small businesses may struggle to access a mentor that can address their specific needs. Having a mentor makes it easier for small business owners to learn management skills, navigate financing options, and access new markets to grow their businesses. In recent years federal agencies and private institutions have dedicated more resources to minority small business outreach. The Small Business Administration's (SBA) Resource Partners, specifically the Small Business Development Centers (SBDCs) and the Service Corps of Retired Executives (SCORE) have committed to expanding their counseling and training outreach at Historically Black Colleges and Universities (HBCUs) and increasing the diversity of their counselors and clientele.

Impact of COVID-19 on Rural Small Businesses

Rural America encompasses about 72 percent of our nation's total land, about 46 million residents, and plays a critical role in the country's economy.¹² Rural areas face many unique challenges such as low population density, geographic isolation, persistent poverty, and limited institutional capacity. Overall, rural areas tend to have fewer financial, professional, scientific, and information services activities than urban areas. This had led to long-term outmigration of young adults, an aging population, and increased mortality rate among working-age adults.¹³ Between 2010 and 2016 was the first recorded period of rural population decline in the U.S.¹⁴ Pre-pandemic, slow rural population growth and declining labor force participation contributed to the much slower rate of employment growth.

Recognizing the unique challenges facing rural small businesses, the CARES Act stated that the SBA Administrator should issue guidance to lenders and agents to ensure that the processing and disbursement of loans prioritized small businesses in underserved and rural markets. According to SBA Inspector General's report on January 14, 2021, SBA's formal guidance for underserved and rural markets was not sufficient.¹⁵ Furthermore, the guidance was not issued quickly enough to ensure underserved and rural markets were prioritized at the beginning of the PPP.¹⁶ This delay may have caused many underserved and rural small businesses to not receive the vital PPP loans they needed to maintain operations.¹⁷

At the beginning of the COVID-19 pandemic rural small businesses were still financially and structurally rebounding from the Great Recession.¹⁸ Many rural small businesses lack access to capital and broadband connectivity making pivoting to virtual services, e-commerce, or COVID-safe operating conditions more challenging.¹⁹ In addition, the geographic isolation from information hubs can make gathering the necessary information about local, state, and federal

¹² U.S. Dept. of Agriculture, *Rural America At A Glance* (2017), <https://www.ers.usda.gov/webdocs/publications/85740/eib-182.pdf>.

¹³ *Id.*

¹⁴ *Id.*

¹⁵ SBA Inspector General, Report Number 21-07, *Inspection of SBA's Implementation of the Paycheck Protection Program*, (January 14, 2021).

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ Hannah Love & Mike Powe, Brookings Institute, *Rural small businesses need local solutions to survive*, (December 1, 2020), <https://www.brookings.edu/research/rural-small-businesses-need-local-solutions-to-survive/>.

¹⁹ *Id.*

programs difficult. Targeted outreach to rural small business could help to support their unique needs.

Community Navigator Pilot Program

The SBA plans to implement a Community Navigator Pilot Program to help underserved small businesses obtain additional support for accessing federal relief programs for small businesses. The pilot program is authorized in the American Rescue Plan Act of 2021 and will provide \$100 million for grants to organizations to participate in the program and \$75 million to support outreach and education. Outreach and education will include services in the 10 most common languages other than English, improvements to SBA’s website, implementing a media campaign to educate underserved communities, and establishing an SBA call center.

Under the community navigator approach, traditional business assistance organizations like SBDCs, Women’s Business Centers (WBC), SCORE Chapters, and other organizations will engage trusted, culturally knowledgeable partners to conduct targeted outreach to specific sectors of the small business community. This outreach can take several forms including hiring dedicated staff to focus on these communities or partnering with specialized community organizations and Chambers of Commerce via a “hub and spoke” model.

Hub and Spoke Model

One option to execute the Community Navigator Pilot Program is utilization of a “hub and spoke” approach that connects the SBA, existing Resource Partners, non-profits, state, and local governments, to trusted community partners that will work to enhance grassroots outreach, technical assistance, and use of federal resources. Designated “hubs” will provide updates, resources, and capacity building while connecting “spokes” to Community Development Financial Institutions (CDFIs), banks, Certified Public Accountants (CPAs), and other small business resources.²⁰ The “spokes,” or community navigators, will conduct extensive grassroots outreach to build program awareness and trust while providing technical assistance to businesses.

In addition, “hubs” will work with culturally tailored partners to deliver completed financial documents to CPAs for review and work with lenders and other financial planners to provide additional training to small businesses.²¹ The goal of the program is a two-way information stream where the “hub” and “partners” will provide constant feedback to “spokes” on applications, updates, and take “spokes” feedback while they work to provide support and build trust in the community.²²

This “hub” and “spoke” approach has been successful in state efforts to expand access to federal financial support, technical assistance, and counseling and training services in underserved

²⁰ Presentation, American Business Immigrant Coalition, 1, (January 22, 2021)(unpublished presentation) (on file with the American Business Immigrant Coalition). [hereinafter “ABIC Presentation”]

²¹ *Id.*

²² *Id.*

communities.²³ The Illinois' Business Interruption Grants (B.I.G.) program²⁴ reports reaching over 24,000 small businesses and providing 894 hours of one-on-one support in 11 weeks of operation with this model.²⁵

SBA Pre-Authorization Pilot

SBA is currently working with SBA District Offices, state government partners, SBDCs, Women's Business Centers (WBCs), and SCORE Chapters, that run similar programs in their communities, to help determine best practices and get the program off the ground.²⁶ This pre-authorization effort will allow participants to utilize remaining CARES Act funding, or additional funding provided by SBA, to help support the use of navigators and build the community navigator model into the existing resource partner network.²⁷ The goal of this pre-authorization pilot is to try to maximize existing resources while reaching underserved communities across the country.

Conclusion

Minority and rural small business owners have been disproportionately impacted by the COVID-19 pandemic and left behind in key federal aid programs. The Community Navigator Pilot Program seeks to address these disparities by providing technical assistance and enhancing outreach to underserved communities, including minority, women, and rural businesses. This outreach aims to help underserved small businesses survive the pandemic and set them up for success in a post-pandemic economy. By utilizing trusted community partners to interact with local small businesses, the Community Navigator Pilot Program hopes to build confidence, expand outreach, and address the critical needs of America's underserved small businesses. The Committee intends to work closely with the SBA to provide oversight of the program and gauge its success over the next several years.

²³ Press Release, the Illinois Department of Commerce & Economic Opportunity, *Pritzker Administration Invests Over \$3 Million in Community Navigators and Other Supports to Help Illinois Small Businesses Access PPP and Federal Assistance Programs*, (January 22, 2021),

<https://www2.illinois.gov/dceo/Media/PressReleases/Pages/PR012221-2.aspx>.

²⁴ Illinois Department of Commerce & Economic Opportunity, Business Interruption Grants Program (BIG), <https://www2.illinois.gov/dceo/SmallBizAssistance/pages/c19disadvantagedbusgrants.aspx>

²⁵ ABIC Presentation, *supra* note 20.

²⁶ SBA Information Notice, Control No. 6000-806503, March 3, 2021, <https://www.sba.gov/sites/default/files/2021-03/Navigator%20Notice-Final%203-3-21-508.pdf>.

²⁷ *Id.*