

## Overview

Every day small business owners face many challenges such as economic uncertainty and insufficient access to capital. These businesses have also been disproportionately impacted by the COVID-19 pandemic. When first starting their businesses, up to 83% of entrepreneurs find themselves without access to enough funds, instead relying on their personal savings or taking on debt. Many government programs and other sources of funding help entrepreneurs across the country start new businesses and assist already operating small businesses that need additional sources of capital.

## Access to Capital

Businesses need adequate access to capital to open, operate, hire employees, and succeed. Capital comes in many forms including:

- **Small Business Administration (SBA) loans** - loans guaranteed by the SBA that play a key role in helping many small businesses access capital. The SBA has a number of lending programs and provides various loan-related resources. For example, many franchise owners use the SBA's lending programs. Between 2015 and 2017, 117,000 new small businesses opened through franchising – most of the financing was through SBA-guaranteed lending programs.
- **Lending** - money borrowed from a financial institution that must be paid in the future with interest and within a given period of time.
- **Crowdfunding** - raises funds for a business from a large number of people. They aren't considered investors because they do not receive a share of ownership in the business and a return on their investment.
- **Grants** - many state and federal government organizations, private companies, and non-profit organizations offer limited small business grants to promote entrepreneurship.
- **Self-Funding** - can come in many forms including asking family and friends for capital, using savings accounts, or tapping into retirement accounts. With self-funding, businesses owners retain complete control over the business.
- **Venture Capital and Private Equity** - offered in exchange for an ownership share and active or passive role in the company. It typically invests capital in return for equity and has a longer investment horizon than traditional funding.

Small business owners struggle to access capital for a variety of reasons. For example, smaller businesses often lack an established financial history that many financial institutions are likely to require before lending. Without that established financial history and the resources and relationships to navigate this complex system, loan requests and other appeals for capital can be denied.

## Center Forward Basics

Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit [www.center-forward.org](http://www.center-forward.org)

## According to a June 2021 10,000 Small Businesses Voices survey:

- **88%** of small business owners who received a second PPP loan **expect to exhaust** their PPP loan funding by the end of July.
- **Only 24%** of small business owners are **very confident** they will be able to maintain payroll if no further government relief is provided.
- **Only 48%** of small business owners think their business would qualify for an SBA loan in 2021 given the **negative impact** of COVID-19 on their financial statements.
- **93%** of small business owners **support** Congress re-evaluating the SBA loan terms so that hard-hit small businesses can **access capital**.

During the pandemic, the federal government created the Paycheck Protection Program (PPP) to improve and streamline small businesses' ability to access capital. The program was extremely helpful to many small businesses in need of capital. That said, many other businesses did not receive the financial aid and federal assistance they needed to stay afloat and open because of a tedious application process and various administrative problems. Additionally, now that the PPP has ended, many small businesses are finding themselves ineligible for, or facing steep hurdles as they apply for, SBA loans in 2021 and 2022 as a result of their balance sheets from the 2020 year showing significant losses due to the pandemic. Current SBA loans restrictions state that if businesses went in the red, operating at a loss in the previous year, they are ineligible to receive a new SBA loan. This is especially important because a majority of small businesses that took a second PPP loan expect to run out of their loan funding during the summer of 2021, according to a June 2021 Goldman Sachs *10,000 Small Businesses Voices* survey.

## Proposed Fixes

Small business owners - particularly women and people of color- face even more challenges when accessing the capital from banks and other traditional sources. Congress has an opportunity to support small businesses by taking action to improve processes and create new opportunities, making capital easier and more equitable to access. Specifically, a number of fixes have been proposed to address the many barriers to entry facing women, minorities, and low-income entrepreneurs in particular, such as introducing new standards and technologies that increase financial opportunities, creating more transparency, crafting more inclusive processes, and completing additional research to better understand barriers for small businesses to access capital. Additionally, Senator John Hickenlooper and Senator Jim Risch introduced a bill to increase access to SBA resources for traditionally underserved individuals, communities, and small businesses. The bill also includes a MicroCapSBIC Designation that would expand the universe of eligible investment managers, grow the number of smaller funds in underserved markets, and create more investment vehicles in rural and underserved parts of the country.

## Conclusion

Helping small businesses recover from the pandemic and increasing opportunities for access to capital will support the nations' economic recovery. It is important to make the process more transparent and more equitable for all small business owners, especially for women-owned businesses, minority-owned businesses, and businesses in both rural and urban areas. Small businesses are the life-blood of their local communities and strong local economies create jobs and revitalize hard-hit areas. Additionally, small businesses share near universal bipartisan support and with access to capital near the top of the list of key challenges facing small business owners, Congress has the opportunity to address this issue and help lead a local and national recovery.

## Links to Other Resources

- Congressional Research Service - [Small Business: Access to Capital and Job Creation](#)
- Dun & Bradstreet - [Access to Capital for Small Business Owners](#)
- Ewing Marion Kauffman Foundation - [Access to Capital for Entrepreneurs: Removing Barriers](#)
- Goldman Sachs - [Survey: Small Businesses Hit Roadblocks on Road to Recovery](#)
- Senator John Hickenlooper - [Hickenlooper Introduces First Bills, Aims To Increase Access to SBA Resources for Underserved Communities, Small Businesses](#)
- Small Business Administration - [Fund your business](#)
- Small Business Administration - [Loans](#)

- U.S. Senate Committee on Small Business & Entrepreneurship - [Access to Capital](#)