

POLICY INFLUENCE AND OPPORTUNITIES

The New Economy Initiative

October 2020



Public Policy Associates, Incorporated is a public policy research, development, and evaluation firm headquartered in Lansing, Michigan. We serve clients in the public, private, and nonprofit sectors at the national, state, and local levels by conducting research, analysis, and evaluation that supports informed strategic decision-making.



Prepared for

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BACKGROUND AND SUMMARY

Since its inception at a time when the state of Michigan was in great need of direction, the New Economy Initiative of Southeast Michigan (NEI), a special project of the Community Foundation for Southeast Michigan (CFSEM), has distinguished itself as a force for innovation, collaboration, and data-informed economic change. NEI has been committed to inclusive entrepreneurship, through the growth of small and micro businesses in underserved areas, with a primary focus on those in the City of Detroit. With the financial support of the Michigan and national philanthropic community, NEI has taken shape for more than a decade through a wide range of programs and practices that have had an influence on public policy.

In collaboration with EarlyWorks (EW), Public Policy Associates, Incorporated (PPA) has documented NEI's legacy and learnings leading up to its current aspirations—championing an inclusive small business support network for Detroit. PPA was charged with capturing NEI's past program and practice impact and to articulate policy considerations and opportunities.

This research included a thorough analysis of historical records provided by NEI in relation to its continued efforts that have resulted in policy change. Also, through semi-structured interviews, PPA collected key insights from informed stakeholders on how these individuals perceived NEI's past, as well as any challenges or barriers anticipated. Further, PPA investigated the extent to which the interviewees shared a common vision of NEI's work.

This report reflects on and draws lessons from NEI's rich history and policy impact as well as recent experiences; then, it offers considerations, informed by current events, for policies and practices to help shape NEI's strategic direction for the future; particularly with regard to:

- Meeting the ongoing needs exacerbated by the COVID-19 pandemic of small and micro businesses
- Providing capital access to businesses owned by Black, Indigenous, and people of color (BIPOC) and women
- Sustaining an ecosystem that is driven by inclusive programs and practices that can influence policy change

The first section reflects on the historical program impact of NEI vis-a-vis investing in an entrepreneurial ecosystem and economic development policies that now seeks to assist underserved small businesses in Detroit. The second section offers a description of opportunities for NEI to meet its mission, including those raised by the COVID-19 pandemic, designed to better support underserved small business owners and promote inclusive entrepreneurship.

The result is an integrated retrospective and prospective document with the two key components combined; however, both sections were designed to stand alone as informational tools for those looking to better understand NEI's past, as well as learn about its aspirations to drive an inclusive small business network.

RETROSPECTIVE: ORIGINS AND INFLUENCE

During the first decade of the 2000s, Michigan's economy was firmly entrenched in what many economists, business leaders, and the news media described at the time as the "single-state recession."¹ Michigan's manufacturing sector was shedding jobs precipitously and its place in national rankings, relative to other states, had fallen—due in part to globalization and a shift toward automation.² As a result, between 2000 and 2009, Michigan ranked last in three key economic indicators: population growth, economic growth, and employment.³

As the state and regional economy weakened, policymakers at all levels of government crafted a variety of levers and solutions to turn the economic tide. Stakeholders, such as lawmakers, business leaders, and lenders, began benchmarking the economic and policy success of the state and region to the number of sustainable jobs created.⁴ As a result, other indicators of economic strength and success (e.g., growth of small business and entrepreneurship support strategies) and the policies that support them were not prioritized or nurtured.

Instead, government action primarily consisted of the creation of subsidies and tax credits to lure larger businesses with more employees.⁵ Much of the public sector support was focused on high-growth, high-tech strategies rather than small business and entrepreneurial development. As NEI evolved this was determined to be major gap that its programs sought to fill, eventually influencing public investment there as well.

Navigating Recession and Expanding Priorities

To create an alternative to the subsidies and tax credits that were dominating public policy at the time, Michigan's philanthropic community turned its attention toward an emerging trend: prioritizing, developing, and building on the region's rich entrepreneurial assets; lifting up innovative solutions; targeting small business incubation; and urging long-term business survival.⁶ This revamping launched in 2007 with the creation of NEI as a project of CFSEM tasked with bringing Southeast Michigan back to prosperity transitioning to a knowledge-based

¹ "Michigan's Single-State Recession and its Effects on Public Employment," *Citizens Research Council of Michigan*, September 15, 2013, https://crcmich.org/publications/single_state_recession_effect_public_employment-2013

² Ethan Pollack, Alastair Fitzpayne, and Conor McKay, *Automation and a Changing Economy: The Case for Action* (The Aspen Institute, April 2, 2019), <https://www.aspeninstitute.org/publications/automation-and-a-changing-economy-the-case-for-action/>

³ Lindsay VanHulle and Mike Wilkinson, "After 10 years of steady growth, Michigan's economy faces headwinds," *Bridge Magazine*, July 9, 2019, <https://www.bridgemi.com/economy/after-10-years-steady-growth-michigans-economy-faces-headwinds>

⁴ "Redefining Economic Development Performance Indicators for a Field in Transition," *Center for Regional Economic Competitiveness*, July 17, 2017, <https://www.creconline.org/wp-content/uploads/2017/07/Redefining-Economic-Development-Performance-Indicators-for-a-Field-in-Transition-CREC-2017.pdf>

⁵ Andrew Schwartz, "The Realities of Economic Development Subsidies," (Washington, DC: The Center for American Progress, November 1, 2018), <https://www.americanprogress.org/issues/economy/reports/2018/11/01/457771/realties-economic-development-subsidies/>

⁶ "Foundations Commit \$100M for Detroit's Next Economy," SSTi, September 19, 2007, <https://ssti.org/blog/foundations-commit-100m-detroit%28%99s-next-economy>

and mostly tech-driven economy.⁷ NEI has not been policy oriented, but because of its success and role as a trusted leader, it has had an influence on public policy changes since its inception.

This type of shift, moving toward building entrepreneurial assets, required thoughtful leadership and considerable behind-the-scenes work. With funding from a collective of foundations and philanthropic organizations, NEI launched its first efforts to attract and retain skilled, educated workers to Southeast Michigan, improve the general economic condition of the region, and address the region's susceptibility to steep business cycle downturns. NEI's early goals were threefold: (1) retain and attract innovative talent; (2) diversify the economy to reduce reliance on the auto industry; and (3) create opportunities for all residents to participate in the economy.

In looking back at NEI's origins, current NEI director Pamela Lewis recalled:

The main point became growing an inclusive entrepreneurial ecosystem which, according to Peter Vogel, is an interactive community within a geographic region composed of varied and interdependent actors and factors which evolve over time and coexist to promote new venture creation. Actors include entrepreneurs, institutions and organizations. Factors include markets, regulatory frameworks, support settings, and entrepreneurial culture.⁸

To bring about prosperity for Southeast Michigan, NEI's grants helped leverage significant regional, private, and public investment—raising awareness for public policies and funding projects that were aligned to a new economy. NEI's early policy framework outlined the following vision and priorities:

We believe that for regional transformation to be successful that public policy must support the transition to an innovation economy. Therefore, NEI shall advocate for regional change in areas that are important for the competitiveness of the regional economy beyond the direct grant-making reach of the initiative.⁹

Because officials at all levels of government (local, state, and national) make decisions as to how much public support can be leveraged on behalf of entrepreneurs in underserved areas, NEI was able to influence policy at the state, and local levels through their targeted support of programs and practices that matched its goals. NEI's primary objective was to attract and develop “innovative talent” to Southeast Michigan as well as invigorating the economy.

Shortly after its formation, NEI identified several considerations for its advocacy work. NEI indicated that good public policy should:

- Provide for clean and safe communities
- Formulate pro-business zoning, taxes and other policies that foster both start-ups and diverse, dynamic neighborhoods
- Provide zoning and technology services that foster high-density neighborhoods favored by creative young workers
- Protect a clean environment
- Secure high quality K-12 education

⁷ *The New Economy Initiative for Southeast Michigan; Challenging the Region to Generate, Attract, and Retain Talent*; (Community Foundation for Southeast Michigan, January 12, 2007).

⁸ Pamela Lewis, *Setting the Stage for What's Next: An Overview of the State of NEI and Possible Paths Forward* (Detroit, MI: New Economic Initiative, June 2018).

⁹ *Challenging the Region* Community Foundation for Southeast Michigan.

- Create parks, green spaces, and other recreational opportunities
- Welcome newcomers (e.g., immigrants and business leaders seeking to relocate to Michigan)¹⁰

A successful regional transition to a “new economy,” according to NEI at the time, required revisiting past programs and practices and making changes through its influence on public policy. In its earliest policy statements, NEI encouraged appropriate governmental infrastructure and land-use decisions, predominantly in the areas of residential and place-based growth that could attract and retain workers and connect skilled workers to new economic opportunities.¹¹

NEI continues to recognize the value of these early goals, but as NEI has evolved they have honed in on their attention to and focus on small business development.

Investment in the Entrepreneurial Ecosystem

In September of 2009, the Governing Council of NEI approved an implementation framework that outlined three modules of activity for the program. The three areas were: promoting a successful entrepreneurial ecosystem; capitalizing on existing regional assets and resources; and building and employing a more skilled and educated workforce.¹² Through these modules, NEI sought to promote economic inclusion from underserved areas in all of their work. This was to become a common thread running through all of its future work.

NEI’s focus on the development of an entrepreneurial ecosystem in Southeast Michigan started with investments to: expand training and education for new entrepreneurs; provide tools to access information; and level the playing field for start up businesses and provide access to capital. NEI’s grants focused on a systems approach that launched four regional business accelerators. This collaborative entity became known as the Business Accelerator Network for Southeast Michigan and included:

- Ann Arbor SPARK
- Automation Alley
- Macomb-OU INCubator
- TechTown

TechTown stands out from the list of incubators as a good example of what NEI’s support has helped create. TechTown, as an organization, had been in existence since 2000, but NEI’s support expanded TechTown’s reach beyond technology startups; connecting with entrepreneurs across sectors. Over the years, TechTown has been one of the major success stories for the region that has diversified and strengthened Michigan’s economy. TechTown’s work continues to play an important role shaping the development of small and micro business practices today. TechTown’s SWOT City demonstrates how this type of investment has shaped

¹⁰ Challenging the Region Community Foundation for Southeast Michigan.

¹¹ Ibid.

¹² Implementation Framework, Approved By Governing Council September 22, 2009, New Economy Initiative.

the region. SWOT City provides one-on-one assistance to help grow local businesses in neighborhood commercial districts.¹³

Through this networked approach, other business support organizations, such as ACCESS (Arab Community Center for Economic and Social Services) and the Build Institute, have been able to assist the region's entrepreneurs. In particular, the Build Institute in Detroit supports entrepreneurs by providing them with tools, resources, and a network of mentors and connections with stakeholders. Through the connections local entrepreneurs make, small and micro businesses are able to collaborate and share best practices. This emulates the ecosystem model created by NEI.

The network has been dedicated to sharing best practices, supporting business plan development, and leveraging state and private funding to grow businesses in the region. As NEI's investments moved in this direction, it became influenced by policies in support of place-based economic development, a strategy to make urban corridors "sticky" for young, talented, and creative persons. This approach seeks to attract individuals who thrive by working in the communities that they live in, as well as by providing amenities that build emotional connections between people and their neighborhoods.

In 2011, NEI's Regional Innovation Network infused \$32 million into Southeast Michigan's entrepreneurial ecosystem for innovation and placemaking in concentrated geographic areas.¹⁴ The funding supported a series of investments to accelerate inclusive, place-based economic and community development along an innovation corridor in Midtown Detroit anchored by Wayne State University, Tech Town and the Henry Ford Health System. In another place-based grant, NEI invested in the early stages of the Detroit Creative Corridor Center (now known as Design Core Detroit), which helped entrepreneurs connect with the College for Creative Studies' (CCS) Alfred Taubman Center for Design Education in Midtown Detroit.

Planning began in 2013 to partner with the Detroit Mayor's office to coordinate the Detroit Innovation District table, a coalition of over 20 city, university, industry and economic development leaders, to brainstorm and identify pilot initiatives (including high-speed internet deployment to grow the regional economy).¹⁵ Several ideas came to fruition as a result of this coordinated effort, including:

1. Establishing a MedHealth Collaborative led by TechTown
2. Supporting a mesh network initiative between grass-roots and private-sector leaders to offer high speed internet in three neighborhoods in Detroit
3. Creating a social innovators fellowship program that identified, promoted, and supported neighborhood based innovators who are driving change in their neighborhoods that are under the radar of grants and loans (e.g., Detroit Innovation Fellows).

Plus, NEI worked with the Ford Motor Company to launch several mobility innovation challenges based on an ethnographic study of residents needing public transportation to get to work or training for work that included local and national innovators.

¹³ In response to the COVID-19 pandemic, SWOT City expanded to include support for 313Strong. "313Strong," TechTown, <https://techtowndetroit.org/313strong/>

¹⁴ Challenging the Region.

¹⁵ New Economy Initiative, 2015 NEI Annual Report to Funders (Detroit: Community Foundation for Southeast Michigan, March 31, 2016).

In 2014, NEI launched the Neighborhood Business Initiative, a worktable focused on the business support organizations in the ecosystem; designed to analyze and address gaps and address policies and practices that have created barriers for small businesses in underserved areas. Over the years, the worktable has grown to more than 40 member organizations, including both grantees and other organizations dedicated to equitable business development and growth. This has resulted in increased cross-sector collaborations and has produced tools that organizations can use to better serve constituents, including a capital readiness toolkit.

Access to Capital

In 2009, traditional lending for pre-seed and seed-activity was close to non-existent for underserved small businesses, but is now more available as compared to when NEI started. This was because for those lenders the risk is higher for small and micro businesses in underserved areas. This interpretation is because many of these businesses generally do not have sufficient initial access to capital for business start-ups, expansion, or survival in economic downturns. To address this challenge, NEI, led by its Neighborhood Business Initiative work, supported two key strategies: investing in community development financial institutions (CDFIs) and other business support organizations that can provide direct loans and technical assistance for businesses in need; and investing in business competitions.

CDFI financing is more likely to flow into low- and moderate-income populations and other underserved areas. While some conventional lending institutions have begun to address the capital needs of small businesses—including those in underserved areas—there remains a critical need for additional capital in this space. Also, small loans are not generally seen as a major area of emphasis for conventional lenders because they require the same level of work as needed to process larger, more profitable loans and they are generally riskier.

Entrepreneurs in underserved areas may rely on unconventional assets (e.g., peer-to-peer financial support, family labor and financial support, and unconventional cash flows) that are challenging to document on existing loan application forms and applicants may not have the financial background to frame their loan applications in the most positive light. Implicit bias of lending officers against BIPOC (Black, Indigenous and people of color) and immigrant applicants has also been reported. Immigrant applicants, in particular, face additional language barriers when applying for loans.

In 2018, NEI and JP Morgan Chase funded The Eckblad Group to study the contemporary capital access landscape for entrepreneurs especially those who were underserved.¹⁶ Three key themes emerged from the report:

1. It is essential that local capital providers support an ecosystem approach to capital access that leverages collaboration over competition to ensure the right type of capital is available at the right time for an underserved entrepreneur.
2. Money alone will not address the resource needs of underserved entrepreneurs who need support building financial and small business management skills, navigating the capital ecosystem, and building trust in systems that were not originally built for them.

¹⁶ Capital Access: Detroit, Hamtramck, and Highland Park, The Eckblad Group, <https://neweconomyinitiative.org/wp-content/uploads/2019/01/Capital-Accesst-final.pdf>

3. It is essential to address capital constraints at the macro level, not just at the organizational or neighborhood levels, to overcome structural issues and support long-term success of underserved entrepreneurs.

As a result, NEI has since reaffirmed a new direction for the Neighborhood Business Initiative, a quarterly worktable of more than 35 member organizations and monthly subcommittee meetings, to address gaps in the small business support ecosystem, policy issues, and capital availability.¹⁷

Investing in CDFIs and Business Support Organizations

Over the years, access to capital for entrepreneurs in underserved markets has grown in importance and has become vital to NEI's work in shaping its funding programs and practices. In a desire to fill gaps in state policy, NEI shifted toward funding and business development in underserved areas and strengthened its coordinating and convening role by championing networks and partnering with business-support organizations. As part of this work, NEI catalyzed CDFIs as part of their support. Others, outside of NEI (including NEI's funders), have continued to invest in CDFIs as a result.

By supporting CDFIs and nonprofit lenders, NEI and philanthropy has been able to enhance investment in underserved small businesses and bring to scale its history of success combined with its commitment to inclusion. Meanwhile, business support organizations with NEI's support serve as a resource to organizations that help small businesses and support their growth. A key ingredient to NEI's success has been creating and cultivating relationships among and between organizations to help entrepreneurs share and learn.

Invest Detroit

An example of this strategy playing out is NEI's support for Invest Detroit (ID), which financially supports business development, commercial real estate, and entrepreneurship across the region. ID through a variety of mechanisms, including real estate and commercial lending and venture investment, seeks to increase business density by filling empty spaces, promote job creation, and support neighborhoods in ways that are strategic and inclusive. Further, it supports projects that have struggled to find traditional financing/lending. The funds ID supports go to Michigan startups seeking investment in the early stages of the capital-raising process.

With financial support from NEI and others, ID Venture, the venture capital arm of the organization, was created and provides funding to the First Capital Fund, the Detroit Innovate Fund, and the First Step Fund. This arm of Invest Detroit did not exist prior to NEI's involvement. NEI lifted awareness among civic leaders and philanthropy of the important role of CDFIs and enhanced their access to capital resources. The First Step Fund helps startups with initial investments as well as follow-on capacity. Support from organizations like Invest Detroit can be a signal to other lenders that small businesses are worthy of investment. This not only helps with capital access, but creates a lifeline of wraparound supports that are necessary in this space.

¹⁷ New Economy Initiative, The Journey: 2018 NEI Annual Report to Funders (Detroit: Community Foundation for Southeast Michigan, March 29, 2019).

Detroit Development Fund

Another key player in funding small business projects in Detroit is the Detroit Development Fund (DDF), a Detroit-based CDFI, which has operated since 1998. The DDF's BizLoan Fund, with capital from Fisher Foundation and Living Cities, provides capital and technical assistance to assist underserved businesses in Detroit, Hamtramck, and Highland Park. NEI has helped DDF create additional partnerships with and within the city.

During the pandemic, DDF, through MEDC's COVID-19 Relief Fund,¹⁸ has been able to distribute as micro loans to small businesses that are reopening following shutdowns. Recent efforts have been targeted at small businesses in economically disadvantaged areas—those that have an increased likelihood of never reopening.

Michigan Women Forward

A prime example of NEI's work is the success of Michigan Women Forward (MWF), a nonprofit women's advocacy organization based in Detroit. MWF is devoted to developing the economic and personal well-being of women in Michigan. Each year, MWF has invested heavily in women-owned businesses in Detroit, many of which are owned by BIPOC. NEI was an early grant maker to MWF, playing a key role in its success. NEI has also encouraged and supported their collaborative work with DDF. NEI's first grants to MWF were focused on making that collaboration work.

The primary role that MWF plays in supporting the Detroit economy is providing access to capital through micro loans to businesses that traditionally have a hard time accessing it; however, they also work with entrepreneurs to assist them with technical assistance and financial education. This year, MWF launched the Michigan Entrepreneur Resilience Fund¹⁹ to help businesses that have been unable to receive traditional funding and access capital. With support from the Michigan Economic Development Corporation (MEDC), Consumers Energy Foundation, NEI, and others, MWF continues to provide necessary funding to underserved areas.

ProsperUS Detroit

ProsperUS Detroit, another key program receiving NEI support, is a place-based economic development initiative that helps neighborhood small and micro businesses. ProsperUS Detroit's mission is to provide, "equitable, culturally appropriate programming to Detroit residents and in its neighborhoods." To accomplish its mission, ProsperUS Detroit provides three key functions: (1) entrepreneur training; (2) business support services; and (3) micro lending. All three are necessary to ensure the success of small businesses in Detroit. The program provides core support services and training combined with access to needed capital—helping Detroit's neighborhood entrepreneurs economically. NEI's support for the organization, along with funding first from the W.K. Kellogg Foundation and Global Detroit, has made it possible for ProsperUS Detroit to conduct research to address disparities at the local level—breaking down barriers that can leave some businesses behind. Like other successful programs

¹⁸ "Michigan Economic Development Corporation COV-19 Relief Fund," Detroit Development Fund, <https://www.detroitdevelopmentfund.com/>

¹⁹ Paul R. Kopenkoskey, "Michigan Women Forward's Resilience Fund helps small businesses regain financial footing," *Rapid Growth* (August 9, 2020), https://www.rapidgrowthmedia.com/features/Michigan_women_forward_fund.aspx

targeting underserved areas, ProsperUS Detroit provides access to capital. Unlike larger programs, the program provides financing up to \$15,000 for start-up businesses and \$25,000 for existing businesses.

Business Competitions

As a way to ground and connect with the Business Accelerator Network (including the four regional accelerators), NEI supported the development of the Accelerate Michigan Innovation (AMIC) Competition. In its earliest stages, the AMIC had received significant funding from MEDC. At the time, AMIC became one of the largest business plan competitions in the nation with more than \$1 million in cash awards available, plus in-kind awards for services, staffing, and software. Early stage businesses with proven technology and potential to generate an immediate impact on Michigan's economy, as well as concepts with longer-term business viability were targeted. The AMIC continues today as a program of Invest Detroit's ID Ventures. Since its launch, AMIC has created hundreds of jobs and attracted almost a billion dollars in additional investment.²⁰

As a way to reach more neighborhood businesses, NEI also launched *NEIdeas* in 2014 to celebrate small businesses in Detroit, Hamtramck and Highland Park and reward those with the best ideas for potential business growth. From 2014 to 2018, *NEIdeas* benefited 144 businesses across the three communities to the tune of \$2.16 million in awards for their growth-driven ideas.²¹ In recent years, the *NEIdeas* initiative has shifted and is now focused on providing technical assistance and convening space for past challenge winners and applicants.

NEIdeas also inspired *Motor City Match*, a program sponsored by the City of Detroit, the Detroit Economic Growth Corporation (DEGC), the Economic Development Corporation of the City of Detroit (EDC), and the U.S. Department of Housing and Urban Development (HUD), which connects new and expanding businesses with Detroit's quality real estate opportunities.²²

Immigrants as Economic Contributors

In 2009, NEI along with the Skillman Foundation and the Detroit Regional Chamber commissioned a report documenting the economic contributions of immigrants in Southeast Michigan. The report included 11 potential initiatives that could support immigrants better connecting to the economic development efforts in the region. The report led to the creation of Global Detroit which has led a number of initiatives that have benefited underserved, primarily immigrant, small business owners in Detroit. While other NEI-supported organizations have shifted the public sector and driven private sector support to underserved small businesses, Global Detroit's story is especially noteworthy both in terms of the breadth and scope of its public-policy successes.

Global Detroit's public-policy presence and long history of success, combined with its continued influence, is a testament to the power of telling stories and illustrating immigrant contributions to the local community and economic prosperity across the region. It is also a testament to the value of investing in staff leadership with extensive public policy experience. These narratives have been powerful motivators at all levels of government in Michigan, institutions of higher

²⁰ "Accelerate Michigan Innovation Competition," Invest Detroit, <https://investdetroit.com/accelerate-michigan/>

²¹ "NEIdeas Detroit," Community Foundation for Southeast Michigan, <https://neideasdetroit.org/>

²² Motor City Match: Detroit's Business Challenge, <https://www.motorcitymatch.com/>

education, the business community, and foundations and nonprofits—helping them make funding decisions and establishing policies and practices that are welcoming and supportive of immigrants to the region.

Over the past decade, Global Detroit in partnership with many organizations has placed ideas about immigrant-inclusive economic development on local, regional, state, and national agendas. Its influence on public-policy practices has come against a strong headwind of anti-immigrant policies and practices at the federal level. Today, Michigan is regarded as a national leader in immigrant inclusion.

Since 2011, 22 communities have passed resolutions to become official “Welcoming Communities” by adopting resolutions and policies to be supportive of immigrants in their communities. In 2014, Governor Rick Snyder created the Michigan Office of New Americans, later renamed the Office of Global Michigan by Governor Gretchen Whitmer, “to help grow Michigan’s economy by retaining and attracting global talent; to promote the skills, energy, and entrepreneurial spirit of our immigrant and refugee communities; and strives to make Michigan a more welcoming state.”

The Office of Global Michigan is responsible for two programs: the Michigan International Talent Solutions (MITS) program and the state refugee services program. The MITS program started as an NEI-funded initiative working with a national organization, Upward Globally, to develop state specific licensing guides so immigrants could transition professional degrees to Michigan. Eventually, the state saw the value in the program and has continued to fund it through the Office of Global Michigan.

In 2019, Global Detroit drafted an immigrant inclusion strategy for Governor Whitmer’s 60x30 talent initiative based on input from state and national experts. Michigan was the first state with an immigrant inclusion strategy for its talent completion goals. The 60x30 talent initiative is a postsecondary and adult goal—to raise the percentage of Michiganders with a postsecondary degree or certificate to 60 percent by the year 2030. Prior to 2019, Michigan was one of just nine states that had no such goal.²³

Global Detroit’s emphasis on meeting people where they are—both geographically and culturally—is an extremely important insight that could be emulated by other initiatives to support and grow underserved entrepreneurs. Global Detroit has also embraced not merely multilingual capabilities, but also a grassroots approach by purposefully hiring residents in the neighborhoods they live, training them through the NEIdeas program, and having them make connections to immigrant business owners and expanding the immigrant groups that participated.

Workforce Strategy

NEI’s initial investments in workforce strategy were closely aligned with the State of Michigan’s policies to attract businesses and develop talent. In 2008, as Detroit and Michigan were still struggling with the “one-state recession,” the nation was hit with the worst economic collapse since the Great Depression. Recovery from this Wall Street-led, financially-triggered recession proved to be long and slow, and, to this day, restoring Southeast Michigan to historical levels of prosperity remains elusive for public-policy leaders.

²³ Courtney Brown, “Post-high school attainment update shows progress, but many are still left behind,” *Lumina Foundation*, February 9, 2018, <https://www.luminafoundation.org/news-and-views/stronger-nation-2018-update/>

The state's re-emphasis on workforce development at the time, due in large part to the unemployment situation, impeccably complemented NEI's founding priorities.²⁴ And so, with the recession worsening, NEI expanded its advocacy to include attracting and developing workers, and pushed for policies and strategies targeted in targeted sectors:

Workforce development, regional asset-building and culture change grants contributed significantly to the overall vitality of economic infrastructure in southeast Michigan. Tangible grant outcomes and learnings were reflected prominently in State of Michigan policy platforms and were reflected in a more positive view of southeast Michigan in regional, national and international media.²⁵

NEI made its first grants in workforce focused on a sector-based strategy to support emerging business areas that needed talent. NEI funded a group of intermediary organizations and brought business, government and the workforce leaders together to focus on jobs and training in the following sectors:

- Alternative energy
- Advanced manufacturing
- Defense
- Health care
- Transportation, distribution, and logistics (TDL)

Since these sectors were also seeing investments from the state and federal governments, building the capacity in these regional sectors made the businesses in Southeast Michigan more ready to access the workers being trained in those areas, as well as additional governmental resources.

In addition to the sector-based strategy for workforce, NEI tackled the challenges of Michigan's decentralized, fragmented workforce system in Southeast Michigan. NEI used its convening power to facilitate a series of meetings between eight community colleges and seven workforce agencies to discuss workforce needs for the region. The workforce convening resulted in the creation of the Workforce Intelligence Network (WIN) to focus on supplying the region's employers, educational institutions, workforce development agencies, and policy makers with the information they need to transform the region's workforce. Collaborations, such as WIN, have helped change culture and practice by helping stakeholders partner on federal grants, cooperate on data analysis, and bring area employers together in a regional systems-focused approach as opposed to individual competing organizations.

A Trusted Convener

Throughout its history, NEI has been a key convener of philanthropy, business leaders and others, a knowledge mobilizer, and an idea generator. In recognizing the importance of ongoing, constructive engagement between philanthropy and government to promote a strong entrepreneur ecosystem, NEI restructured its governance and shifted from a steering-committee

²⁴ "Workforce Intelligence Network Responds to Southeast Michigan's Real-Time Workforce Needs," *New Economy Initiative* (November 2011), <https://neweconomyinitiative.org/workforce-intelligence-network-responds-to-southeast-michigans-real-time-workforce-needs/>

²⁵ New Economy Initiative for Southeast Michigan, *Annual Report to Funders 2011* (March 15, 2012).

format to one made up of successful entrepreneurs, NEI funders, and local civic and corporate leaders.²⁶

A number of NEI's supporters credit the culture that NEI created with philanthropy and business leaders as an important catalyst during the discussions of the City of Detroit's bankruptcy proceedings. Though NEI was not directly involved in the proceedings, many of the leaders that participated in the philanthropic part of the final deliberations spent countless hours in the years before building relationships and trust with one another as they set up NEI and its grantmaking framework. Under the bargain, more than \$816 million was donated by foundations through the Foundation for Detroit's Future, Detroit Institute of Arts donors, and the State of Michigan.²⁷

NEI has been a strategic grant maker supporting nonprofits that constitute a wide network of support for entrepreneurs of all kinds in Southeast Michigan. NEI has continued to:

- Play a convening role among neighborhood businesses and business support organizations.
- Identify service gaps to small and micro businesses in underserved areas.
- Identify policy issues to break down barriers for businesses in underserved areas (e.g., streamlining licensing and permitting processes and Community Development Block Grant (CDBG) projects).

In 2017, NEI sharpened its mission and expanded it to include growing, "an inclusive culture of entrepreneurship in Southeast Michigan that benefits all residents and strengthens the regional economy."²⁸ It has since continued to convene key players in the region, including philanthropic, government, nonprofit, and for-profit partners, to help Michigan-based small and micro business entrepreneurs.²⁹ It also commissioned two reports that addressed the long-standing challenges of underserved areas accessing capital due to persistent racial discrimination and predatory lending practices.³⁰

In their 2019 Annual Report, *Inclusive & Connected*, NEI outlines a plan for achieving its mission, by continuing to play key role as a leader and connector focused on inclusive growth. NEI's director, Pamela Lewis, has maintained that there is now an even greater need for governments to play key ecosystem roles as community connectors and advocate for regulatory frameworks that take culture into consideration. Furthermore, sustained advocacy for inclusion of all businesses across all aspects of the ecosystem is needed, rather than a minimal ad hoc effort. "Pursuit of these goals requires an entity bringing together community development and economic development agencies supporting community businesses."³¹ NEI's lengthy tenure has allowed for this focus to be maintained and a spotlight kept on inclusive small business development.

²⁶ Kopenkoskey, "Michigan Women Forward."

²⁷ Encyclopedia of Detroit, "Grand Bargain," *Detroit Historical Society*.

²⁸ New Economy Initiative, *2017 NEI Annual Report to Funders* (Detroit: Community Foundation for Southeast Michigan).

²⁹ Ibid.

³⁰ The Eckblad Group, *Capital Access* (Detroit: New Economy Initiative, August 2018).

³¹ Lewis, *Setting the Stage*.

Formulating Policy for Equity

In many ways, 2020 has been a disruptive year for small and micro businesses everywhere. The international economic crisis—combined with historic, structural barriers—continues to have immense, damaging consequences on communities, especially for BIPOC. For nearly a decade, small businesses, particularly BIPOC- and women-owned businesses, have been a key driver behind the growth of Michigan’s local and state economies.³² For it to continue to thrive into the next decade, a strong and prosperous entrepreneurial network of support in metro Detroit, including underserved cities in Wayne County, strengthened with inclusive economic policies, will be necessary.

Any effort to restore, rebuild, or regrow entrepreneurship in Detroit and elsewhere in Michigan after the COVID-19 pandemic will require fundamental shifts in how governments, businesses, nonprofits, and philanthropy come together to create inclusive economies. The events of this year continue to shape policymaking moving forward—requiring targeted, additional support and assistance to ensure the stability and growth of small businesses in Detroit.

The lessons of the COVID-19 pandemic have raised the importance of this work; equity-focused connections will need to play a vital role in giving voice to the region’s entrepreneurs and small businesses to affect public policies essential for them to thrive. Inclusive entrepreneurship will require the creation of a more level playing field with multiple access points to capital, resources and technical assistance, and convening space to develop social/political relationships.

NEI has sought to leverage existing programs and practices, rather than duplicating efforts, to create attractive community amenities, combined with knowledge-based business clusters, and seek out interested workers.³³ From the beginning, diversity, equity, and inclusion were at the core of NEI’s mission to grow Southeast Michigan’s culture of entrepreneurship. NEI expanded its advocacy to include supporting policies that assisted the region without regard to race, background, immigration status, or sexual orientation and to create neighborhoods and communities that welcomed diverse, creative, and talented young people.³⁴

NEI has catalyzed and supported programs and practices that have informed policies in support of small and micro business—especially in underserved areas—to help entrepreneurs to thrive. These public practices have influenced public policies. Having the resources to not only acknowledge relevant public policies necessary to close opportunity gaps, but to also giving voice to those insights, can only enrich the efficacy of public policy and complement philanthropic funding in support of NEI’s mission.

³² U.S. Small Business Administration, Office of Advocacy, “Michigan: 2019 Small Business Profile,” <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142651/2019-Small-Business-Profiles-MI.pdf>

³³ “Retaining and Attracting Talent,” Michigan Future, <https://michiganfuture.org/initiatives/retaining-and-attracting-talent/>

³⁴ Tonya Allen, et al., “Guiding Values,” *NEI Strategic Framework 2007* (October 16, 2007).

PROSPECTIVE: BUILDING BETTER, DIFFERENTLY

Emerging From the Crisis

The importance of developing, sustaining, and growing small and micro businesses in underserved areas cannot be underestimated at this juncture. In 2020, colliding international health, economic, and racial justice events have raised both the awareness of and the need for inclusive economic recovery, growth, and prosperity. Now, more than ever, there is a clear need for inclusive economic development and associated policies that will foster business development in underserved areas—breaking down barriers and ensuring that small business opportunities are reflective of the diversity of the communities they serve.³⁵

Policies should be designed around equity and be inclusive of underserved areas. Inclusive economic recovery is not only imperative for the individuals of the region, but for the communities and governments of the region. Small businesses in underserved areas:

- Help create jobs
- Provide essential services
- Revitalize communities that were hollowed by disinvestment

It will be even more urgent that funds and targeted resources flow to BIPOC, ensuring that new small and micro businesses are built and have the opportunity to succeed in underserved areas. This must be prioritized in ways that push back against structural barriers and provide the tools and training for those wanting to start and grow their business in order for capital to flow to all enterprises. A consistent, persistent voice will be needed to influence these policies.

Even before the pandemic, many small business entrepreneurs (generally assumed to be businesses that have between 1 and 5 employees) were likely at risk of failing. These businesses have disproportionately faced historic, systemic, and structural challenges that require equitable public policies to ensure adequate opportunities for their economic success. Before the pandemic, only one percent of Black-owned businesses had received a bank loan in their first year of business, compared with seven percent of white-owned businesses in the U.S.³⁶ This has placed an enormous burden on Black-owned business owners, as well as other businesses, seeking to growth their enterprises and employ local workers.

BIPOC-owned companies contribute critically to the economy (generating 4.7 million jobs across the country) and have \$700 billion in combined annual revenues.³⁷ According to the Association for Enterprise Opportunity (AEO), micro businesses represent 92 percent of all businesses. In many cases, micro businesses, more likely to be BIPOC-owned, provide additional income for families living in underserved areas. Moreover, AEO notes, “Micro

³⁵ The population of Detroit and Southeast Michigan is one of the most diverse in the nation. The region has one of the largest immigrant and Muslim populations in the country. According to U.S. Census figures, Detroit is the nation's largest Black-majority city and has the fifth-largest African-American population in the country. “Quick Facts, Detroit city, Michigan; United States,” *United State Census Bureau*, <https://www.census.gov/quickfacts/fact/table/detroitcitymichigan,US/PST045219>

³⁶ André Dua, et. al., “COVID-19’s effect on minority-owned small businesses in the United States,” McKinsey & Company, (May 27, 2020) <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19s-effect-on-minority-owned-small-businesses-in-the-united-states#>

³⁷ “Entrepreneurs Access Network,” Ernst & Young, <https://go.ey.com/2QGGOIo>

businesses are an important tool for women to achieve upward mobility, providing them with financial independence through self-employment and thereby allowing them to support their children and families.”³⁸ The pandemic has hit these businesses hard. Targeted capital, tailored to micro businesses and other small businesses in underserved areas, should be used to level the field with other businesses. BIPOC- and women-owned startups generally start with half the financial capital of those owned by white men and this gap widens as businesses mature.³⁹

Of all small businesses, BIPOC- and women-owned enterprises have been the most at-risk, especially during economic downturns such as the one faced today. The pandemic-driven economic downturn has disproportionately harmed small businesses because many of these businesses tend to be concentrated in densely populated areas that experienced higher levels of contagion and in industries (e.g., service sector, personal care, food, and retail) that are at-risk of losing customers and income.⁴⁰

Another important consideration for small businesses in underserved areas is access to high-speed internet for e-commerce. Broadband gaps are generally a reflection of historic societal and overall resource gaps that have affected underserved areas. Before the pandemic, small businesses serving BIPOC were already struggling to survive. As commerce moved online (due to the pandemic and other forces), not all businesses have been able to move to online platforms. As such, the digital divide hampered efforts of small and micro businesses to pivot towards e-commerce operations. Without access to technology, business platforms and broadband, underserved areas continue to fall behind and residents without access are more likely to end up in “low-wage, low-skill and low-education jobs.”⁴¹

A recent Federal Reserve Bank of New York brief reported pandemic economic impacts were disproportionately hitting businesses located in underserved areas.⁴² Between February and April 2020, 3.3 million small business owners closed their doors (an average of a 22% drop for all businesses); but for Black-owned businesses it was a 41 percent drop and 32 percent for Latinx-owned businesses. White-owned businesses during that same period only saw a 17 percent drop.

Another report estimated that around 40 percent of Black-owned businesses reported not working at all in April 2020, at the height of the pandemic.⁴³ Immigrant (36%) and women-owned businesses (25%) were also disproportionately affected at that time. The New York Times described Detroit as one of just six U.S. cities where businesses in areas with populations with

³⁸ “Bigger than You Think: The Economic Impact of Microbusiness in the United States,” Association for Enterprise Opportunity, https://aeoworks.org/wp-content/uploads/2019/03/Bigger-than-You-Think-Report_FINAL_AEO_11.10.13.pdf

³⁹ Michael S. Barr, “Minority and Women Entrepreneurs: Building Capital, Networks, and Skills.” *The Hamilton Project* (March 2015), https://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/minority_women_entrepreneurs_building_skills_bar_r_final.pdf.

⁴⁰ Zlati Meyer, “Small businesses owned by women, people of color, and immigrants are harder hit by COVID-19,” *Fast Company* (June 8, 2020), <https://www.fastcompany.com/90514082/small-businesses-owned-by-women-people-of-color-and-immigrants-are-harder-hit-by-covid-19>

⁴¹ Mark Anderson, “Reports: Digital divide is modern incarnation of historic lack of inclusion,” *Sacramento Business Journal*, June 5, 2020, <https://www.bizjournals.com/sacramento/news/2020/06/05/digital-divide-inclusion.html>

⁴² Claire Kramer Mills and Jessica Battisto, “Double Jeopardy: Covid-19’s Concentrated Health and Wealth Effects in Black Communities,” *Federal Reserve Bank of New York* (August 2020), https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses.

⁴³ Robert Fairlie, “The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey,” *Stanford Institute for Economic Policy Research* (May 2020) <https://siepr.stanford.edu/research/publications/impact-covid-19-small-business-owners-evidence-early-stage-losses-april-2020>

majority BIPOC had on average less than two weeks of cash in reserve (the others were New York, Chicago, Houston, Miami, and San Francisco).⁴⁴

A poll from the U.S. Chamber of Commerce found the following:

- BIPOC-owned businesses were more likely to have tried and failed at securing a loan during the pandemic
- More BIPOC-owned businesses expected their revenue to decrease in 2020
- Many small businesses believed it was important to address racial equity
- Many small businesses reported taking action to promote racial equity⁴⁵

These realities, combined with current events, point to a need for targeted, inclusive support for underserved areas of Michigan. There is a need to increase access to credit for BIPOC and practical business support services so that future funding can reach those areas that need it the most.

Diverse, Inclusive Small Business Growth

A strong, diverse array of small and micro business enterprises in Detroit is necessary to refuel the Detroit and regional economy, create and retain jobs, and restart sustainability efforts across the state. Post COVID-19, targeted public policies and practices, specifically designed to support, encourage, and grow inclusive business practices in underserved areas, will be required.

Over time, NEI has been responsible for bringing people together to address problems, share ideas, and generate solutions. As noted earlier in this report, this type of collaborative leadership has involved convening stakeholders, including public officials, business professionals, and leaders of community or nonprofit organizations, to work together toward common goals. With the support of organizations like NEI, both public and private entities can work together to increase targeted funding and financing for BIPOC-owned businesses in Detroit. NEI's experience offers the opportunity to serve as an organizer, administrator, and chief collaborator creating a sustainable platform to spur policy change for the region and state through its support of programs and practices.

Specifically, NEI can use its status with philanthropy to secure state and local government buy-in for policy-level changes, as well as the intellectual and financial support necessary for prioritizing and growing BIPOC- and women-owned businesses. Because of its history, NEI sits at the crucial nexus of an entrepreneurial network centered by a powerful philanthropic engine. As documented in the previous section many businesses owned by BIPOC, women, and immigrants, face disproportionate challenges and are more likely to need the help from community-based organizations.⁴⁶ This creates an opportunity for groups like NEI to play a supportive role in convening, developing, and encouraging inclusive growth of businesses owned by BIPOC in Detroit.

⁴⁴ Lauren Leatherby, "Coronavirus Is Hitting Black Business Owners Hardest," *New York Times*, June 18, 2020 <https://www.nytimes.com/interactive/2020/06/18/us/coronavirus-black-owned-small-business.html>

⁴⁵ U.S. Chamber of Commerce, "Coronavirus Pandemic Hits Minority-Owned Small Businesses Disproportionately Hard, New Poll Shows," (August 4, 2020) <https://www.uschamber.com/press-release/coronavirus-pandemic-hits-minority-owned-small-businesses-disproportionately-hard-new>

⁴⁶ Adrian Ma, "Federal Aid Might Not Reach Small Businesses Owned By People of Color, Advocates Fear," *WBUR*, April 27, 2020, <https://www.wbur.org/bostonmix/2020/04/26/minority-owned-businesses-in-danger-of-missing-federal-aid>

Detroit, with the help of NEI, has the potential to be a national leader in the design and implementation of inclusive economic policies reflecting the region's racial and cultural diversity. Any such policies should draw on and learn from the people who live in the neighborhoods and the business owners who are committed to those neighborhoods, using an asset-based approach that leverages strengths already present in the region. Promoting strong, sustained, and broad-based economic growth for the area will require an array of public policies supported by businesses and philanthropy through financial and technical assistance and, equally important, their political capital as well.

Moving forward, leaders need to devise inclusive strategies to eliminate inequities and ensure the benefits of economic prosperity in the region and state are shared by all. This will help ensure that the benefits of economic growth in Detroit are shared widely among residents now as businesses respond to the pandemic and into the future as communities seek to rebuild and sustain businesses. These actions and activities will encourage financial stability through additional grant funding, appropriate laws and regulations, and business protections.

NEI has earned a reputation as a trusted steward of the Detroit small business support network. NEI has never tried to be directly policy oriented; however, since its inception, the NEI project has identified crucial public practices that have in turn influenced policy. This has included addressing barriers for participants to enter the entrepreneurial ecosystem that NEI has fostered. These experiences create an opportunity for NEI and its grantees to have a more direct role supporting policy by devoting resources to and partnering with government agencies and lawmakers to achieve NEI's broader mission.

In the near term, NEI can have an influence on policy by:

- Convening owners of small and micro businesses to discuss needed changes to local, state and federal policies
- Elevating additional voices (including micro business owners) to promote issues supportive of inclusive practices
- Issuing reports documenting inclusive small business practices
- Providing reliable information for government and private sector decision making
- Creating opportunities to meet with elected officials and government agency leaders to communicate emerging issues

Opportunities for Recovery and Rebuilding

Policies, on their own, cannot eliminate disparities for Detroit businesses, but an organization like NEI can play a major role in making sure future policies are enacted that reduce inequality over time. Common-sense ideas should be informed, crafted and driven collaboratively by the very people they are targeted to support, providing economic opportunity and economic prosperity for small and micro businesses in Detroit and beyond. *NEI is well-positioned to lead these discussions and subsequent action.*

Based on a comprehensive review of documents provided by NEI, interviews with stakeholders who were familiar with the growth and success of NEI, interviews with state economic leaders, and a review of the relevant literature, a number of public policy barriers and opportunities emerged. The following section discusses how NEI can take steps to build on these areas and sustain an inclusive growth strategy for Detroit—serving as a model for others around the nation.

The suggested practices and policies presented below are also based on a review of NEI's past policy work, interviews with experts in the field, and conversations with stakeholders knowledgeable about the history of NEI. The following considerations are aimed at eliminating barriers to BIPOC- and women-owned businesses, growing entrepreneurship in Detroit, and creating long-term financial sustainability. In addition to the areas below, small and micro businesses are grappling with and developing programs that address a continuum of digital needs. Solutions are needed to address both digital access and a transition to e-commerce.

These policies and practices are provided as a guide to level the field and support Detroit-based small and micro businesses and others across the state.

This agenda includes three areas of focus:

1. Bridging the Gap: Facilitating COVID-19 Recovery
2. Funding: Developing and Growing Access to Capital
3. Leadership: Nurturing and Supporting the Entrepreneurial Ecosystem

NEI played an integral role in fostering and catalyzing systemic changes such as those that are now required because of the pandemic. As the city and the region look to rebuild, NEI can serve as a pivotal leader, stakeholder convener, and policy developer for changes at the local, state, and federal levels that can sustain BIPOC- and women-owned small businesses. It can do so by using its respected status to push for inclusive and collaborative change that will benefit those businesses.

Bridging the Gap: Facilitating COVID-19 Recovery

COVID-19 relief has been challenging for many BIPOC-owned businesses for a variety of reasons. The first two rounds of the federal Paycheck Protection Program (PPP) helped many businesses weather the storm in the short term. But, lack of economic activity, due to the pandemic, has created cash-flow problems with regards to rent and utilities, paying off debt, and loss of inventory. Permanent closures could lead to large-scale employee job losses, greater income inequality, and a prolonged recession. Targeted support will be necessary to mitigate the downturn. As federal aid runs out, additional long-term financial and technical assistance supports are more necessary.

Any future lending by the federal government will need to address flaws identified in the program. For example, PPP loans often require documentation of cash flows and professional/technical expertise (e.g., general accounting knowledge) that are beyond the means of many small and micro businesses. A remedy to this is the RELIEF for Main Street Act,⁴⁷ which builds on existing funding. The Act would create a \$50 billion fund, operated by the Treasury Department, to provide direct funding to cities, counties and states to seed and scale small business local relief funds.

NEI, in response to the COVID-19 pandemic, utilized its grantee network to provide over \$2.1 million in loan and rent relief to over 860 small neighborhood-based businesses. NEI

⁴⁷ Senator Cory Booker, et. al., *Recharge and Empower Local Innovation and Entrepreneurs Fund (RELIEF) for Main Street Act*, (Washington D.C.: Senate)
https://www.booker.senate.gov/imo/media/doc/RELIEF%20for%20Main%20Street%20Act%20two%20page_FFINAL.pdf

administered grants of \$1.4 million for microbusiness in four different communities. In addition, NEI provided resources to a new partnership between TechTown and the Accounting Aid Society called 313Strong which offers coaching tools and access to experts on topics such as accounting, cash flow management, human resources, marketing, legal, and digitizing business operations.

Recently, NEI has supported the Detroit Means Business coalition.⁴⁸ The partnership between the City of Detroit and 30 business, nonprofit and philanthropic partners was designed to help small businesses with fewer than 50 employees to operate during the COVID-19 crisis both safely and successfully. The program has helped small business owners:

- Find grants and other resources
- Get direction to appropriate resources for operating their businesses
- Find free or low-cost Personal Protection Equipment (PPE)
- Get access to operating resources (e.g., accounting, legal, e-commerce, and human resources consultation)

The challenges created by COVID-19 are clear, and a targeted response in underserved areas will be needed to mitigate additional small businesses closures. Small businesses hoping to reopen will also need additional assistance to plan for reopening and/or reinventing their business models. In Detroit, the City has helped launch programs and practices which provide training, resources, and toolkits to help small businesses succeed.⁴⁹ Additional planning will also be needed for permanent small-business closures. For those small businesses that will never reopen, programming will be necessary to help transfer ownership, and sell or close these businesses. This will need to include resources such as toolkits so that entrepreneurs can make informed decisions about their assets and properties.

Table 1. Suggested Practices and Policies for Facilitating COVID-19 Recovery

Solutions	Federal	State/Local	Private Sector
Provide funding for small and micro businesses in underserved areas to acquire PPE and other supplies (e.g., cleaning supplies) to help prevent the spread of viruses.	X	X	X
Provide navigators for small and micro business owners in underserved areas who can answer questions and provide technical assistance for future federal stimulus opportunities.	X	X	X
Provide additional relief—specifically targeted at small and micro businesses in underserved areas that have been the most negatively impacted by the COVID-19 pandemic, including: direct grants to cover up to six months of operations for small businesses (including micro businesses).	X	X	X

⁴⁸ “About Us,” Detroit Means Business, <https://detroitmeansbusiness.org/about-us/>

⁴⁹ Mayor’s Office “Mayor Rolls Out Playbook For Small Biz to Safely Reopen When Gov. Gives Go-Ahead, Joins With Partners to Launch Detroit Means Business Program to Provide Added Support,” *City of Detroit*, May 19, 2020, <https://detroitmi.gov/news/mayor-rolls-out-playbook-small-biz-safely-reopen-when-gov-gives-go-ahead-joins-partners-launch>

Table 1. Suggested Practices and Policies for Facilitating COVID-19 Recovery

Solutions	Federal	State/Local	Private Sector
Make changes to the PPP, by targeting small and micro businesses in underserved areas, ensuring set asides for CDFIs, which BIPOC-owned businesses utilize more than traditional banks.	X		
Continue to prioritize state-level business investments (e.g., Michigan Economic Development Corporation funding) for grants and loans for small and micro businesses in underserved areas impacted by the pandemic.		X	X
Expand efforts to support small and micro businesses to prepare for future disruptive events (e.g., through targeted trainings and additional funding).	X		X
Continue to work with trade organizations to develop reopening guidelines that take into consideration the unique needs of small and micro businesses in underserved areas.		X	X
Build and strengthen the financial acumen of small and micro business owners through improved bookkeeping and record keeping.		X	X
Collect and disseminate disaggregated data on where pandemic-related aid has gone to small and micro businesses in underserved areas to identify gaps.			X
Research how other cities have supported small and micro businesses in underserved areas during the pandemic and share best practices.			X
Provide practical technical assistance for reopening, stabilizing, and sustaining small and micro businesses.			X

Funding: Developing, Growing, and Broadening Access to Capital

Capital is essential for sustaining businesses—both in the short and long term. Beyond simply adding capital, policies need to also be put in place to alter how banks measure credit worthiness and engage with BIPOC- and women-owned businesses. Adding to the complexity, implicit racial bias still dominates credit determinations and metrics used to determine business viability and loan repayment capacity. Bank lending behavior, even among advocates for BIPOC, needs to be addressed. For capital to reach all business owners there needs to be a focus on reaching underserved business owners who do not usually get grants and loans.

One source of potential capital development and growth for BIPOC- and women-owned businesses is to expand the resources going to Community Development Financial Institutions in the metro-Detroit area from both public and private sector resources. CDFIs have played a vital role in helping underserved businesses gain access to capital. NEI's continued support of the Neighborhood Business Initiative Worktable is essential to ensure that technical assistance is widely available for small and microbusiness on how to access capital.

On the national level, programs like the Minority Business Development Agency (MBDA) and the SBA's Lender Match tool helps connect small businesses opportunities to access capital. These programs and practices, while helpful to BIPOC- and women-owned small businesses, do not meet current demand. Due to competing federal budget demands that will likely be exacerbated by COVID-19 their continuation and expansion may require effective advocacy on behalf of eligible businesses. The Equality of Opportunity Agenda,⁵⁰ released by the U.S. Chamber of Commerce in 2020 is an example of a roadmap that could be implemented to help BIPOC access capital.

The federal government could also play an explicit lead role in strengthening small businesses by encouraging banks and credit unions to lend to small and BIPOC-owned ventures in underserved areas. Historically, the government has perpetuated disparities in the system. Now it has an opportunity to play a major role in generating more equitable business environments. However, representatives of underserved small businesses must have a seat at the table.

To counterbalance the shortage, new sources of capital will need to be identified. Also, the risk can be spread to multiple lenders, or state and federal government can underwrite some of the risk. Corporate investment in CDFI funds, procurement reform, and social responsibility initiatives have been offered up in the past as potential solutions. Yet, questions remain, and continued advocacy is needed. Loans to small businesses in underserved areas often involve state or federal funds earmarked for such purposes.

CDFIs and micro lenders need access to a stable, predictable level of loan funding, which facilitates long-term planning and insulates against economic uncertainty and turnover of staff who understand small and micro businesses in underserved areas and who can build relationships in the community.

At the federal level, policies, such as the Ensuring Diversity in Community Banking Act,⁵¹ have been proposed to boost federal government insurance of and deposits in BIPOC-owned banks and provide incentives for investing in those lenders. The Act would "create a streamlined application process for banks with assets under \$3 billion (this would apply to all Black-owned banks and credit unions) to be certified as community development financial institutions (CDFIs). As CDFIs, they would have access to CDFI Fund programs, which offer various mechanisms to increase capital for community investments."⁵²

The rationale is that Black-owned banks generally support the communities they serve at higher rates than other institutions.⁵³ Currently, Detroit is home to one of the largest Black-owned banks in the country, First Independence Bank (FIB). Unfortunately, FIB is the only such lender in the state. There are only a few (21) of these banks in the United States.⁵⁴ Federal and state

⁵⁰"Equality of Opportunity Agenda: Policy Recommendations and Private Sector Solutions to Address Gaps Negatively Affecting Black Americans," U.S. Chamber of Commerce, <https://www.uschamber.com/equality-of-opportunity-agenda>

⁵¹"Summary: H.R.5322 – 116th Congress (2019–2020)," Congress.gov (December 5, 2019), <https://www.congress.gov/bill/116th-congress/house-bill/5322?s=1&r=4#:~:text=Ensuring%20Diversity%20in%20Community%20Banking%20Act%20of%202019&text=The%20bill%20establishes%20a%20program,accounts%20through%20designated%20custodial%20entities>.

⁵² Michael Neal and John Walsh, "The Potential and Limits of Black-Owned Banks," *Urban Institute* (March 2020), https://www.urban.org/sites/default/files/publication/101849/the2opotential2oand2olimits2oof2oblack2owned2obanks_o_o.pdf

⁵³ Cameron Costa, "Minority entrepreneurs at a tipping point as Black-owned banks dwindle in the U.S.," *CNBC* (August 31, 2020) <https://www.cnbc.com/2020/08/25/minority-entrepreneurs-at-tipping-point-as-black-owned-banks-dwinkle.html>

⁵⁴ Nushrat Rahman, "Detroit bank born out of '67 unrest turns 50: Here's why CEO says survival is crucial," *Detroit Free Press*, June 19, 2020, <https://www.freep.com/story/news/local/2020/06/19/first-independence-bank-ceo-kenneth-kelly/5322808002/>

programs such as these indicate broad, bipartisan interest in improving the capital climate for entrepreneurs and small business owners in underserved areas. However, more government funding and improvements require efficacy documentation and sustaining political support.

Nationally, a number of corporate players and financial institutions have announced significant goals for investment in BIPOC-based businesses. NEI can play the role of convener for those organizations to ensure that these investments are made wisely into an existing infrastructure that has been in place and tested for the past five years. Expansion of philanthropic financial support and public-private partnerships could be encouraged with appropriate tax incentives.

A great example of corporate/philanthropic partnership is the Entrepreneurs of Color Fund. Working with the existing infrastructure, the Detroit Development Fund, with support from the J.P Morgan Chase, the W.K. Kellogg Foundation, the Kresge Foundation, and the Ralph C. Wilson, Jr. Foundation, started the Entrepreneurs of Color Fund to provide a new source of business capital for businesses led by people of color or that primarily hire people of color. Additional, philanthropic and private funders have added to the fund overtime.

Table 2. Suggested Practices and Policies for Developing, Growing, and Broadening Access to Capital

Solutions	Federal	State/Local	Private Sector
Expand access to funding that could enhance the stability of small and micro businesses in underserved areas and improve the opportunity for those businesses to reach scale and strengthen their financial resilience.	X	X	X
Increase investment in small and micro businesses in underserved areas (e.g., by making loans based on other factors than appraised value of a property in a formerly redlined area, or by supporting equity-oriented CDFIs with startup funds that provide below-market loans and free or reduced-fee technical assistance to entrepreneurs of color).	X	X	X
Encourage traditional lenders to adopt and implement internal diversity and inclusion policies.	X	X	X
Encourage federal and state agencies to mitigate risks by backing loans made by CDFIs and micro lenders with tax credits.	X	X	X
Advocate for more funding from federal and state government programs for loans and grants to small businesses owned by BIPOC and women and encourage public-private investment partnerships. This could be through the Community Reinvestment Act (CRA). ⁵⁵	X	X	X
State and federal government agencies should award grants to organizations to provide business counseling and entrepreneurial development training to formerly incarcerated citizens returning to work.	X	X	

⁵⁵ The CRA requires the FDIC to assess an institution's record of helping to meet the credit needs of the local communities in which the institution is chartered. From the Federal Deposit Insurance Corporation, <https://www.fdic.gov/regulations/cra/>

Table 2. Suggested Practices and Policies for Developing, Growing, and Broadening Access to Capital

Solutions	Federal	State/Local	Private Sector
Encourage the use of CDBG funds at the local level to support micro enterprises.	X	X	
Automate the funding for CDFIs by creating a targeted fund (e.g., CDFI Crisis Fund Act, U.S. Senate Bill 4430 of 2020) that would be replenished annually and kick in if unemployment levels hit certain thresholds or if a natural disaster strikes.	X		
Provide more capital for CDFI lending (e.g., through the purchase of CDFI loans by the Federal Reserve).	X		
Equity match requirements should recognize non-traditional sources (e.g., family and peer lending letters).		X	X
Provide leadership support and structures to advance racial equity within the banking and finance industry.	X		X
Gather data on needs and behaviors of small and micro businesses in underserved areas.		X	X
Educate small and micro business owners about credit scores, savings approaches, budgeting, and other key prerequisites to asset-building with a culturally responsive lens.		X	X
Encourage traditional lenders to adjust banking products and services to eliminate exclusionary practices, implicit biases, and other barriers for markets of color.			X
Encourage traditional lenders to use non-traditional methods to identify credit worthiness that eliminate bias.			X
Establish mutually beneficial partnerships between traditional lenders and organizations of color.			X

Leadership: Entrepreneurial Ecosystem Nurturing and Support

Building on its past successes, NEI has an opportunity to become a national leader and model for networking, professional development, diverse perspectives, and workshops. NEI can expand on its policy efforts by expanding its convening opportunities to include a greater cross section of stakeholders (from government, business, and philanthropy), as well as financial leaders, scholars, and entrepreneurs.

NEI should actively work with its partners to attract, grow and retain businesses in Detroit and the region. NEI has a key role to play in making Detroit a hub to grow diverse and inclusive businesses that are made more equitable and more resilient by policies. The region has multiple examples of viable models to emulate, nurture, and grow. Programs such as ProsperUS, Build Institute, and TechTown Detroit's Blocks and SWOT City offer good examples that have been supported by NEI to help businesses access information, share best practices, and become better prepared to handle challenges, such as those created by the pandemic.

Table 3. Suggested Practices and Policies for Entrepreneurial Ecosystem Nurturing and Support

Solutions	Federal	State/Local	Private Sector
Continue championing NEI's network of nonprofit business support organizations and build their capacity to serve small businesses.	X	X	X
Improve the process for business certifications.	X	X	X
Connect with the public sector on an ongoing basis to play a larger role—at all levels of government—in providing data and information for decision making.	X	X	X
Expand NEI's role as a trusted leader and connector—provide an ongoing forum to develop policies and practices promote diversity, equity, and inclusion for small and micro businesses in underserved areas.	X		
Ensure the financial sustainability of business support organizations by galvanizing philanthropic, corporate, and/or public dollars to support them.		X	X
Educate small business owners on opportunities for procurement so they can become vendors to the public sector and larger private sector companies.		X	X
Continue to support networks of resource providers that support immigrant entrepreneurs.		X	X
Provide technical assistance, practical guidance, and knowledge-sharing opportunities across sectors—by creating a space for nonprofits, businesses, and philanthropy to collaborate with entrepreneurs and small business owners.		X	X
Scale collaborative programs like Detroit Means Business and 313Strong, which has the potential to assist small and micro business owners to retain and grow jobs.			X

Connectivity: Helping Solve the Digital Divide

An additional component of this work in the future will also include closing the digital divide for small business owners in underserved areas, which is a discrete action that can be taken once a network of support is in a position to address this gap.

A large digital divide exists in this country—between those who have access to high-speed broadband internet and computers, and those who do not. Bridging the divide for small businesses, especially those in underserved areas, is an imperative for long-term development and stability. To solve this, communities will need affordable basic internet service. Moreover, every community should have access to high-speed internet (e.g., fiber-optic connectivity). And to address affordability, there should be increased competition among providers to drive down rates and community-owned internet (such as in Wyandotte, Michigan)⁵⁶.

⁵⁶ “Our History,” Wyandotte Municipal Services, https://www.wyan.org/forms_and_documents/our_history.php

There are three tiers of need related to the digital divide for small and micro businesses: (1) a need for hardware; (2) access to high-speed broadband internet; and (3) expanding the understanding of entrepreneurs to use digital tools to run their businesses (e.g., training; practical assistance; and back office support). Small businesses owners need digital literacy to connect them to additional resources.

Earlier in 2020, the National Business League (NBL) coordinated with several national technology firms to invest \$1.8 million for developing a digital solutions platform designed to close the digital divide for Black-owned small businesses. According to the press release, NBL's digital solutions platform will help "the disadvantaged, marginalized, and technology deficient entrepreneurs"⁵⁷ who are affected by the digital divide in America. Similarly, in New York, the mayor's office has put closing the digital divide as a core goal of its small business programs for Black entrepreneurs. The goal of closing the digital divide is part of an equitable approach to creating a business climate that is fairer so that "Black-owned businesses can grow and thrive."⁵⁸

NEI, through the NBI Worktable, 313 Strong, Detroit Means Business, and the developing 313 Connect initiative that has the backing of Rocket Mortgage,⁵⁹ should help scale initiatives that close the digital divide for small and micro businesses in underserved areas.

However, to reach and better support more small business owners, technical assistance and support needs to be culturally competent—recognizing how race, gender, ethnicity, and socioeconomic status shape a community's relationship to technology.⁶⁰ Policy flexibility will also be necessary, so that funding can be used to support digital technologies.

Table 4. Suggested Practices and Policies for Helping Solve the Digital Divide

Solutions	Federal	State/Local	Private Sector
Develop a national broadband strategy that addresses deployment issues, such as funding and permitting, as well as connectivity issues.	X	X	X
Help lower the cost of accessing business platforms that can be shared or pooled among owners.		X	
Provide resources (e.g., grants) for local and regional coalitions to fill gaps in digital technology using wired and non-wired options, taking advantage of federal supports where possible.		X	X
Ensure small and micro businesses have appropriate devices (e.g., computer hardware, software) to participate in e-commerce		X	X

⁵⁷ "NBL To Launch \$1.8 Million Digital Solutions Platform In Response To Covid-19 For Black-Owned Businesses," Michigan Business Network (April 22, 2020), <https://www.michiganbusinessnetwork.com/blog/nbl-to-launch-1.8-million-digital-solutions-platform-in-response-to-covid-19-for-black-owned-businesses>

⁵⁸ Angélica Acevedo, "City's BE NYC initiative aims to increase amount of Black-owned businesses with resources and investment," QNS.com (September 2, 2020), <https://qns.com/2020/09/citys-be-nyc-initiative-aims-to-increase-amount-of-black-owned-businesses-with-resources-and-investment/>

⁵⁹ The goal of 313 connect is to provide all households in Detroit with high speed internet access by 2024. From: Connect 313 Fund, <https://www.cecddetroit.org/connect313>

⁶⁰ Carolyn Schulman, *Best Practices for Technical Assistance Programs Serving Black and Hispanic Entrepreneurs and Small-Business Owners* (Milken Institute, September 2018), <https://assetsic.milkeninstitute.org/assets/Publication/Viewpoint/PDF/Best-Practices-for-TA-Programs-FINAL.pdf>

Table 4. Suggested Practices and Policies for Helping Solve the Digital Divide

Solutions	Federal	State/Local	Private Sector
Encourage flexibility in government funding programs so that small businesses can access technology to systematize and scale their businesses.		X	X
Encourage back office consolidation and resource sharing (e.g., human resources and accounting services, and e-commerce opportunities).		X	X
Decrease the cost of broadband access for small and micro businesses in underserved areas through resource sharing and hubs.		X	X



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