

Small Investments, Big Impacts

How Grants Shape Microbusiness Success

Insight Brief, November 2023

Introduction

Grants can play a transformative role in business success, particularly for microbusiness owners facing systemic challenges accessing capital. Capital access is essential for all businesses to grow and thrive, yet access to credit and wealth remains uneven across racial groups.¹ While race-based grants and funds to address access to capital disparities face increasing legal challenges, their impact has been proven. In 2023, the Association for Enterprise Opportunity (AEO) evaluated the results of a business grant program and found that even modest injections of capital - \$10,000 grants - can help unleash the potential of Black-owned microbusinesses across the U.S. and build a more equitable and inclusive economy.

Why Access to Capital Matters

At the core of the need for grants is the fact that Black entrepreneurs are more likely to report unmet credit needs than their white counterparts. Black-owned businesses face lower loan approval rates, for example, and even when they are approved, they pay higher interest rates.² These disparities hold even when controlling for indicators of creditworthiness.³ Most microbusinesses - businesses with fewer than 10 employees - need injections of cash to make it through the early stages of their operations.⁴ Irregular cash flows and difficulty accessing cash - for example, when funds are tied up in inventory or other receivables - can make it challenging for business owners to meet their financial obligations and invest in growth. For Black entrepreneurs, these common hurdles are reinforced by the discrimination and structural inequalities that drive the disparities in capital access. Those same structural inequalities also limit opportunities to access funding outside of the mainstream financial system, further exacerbating the wealth gap between Black and white entrepreneurs, and their communities as a whole.⁵ Business owners typically turn to

Most microbusinesses need injections of cash to survive and thrive. Grants can play a vital role in the growth and survival of businesses facing structural barriers to credit.

personal savings or outside financing, yet Black entrepreneurs are less likely to have access to personal or family wealth and more likely to report unmet credit needs than their white counterparts. Considering these credit market barriers, grants can play a vital role in the growth and survival of Black-owned businesses.

The Impact of Grants on Black-owned Microbusinesses

We studied the impact of \$10,000 grants on 170 Black-owned microbusinesses from an array of industries in 2022 and 2023. Specifically, we drew from baseline grant application data, in-depth interviews, and surveys fielded 12 months after the grants were dispersed to understand their impact on a range of outcomes.⁶ Our analysis builds on preliminary learnings from AEO's past grant programs to present a systematic perspective on grant impact at AEO for the first time. Our findings are also consistent with a growing body of evidence showing that even small cash transfers – such as the stimulus payments that formed part of the 2020 economic relief packages – can address finance gaps and spur the creation of Black-owned microbusinesses.⁷

Below, we outline six ways that grants shaped microbusiness success:

- **Improved cash flow management.** Grants gave awardee businesses a much-needed lifeline to cover important expenses, a significant achievement given that nearly half of small businesses report not being current on rent.⁸ The number of awardees “very worried” about cash flow fell from 64% to 34% one year after the grant. Nearly half of awardee businesses (47%) reported improved cash flow management as a result of the grant.
- **Stability and growth.** More than half of the awardee businesses reported annual revenue growth of 16% or higher since receiving the grant. The grant also helped 76% of employer businesses retain the workers they had, attract new talent, and advance employee well-being through training and benefits.
- **A foundation to invest and grow.** Grants provided much-needed capital to purchase new equipment and inventory, expand operations, and increase profitability, as well as invest in digital strategies to get more customers and improve internal processes.

“The grant allowed us to purchase machinery and inventory for our new permanent jewelry service. Our permanent jewelry collection added over \$20K in revenue in just a few months.”

→ **Stability to pivot.** Many awardees reported an ongoing need to adapt their businesses or recover operations that were lost because of the pandemic. The grants have helped these awardee businesses (re)open new locations, reach new segments of customers online, pivot, and develop new lines of service.

“The grant gave us the financial stability to take more chances, which paid off. We were able to be creative, add new products, and do more pop-up events.”

→ **Increased confidence.** Many awardees shared that the grant led to increased confidence and encouraged them to pursue and apply for new financing opportunities. In the words of one entrepreneur, “This grant was the beginning of me changing my life to what it is today.” The number of successful loan applications increased by 33% after receiving the grant, and several awardees who were previously discouraged from applying later succeeded in obtaining credit and other forms of support.

→ **Freeing resources to support a social mission.** More than half of the awardee businesses supported social causes, and most reported a significant impact in their communities. Many have forged deep connections through partnerships with schools, nonprofits, and churches, including programs to support the unhoused and mentor youth. Some provide skills development to employees and individuals in their community, empowering community members with expertise and wealth-building potential.

Conclusion

Why Grant Programs Matter for Black-Owned Businesses

Our findings underscore the substantial impact that even modest injections of capital, such as \$10,000 grants, can have on the success of underserved microbusinesses across the United States, including Black-owned microbusinesses. Prior AEO research has shown that, other things being equal, business owners tend to grow their wealth faster than those who never become self-employed, particularly in underserved communities. Furthermore, when microbusiness owners have access to the resources they need to grow, they are more likely to hire and reinvest in their local communities. In this way, microbusinesses provide unparalleled opportunities for local wealth creation and a path to economic opportunity for all.⁹

Grants are important not only because of their direct contributions to individual business success but also because they play a strategic role in addressing structural barriers to capital access and because of the broader impact businesses have on their communities. Additionally, the ability to obtain a grant not only increases the confidence of Black business owners, but it also affords Black entrepreneurs the financial leverage, or rather, the option to make the savvy



business decisions that their counterparts are often able to make much earlier in the lifecycles of their businesses.

The findings from this study represent a first effort to demonstrate the significance of grant programs for underserved microbusinesses at AEO. Forthcoming briefs will explore wraparound supports that can ensure more equitable access to both resources and support and help business owners make the most of their grants.



Contact

For more information about the Association for Enterprise Opportunity or this brief, please see our website www.aeoworks.org or email info@aeoworks.org.

¹ U.S. Federal Reserve. "Small Business Credit Survey: 2022 Report on Firms Owned by People of Color."

² U.S. Federal Reserve, 2022 Small Business Credit Survey.

³ Fairlie et al., 2010, "Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs," U.S. Department of Commerce Minority Business Development Agency.

⁴ Fairlie, Robert et al., 2023. *The Promise and Peril of Entrepreneurship: Job Creation and Survival Among US Startups*, MIT Press Ltd.

⁵ Maxwell, Chelsea et al., 2022, "Mending the Tapestry: Building Trust and Strengthening Black Business Ownership in America," the Association for Enterprise Opportunity; Scott, Maura et al., 2023, "Revealing and Mitigating Racial Bias and Discrimination in Financial Services," *Journal of Marketing Research*; Lederer, Anneliese and Sara Oros, August 2023, "Missed Opportunities: Financial Institutions in New York City Discourage Prospective Small Business Applicants," National Community Reinvestment Coalition.

⁶ The grants were dispersed in the Spring of 2022, and we conducted post-program surveys 12 months later to understand grant impact. Almost half of the awardee businesses had been in operation for less than 4 years.

⁷ Fazio, Catherine E. et al., 2021, "How is COVID Changing the Geography of Entrepreneurship? Evidence from the Startup Cartography Project," NBER Working Paper 28787.

⁸ Small Business Majority, <https://smallbusinessmajority.org/sites/default/files/researchreports/2022-SSTB-SBM-Network-Poll-Report.pdf>.

⁹ See The Association for Enterprise Opportunity, "The Tapestry of Black Business Ownership in the U.S.: Untapped Opportunities for Success"; Farrell, Diana et al., 2019, "Place Matters: Small Business Financial Health in Urban Communities," JP Morgan Chase Institute; and Rupasingha, Anil, 2013, "Locally owned: Do local business ownership and size matter for local economic well-being?" Federal Reserve Bank of Atlanta. Community and Economic Development Discussion Paper 01, no. 13.