RESEARCH REPORT

Assessing the Small-Business Landscape in Metropolitan Kansas City

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Assessing the Small-Business Landscape in Metropolitan Kansas City

The Kansas City region (Metro KC) has a rich set of support resources for its entrepreneurial community: it has many lending institutions providing financing to small businesses and several technical assistance providers serving small-business owners. However, the region still has ample room to develop in terms of connecting entrepreneurs—particularly the smallest ones and those in historically underserved communities—to the capital and support they need to launch and grow their enterprises.

To understand the strengths, weaknesses, and gaps in Metro KC's financial, philanthropic, and governmental infrastructure for small business, we conducted 33 interviews with small-business owners, lenders with small-business portfolios, technical assistance providers, philanthropists, and government officials.[1] We supplemented the interviews with an analysis of small-business lending activity and other economic metrics.

Our research finds the following:

- Metro KC is roughly in the middle of the pack compared with other metropolitan areas in terms of the number of entrepreneurs per capita, provision of loans, and service provider capacity.
- Metro KC has a high density of lenders making small-business loans, but coverage gaps persist, especially in serving younger, smaller firms.
- Loan capital is not equitably distributed in Metro KC, especially by place and by race. The interviewees had different opinions about whether this dynamic reflects discriminatory practices.
- Community development financial institutions (CDFIs) serve businesses perceived as riskier investments, but many entrepreneurs are not aware of these lenders, and some find their interest rates prohibitive.
- Business owners believe technical assistance makes a difference in their firm growth but cite opportunities to improve these services as well as to provide a clearer path from receiving technical assistance to accessing capital.
- Local and state governments have made only limited investments to bolster the small-business landscape and overcome inequities.

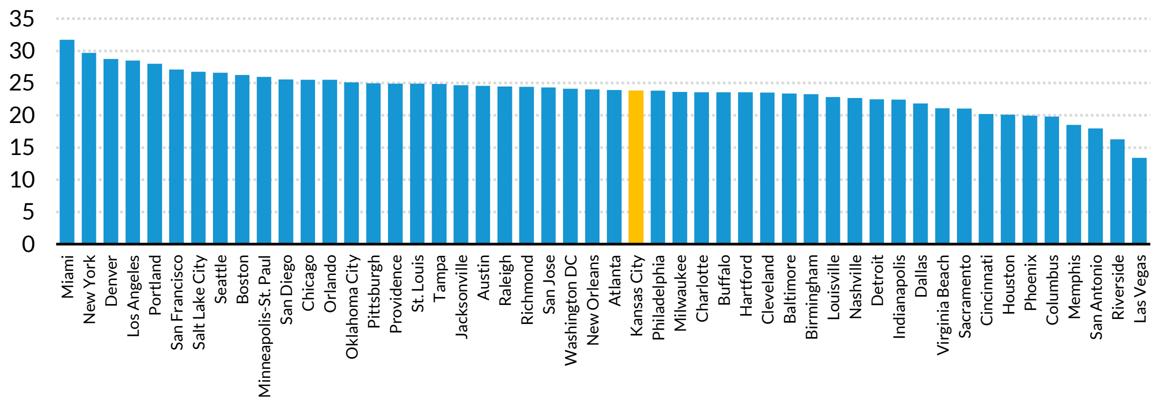
A Robust Small-Business Sector

More than 50,000 businesses with fewer than 100 employees operate in Metro KC,[2] which has a population of approximately 2.16 million people. With 25 small businesses for every 1,000 residents, Metro KC is close to the middle of the largest 50 metropolitan areas in the number of small businesses per capita, as seen in figure 1. Metro KC also ranks 30th among the largest 50 metropolitan areas in the share of the local workforce that is self-employed (figure 2).

Most of the lenders and borrowers we interviewed see the city as a vibrant entrepreneurial community. "Kansas City...is a thriving small-business community that I think has wonderful resources for start-up businesses," explained one CDFI representative. One small-business owner commented, "That's what our thing is, that we have a lot of small businesses."

FIGURE 1

Small Businesses per Capita among the 50 Largest Metropolitan Areas

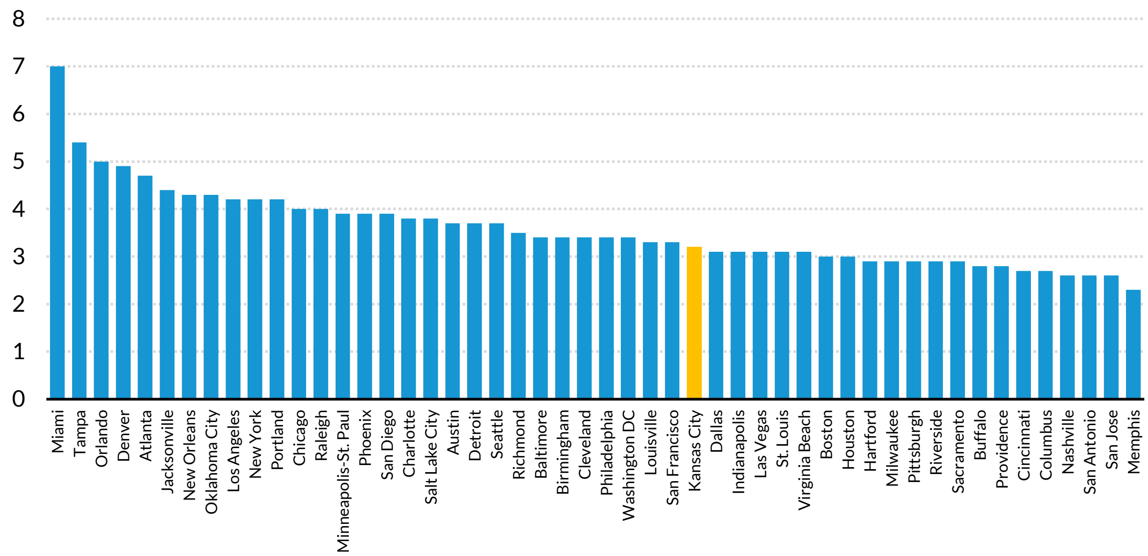


Source: Authors' analysis of 2019 Business County Patterns and the 2015–19 American Community Survey.

Notes: Small businesses are defined as establishments with 100 or fewer employees. Values represent the number of small-business establishments per 1,000 residents.

FIGURE 2

Share of the Workforce That Is Self-Employed among the 50 Largest Metropolitan Areas

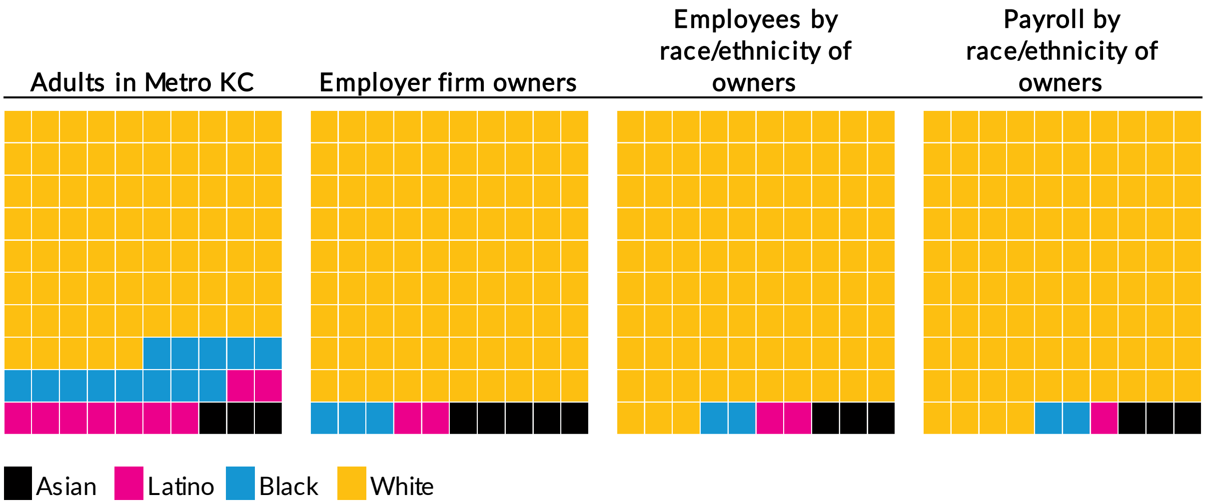


Source: Authors' analysis of the 2015–19 American Community Survey.

Business ownership in Metro KC is not distributed equally across races and ethnicities. As shown in figure 3, 75 percent of the metropolitan area's adult population is white, but 9 in 10 employer firms are owned by white people.[3] Furthermore, white-owned firms employ 93 percent of workers and pay 94 percent of payroll among all employer firms. On the flip side, about 13 percent of adults in Metro KC are Black and 9 percent are Latino, but only 3 percent of employer firms are Black owned and 2 percent are Latino owned. These inequities are not unique to Metro KC. The United States as a whole shows similar underrepresentation of Black and Latino people as business owners (Theodos, González-Hermoso, and Park 2021).

FIGURE 3

Metro KC Inequities in Ownership and Size of Employer Firms, by Race and Ethnicity



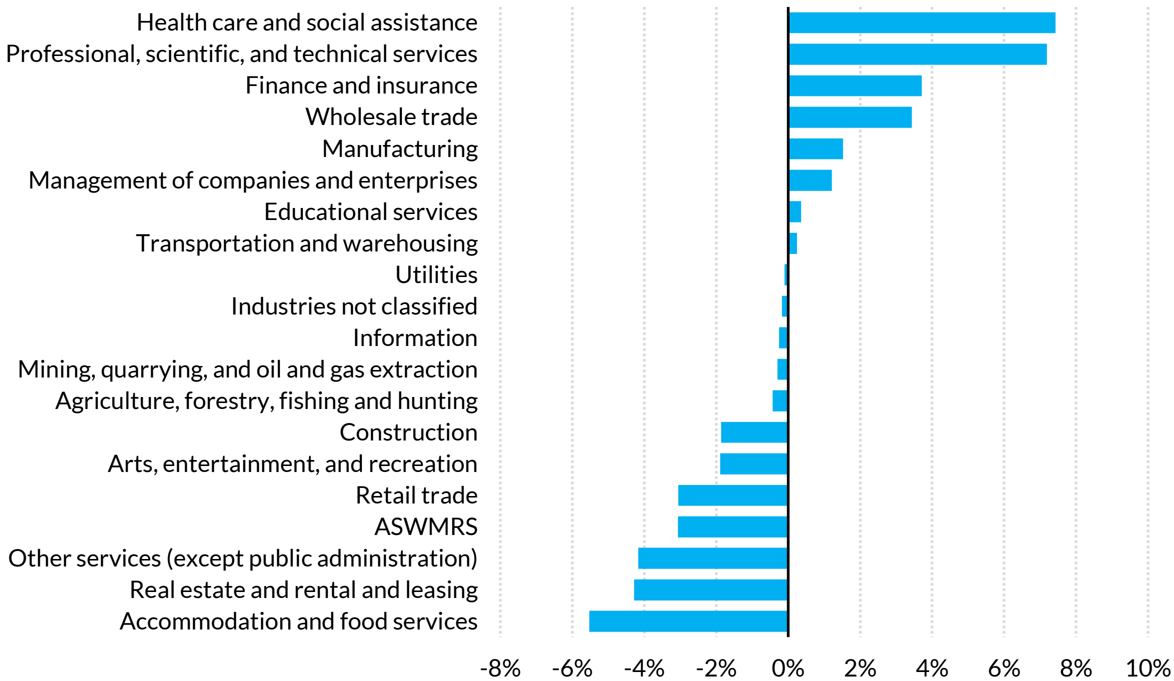
Source: Authors' analysis of the 2019 Annual Business Survey and 2015–19 American Community Survey.
Note: One square represents 1 percent.

The sectoral makeup of Metro KC's small businesses mostly follows the national pattern. Health care and social assistance and professional, scientific, and technical services are more prevalent among employer firms—defined as companies with part-time or full-time employees on payroll, rather than self-employed individuals who incorporated—compared with the United States as a whole, as shown in figure 4. Conversely, the real estate and rental and leasing and accommodation and food services sectors are the most underrepresented in Metro KC compared with national patterns. Interviewees highlighted health care and construction as the sectors with the highest growth potential for small-business activity.

FIGURE 4

Sector Concentration in Metro KC Compared with the United States

Percentage Point Difference in Sector Representation



Source: Authors' analysis of the 2019 Annual Business Survey.
Notes: ASWRS = administrative and support and waste management and remediation services. Our analysis includes only employer firms—defined as firms with part-time or full-time employees on payroll, rather than self-employed individuals who are incorporated.

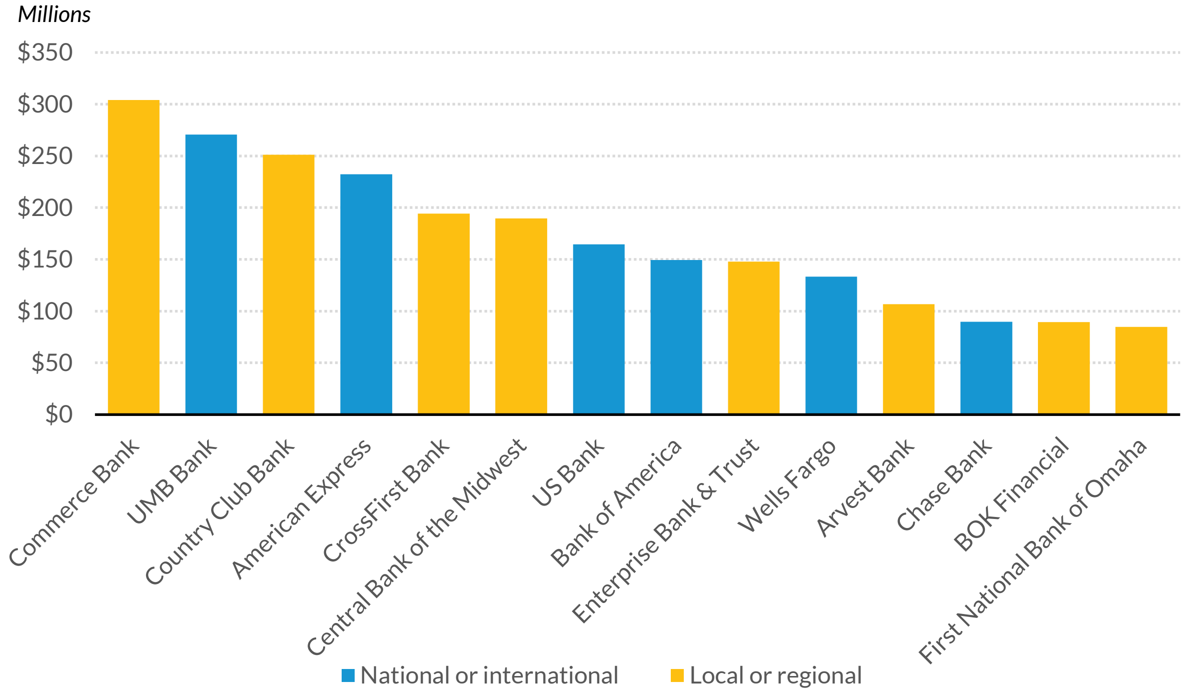
Metro KC Has Many Lenders…

Interviewees characterized the Metro KC small-business lending landscape as rich and varied in resources. One bank representative described the actors in the ecosystem as such: "There are companies like AltCap [a CDFI]…there are companies like KC Rise Fund[4] that are providing venture-type investing…there are angel high-net-worth individuals that are helping sponsor companies, some startup, some further along." Interviewees generally felt that Metro KC had both strengths and areas to improve. As one interviewee explained, the strength of the local small-business ecosystem sits somewhere between the very robust Denver, Colorado, and less robust Phoenix, Arizona.

Metro KC also has a high density of lender institutions doing small-business lending, with local and regional banks holding a larger market share, as illustrated in figure 5.

FIGURE 5

Small-Business Lending Volume by Financial Institution in Metro KC



Source: Authors' analysis of 2015–19 Community Reinvestment Act data.

...But Falling Loan Volumes

Figure 6 reveals that small-business lending by banks—measured as loans to businesses with revenues of less than $1 million, as reported by the Community Reinvestment Act (CRA)—has yet to recover from the 2008 financial crisis. However, in recent years, lending volumes in Metro KC have been slowly increasing, even as they remain flat nationwide.

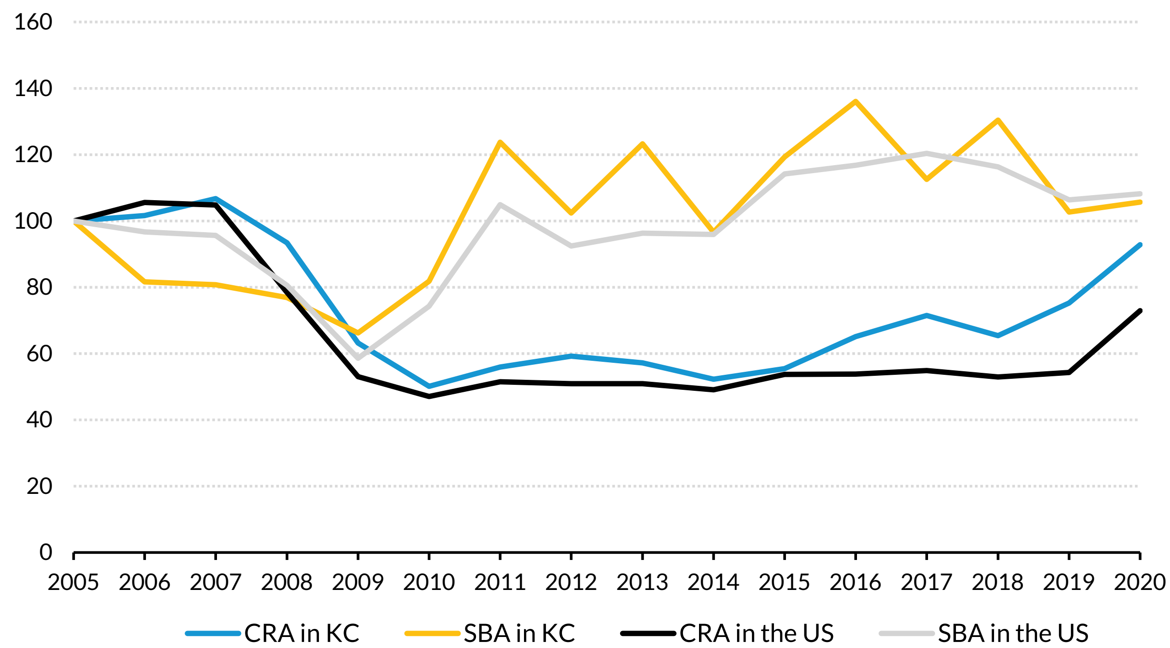
While initially dipping after 2005, US Small Business Administration (SBA) 7(a) and 504 guaranteed lending rates have improved and are not higher than they were before the Great Recession. SBA lending started increasing in 2009. Trends in Metro KC SBA lending typically exceed, but also roughly follow, national trends.

While figure 6 shows lending trends indexed to their 2005 volume, this does not mean that CRA and SBA lending are comparable in volume. The CRA lending volume far exceeds that of the SBA, typically by a multiple of 4. In 2019, for example, CRA-reported loans to businesses with revenues of less than $1 million totaled $84 billion, and SBA 7(a) and 504 lending totaled $28 billion.

FIGURE 6

Small-Business Lending Trends, 2005–2020

Percent share of 2005 small-business lending volume

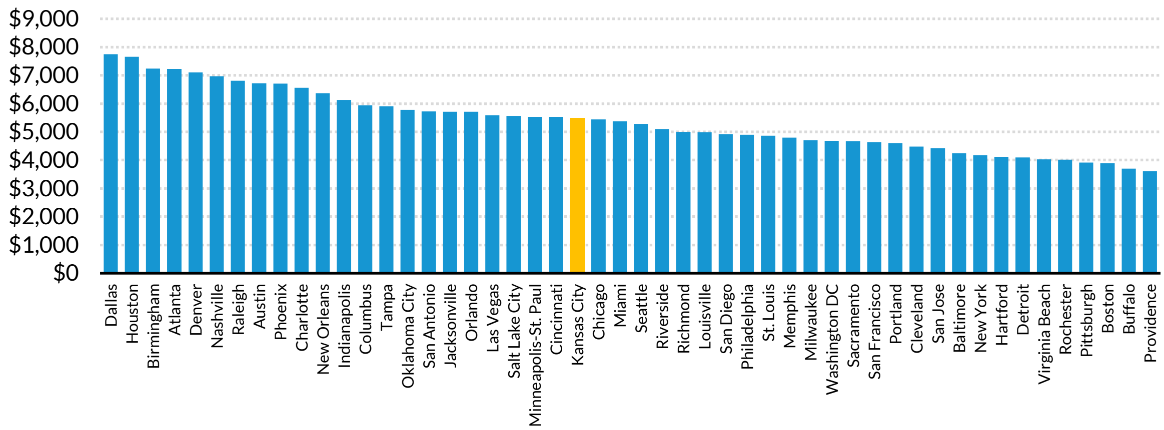


Sources: Authors' analysis of data from the Community Reinvestment Act and US Small Business Administration.
Notes: Values are in constant 2020 dollars. 2020 figures include loans through the Paycheck Protection Program.

As seen in figure 7, the region ranks 23rd among the 50 largest metropolitan areas in terms of CRA-reported and SBA guaranteed lending per small-business employee.

FIGURE 7

Volume of Lending to Small Businesses on a per Employee Basis



Source: Authors' analysis of data from the Community Reinvestment Act.

Notes: Metro KC highlighted in yellow. Values are in constant 2019 dollars. CRA revenues less than $1 million are defined by the businesses receiving the loans having less than $1 million in annual revenues. Appendix A restricts the sample to Metro KC and its peers (as defined by KC Rising).

Impediments to Lending Persist

Most Metro KC entrepreneurs reported a need for capital, although the specific types varied. Interviewees frequently cited needing lines of credit that would allow owners to fund day-to-day operations, despite episodic cash flow. Entrepreneurs also mentioned the need for loans for real estate acquisitions or improvements that would allow their businesses to grow.

Without exception, the small-business lenders we spoke with expressed their willingness to provide very small to multimillion-dollar loans. Lenders articulated this as a major way to retain their clients' loyalty despite strong local competition. While most of the lenders do not advertise their small-dollar loans, many said that if an existing client approached them requesting one, they would work to serve their client's needs.

Most lenders described their approach to vetting a small-business's loan readiness as holistic. While lenders viewed credit scores, collateral, and other factors as relevant for approving or denying loan applications, they cited proof of cash flow as the primary factor they consider when evaluating the creditworthiness of small businesses. Most lender interviewees affirmed a preference for lending to companies with track records and histories of cash flow, favoring lending to well-established small businesses rather than start-ups. One small-business owner characterized these criteria as "the fives," where lenders only approve loans to businesses that have operated for at least five years and make at least $5 million in annual revenues.

Consistent with this lender preference, nascent small businesses in Metro KC described their experiences and common view that accessing small loans, especially for growing young businesses, is challenging. Almost all interviewed small-business owners reported using their personal savings to start their businesses. Other sources of seed capital included retirement savings, money borrowed from a family member, and investment from an angel investor. None of the individuals we spoke with were able to secure a business loan to start their business. This is consistent with larger national trends: the SBA found that 57 percent of new small businesses used personal savings, and only 8 percent used a bank loan as start-up capital (US Small Business Administration 2016).

Some entrepreneurs expressed interest in equity capital, such as that from angel investors, but most were not well positioned to receive it, according to interviewed lenders and technical assistance providers—often referred to as business support organizations (BSOs). BSO representatives were not all convinced that equity capital is the right solution for small-business financing, with one saying it is "more expensive than a typical bank loan" in the long run, as the businesses end up giving up equity. In Metro KC and elsewhere, small, young businesses face several challenges in securing equity investments, including a lack of awareness among entrepreneurs, information asymmetry between investors and investees, and high transaction costs (Theodos and González-Hermoso 2021).

I call them 'the fives': if you're not in business for five years and [generating] $5 million, it's like, "Okay, come back to us when you get big.'
—Small-business owner

Financing terms also proved challenging for business owners. Lenders almost always said that they require a personal guarantee from the owner to access a business loan—even from established companies. Two small-business owner interviewees put their house up for collateral to access loan capital. One small-business owner interviewee noted that the bank required them to take out a life insurance policy, paid out to the bank as a prerequisite to accessing the bank's loan capital. Business owners almost universally considered this practice unwelcome and problematic.

Additionally, regardless of their organizations' ages, several small-business owners expressed concern that lenders' focus on track records drove them to ignore loan applicants' potential for future growth. One small-business owner gave the example of wanting to hire more staff to meet a projected increase in demand for the business's services. To cover the upfront cost of the hiring process, the onboarding process, and the tools that a new staffer would need, the business owner needed a loan. However, the owner's loan application was denied, with the loan officer citing their perception of the business's inability to pay back the loan given its current cash flow. From the small-business owner's point of view, the lender failed to consider projected revenues (on top of historic ones), thus depriving the business of the capital needed to grow.

Excessive demands for reserves or collateral can also dampen business owners' ability to borrow for growth. One business owner reflected, "I have to put up 100 percent of what I'm asking for. Well, if I had 100...and so we're sitting up here shaking our heads going, are you kidding me? The banks don't want to take risks."

For their part, most lenders said they take adequate risk and cannot further expand their small-business lending given their regulatory oversight and need for financial return. Bank and CDFI lenders also said their approaches to providing capital help prevent small-business owners from taking on unmanageable debt that could ultimately harm their businesses; the lenders contrasted their approach with that of some fintech small-business lenders.

We do take a more…lower-risk approach versus a higher-risk approach. But also, along with that comes the benefit to the client of loans priced for risk, and [that] really helps position them to succeed by having financing options that are affordable and really support what their true goals are for their business.
—Lender

One lender further explained that what some borrowers may deem as an overreliance on track records is due to a lack of quality in financial records to support projections: "Financial statements aren't typically going to be accountant-prepared… hence, you [have] got to rely on credit score, some kind of cash flow, debt service coverage, and then collateral."

Another banker explained that small banks have financial constraints too and cannot afford riskier loans: “When you're lending at 4 [percent interest], there's just not much room to take a hit.” These decisions, of course, depend on the business and the type of financing. As one lender said, “Working capital lines of credit secured with accounts receivable and equipment finance or occupied commercial real estate—those are all asset classes that we're comfortable with, if structured appropriately.”

To mitigate the risk of lending to small-business owners who might otherwise be denied access to capital, lenders often turn to SBA guaranteed loans. If a borrower defaults on an SBA guaranteed loan, the lending institution that made the loan may recoup between 50 and 85 percent of the loan’s value from the SBA. However, loans with a guarantee that default still impose losses on lenders. Many of the lender interviewees mentioned SBA guaranteed loans as part of their lending portfolios, but few spoke of SBA lending as a central element of their small-business lending. Several lender interviewees did mention wanting to increase their SBA lending activity but also spoke of the need for dedicated staff with this expertise.

A final point of context is that bank and CDFI small-business lending—unlike credit card or home mortgage lending and fintech small-business lending—is not highly automated, although this does vary by institution. Small businesses are quite different in their types, sizes, histories, products or services, and markets. This means that personal relationships between business owners and loan officers have considerable relevance when it comes to business lending. Some small-business owners named specific loan officers with whom they built relationships, and one even followed a loan officer to a new lending institution when they changed institutions. In addition, some small-business owner interviewees explicitly described hopping from lender to lender until they felt they had connected with a lending officer on a personal level.

We’ve had the same loan officer since 2014. He’s grown with us. He’s been very personable, much more than I expected him to be, because before that, our relationship with the bank was kind of iffy.
—Small-business owner

Striking Disparities in Lending by Race and Place

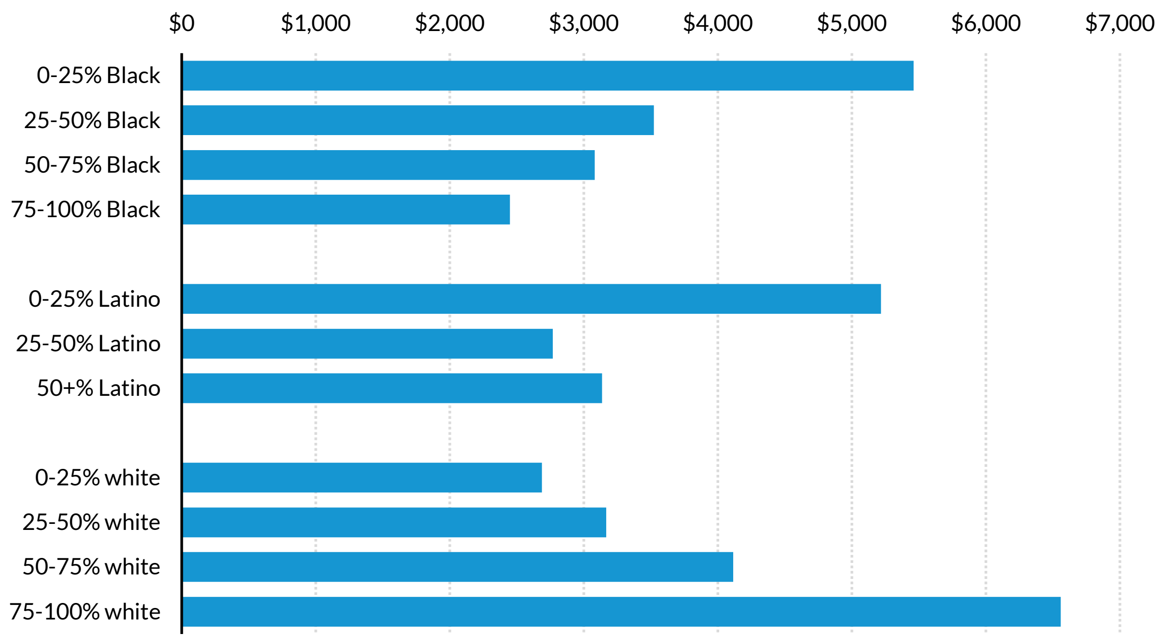
Inequality in access to debt and other forms of capital to support small businesses is a nationwide concern. Before the pandemic, 80 percent of white business owners and 77 percent of Asian business owners in the United States seeking some form of financing obtained it. The numbers were lower for Latino owners and Black owners, at 70 percent and 61 percent, respectively. Disparities are also evident in the amount of financing. Fifty-four percent of white owners received the full amount of funding they requested, compared with 34 percent of Asian business owners, 32 percent of Latino business owners, and 26 percent of Black business owners.[5]

Data on small-business lending by owner race are not available for Metro KC, but lending trends by neighborhood race and ethnicity are available. In Metro KC, differences in CRA-reported small-business lending by racial or ethnic composition are striking. Census tracts with a larger share of white residents see, on average, more CRA-reported lending—controlling for the number of small-business employees—while tracts with a higher share of Black or Latino residents receive less loan capital (figure 8). SBA loans, on the other hand, do not appear to distinctly follow racial or ethnic patterns, as illustrated in figure 9.

FIGURE 8

Metro KC Community Reinvestment Act-Reported Small-Business Lending, by Neighborhood Racial Composition

Average annual census tract CRA-reported small-business lending per small-business employee

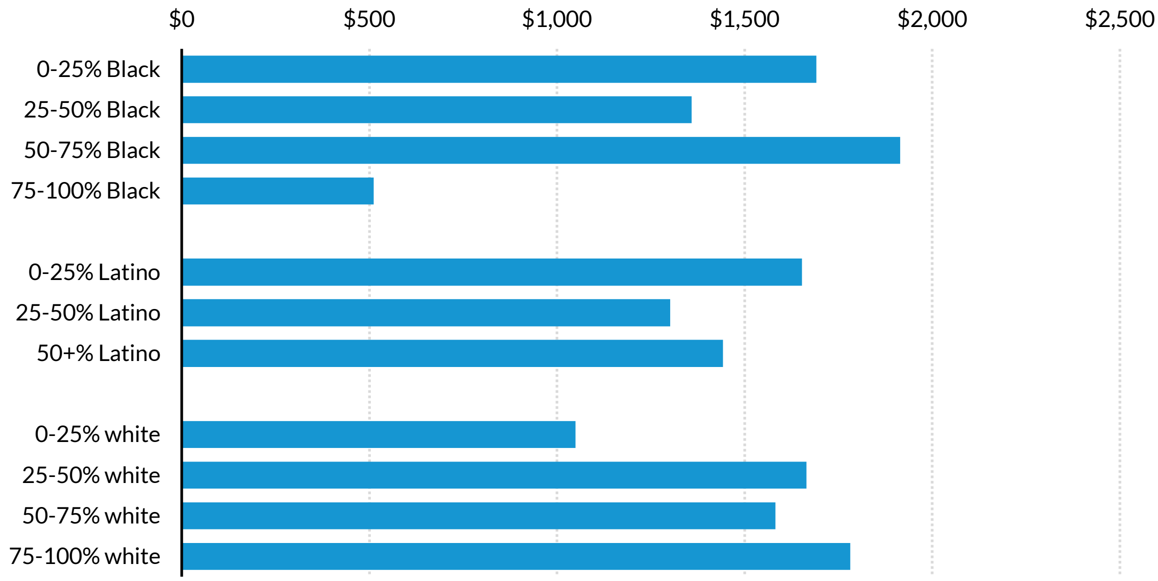


Sources: Community Reinvestment Fund and US Census Bureau Longitudinal Employer-Household Dynamics, Origin-Destination Employment Statistics, and Workplace Area Characteristics data.
Notes: Values are in constant 2019 dollars. Averages of Community Reinvestment Act lending to small businesses (defined as businesses with annual revenues of less than $1 million) per employee were taken between 2005 and 2019.

FIGURE 9

Metro KC Small Business Administration Small-Business Lending, by Neighborhood Racial Composition

Average annual census tract SBA lending per small-business employee



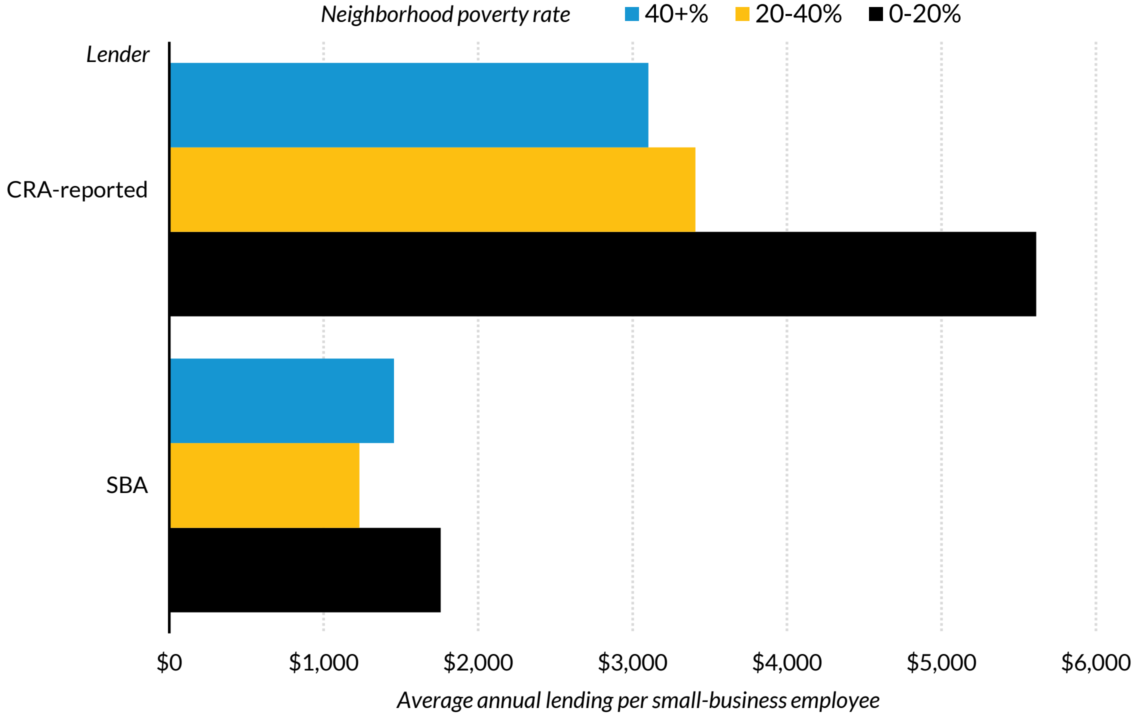
Sources: US Small Business Administration and US Census Bureau Longitudinal Employer-Household Dynamics, Origin-Destination Employment Statistics, and Workplace Area Characteristics data.

Notes: Values are in constant 2019 dollars. Averages of US Small Business Administration 7(a) and 504 lending to small businesses (defined as businesses with annual revenues of less than $1 million) per employee were taken between 2005 and 2019.

Disparities in CRA–reported small-business lending also exist when looking at neighborhood poverty levels. Figure 10 shows that places with high poverty rates (more than 40 percent) received slightly more than half of the capital received in places with low poverty rates (less than 20 percent). Noticeably, these differences virtually do not exist for SBA loans. Census tracts with high and low poverty rates receive, on average, about the same level of small-business lending from the SBA. This is not unique to Metro KC, and similar patterns exist nationwide.[6]

FIGURE 10

Metro KC Annual Average Small-Business Lending, by Neighborhood Poverty Rate



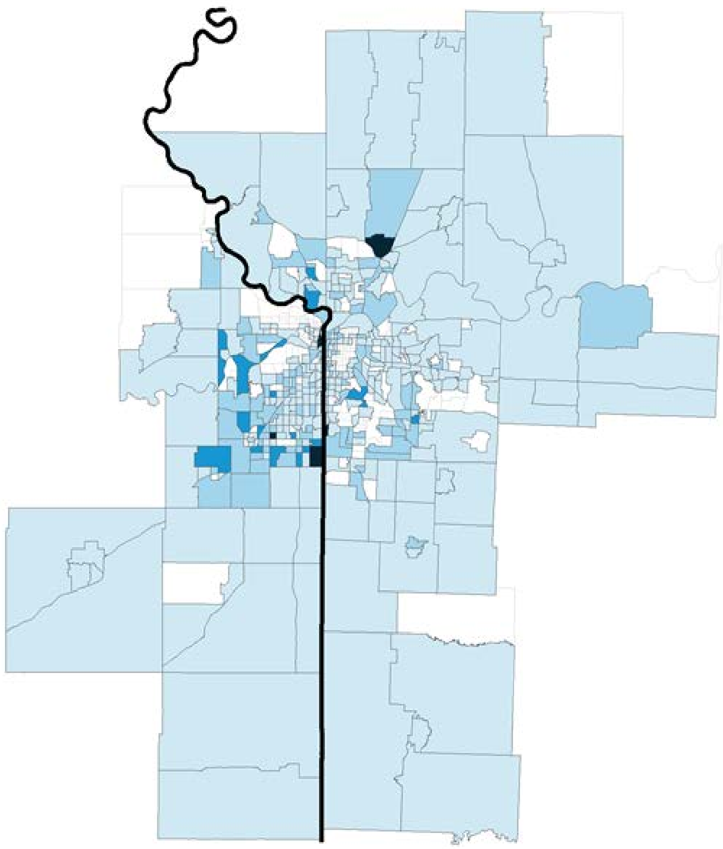
Sources: Community Reinvestment Fund, US Small Business Administration, and US Census Bureau Longitudinal Employer-Household Dynamics, Origin-Destination Employment Statistics, and Workplace Area Characteristics data.
Notes: Values are in constant 2019 dollars. Averages of SBA 7(a) and 504 and CRA lending to small businesses (defined as businesses with annual revenues of less than $1 million) per small-business employee were taken between 2005 and 2019. In 2019, 162 census tracts had poverty rates of 0 to 20 percent; 79 census tracts had poverty rates of 20 to 40 percent; and 16 census tracts had poverty rates greater than 40 percent.

Given spatial segregation patterns, the disparities observed above manifest across place. This means that some pockets of Metro KC largely lack access to small-business finance. For example, many stakeholders commented on the salience of Troost Avenue as a historic geographic divider for capital access in Kansas City, Missouri—more residents west of the avenue are white, and more residents east of the avenue are Black.[7] "I think we would be kidding ourselves if you didn't look at [it as] maybe the dividing line in some areas," said one interviewee.

FIGURE 11

Metro KC Annual Average Small-Business Lending, by Neighborhood

Annual Average US Small Business Administration Lending Volume per Small-Business Employee



SBA loans per small-business employee

- $7 to $1,820
- $1,820 to $3,620
- $3,620 to $5,420
- $5,420 to $7,230

KS-MO state border

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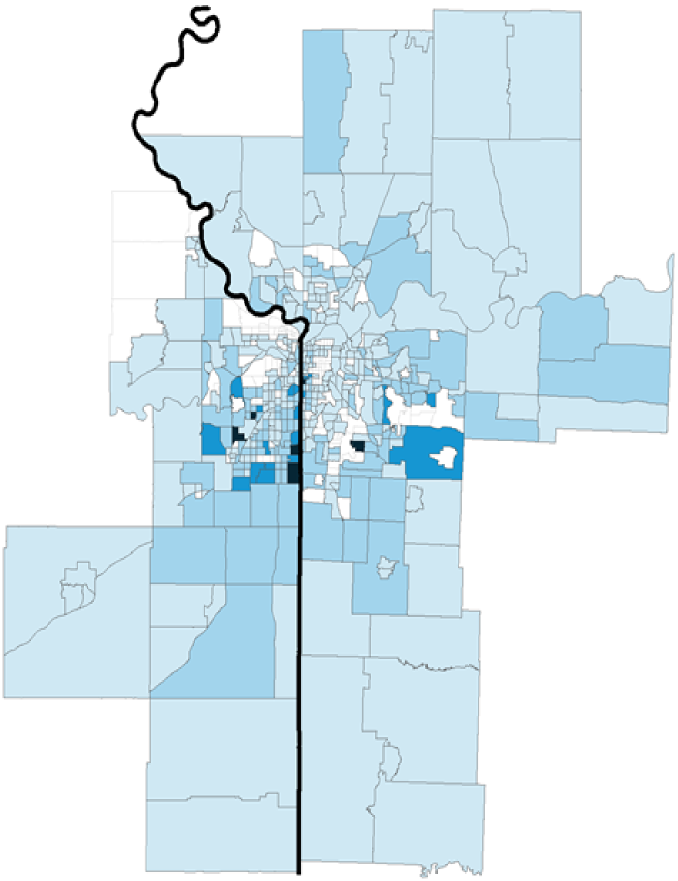
Annual Average Community Reinvestment Act Small-Business Lending Volume per Small-Business Employee



CRA small-business loans per small-business employee

$197 to $4,970
$4,970 to $9,720
$9,720 to $14,500
$14,500 to $19,200

KS-MO state border

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Sources: Community Reinvestment Act, US Small Business Administration, and US Census Bureau Longitudinal Employer-Household Dynamics, Origin-Destination Employment Statistics, Workplace Area Characteristics data, and Mid-America Regional Council.
Notes: CRA = Community Reinvestment Act. Small businesses are defined as establishments with fewer than 100 employees. Annual averages were calculated per small-business employee using data between 2005 and 2019. Census tracts with fewer than 100 small-business employees are suppressed and shadowed in white.

We explored the reasons for these trends in our interviews. Some respondents cited disparities in business readiness—either the technical capacity to make a strong financial case or the personal wealth to provide guarantees. Others cited seemingly race-neutral lending criteria that nevertheless drive disparate rates of access to capital given systemic inequities; still others focused on discrimination.

Interpretations varied across sectors. Most lenders cited the first reason—business readiness—but some also spoke to the prima facie race-neutral lending criteria that had disparate impacts. In contrast, and without exception, every small-business owner of color interviewed shared the perception that lenders did not take them as seriously as white small-business owners. “There’s a statute [that says] redlining...absolutely should not happen, but, c’mon, we all know that it does,” explained one BSO representative about the geographic divides in Kansas City. A survey fielded by KC Rising and the Kauffman Foundation echoes our interview findings: 43 percent of the survey’s Black respondents cited racial discrimination as an impediment to accessing mechanisms of wealth creation such as high-paying jobs (Quality of Life in Kansas City 2022).

Lenders were not the only sector to cite business preparedness as a factor. Stakeholders broadly shared the view that wealth and equity are unequally distributed in Metro KC, meaning that some minority business owners and those with lower incomes lack the resources to effectively apply for and use capital, in turn leading to less access to debt capital. One lender interviewee noted that “a lot of the entrepreneurs that we work with, especially minority populations…[they] have additional challenges accessing capital because of that lack of personal wealth, assets, personal assets, credit assets.” Others cited technical capacity issues. As one BSO staffer said, “Unfortunately, the minority business owners are coming in less prepared than maybe other counterparts…what is happening is they don’t have the financials prepared…they’re lacking the resource partners to get them to that point.”

I guess I haven't witnessed [small-business lending intersecting with race]. To me, it's more about sophistication. It's rare when you find a small-business owner that's really prepared and understands…I think it's across-the-board difficult.
—Lender

Do you want the honest answer? [It's] racism…[Despite our performance] we are still underrated, highly underrated, and it all has to do with seeing people of color as less important or less valuable than the white counterpart business.
—Small-business owner

CDFIs Partially Fill Lending Gaps

Nontraditional lending institutions like CDFIs help fill the financing gap for smaller, younger, and riskier businesses. Multiple CDFIs with small-business lending programs operate in Metro KC, including AltCap, based in Kansas City, Missouri; Justine Peterson, based in St. Louis, Missouri; and LISC, based in New York City.

The bankers we interviewed said that CDFIs were lending to clients that banks would likely turn down and thus were a complement to bank lending, not competition. The CDFIs with which we spoke agreed; one lender went so far as to note that their organization positions itself as an option for businesses that either do not have existing working relationships with banks or that would not be eligible for loan capital under mainstream banks' lending criteria. According to the lender interviewees, who represented both mainstream banks and CDFIs, Metro KC's CDFIs offer more flexible lending products and lend to younger businesses while maintaining relatively low default rates compared with conventional banks. They can do this for several reasons:

- CDFIs subsidize their lending with other funding streams including grants, donations, profits from other programs such as the new markets tax credit, and low-interest loans that they receive from banks and the US Small Business Administration. CDFIs also enjoy a fairly low loan default rate: one CDFI lender interviewee estimated that only about 5 percent of borrowers default on the organization's loans. This ensures that CDFI funds can recirculate after the initial loan.

- CDFIs engage in creative underwriting processes and use criteria that expand the concept of credit and can circumvent collateral gaps by offering contract financing and accounts payable financing options on loans. For example, one CDFI representative explained that before the pandemic, they implemented a new “character-based” loan product in partnership with an organization from Louisville, Kentucky. With this product, borrowers self-report their credit scores and the CDFI checks character references. While applicants still must submit their businesses’ financials, the lender also considers nonfinancial criteria that are less biased against smaller, younger businesses.
- CDFIs provide greater levels of assistance to help business owners understand their credit options. CDFI staff also expressed a sense of responsibility to loan applicants to help them understand when taking on debt makes sense and when it does not. "We really try to make sure that they know, ‘Hey, if you're using debt, it should be used to grow your business. It should be used for revenue-generating operations or opportunities for your business. Not to pull yourself out of a hole,’” one CDFI representative explained.
- CDFIs also work more deeply and for a longer time with firms to help them become loan ready. For example, one CDFI sometimes conditions a loan on the borrower receiving loan preparedness services. That CDFI also refers potential clients to BSOs, including small-business development centers, for more substantive assistance in developing a business plan, becoming loan ready, and preparing the owner to successfully manage loan funds after receiving them.
- In Metro KC and elsewhere, CDFIs do more to prioritize outreach to communities that are not currently well served by mainstream financial institutions, including communities of color.[8]
- CDFIs modify the terms of loans that are at risk of default, which helps them lend to clients that mainstream banks would turn away. They are more able and willing than retail banks to do so because CDFI loan funds are not subject to bank-type capital regulation and supervisions.

CDFI staff reflected on their institutions as stepping stones for borrowers. CDFIs appear to play an important role in providing refinance loans for small businesses with high-cost fintech debt. But although cheaper than many fintech loans, the cost of CDFI loans can be higher for owners than mainstream bank loans. For that reason, CDFIs mentioned encouraging their clients to transition toward working with mainstream banks to access more convenient terms, rates, and a broader suite of banking services when they can do so. At least one small-business interviewee was successful in this strategy; however, it can be a challenge. Some of the small-business interviewees had limited experience with commercial banks and expressed reticence to interact with them.

CDFI staff interviewees reported that CDFI small-business lending generally requires subsidization because small businesses’ earned incomes do not always cover losses and expenses. Increased lending volume could help CDFIs spread fixed costs across more loans. Subsidization could also help CDFIs lower the interest rates or fees charged to borrowers. Although they may require subsidization to make small-business lending self-sufficient, interviewees from several commercial banks, CDFIs, and technical assistance providers believe CDFIs fill an important gap in the market for smaller, younger, and riskier businesses that might not survive without their support.

I would like to see more programs like AltCap…That's the kind of organization that is willing to step out with these types of clients…really move the needle…The banks just aren't gonna change a lot. They are what they are.
—Technical assistance provider

Technical Assistance Is Making a Difference, with Room for Improvement

Actors in the Metro KC small-business lending ecosystem have near-universal consensus on the importance of an educational infrastructure to increase and improve lending in this segment of the market.

Most small-business owner interviewees who had received technical assistance—especially personalized technical assistance and one-on-one coaching—thought that it improved their capacities to successfully run their businesses and access capital. Many owners said they had little previous awareness of BSOs and that without being connected to technical assistance providers, they would not have known technical assistance was available to help them build their businesses. A few, however, characterized curriculum-based technical assistance as overly basic.

I feel like [my technical assistance provider has] given me assistance that really has helped me in sales and marketing. [They] helped me identify my sales pipeline and resources I need…They've helped me in every aspect of my business.
—Small-business owner

Lender interviewees had mixed opinions. Some noted the utility of technical assistance and said they had a policy of referring prospective clients who are not yet loan ready to a BSO. Almost all the lender interviewees shared the view that a curriculum on the nuts and bolts of running a small business or one-on-one coaching sessions could benefit businesses. Some of the lenders, however, were skeptical about the effectiveness of area BSOs and their role in helping business owners to become loan ready. But one lender criticized the banks in this regard as well, saying they refer non-loan-ready small-business owners to BSOs without making any real commitment to look at the owner's loan application after they receive assistance.

Most interviewees, across all types, believed that Metro KC has enough BSOs to meet business owner needs, or that existing groups can scale to do so. Some interviewees cited inconsistent geographic coverage, however. One said, "The fundamental issue to me is…there's been [business education efforts] that pop up here and there, but it's not an ongoing thing." Another interviewee noted that while the Kansas side of Metro KC was well serviced, the Missouri side of the region was not keeping up.

Interviewees suggested several ways that BSOs could improve their services:

- Invest in **better marketing and outreach efforts** to reach small-business owners who might not be plugged in to their networks or services.
- Offer **refreshed, more specialized content and trainings** delivered by staff who have ample technical expertise and experience (a request from small-business owners).
- **Improve their curricula's cultural competency** to meet the needs of historically disinvested communities; for example, by offering assistance in languages other than English, notably Spanish.
- **Increase capacity and funding** to improve their ability to work with clients (a need noted by BSO interviewees).
- Refer clients to other groups to **promote specialization**, or pool resources and offer courses jointly, in order to direct capacity toward better meeting small-business owners' needs (interviews revealed substantial overlap in offerings across providers).

State and Local Governments Appear to Play a Limited Role

Interviews did not unearth much information about the role of state and local governments within Metro KC's small-business lending ecosystem: they indicated that small-business owners have little direct engagement with the state and local public sectors. Some stakeholders also characterized the public sector as providing limited support, and some observed that this lack of engagement left it to the region's philanthropic actors to support small businesses. One lender suggested that the municipal structure and fragmented policy environment of Kansas City, Missouri—the region is spread across several cities and counties between two states—impedes public sector efforts to facilitate capital access for small-business owners.

The city's politics and bureaucracy are not fundamentally aligned around eliminating barriers to capital access, particularly in city contracting, where the city and county have great power to fund because they have great contracting power. Relative to the amount of public expenditure, these initiatives to find capital for those contractors are miniscule.
—Lender

One initiative mentioned in several interviews is the city's effort to incentivize prime contractors to hire minority- and women-owned businesses as subcontractors. While the interviewees who brought up the initiative supported the city's intentions, one noted that this was a narrow effort that could end up benefiting prime contractors while guaranteeing subcontractors just enough work to meet the minimum work threshold for program participation. Other public sector small-business supports centered on the disbursement of federal funds, such as the Economic Development Corporation of Kansas City using Coronavirus Aid, Relief, and Economic Security Act funding to support the city's small businesses. Interviewees also cited the State Small Business Credit Initiative, Economic Development Administration, Paycheck Protection Program, and other federal supports. Although these initiatives could have a significant impact on small businesses, they are not unique to Kansas City, Missouri, or Kansas City, Kansas.

A common government policy designed to improve conditions for underrepresented business owners is the Minority- or Women-Owned Business Enterprise certification, which helps these firms secure public contracts. However, one business owner highlighted the significant barriers to entry for very small businesses or incorporated self-employed business owners: "The process to become a diverse supplier is arduous…It's a major barrier to entry…It's at least 18 to 20 documents and have a site visit…and you have to do it every year." Additionally, a business owner shared how the model can also be limiting for some more mature firms: "It's a slippery slope because you only get 10 percent of a contract's value. As a business model, it can also limit your growth in some ways." One BSO representative cautioned that this type of certification is not recommended for all qualifying small businesses. Some may need it because of competition in their specific sectors, but the contract may not make a significant difference for others. This interviewee cautioned that some business owners may not have enough information to make an educated decision about the certification.

Conclusions and Recommendations

Metro KC has a rich and robust landscape for small business, driven by its community of entrepreneurs, its density of lending institutions and BSOs, and a robust group of CDFIs and philanthropy partners pushing the boundaries of capital deployment. However, the landscape still has room for growth. The region is middling in terms of the density and size of its small-business sector and availability of capital access. More needs to be done to grow the local ecosystem, steer away from an inequitable distribution of capital, and overcome historical exclusions based on race and ethnicity. To capitalize on these opportunities, stakeholders in Metro KC will not only need to improvise, refine, and augment their lending but also deliver better educational and technical assistance services to entrepreneurs. The levers of local and state governments will need strengthening. Below, we provide a series of recommendations to achieve these goals.

Increased and More Equitable Lending

Stakeholders in Metro KC could **bolster credit enhancement on business loans to encourage lending to businesses** that have strong prospects but fall short on one or more traditional underwriting criteria, such as loan-to-value ratio, credit score, collateral, cash flow, or operating track record. Strategies might include pooled resources among local and regional banks or a philanthropy-backed small-business fund to support CDFI lending to firms unable to access bank capital. While it is expensive to maintain, larger financial and philanthropic institutions could also **make grants to CDFIs for interest rate buy-downs** for small businesses that meet certain criteria, such as one lender's cap of all CDFI grantee recovery loan products at 3 percent (funded by donating Paycheck Protection Program fees).[9] The latter would help address the higher interest rates of CDFI loan products compared with traditional banks that were identified as one of the barriers to access and use of CDFI products for smaller entrepreneurs. Similarly, banks could implement a model to **buy CDFI loans** performing at a certain level after one year to recapitalize the CDFIs when it makes financial sense for both the buyer and the seller (i.e., when it is better for the CDFI to sell the loan than to keep its revenue stream).

Local government agencies could **pilot grant programs** for businesses in underserved corridors requiring matches with their own capital—either through equity or debt—and engage lenders in implementation, similar to how Chicago has designed its Neighborhood Opportunity Fund (Theodos and González-Hermoso 2019). They could also **support and scale CDFIs** in the region to create more supply in this market segment. One loan officer at a CDFI reported that the organization is lending at capacity. Mainstream banks are often unable to deploy small-business loan capital as flexibly as CDFIs because of the web of regulations that govern their operations. Therefore, although CDFIs operating in Metro KC serve a market gap, they do not have sufficient resources to address the region's unmet small-business loan capital needs at present.

More Effective and Targeted Technical Assistance

Technical assistance is making a difference for entrepreneurs. Technical assistance providers could grow and fine-tune these services and **improve marketing and outreach** efforts to increase awareness about resources and CDFI products among smaller businesses in low-wealth neighborhoods. They could also **fortify relationship- and network-building supports**, possibly or in part through mentorship programs (e.g., matching start-ups with established business owners). Providers should also **expand one-on-one coaching** and **segment curriculum-based trainings** to provide more culturally and technically relevant education to businesses in similar sectors, of similar ages, or with similar challenges.

An opportunity exists to better serve small entrepreneurs in the earliest stages of the business creation and development processes. Stakeholders in the ecosystem could **support the creation and development of business incubators** with a race and ethnicity, gender, and geographic equity lens. Examples of such incubators outside the Metro KC region include Hacienda CDC in Portland, Oregon; Mandela Partners in Oakland, California; and Conexión Américas in Nashville, Tennessee. Racial equity in small-business lending is an important area in need of improvement, according to our interviews with business owners of color. Technical assistance providers could also help lenders **challenge race- or gender-based assumptions** and biases during the origination and underwriting processes.

Improved Knowledge for Lenders and Entrepreneurs

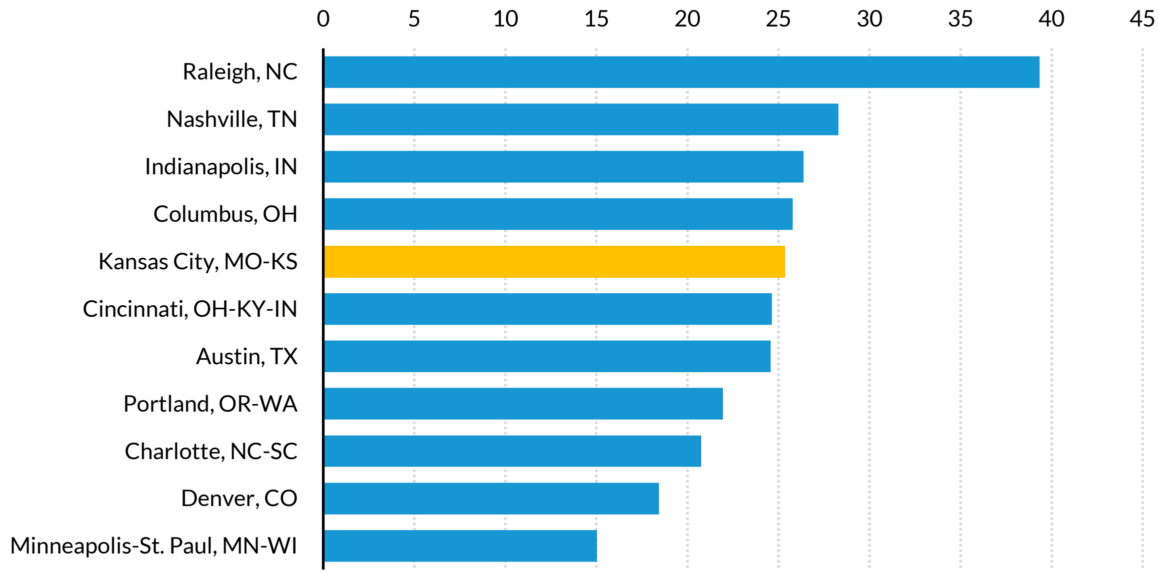
Lenders and technical assistance providers should **leverage technology to create a one-stop shop** that matches entrepreneurs with different financial products and advisory services according to their specific needs, such as the Community Reinvestment Fund's Connect2Capital. Similarly, they should continue to **support building out technology to simplify the loan application process and reduce processing times for smaller loans**, similar to DreamSpring's digitized Presto Loan program. Finally, the ecosystem should **enhance research and evaluation practices** to understand the demand for loan products and determine whether initiatives are succeeding at meeting their goals.

Appendix. Comparing Metro KC with Peer Metropolitan Areas

This appendix shows results from the analysis above, demonstrating how Metro KC compares with peer metropolitan areas (as defined by KC Rising).

FIGURE A.1

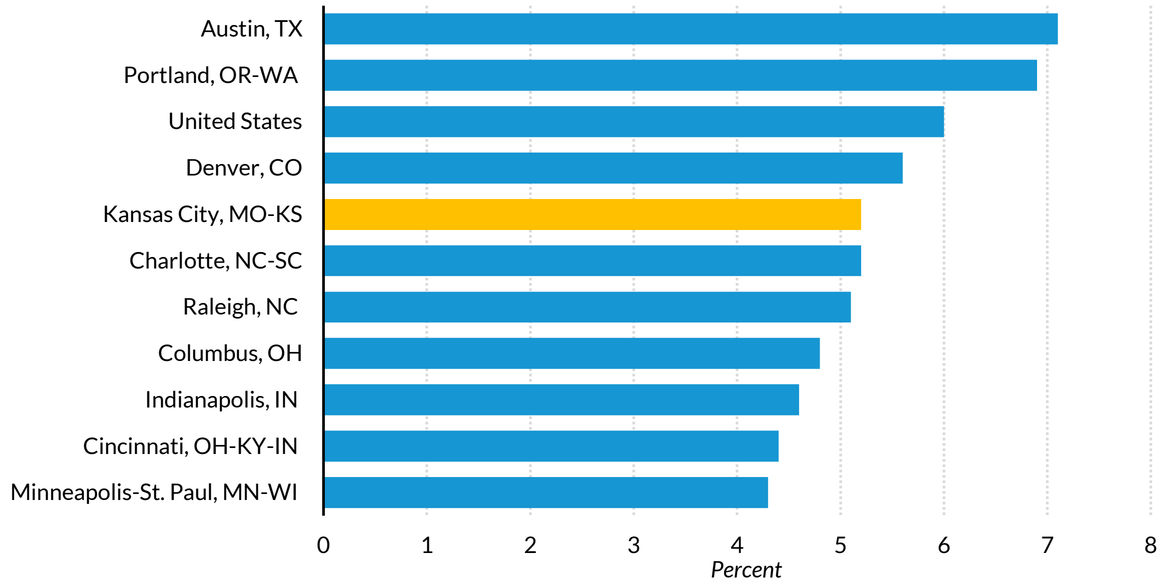
Number of Small Businesses per Capita among Comparable Metropolitan Areas



Source: Authors' analysis of 2019 Business County Patterns and the 2015–19 American Community Survey.
Notes: Small businesses are defined as establishments with fewer than 100 employees. Values represent the number of small-business establishments per 1,000 residents.

FIGURE A.2

Share of the Workforce That Is Self-Employed in Comparable Metropolitan Areas



Source: Authors' analysis of the 2015–19 American Community Survey.

Notes

[1] Because some data were only available at the county level, we defined the metropolitan Kansas City area as encompassing Cass, Clay, Jackson, Johnson, Leavenworth, Miami, Platte, Ray, and Wyandotte Counties for the purpose of this analysis.

[2] Most of the small-business owner interviewees reside in Jackson County, Missouri, although a few operate elsewhere in Metro KC. The interviewees offered diverse products and services and varied in the sizes and sophistication of their business operations. The lenders similarly represented a wide range of national and regional banks and CDFIs operating in the area.

[3] Employer firms, which account for 18 percent of all US businesses, are companies with part-time or full-time employees on payroll, rather than self-employed individuals who incorporated.

[4] KC Rise is a venture capital fund focused on seed and series A stage technology companies. It is based in Kansas City, Missouri. "Home," KC Rise Fund, accessed January 27, 2022, https://www.kcrisefund.com/.

[5] Authors' analysis of data from the US Federal Reserve, *2020 Report on Employer Firms: Small Business Credit Survey*, 2020, https://www.fedsmallbusiness.org/survey/2020/report-on-employer-firms.

[6] Authors' analysis of US Small Business Administration, Community Reinvestment Act, and US Census Bureau Longitudinal Employer-Household Dynamics, Origin-Destination Employment Statistics, and Workplace Area Characteristics data.

[7] Martin City Telegraph, "Dissecting the Troost Divide And Racial Segregation In Kansas City," *Martin City Telegraph*, June 30, 2020, https://martincitytelegraph.com/2020/06/30/dissecting-the-troost-divide-and-racial-segregation-in-kansas-city/.

[8] Jay Dev, "The Unsung Financial Institutions That Fund Inclusive Community Development," *Urban Wire* (blog), Urban Institute, June 15, 2016, https://www.urban.org/urban-wire/unsung-financial-institutions-fund-inclusive-community-development.

[9] For example, Wells Fargo is launching a $400 million small-business recovery effort for nonprofits and minority-owned businesses. The effort is funded by donating all processing fees from the Paycheck Protection Program. Wells Fargo, "Wells Fargo Launches $400 Million Small Business Recovery Effort," news release, July 9, 2020, https://newsroom.wf.com/English/news-releases/news-release-details/2020/Wells-Fargo-Launches-400-Million-Small-Business-Recovery-Effort/default.aspx.

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