The Small Business Administration and Home-Based Child Care Providers

Expanding Participation

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Home-based child care (HBCC) providers support children's development and help parents work. In 2019, slightly more than 1 million paid or listed home-based providers cared for 4.3 million children younger than 13 (Datta et al. 2021). Despite the important role these providers play, however, many appear unlikely to participate in or benefit from public supports designed to help small businesses thrive, such as those from the Small Business Administration (SBA). This stems from both the reality that HBCC providers are extremely small and have characteristics unlike other businesses and that SBA supports are not well designed for sole proprietors and other microbusinesses. However, SBA supports could be more available and relevant to HBCC providers, particularly through technical assistance (TA) coupled with resources and in some cases supports for microloans to make them less risky for lenders. Such supports would be particularly effective if they were paired with incentives and resources to support strong partnerships between local financial organizations and intermediaries that are experts on the unique realities HBCC providers face. These insights also are relevant for other financial institutions that may have the potential to support HBCC providers.

These issues have become even more important during the COVID-19 pandemic as HBCC providers have faced significant challenges, including changes in demand (both decreased enrollment or closures and increased demand because of social distancing and smaller group requirements), higher costs because of the need for personal protective equipment and more intensive cleaning demands, and the stress and hardship created by the pandemic-related financial insecurity and pandemic fears (Porter et al. 2020).[1] The potential loss of HBCC providers is particularly problematic because families have increasingly turned to HBCC options during the pandemic,[2] and a robust supply of HBCC providers is likely essential to helping parents get back to work. Further, as we describe in more detail later, problems with the initial round of Paycheck Protection Program (PPP) loans, intended to give relief to small businesses, provided important insights into the ways that SBA loans and financial supports are not well designed for very small businesses (Ullrich 2020), which we often refer to in this brief as "microbusinesses" or sole proprietors.[3]

Building on the knowledge gained from these problems and the opportunities available from the recent allocation of $50 billion in new funding for child care through the pandemic relief funding packages,[4] states have a unique opportunity to invest in strategies that better support HBCC providers' financial health and well-being. Further, the challenges faced by the PPP loan program highlighted useful lessons that the SBA could apply to their existing efforts to support microbusinesses such as HBCC providers.

Based on expert interviews[5] and a review of the literature, this brief provides an overview of the characteristics of HBCC providers that make accessing traditional financial supports unusually challenging for them, an overview of parts of the SBA's services that could be relevant to HBCC providers, and steps that could be taken to help expand the extent to which HBCC providers can benefit from SBA supports. It also briefly explores areas where we need more information and discusses the implications of these findings for other financial entities that support small businesses. Box 1 summarizes the major findings. This brief is one of a series focusing on HBCC providers' participation in federal programs and services.[6]

BOX 1

Key Takeaways: Factors That Shape the Relevance of SBA Supports for Home-Based Child Care Providers and Suggested Policies

Despite the importance of home-based child care providers, many appear unlikely to participate in or benefit from programs designed to help small businesses thrive, such as supports provided by the Small Business Administration. A review of barriers that keep HBCC providers from benefiting from SBA financial supports suggests that unique characteristics of HBCC providers and the SBA's orientation are factors. However, SBA supports can be more accessible and relevant to HBCC providers.

Unique Characteristics of HBCC Providers

HBCC providers can benefit from various financial education and support activities, yet they have several characteristics that make accessing SBA supports challenging for them. Among them are that HCBB providers

- may not see themselves as a "business";
- differ from other small businesses in ways that can make loans less appropriate and riskier for them and for lenders;
- may be unaware of financial resources or find sorting through options a challenge;

- can be more challenging than other child care providers for financial institutions to work with if they are unfamiliar with basic business and accounting practices and lack prior relationships with financial institutions;
- may not receive fair treatment or may not have had good experiences with financial or government institutions; and
- may have unusually complex finances.

In addition, HBCC providers are heterogenous and vary significantly across a range of characteristics.

Relevant Supports from the Small Business Administration

The SBA supports small businesses by enhancing access to capital, providing loans, and providing technical and managerial assistance, among other activities. However, three contextual issues are important to understand when considering the role the SBA plays for HBCC providers:

- The SBA is only one of many sources of financial and technical assistance to small businesses, and the ecosystem of these supports varies widely from one community to another.
- SBA activities may not be visible to HBCC providers because supports are distributed through local financial institutions or community organizations, rather than directly from the SBA.
- The SBA's orientation is generally not toward microbusinesses like HBCC providers.

Although no data are available on whether and how SBA activities support HBCC providers, the two SBA activities that are most relevant to HBCC providers are the following:

- The **SBA Microloan Program** loans funds to intermediary organizations, which then provide low-interest loans of up to $50,000 to small businesses to help them launch or expand. The SBA does not subsidize or guarantee the microloans provided by the intermediary lenders.
- The SBA supports **technical assistance** on financial management and business operations through local partners and community development financial institutions, including Small Business Development Centers, Women's Business Centers, and organizations that participate as microlenders in the SBA's Microloan Program.

The Potential of Intermediary Organizations

Our review suggests that it would be valuable to explore the role of supporting specialized intermediaries that could facilitate stronger relationships between HBCC providers and financial institutions. These intermediaries should be entities that understand the HBCC industry and providers' financial realities and can support them appropriately.

Suggestions for Action

Possible policy actions, both within the SBA and more broadly across the ecosystem of supports for small businesses, could help HBCC providers access financial supports.

The following are some suggestions for action at the federal level:

- Explore mechanisms to make SBA-supported microloans less risky for the lender.
- Consider ways that the SBA can more effectively support microbusinesses and people who are self-employed but are unlikely to expand their businesses.
- Explore expanding SBA (or similar) TA supports to a more diverse set of TA providers, and support partnerships between SBA-affiliated organizations and specialized HBCC intermediaries.

Other actions could be taken at the federal level (through the SBA or other agencies) or at the state level with state funding:

- Explore strategies to combine SBA-like microloans or TA with grants, or consider alternative mechanisms to expand the financial resources and supports available to HBCC providers.
- Designate financial supports that can be coupled with supportive TA and credit enhancement for HBCC providers.

Understanding the HBCC Provider Context

To understand the SBA's role for HBCC providers, it is important to better understand HBCC providers—specifically, what we know about these providers, what financial supports they need, and what characteristics may affect their ability to get financial supports from the SBA.

Who Are HBCC Providers?

Among the more than 1 million listed and paid home-based providers that cared for 4.3 million children younger than 13 in 2019 were 91,200 providers that are listed with a public agency and assumed to be licensed or regulated in some way (or "licensed HBCC") and an additional 1.05 million paid HBCC providers that are not listed with any agency (or "unlicensed HBCC") (Datta et al. 2021). See box 2 for the terminology we use to talk about different parts of the HBCC sector.

HBCC providers play a crucial role in caring for children in the US and are particularly likely to care for infants and toddlers, children in rural areas, and children whose families work nontraditional hours. Despite their important role, these providers are less likely than child care centers to participate in and benefit from public child care investments.[7] As is described in more detail later, they also are likely to have relatively low earnings.

In this brief, we focus primarily on listed and paid unlisted providers, because those caring for children without charging for the care seem unlikely to be interested in seeking business resources or TA for financial management for that care.

BOX 2

Home-Based Child Care Provider Terminology

The home-based child care field has many terms to refer to HBCC, including "informal care," "family friend and neighbor care," "family child care," "license-exempt care," and "relative care."[a] For our analysis, we differentiate between (1) licensed family child care and (2) home-based child care settings that are legally exempt from state or local licensing, which includes relative home-based care and (depending on the state) some nonrelative home-based child care.

When possible, we distinguish between licensed and unlicensed care and relative and nonrelative care because in many states these criteria shape licensing status, which can be a gateway to public supports. But we recognize the heterogeneity within these categories and that even these categories are not consistently used—for example, some states distinguish between care in the child's home and care in someone else's home. Also, sometimes we are limited by the definitions used by our data sources, which may differ from our terminology. When possible, we clarify differences.

[a] Sarah Haight, "Family Prosperity: 10 Minutes with a Leading Early Childhood Researcher on Home-Based Care and Opportunities Ahead," Ascend at the Aspen Institute, November 9, 2020, https://ascend.aspeninstitute.org/family-prosperity-10-minutes-with-a-leading-early-childhood-researcher-on-home-based-care-and-opportunities-ahead/.

What Financial Supports Do HBCC Providers Need?

Our interviews suggested that HBCC providers could benefit from basic forms of financial education and supports, including the following:

- **Financial and business skills training.** HBCC finances can be complex and may require financial knowledge and skills that HBCC providers do not have. One family child care business expert suggested that HBCC providers' financial knowledge and skill needs fall into the five categories of recordkeeping and taxes, contracts and policies, legal and insurance, marketing, and money management and retirement.
- **Funds for equipment, facility upgrades, and other program needs.** HBCC providers may need funds at various stages of their business operations, including to start up, renovate, or improve their homes to meet licensing requirements; expand to serve more children or to change their business model (such as serving a different age group); make improvements to allow them to participate in public systems such as Head Start or state prekindergarten; allow them to recover from a crisis (e.g., caused by a natural disaster or illness); and address cash flow challenges that exist because of irregularity of payments from parents or public systems.

The heterogeneity of the HBCC provider community means that these needs will look different from one provider to another. A grandparent or family friend who is caring for children because of personal relationships might benefit most from supports that focus on personal finances, money management, or retirement, while a family child care provider opening her home to care for eight children with an assistant could benefit from all the topics mentioned here.

HBCC Provider Characteristics That Affect Access to Financial Supports

A review of paid HBCC providers' characteristics from the 2012 National Survey of Early Care and Education (NSECE) suggests these providers differ in many ways from traditional small businesses, which are the focus of the SBA's financial and business support mechanisms. Many of these characteristics can prevent HBCC providers from fully benefiting from the SBA supports. Some of these characteristics are that HBCC providers

- may not see themselves as a "business";

- differ from other small businesses in ways that can make loans less appropriate and riskier for them and for lenders;
- may be unaware of financial resources or find sorting through options a challenge;
- can be challenging for financial institutions to work with if they are unfamiliar with basic business and accounting practices and lack prior relationships with financial institutions;
- may not receive fair treatment or may not have had good experiences with financial or government institutions; and
- may have unusually complex finances.

In addition, HBCC providers are heterogenous and vary significantly across a range of characteristics, including the number of children they serve, whether a provider works alone or has assistants, licensing status, motivation, location, finances, and more. Some of these characteristics can be based on the different policy contexts that exist across states.[8]

HBCC PROVIDERS MAY NOT SEE THEMSELVES AS A BUSINESS

A common theme across our interviews with child care financial experts is that HBCC providers often do not perceive themselves as running a business. Although no data exist on this exact question, the NSECE asked several related questions that corroborate this perspective, with some apparent variation between HBCC providers that are listed and those that are paid but not listed.

Data from the 2019 NSECE indicate the following:

- HBCC providers seldom identify earning money as a primary reason for caring for children. Only 5 percent of listed and 12 percent of unlisted paid providers report this as their primary reason.
- The majority of HBCC providers do not see caring for children as a career or personal calling, with some variation between those who are listed and those who are paid but not listed. Slightly more than half of listed home-based providers (53 percent) report that a personal career or calling was their primary reason for looking after children, compared with about a fifth (21 percent) of unlisted paid HBCC providers.
- In contrast, slightly more than half of unlisted paid providers (55 percent) report helping the children's parents as their primary reason for looking after children. Only 16 percent of listed providers report this as the reason for providing care.

The experts we interviewed agreed that many HBCC providers do not see themselves as operating a business or as being entrepreneurs and suggested that this was one of the initial struggles that organizations working to support HBCC providers' financial practices and resources have to overcome.

HBCC PROVIDERS DIFFER FROM OTHER SMALL BUSINESSES IN WAYS THAT CAN MAKE LOANS LESS APPROPRIATE AND RISKIER FOR THEM AND FOR LENDERS

Our review suggests that HBCC providers are different from other small businesses in ways that create challenges both for them and financial institutions. Specifically, paid HBCC providers

- operate their businesses out of their homes;
- may not own their homes and have relatively little collateral;
- may have unstable housing situations or face rising housing costs that could force them to move (First Children's Finance 2021);
- often have relatively low incomes;[9]
- have low profit margins and fluctuating revenues (First Children's Finance 2021);
- may not consider making a profit a personal or professional goal;[10]
- are often run by women and people of color, who have historically been marginalized from lending and banking systems;[11]
- may not be able to grow or expand their business because of market limitations on their ability to raise prices and constraints on their ability to serve more children;[12]
- are very small, usually working alone or with a paid assistant,[13] and function more like self-employed individuals or "microbusinesses," rather than "small businesses," which can be much larger;[14] and
- vary in how long they expect to care for children, with more than a third of unlisted HBCC providers expecting to care for children fewer than 5 years, which likely affects their interest and willingness to take on debt, for example, or to make significant efforts to improve their business.[15]

In part because of these factors, a recent report found that bankers do not understand the child care industry and perceive it as a risky investment (First Children's Finance 2021).

HBCC PROVIDERS MAY BE UNAWARE OF FINANCIAL RESOURCES

A recent report suggests that child care providers can be unfamiliar with the financial options available to them and can find it difficult to sort through and compare options to identify the most appropriate for their situation (First Children's Finance 2021).

THE RELATIONSHIP BETWEEN HBCC PROVIDERS AND FINANCIAL INSTITUTIONS MAY BE CHALLENGING

Our respondents suggested that HBCC providers may be challenging for financial institutions to work with in several ways. For example, our respondents suggested that HBCC providers tend not to engage in basic financial business practices such as keeping careful financial records, having a separate business bank account, having payroll or data systems, and having relationships with accountants or financial institutions. HBCC providers may also lack documentation that financial institutions regularly request, such as business plans or profit/loss tax forms (Schedule C). Several of these issues became evident during the first round of PPP loans (box 3). One expert suggested that financial institutions may not see HBCC providers as businesses, which undercuts HBCC providers' ability to be taken seriously when seeking financial supports.

In addition, some of our respondents suggested that HBCC providers whose primary language is not English or are immigrants may face extra barriers to accessing financial supports. Although HBCC providers with these characteristics appear to be a subset of all HBCC providers, the 2012 NSECE found that HBCC providers are more likely than staff at child care centers to speak languages other than English with the children in their care (19 percent versus 9 percent) and to have been born in another country (17 percent versus 11 percent) (Paschall, Madill, and Halle 2020). In addition to language barriers that some HBCC providers may face when interacting with financial institutions, cultural differences may also hinder HBCC providers in dealing with financial institutions. These may include distrust of financial institutions because of experiences in their countries of origin, differences in money management practices, and other cultural nuances stemming from the diversity of HBCC providers.

Finally, respondents suggested the PPP loan process revealed that many small businesses (in general—not specifically HBCC providers) may not be functioning in ways that fully conform with the law—for example, they may not be reporting their income to the Internal Revenue Service or may not be meeting licensing requirements. In both cases, HBCC providers would face barriers to accessing support from financial institutions.

HBCC PROVIDERS MAY NOT HAVE HAD GOOD EXPERIENCES WITH FINANCIAL OR GOVERNMENT INSTITUTIONS

Some financial institutions' policies and practices may create challenges and barriers that reduce HBCC providers' willingness to seek financial supports. For example, research suggests that communities of color, people with immigrant statuses, and women can have bad experiences with financing institutions, some of which may have a history of structural racism and gender discrimination (Battisto et al. 2021; Goodman, Bai, and Li 2018; Singer and Paulson 2004).[16] Providers may also distrust entities affiliated with the government (Theodos and González-Hermoso 2019). This attitude can stem from personal experiences or from what they have heard from others in their community.

HBCC PROVIDERS MAY HAVE UNUSUALLY COMPLEX FINANCES

Our respondents noted that the complexity of HBCC providers' finances can present unique challenges for financial institutions. This complexity appears in two ways:

- Providers' professional and personal finances may be intertwined. For example, providers probably buy food or items for their program while they simultaneously buy food and items for their families. They also may hire family members.
- If providers receive resources from public programs such as the Child Care and Development Fund subsidy system or the Child and Adult Care Food Program, their finances can be complicated to report because these resources may vary from month to month and are

provided on a reimbursement or partial reimbursement basis. Receiving public resources is significantly more common for listed or "licensed" HBCC providers than for unlisted providers: 62 percent of the former report receiving public funds from some source in 2019, compared with 18 percent of the latter (Datta et al. 2021).

BOX 3

Insights from Home-Based Child Care Providers' Experiences with the Paycheck Protection Program

The federal Paycheck Protection Program was designed to help small businesses recover from the economic downturn created by the COVID-19 pandemic by providing them with loans that were forgivable under some circumstances. The Small Business Administration provided funds for the program, but financial institutions administered funds and approved loans. The problems that surfaced for HBCC providers and other microbusinesses illustrate the disconnect between providers and mainstream financial institutions.[a] Among the problems were the following:

- The application process initially presumed that businesses had existing relationships with banks. This may explain why some home-based providers who did not receive a PPP loan reported that banks would not work with them.
- Many small businesses had not been documenting their finances appropriately or operating under basic business standards necessary for accessing the loans.
- The loans were initially based on a business's profits, but child care providers who applied to the program may have made little or nothing in profits. The loans were then changed to be based on gross income.
- Paperwork requirements in the first round of the program were challenging for people who were self-employed or had microbusinesses. For example, the application form asked for "an average monthly payroll," a concept that people who are self-employed or have only one employee may not be familiar with.

[a] For more information about home-based child care providers and the Paycheck Protection Program, see Copeland, Committee for Economic Development, and All Our Kin (2020) and Ullrich (2020). See also Natalie Renew, "Home-Based Child Care Providers Need Improved Access to Federal Loans Now," Home Grown, December 14, 2020, https://homegrownchildcare.org/home-based-child-care-providers-need-improved-access-to-federal-loans-now/; and Linda Smith, Kathlyn McHenry, Manami Suenaga, and Colby Thornton, "Child Care, Essential to Economic Recovery, Received Just $2.3 Billion in PPP Funds during 2020," Bipartisan Policy Center, March 9, 2021, https://bipartisanpolicy.org/blog/child-care-essential-to-economic-recovery-received-just-2-3-billion-in-ppp-funds/.

Exploring SBA Supports for HBCC Providers

The Small Business Administration is the only cabinet-level federal agency exclusively focused on supporting small businesses. It does so by enhancing access to capital, lending directly to small businesses during disasters, providing or facilitating equity investments, and providing technical and managerial assistance to small businesses, among other activities.[17]

Our respondents suggested that the two most relevant SBA activities for HBCC providers are the SBA's Microloan Program and its supports for TA, each of which we describe in more detail later in this section. (In addition, while less relevant to HBCC providers, the SBA facilitates larger loans—between $25,000 and $5.5 million depending on the loan type—for small businesses by guaranteeing a portion of the loans with community development financial institutions (CDFIs). We do not discuss these loans here because they are much larger than most HBCC providers would need or be able to pay back.) Before examining these two activities more closely, we note a few overarching issues that are crucial to understanding the role that the SBA plays for HBCC providers.

- The SBA is only one of many sources of financial assistance and TA to small businesses, and the ecosystem of these supports can vary widely from one community to another. These efforts can focus on different sectors, different geographic areas or communities, and/or different populations. Further, the funding for these efforts comes from various sources. On the federal level, sources include the US Department of Housing and Urban Development's Community Development Block Grant Program, the US Department of Agriculture, and the US Department of Commerce's Economic Development Administration. Various state, local, and private or philanthropic entities also support these efforts.
- SBA activities operate through local financial institutions or community organizations, rather than directly from the agency to individual businesses. Specifically, most of the SBA's financial functions are to facilitate lending and financial supports to small businesses by providing local banks and other financial institutions with some protections from the financial risks of investing in small businesses, providing loans to intermediary organizations to make microloans, or helping pay for TA provided by local organizations. As a result, support is not offered under the SBA name, so HBCC providers may not realize the SBA is facilitating the assistance they receive.
- Our experts agreed that the SBA's orientation is generally not toward microbusinesses like HBCC providers and that the lack of a reliable path toward fiscal solvency or financial growth among those businesses can make supporting them a challenge for local lenders. Our respondents pointed out that the SBA provides services to help traditional small businesses work toward financial solvency and business goals. This support can include, for example, TA to help business owners develop a marketing plan, including a plan for expansion, and start-up loans. Yet this approach may not be useful to HBCC providers who are unlikely to grow and who may find paying back loans to be a challenge.

The SBA Microloan Program

The SBA Microloan Program was designed to help very small businesses get low-interest loans of up to $50,000 to help them launch or grow and was intended to serve borrowers whose needs were not being met by the larger SBA loan programs.[18] Through this program, the SBA provides loans to community development corporations, CDFIs, and other microlenders, and they in turn provide microloans to small businesses.

The intermediary organizations are community-based nonprofit organizations that can engage in lending and SBA-supported TA (described in more detail in the next section). They may specialize in working with specific communities or types of businesses, and one of our respondents noted that they can be engaged in a range of activities—such as supporting a business corridor or creating a business incubator space—of which SBA resources and activities (including SBA microloans) may be only a part.

Unlike the larger loans it makes, the SBA does not subsidize or guarantee the microloans provided by the intermediary lenders. Instead, the SBA loans the funds for the microloans to the intermediary and provides separate funds to support TA related to the microloans. These loans, however, have high loss rates and because they are small, they are more expensive than larger loans for lenders to underwrite. Our respondents suggested that the intermediary organizations may be more willing than traditional financial institutions to accept higher loss rates because supporting the businesses receiving the microloans is part of their mission and because they may have other resources to help offset the losses (for example, from philanthropic sources).

Nonetheless, our respondents agreed that the intermediaries must still focus on loans that perform. Microloans are often too small, not guaranteed, and risky in comparison with traditional loans. Also, traditional CDFIs are less likely to engage in microloans as they tend to make money by the difference between the cost and revenue of the loans. So making these loans more attractive to financial institutions could open more access to financial capital for HBCC providers.

Microloans are more aligned with HBCC providers' needs than large loans. However, our respondents clarified that despite their smaller size, even these loans may be difficult for HBCC providers to pay back given the challenges they face in increasing their revenue.

Technical Assistance

The SBA activity or service that may be the most relevant to HBCC providers is TA around financial management and business operations. The SBA does not provide direct TA; instead, it provides TA through local partners and CDFIs. The partners most likely to work with HBCC providers are the following:

- Small Business Development Centers (SBDC), which are usually run by higher education institutions and state agencies and provide low-cost TA to small businesses
- Women's Business Centers (WBC), which are usually run by nonprofit organizations and target technical and managerial assistance to women-owned businesses
- organizations that participate as microlenders in the SBA's Microloans Program, which can receive grants to provide TA to borrowers or potential borrowers

The SBA's TA funds are typically provided as grants, and in many cases, the SBA requires the recipient to match the grant funding with nonfederal sources. (Our respondents suggested that generally the more stably resourced financial entities are not as effective at reaching the smaller, riskier businesses with TA.)

Although no data are available that can show the extent to which these entities support HBCC providers, our respondents suggested that it happens, although not frequently. Our respondents also noted examples of SBA's TA partners working with financial institutions that have more expertise in child care issues (see, for example, the nonprofit lender First Children's Finance) on TA for HBCC providers. In those cases, the SBA support centers reimburse the child care financial experts for their time, although the reimbursement is reportedly quite low.

The Potential of Intermediary Organizations

Because of HBCC providers' unique characteristics we described earlier, traditional financial institutions may not understand how to best support providers' financial needs, whether through financing such as loans or through appropriate TA. These characteristics also mean that traditional financial institutions may be less interested in working with HBCC providers—as loans to these providers require more time and resources, are perceived as risky, and can have low levels of return. Both of these challenges were highlighted as issues of concern in a recent report that examined child care financing issues in Nebraska (First Children's Finance 2021).

This reality suggests that support should go toward building the capacity of specialized intermediaries that could facilitate stronger relationships between HBCC providers and financial institutions, specifically intermediaries that understand the HBCC industry and providers' financial realities and can support them appropriately. For example, our conversations with experts suggested that the previously mentioned WDC and SBDC support centers and other financial institutions can benefit significantly from partnering with organizations that specialize in child care and HBCC financial supports. They also suggested that facilitators or navigators could work with HBCC providers and the various local supports for small businesses to facilitate connections. This could include working with local financial entities to help them make their activities more relevant and accessible to HBCC providers. These partnerships could help financial institutions better assess the benefits and risks of working with HBCC providers and identify industry best practices (First Children's Finance 2021).

However, where funds to support such efforts would come from is not clear. At the moment, HBCC providers that are SBA microlenders can use the TA funds associated with the SBA Microloan Program, and existing specialized intermediaries can get contracts from SBDCs and WBCs for HBCC technical assistance, albeit at a low rate. Although funding to sustain these efforts would be needed over the long term, states could consider using pandemic relief child care funds to establish and train navigators or facilitators to support expanding the financial resources available to HBCC providers, as well as embedding knowledgeable people in family child care networks or other community child care organizations, such as child care resource and referral agencies. These efforts, however, should not be confined to SBA-related supports; instead they should help HBCC providers access the larger ecosystem of financial supports and TA in their community.

Suggestions for Action

Our interviews suggest that SBA financial supports can be more accessible to HBCC providers. Note that only a few of the suggestions for action in this section are specific to the SBA. Many could be accomplished elsewhere at the federal level or at the state level and therefore are relevant to the broader ecosystem of small-business supports. However, the ideas presented here are built from insights gathered while studying what the SBA can do and as such are not a complete list of financial strategies to support the HBCC workforce.

Our suggestions for action at the federal level include the following:

- **Explore mechanisms to make SBA-supported microloans less risky for the lender.** Under current policy, the lender must pay back the SBA if the loan fails, which is a disincentive for lenders to support HBCC providers who lack collateral. Some ideas to explore include providing lenders some level of guarantee for loans, establishing a loan forgiveness strategy, and creating a pooled-risk approach to lending. Employing more than one of these strategies—for example, a combination of forgivable loans and a guarantee—could be an effective incentive to spur more investment in HBCC providers, as could identifying ways to help lenders and CDFIs share risk by braiding resources (First Children's Finance 2021).
- **Consider ways that the SBA can more effectively support microbusinesses and self-employed people whose businesses are unlikely to grow.** Recognize that even though these businesses are unlikely to expand, they are an important part of the employment system and deserve financial support and TA when needed. Possible action steps include making more resources available for such efforts; identifying appropriate and supportive TA that is designed for the realities of microbusinesses and can be coupled with other financial or in-kind resources if needed; and assessing existing materials (i.e., educational materials, application forms) to ensure they are accessible and reflect the unique realities that microbusinesses and sole proprietors face.
- **Explore expanding SBA (or similar) TA supports to a more diverse set of TA providers**, **and support partnerships** between SBA-affiliated organizations and specialized HBCC intermediaries or organizations that are experts on child care finances and realities.

Other actions could be taken at the federal level (through the SBA or other agencies) or at the state level with state funding. Pandemic relief child care funds could be used to launch some of these efforts, although ongoing funds would be needed for the initiatives to be sustainable. These actions include the following:

- **Explore strategies to combine SBA-like microloans or TA with grants, or consider alternative mechanisms to expand the financial resources and supports available to HBCC providers**, including by offering guaranteed or forgivable loans, creating a pooled risk approach to lending, or combining some of these strategies.

- **Invest in efforts to couple lending with supportive TA and credit enhancement for HBCC providers**, and provide loan coaches and support materials to make loan programs less challenging or risky for HBCC providers. Work with HBCC providers to help them avoid predatory lending.
- **Train financial institutions on how to work with HBCC providers**, and help them understand providers' unique realities and needs.
- **Support specialized intermediary organizations or train staff in community-based organizations (such as family child care networks[19] and child care resource and referral agencies) to serve as "capital navigators**" (First Children's Finance 2021). These entities can help HBCC providers access financial resources that are paired with TA and supports designed to reflect providers' financial realities and needs. In the short term, these resources could come from the pandemic relief child care investments funds to set up these services, although again more sustainable funding sources would need to be found.
- **Develop a centralized mechanism to help HBCC providers understand and access financial supports** that may be available to them across a range of sources.
- **Invest in and widely disseminate open-source TA materials and supports designed for HBCC providers**, such as educational materials to help them better understand basic business practices, ways to avoid predatory lending, and more. Disseminate them widely to HBCC provider networks and to CDFIs and other microlenders or organizations that may be working with HBCC providers and intermediary organizations. These materials already exist, from financial experts and other HBCC experts, and could be curated and disseminated more effectively.
- **Work with CDFIs, other microlenders, and community-based organizations that provide financial supports to HBCC providers to identify how to expand the pool of financial and TA organizations that work with the sector**.
- **Braid in other resources, including philanthropic support and grants, to diversify funding** and offer loan guarantees to lenders (First Children's Finance 2021).

Areas for Further Inquiry

In addition to the suggestions for action described in the previous section, our review found some areas that are worth further investigation. These involve a broader look at strategies to support small businesses, beyond the SBA, to identify lessons learned and opportunities to better support HBCC providers.

First, our review suggests that a few financial entities have targeted efforts to work intensively with HBCC providers. The following two strategies could expand the impact of those efforts:

- Conduct a landscape scan that examines their efforts, lessons learned, and opportunities and challenges, and then strategically disseminate the findings to key stakeholders to inform others interested in undertaking such efforts.
- Bring together these experts and key federal agencies to discuss the landscape scan's findings and strategies to improve the relevance of federal financing for microbusinesses overall and HBCC providers in particular, and to identify promising policies and practices for supporting HBCC providers across the various entities involved. A similar effort could be made with state-level agencies that support small businesses.

Second, our analysis focused on the SBA, but there are a host of other possible sources of financial supports for microbusinesses such as HBCC providers. Conducting an ecosystem scan of these sources would be useful for understanding

- what other financial supports might be available to HBCC providers;
- which CDFIs, microlenders, and TA providers could be targeted for more intensive outreach and training about the unique needs of HBCC providers; and
- which financial partners at the state and local level are interested in better supporting HBCC providers.

Our review highlights the gap in supports available to microbusinesses that do not fit the traditional "growth and expansion" assumptions of many efforts that support small businesses. An assessment of strategies designed specifically to focus on these kinds of businesses could be beneficial, potentially providing lessons for HBCC providers and illuminating whether HBCC advocates could become part of efforts to expand such strategies.

Conclusions and Implications

Despite their central role in caring for America's children, HBCC providers are financially vulnerable and face even greater challenges because of the COVID-19 pandemic. They would benefit from strategies that improve their access to resources and support their financial stability. For example, providers need funds for start-up costs to improve their facilities or services, afford the costs associated with becoming licensed or meeting higher standards, or stay in business during crises such as the pandemic.

Although the SBA does not focus on this population, SBA activities could be made more accessible and relevant for HBCC providers and other microbusinesses, particularly if proactive efforts are made to partner with knowledgeable intermediary organizations. Assessing what impact this would have on HBCC providers is difficult, because no data exist on the extent to which HBCC providers benefit from SBA activities, but such supports would likely improve HBCC providers' financial stability and security, improve child care quality, reduce stress, and enhance well-being. Further, the issues and solutions identified here are equally relevant for the broader world of financial supports and TA directed toward small businesses, considering that HBCC providers are likely to face similar challenges accessing and benefiting from their services.

Notes

[1] Natalie Renew, "Top Takeaways from the Home Grown Conversation: Measuring Emergency Funds' Impact in COVID-19," Early Learning Nation, October 21, 2020, https://earlylearningnation.com/2020/10/top-takeaways-from-the-home-grown-conversation-measuring-emergency-funds-impact-in-covid-19/.

[2] See Gina Adams, "Finding Solutions to Support Child Care during COVID-19," *Urban Wire* (blog), Urban Institute, September 22, 2020, https://www.urban.org/urban-wire/finding-solutions-support-child-care-during-covid-19.

[3] See "Home-Based Child Care Fact Sheet," Home Grown, December 14, 2020, https://homegrownchildcare.org/_resources/home-based-child-care-fact-sheet/; Linda Smith, Kathlyn McHenry, Manami Suenaga, and Colby Thornton, "Child Care, Essential to Economic Recovery, Received Just $2.3 Billion in PPP Funds during 2020," Bipartisan Policy Center, March 9, 2021, https://bipartisanpolicy.org/blog/child-care-essential-to-economic-recovery-received-just-2-3-billion-in-ppp-funds/; and Natalie Renew, "Home-Based Child Care Providers Need Improved Access to Federal Loans Now," Home Grown, December 14, 2020, https://homegrownchildcare.org/home-based-child-care-providers-need-improved-access-to-federal-loans-now/.

[4] The Coronavirus Aid, Relief, and Economic Security Act, signed into law in March 2020, allocated $2.5 billion for the Child Care and Development Fund. See Shannon Christian (director, Office of Child Care), memorandum to "State, Territory and Tribal Lead Agencies administering child care programs under the Child Care and Development Block Grant Act as amended, and other interested parties," regarding "Child Care and Development Fund (CCDF) Discretionary Funds Appropriated in the Coronavirus Aid, Relief, and Economic Security Act (CARES ACT) (Public Law 116-136) passed into law on March 27, 2020," April 29, 2020, https://www.acf.hhs.gov/sites/default/files/documents/occ/ccdf_acf_im_2020_01.pdf.

The Coronavirus Response and Relief Supplemental Appropriations Act of 2021 allocated $10 billion for the Child Care and Development Fund to be used for subsidies, virus mitigation policies and practices, and assistance to stabilize providers in and out of the subsidy system. See Ellen C. Wheatley (acting director, Office of Child Care), program instruction to "State, Territory, and Tribal Lead Agencies administering the Child Care and Development Fund (CCDF) program, as amended, and other interested parties," regarding "Planned Use of Child Care and Development Fund [CCDF] Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSA) Funds Report," February 12, 2021, https://www.acf.hhs.gov/sites/default/files/documents/occ/CCDF-ACF-PI-2021-01.pdf.

The American Rescue Plan Act of 2021 allocated $15 billion for the Child Care and Development Fund to "support families and providers, including supporting child care needs of essential workers" and allocated an additional $24 billion in stabilization funds for providers in and out of the subsidy system to support supply building (Hardy and Gallagher Robbins, 2021, 1).

[5] We interviewed Tom Copeland, Jerry Cutts, Ben Nicolie, and Brett Theodos.

[6] This publication is part of a series of policy briefs focused on supporting greater participation of HBCC providers in different federal programs or services systems. The series also includes briefs on HBCC providers and the child care subsidy system (Adams and Dwyer 2021), the Child and Adult Care Food Program (Adams and Hernandez-Lepe 2021), home-visiting services (Sandstrom and Dwyer 2021a), and infant mental health services (Sandstrom and Dwyer 2021b). See all briefs at "Expanding Participation of Home-Based Child Care Providers in Federal Programs and Services," Urban Institute, accessed November 9, 2021, https://www.urban.org/policy-centers/center-labor-human-services-and-population/projects/expanding-participation-home-based-child-care-providers-federal-programs-and-services.

[7] Data from the National Survey of Early Care and Education show that in 2012, 7 in 10 child care centers (versus 6 in 10 listed HBCC providers and only 14 percent of unlisted paid HBCC providers) reported receiving some public revenue. For more details, see NSECE Project Team (2016).

[8] Much of the data in this section are derived from the 2012 NSECE, because only a few data points are publicly available from the 2019 NSECE. Where 2019 data are available, we present it. As described earlier, these data often distinguish between "listed" HBCC providers, which tend to be licensed or connected with some public agency and are paid, and those paid providers that are not listed with any state agency.

[9] According to the 2012 NSECE, the median household income was $24,581 for unlisted, paid providers and $44,870 for listed providers, although this income was not solely from their child care activities (NSECE Project Team 2016)

[10] This is often assumed to be a key goal of small businesses and can be important to the ability to pay back loans.

[11] Renew, "Home-Based Child Care Providers Need Improved Access to Federal Loans Now."

[12] This is because of two realities: First, HBCC providers face significant market constraints in their ability to raise prices and earn more income because many are in communities with moderate-to-high poverty rates. According to 2012 NSECE data, 27 percent of HBCC providers serve communities experiencing high poverty (high poverty density areas), and 55 percent serve communities experiencing moderate-to-high poverty (NSECE Project Team, 2016). The second reality is that the growth of HBCC providers can be constrained because their space is limited to their home and their size is limited by licensing laws.

[13] The NSECE asked about paid assistants to HBCC providers that served at least one child with whom they did not have a prior personal relationship. These providers were asked whether they employed assistants from outside the provider's household. Although almost 4 in 10 listed providers (39 percent) report having paid assistants, the practice is less common among unlisted paid providers (12 percent). For more details, see exhibit 30 from (NSECE Project Team, 2016) for more details.

[14] The experts we interviewed suggested that although self-employed workers are in theory eligible for SBA supports, in reality there are many ways that the system is not designed to work for them (see box 3). See "Starting and Managing," SBA, accessed September 1, 2021, https://www.sba.gov/starting-business/choose-your-business-structure/sole-proprietorship%20.

[15] The 2012 NSECE data show that 36 percent of unlisted paid HBCC providers expect to care for children for fewer than five years and that an additional 16 percent expect to care for children for five to nine years (see exhibit 14 in NSECE Project Team 2016). Listed HBCC providers expected to care for children longer than unlisted providers.

[16] See Karen Hao, "There's an Easy Way to Make Lending Fairer for Women. Trouble Is, It's Illegal," MIT Technology Review, November 15, 2019, https://www.technologyreview.com/2019/11/15/131935/theres-an-easy-way-to-make-lending-fairer-for-women-trouble-is-its-illegal/. See also Desiree Patno, "The Gender Gap: Woman as Mortgage Consumers," NAWRB, December 5, 2017, https://www.nawrb.com/the-gender-gap-women-as-mortgage-consumers/.

[17] A business participating in any of the SBA loan programs must meet the Small Business Act's definition of a small business. According to a Congressional Research Service report, a small business is one that is "organized for profit; has a place of business in the United States; operates primarily within the United States or makes a significant contribution to the US economy through payment of taxes or use of American products, materials, or labor; is independently owned and operated; is not dominant in its field on a national basis; and does not exceed size standards established, and updated periodically, by the SBA. The business may be a sole proprietorship, partnership, corporation, or any other legal form" (Digler and Lowry, 2021, 9–10).

[18] See "Microloans," US Small Business Administration, accessed June 16, 2021, https://www.sba.gov/funding-programs/loans/microloans.

[19] See, for example, financial management toolkits designed for family child care networks in "Financial Management Toolkits," Opportunities Exchange, accessed July 20, 2021, https://www.oppex.org/financial-management-toolkits.

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