

## Hispanic Entrepreneurs and Businesses Are Helping to Drive the Economy's Entrepreneurial Growth and Job Creation

Hispanic entrepreneurs and businesses are helping to drive America's entrepreneurial spirit and engine of job creation. Nearly 5 million Hispanic-owned businesses contribute over \$800 billion to the American economy every year, and about one-quarter of new businesses are Hispanic-owned. This brief highlights the key contributions of these businesses and the challenges they face:

- Hispanic-owned small businesses represent the fastest growing segment of U.S. small businesses and the number of Hispanic-owned businesses has grown 34% in the last decade.
- Hispanic-owned businesses are powering our engine of job creation: More than 300,000 Hispanic-owned employer businesses employ about 3 million workers, with more than \$100 billion in annual payroll.
- Despite these important contributions to the economy, Hispanic-owned and other minority-owned businesses are more likely to experience financial hardship.
- Despite faster revenue growth and comparable credit performance, less than one-quarter of Hispanic-owned businesses receive funding over \$100,000 from national banks compared to about half of white-owned businesses.
- Hispanic businesses and workers were disproportionately harmed by the coronavirus pandemic; yet relief failed to reach many.
- Support for small businesses and working families would help unleash the full potential of Hispanic entrepreneurs, including tax relief, universal paid leave and increased access to lending and investment capital.

### INTRODUCTION

Entrepreneurship and business creation are fundamental to a dynamic economy. Companies less than five years old create an average of 1.5 million new jobs each year. Hispanic Americans are helping to drive this engine of job creation. Nearly 1 in 4 new businesses—which provide critical sources of new jobs—are Hispanic-owned, and the nearly 5 million Hispanic-owned businesses contribute over \$800 billion to the American economy annually. In the decade preceding the pandemic, the number of Hispanic business owners increased 34% compared to an increase of just 1% among non-Hispanic business owners.

There are more than 300,000 Hispanic-owned, employer businesses located across all 50 states and the District of Columbia. These enterprises employ at least one employee, other than the owner. Hispanic employer businesses employ about 3 million workers, with more than \$100 billion in annual payroll. The number of Hispanic-owned businesses that employ at least one

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employee, other than the owner, increased by 14% between 2012 and 2017—over twice as fast as the national average.

Although the economic contributions of Hispanic businesses are extensive, Hispanic entrepreneurs and small business owners face limited access to capital and structural inequalities that hinder these individuals and firms relative to their competitors. On the eve of the coronavirus pandemic, Hispanic small businesses and other minority-owned enterprises were more likely than their white counterparts to show signs of financial vulnerability. These vulnerabilities are influenced by the disparate treatment Hispanic entrepreneurs face; notably, Hispanic-owned businesses are less likely than white-owned businesses to be approved for large loans by national banks.

These financial constraints have left Hispanic-owned businesses vulnerable to the adverse effects of economic shocks. As a result of the coronavirus recession, the number of active business owners declined across the board, but the decline of Hispanic business owners was more pronounced. In March 2020, more than 4 out of 5 Hispanic-owned businesses reported a large negative impact from the pandemic and its economic effects, yet Hispanic-owned businesses faced barriers to adequate relief in the immediate fallout.

Support for small businesses and working families—like tax cuts for low- and middle-income workers, a federal paid leave program and increased access to lending and investment capital—would help unleash the full potential of Hispanic entrepreneurs and their businesses. For example, cutting taxes for small business owners with children will provide relief to Hispanic entrepreneurs. The Department of the Treasury estimates that more than 3 million small business owners with children will benefit from these tax cuts. Strengthening the Affordable Care Act (ACA) by reducing health insurance premiums can also help Hispanic and other small business owners who still struggle to access quality healthcare for themselves and their employees. Broad tax reform and a universal paid leave program would also improve the competitiveness of small, Hispanic-owned businesses who are unfairly harmed by the concentration of corporate power.

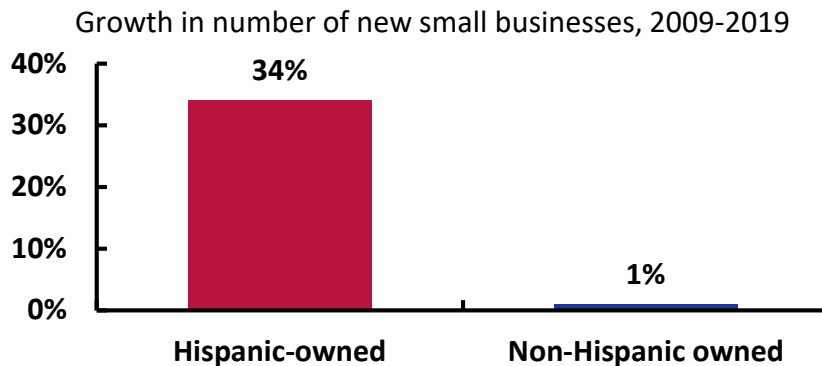
Combining these investments in families with increased federal spending on minority-owned businesses can help narrow wealth and financing disparities that limit the reach of Hispanic entrepreneurs. In 2019, the gap in business ownership between Hispanic and Black households, relative to white households, accounted for about one-quarter of the overall racial wealth gap between these groups. Current proposals in the U.S. Congress that call for investments in new Small Business Administration (SBA) initiatives that reduce barriers to business ownership and growth would provide a direct lifeline to Hispanic entrepreneurs and small businesses. Initiatives like increasing the share of federal contracts going to small disadvantaged businesses would help Hispanic entrepreneurs acquire capital and grow their enterprise. Investing in Hispanic-owned businesses is a direct investment in the dynamism of the American economy.

## UNDERSTANDING THE CONTRIBUTIONS OF HISPANIC ENTREPRENEURS AND THEIR BUSINESSES

### *Hispanic Americans are helping to drive small business growth*

[Nearly 5 million Hispanic-owned businesses](#) contribute over \$800 billion to the American economy annually. Nearly 1 in 4 new businesses—which provide critical sources of new jobs—are Hispanic-owned. Hispanic-owned small businesses represent the fastest growing segment of U.S. small businesses. The number of Hispanic-owned businesses has grown by [34% in the last decade](#). This is relative to the growth of just 1% for all other small businesses in the country.

### Hispanic-Owned Businesses Are the Fastest Growing Segment of Small Business



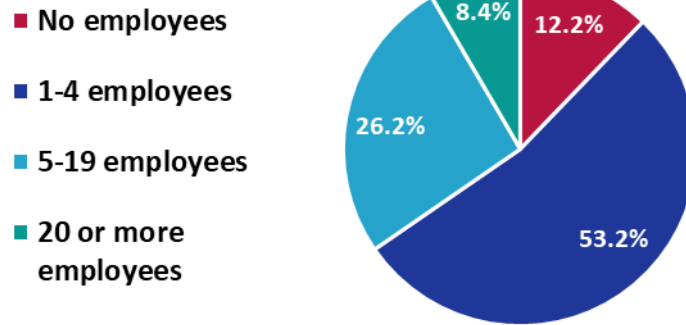
Source: Stanford Latino Entrepreneurship Initiative, Analysis of IPUMS-CPS Microdata, 2019

### *The more than 300,000 employer firms owned by Hispanic Americans employ approximately 3 million workers*

In 2018, Hispanic businesses made up nearly 6% (331,625) of all [employer firms](#), with an estimated \$455.6 billion in annual revenue. These businesses employ about three million workers, or roughly 2% of all actively employed workers, with more than \$100 billion in annual payroll. The overwhelming majority of Hispanic-owned businesses employ at least one employee, and more than one-third employ 5 workers or more.

### Over One-Third of Hispanic Businesses Employ Five or More Workers

Share of Hispanic-owned businesses by number of employees, 2018



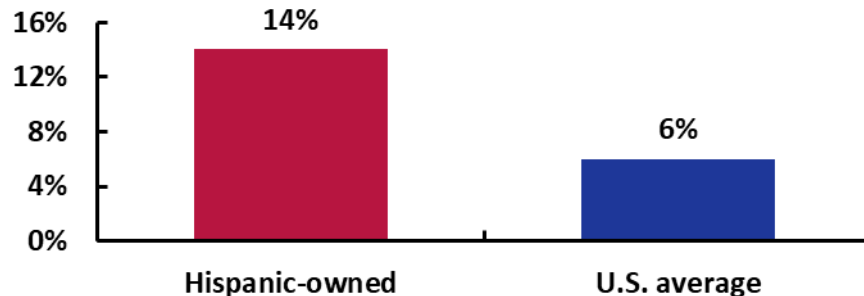
Source: U.S. Census Bureau, 2019 Annual Business Survey

### *Hispanic Americans are starting employer businesses at a faster rate than the national average*

The number of Hispanic-owned businesses that employ at least one employee, other than the owner, [increased by 14% between 2012 and 2017](#), more than twice as fast as the national average.

### The Number of Hispanic-Owned Employer Firms Grew By Twice the National Average

Growth rate of businesses with at least one employee, 2012-2017



Source: Stanford Latino Entrepreneurship Initiative, 2018 Annual Business Survey and 2012 Survey of Business Owners

The Stanford Latino Entrepreneurship Initiative finds that between 2012 and 2017, the number of Hispanic-owned employer businesses grew in [45 states](#)—and exceeded the national average in 41 states. Hispanic business ownership increased across industries, including construction, finance, transportation and real estate, and much of it was driven by Hispanic women. Pre-pandemic, [40%](#) of all Hispanic business [owners](#) were women.

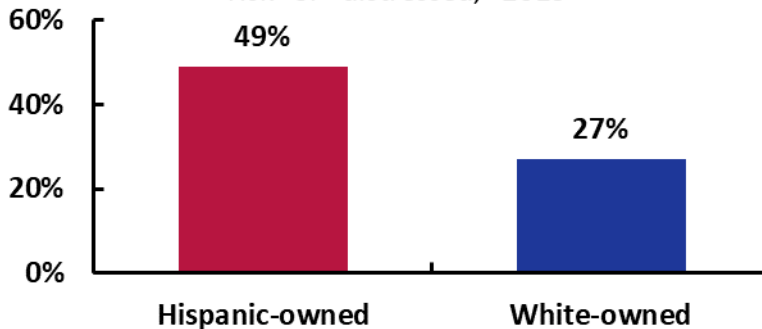
## **UNDERSTANDING THE CHALLENGES OF HISPANIC ENTREPRENEURS AND THEIR BUSINESSES**

### *Limited access to capital and structural inequalities place Hispanic-owned, small businesses in a precarious position*

Leading up to the COVID-19 pandemic, Hispanic small businesses and other minority-owned businesses were more likely to show signs of financial vulnerability given challenges in profitability, credit, and funding. Even before the COVID-19 recession, 49% of Hispanic-owned businesses were [classified](#) as being financially “at risk” or “distressed” compared to 27% of white-owned businesses.

### **Prior to COVID, Hispanic Businesses Were Already Vulnerable to Economic Shocks**

Companies whose financial health was classified as "at risk" or "distressed," 2019



Source: Federal Reserve Bank of New York, April 2020

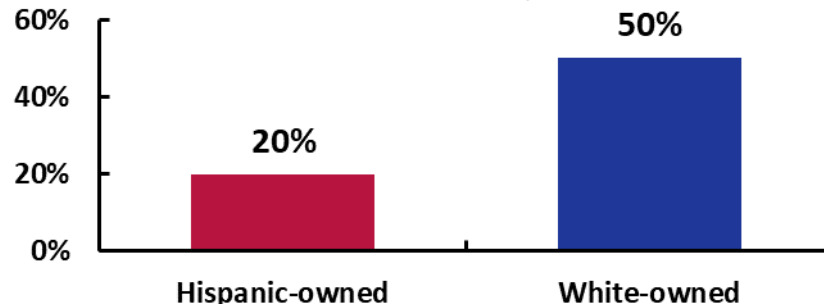
Minority-owned small businesses are more likely to be in a financially precarious situation due to diverse factors such, profitability, access to credit and a propensity to use retained earnings as a primary funding source. For [nearly 70% of Hispanic entrepreneurs](#) in the United States, the most common source of capital is personal savings.

### *Hispanic-owned businesses are less likely than white-owned businesses to be approved for large loans*

Despite faster revenue growth and comparable credit performance, less than one-quarter of Hispanic-owned businesses receive funding over \$100,000 from national banks. By comparison, [the approval rate for white-owned business is nearly 50%](#).

## Hispanic Entrepreneurs Are Less Likely than White Entrepreneurs to Secure Large Loans

Share of businesses receiving funding of \$100,000+ from national banks, 2020



Source: Stanford Latino Entrepreneurship Initiative, Survey of U.S. Business Owners, 2020

If all loan sizes are considered, [only about half](#) of Hispanic-owned businesses are approved for the loans they request from national banks, relative to 77% of white-owned businesses. Hispanic business owners encounter [a unique set of challenges](#) when seeking financing. For example, relative to their white peers, Hispanic business owners must provide more documentation, are rejected more often for a loan, or are often given less than the requested amount when approved.

### *Hispanic businesses and workers were disproportionately harmed by the COVID-19 pandemic, and many were unable to access emergency relief measures*

The number of [active business owners](#) declined across the board as a result of the pandemic, but the decline of Hispanic business owners was more pronounced. The total number of active business owners [fell by 22% from February to April 2020](#), and by 32% for Hispanic business owners. By March 2020, [more than 4 in 5 Hispanic businesses reported a large negative impact](#) from the pandemic and its economic impact, and those owned by Hispanic women have been among the most affected: 41% reported experiencing a large negative impact from the pandemic.

Hispanic-owned businesses struggled to get adequate relief in the immediate fallout from the pandemic. Congress created the Paycheck Protection Program (PPP) in March 2020 as source of emergency relief for small businesses. Over the course of the pandemic, this program became one of the largest small-business support efforts, sending nearly [\\$800 billion](#) in loans to businesses. But Hispanic and other minority businesses [struggled](#) to access much of this funding. The Stanford Latino Entrepreneurship Initiative found that white business owners were [twice as likely](#) to have their PPP funding approved relative to Hispanic business owners. Similarly, the [Federal Reserve Bank of San Francisco](#) finds that ZIP codes with majority-white populations in several metropolitan areas had higher PPP loan coverage than ZIP codes with heavily minority populations.

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**LEVELING THE PLAYING FIELD FOR HISPANIC ENTREPRENEURS AND BUSINESSES**

Support for small businesses and working families would help unleash the full potential of Hispanic entrepreneurs and their businesses, spurring economic growth and fueling the recovery.

*Hispanic entrepreneurs would benefit from universal paid leave and expanded access to health insurance and child care*

Universal paid leave expanded access to health insurance and child care would help Hispanic small business owners compete with big corporations. A universal paid leave program would also help Hispanic entrepreneurs and small businesses compete and retain workers. Nearly 4 in 5 private sector workers, and about 95% of the lowest-wage workers have [no access to paid leave](#). This places small businesses, especially those that are minority-owned, at a disadvantage when it comes to recruiting and retaining talented workers. Unlike minority-owned small businesses, large corporations can afford to offer their employees paid leave programs. A universal program that guarantees weeks of paid parental, family personal illness and safe leave would eliminate burdens for Hispanic-owned small businesses that already face barriers in raising capital.

Cutting taxes for small business owners with children will provide relief to Hispanic entrepreneurs. The American Rescue Plan (ARP) [increased](#) the Child Tax Credit (CTC) from \$2,000 per child to \$3,000 per child for children over six and \$3,600 for children under six. Extending the CTC expansion in the ARP, would provide nearly 40 million households and the families of nearly 90% of American children a major tax cut and reduce child poverty nearly in half. The Treasury Department shows that [more than 3 million](#) small business owners with children will benefit from these tax cuts.

Strengthening the Affordable Care Act (ACA) by reducing [health insurance premiums](#) can help Hispanic and other small business owners who [still struggle to access quality healthcare](#) for themselves and their employees. Thanks to the ACA, Hispanic adults saw the [largest decline](#) in uninsured rates from 2013 to 2018. The [ARP provided tax credits](#) that lowered health insurance premiums for Americans buying coverage through the ACA marketplace, saving families an average of \$50 per person each month. Since the ARP went into effect, about a third of consumers have found coverage for \$10 or less per month. Extending these premium reductions would mean that [more than 1 million small business owners](#) will continue to save hundreds of dollars per year on their premiums. Over half of [ACA marketplace enrollees](#) are small business owners, employees, and sole proprietors.

*Progressive changes to personal and corporate taxes would improve the competitiveness of small, Hispanic-owned businesses*

Current business tax proposals under consideration by the U.S. Congress would help level the playing field for small businesses. A [minimum tax](#) on the profits of large corporations—those with over \$1 billion in profits—report to their shareholders would make it easier for Hispanic-owned and other small businesses to thrive and compete with major corporations. Nearly 70% of small businesses [support the idea](#) of implementing provisions that will help ensure wealthy corporations and individuals pay their fair share.



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The [concentration of corporate power](#) has undermined the competitiveness of the American economy and unfairly harmed small businesses, especially those owned by Hispanic Americans and other under-represented groups. One of the ways in which large corporations exercise this power is by engaging in tax avoidance. At [least 55 of the largest corporations](#) in America paid no federal corporate income taxes in their most recent fiscal year. Estimates shows that U.S. multinational corporations report [more than half](#) of their profits in low-tax jurisdictions abroad to avoid paying U.S. taxes on these gains.

Hispanic-owned, small businesses do not have access to the tools large corporations use to avoid paying their fair share. Reforming corporate income taxes and strengthening the global minimum tax for large multinational corporations would help improve the competitiveness of all small business, including those owned by Hispanic Americans.

*Hispanics entrepreneurs and businesses also stand to gain from increased access to contracting and capital*

The United States federal government is [the largest consumer of goods in the world](#), buying everything from software to elevator services to financial and asset management. As a result, federal procurement is one of the government's most effective tools to advance equity and build wealth for Hispanics and other minority groups. Only [about 10%](#) of federal agencies' total eligible contracting dollars typically go to small disadvantaged businesses, a category under federal law for which Black-owned, Hispanic-owned, and other minority-owned businesses are more likely to qualify.

Increasing the share of [contracts going to small disadvantaged businesses](#) would translate to investments of billions of dollars for these enterprises. The federal government can use its purchasing power to support more Hispanic American entrepreneurs and help narrow racial wealth disparities. In 2019, the gap in business ownership between Hispanic and Black households, relative to white households, accounted [for about one-quarter](#) of the overall racial wealth gap between these groups.

As this brief highlights, Hispanic entrepreneurs, and business owners face barriers to accessing loans and federal programs that can help them grow and succeed. Congressional proposals that include investments in new Small Business Administration (SBA) [initiatives](#) that reduce barriers to business ownership and growth would open a direct lifeline to Hispanic entrepreneurs and small businesses. These proposals would establish a [national network of incubators and business development centers](#) to help more entrepreneurs start up new businesses and access government contracts. Similarly, a new grant program through the [Minority Business Development Agency](#) would help small, underserved manufacturers access private capital. These are historic efforts that empower small business creation and expansion in the Hispanic American community and beyond.

## CONCLUSION

Hispanic-owned businesses are helping to drive economic growth and are an engine of job creation. Despite vital contributions to the economy, Hispanic-owned businesses are more likely to show signs of financial vulnerability. Prior to the coronavirus pandemic, about half of



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Hispanic owned businesses were classified as being financially “at risk” or “distressed” compared to slightly more than one-quarter of white owned businesses. Hispanic businesses and workers were also disproportionately harmed by the pandemic and faced barriers to accessing emergency relief.

Support for small businesses and working families—like tax cuts for low- and middle-income workers, a universal paid leave program, and increased access to lending and investment capital—would help unleash the full potential of Hispanic entrepreneurs and their businesses. Increasing federal spending with these minority-owned businesses will help more Hispanic Americans launch their own businesses and help narrow wealth disparities. New Small Business Administration (SBA) initiatives that reduce barriers to business ownership and success will also provide a direct lifeline to Hispanic entrepreneurs and small businesses. Aside from bringing down barriers to success for Hispanic Americans, these investments in small businesses and families would help ensure that economic growth is stronger, stable and broadly shared.