Connecting Financial Capability and Small Business Supports

Findings from the CFE Fund's Small Business Boost Pilot

Mark Treskon, Alexa Kort, and Brett Theodos

July 2023

Small business ownership in the United States is widely regarded as a pathway towards wealth building. However, there are stark inequities in business ownership: the proportion of Black and Latino business owners is far less than their proportional share of the country's population, and male-owned businesses outnumber female-owned business three to one. Additionally, the work of owning and running a business, especially a small one, is a risky endeavor, with roughly half of businesses failing in their first five years. While there is a wide array of small business programs and supports, business owners are often confused about where to turn for help and what types of help they might receive.

The pathway to a sustainable small business is intertwined with an owner's personal financial stability. Family savings are by far the largest source of startup capital and personal commitments have long been used to obtain follow-up capital. It is easier to build a business if one already has a stable financial situation, relative wealth, and connections to financial services and resources. Financial stability helps people weather the uncertainties and unexpected costs associated with starting, growing, and managing a small business, and indicators such as good personal credit can help people obtain financing for their business needs.

Building thoughtful and inclusive supports for small businesses is critical, both those related directly to small business development and those fostering personal financial well-being. This report examines an initiative designed to support the personal financial needs of small business owners: the Cities for Financial Empowerment Fund's (CFE Fund's) Small Business Boost (SBB) pilot. With funding from Principal Foundation, the CFE Fund launched the pilot with five localities in March 2022 to explore how Financial Empowerment Centers (FECs) and their one-on-one free professional counseling services could serve entrepreneurs. The Small Business Boost pilot theory of change was that helping entrepreneurs and small business owners improve their personal finances could better position them to achieve their business goals.

Through the CFE Fund's national FEC Public initiative, these five localities (as well as dozens of other cities and counties across the country) are offering professional financial counseling as a free public service. Local governments contract with a financial counseling provider, typically an existing nonprofit organization, to deliver counseling focused on banking, credit, debt, and savings. The FEC public service model emphasizes the integration of financial counseling into other existing public programs and services within the community. By developing program integrations across various fields, the model is designed to improve a broader range of outcomes than personal financial health alone, and to build a more effective and efficient local social service support network – what the CFE Fund discusses as the "Supervitamin Effect."

During the SBB pilot, each pilot municipality established new and strengthened existing partnerships between its FEC and one or more organizations providing local small business support services (such as training, workspace, business coaching, and lending). The degree to which financial counseling was connected to the partner organizations' programs and services differed within and across localities.

As a part of the SBB pilot, the Urban Institute was asked by the CFE Fund to conduct a process and outcomes study, and the National Association for Latino Asset Builders (NALCAB) was asked to develop and implement a training curriculum for financial counselors to help them understand how their personal financial counseling model could support clients' small business goals. The study examined questions around pilot implementation, take-up and retention, and the role of personal financial counseling in small business development. To answer these questions, the Urban Institute used data from the CFE Fund's central case management system (which for the pilot was supplemented with an assessment of small business-related indicators), and conducted interviews with FEC counselors and managers, partner organization staff, and clients. Key findings about the client experience and the integration itself are outlined below.

SMALL BUSINESS BOOST: THE CLIENT EXPERIENCE

Across the five localities, there were 529 small business owners who engaged in one-on-one FEC counseling sessions between April 2022 and May 2023. Pilot clients were overwhelmingly Black and Latina women who were concerned about their credit. Although most of their businesses reported earning annual revenue, few of them earned personal income from the business and few employed more than one person. A large share (but not all) of SBB clients were at relatively early parts of their business lifecycle: more than 1 in 3 businesses had not yet been formalized.

64 percent of SBB clients attended two or more counseling sessions; on average, they returned within about 46 days. There were few statistically significant relationships between client characteristics and the number of sessions they attended, but clients with more debt and who were working tended to come back sooner, while clients whose business was an income source and who had higher yearly incomes tended to come back later. Overall, 60% of SBB clients were referred by pilot partner organizations, while 40% found the FEC independently or were already-existing FEC clients who were identified as business owners during the pilot.

Ninety-three percent of SBB clients discussed credit and debt with their financial counselors. Both clients and counselors were very conscious of the relationship between personal and business credit, and during CFE Fund focus groups expressed interest in learning more about business credit. However, few clients had previously applied for or obtained business financing, and most clients had limited interest in obtaining business loans and capital (although the pilot design partners had identified capital access as a likely and measurable goal for many clients). In interviews, clients expressed hesitation to take out loans; as one said, "Owing someone else money is another stressor, that as a small business would be great to avoid." The hesitancy around business loans could reflect, in part, that most clients' businesses were in early phases of establishment, which could factor into their readiness for capital, particularly in the short timeframe of the pilot.

On average, SBB clients who attended more than one session achieved one personal finance outcome (such as increasing savings, reducing debt by 10%, improving credit by 35 points, and opening a safe and affordable bank account). Nineteen percent of all SBB clients reduced the number of delinquent accounts, and eight percent increased the amount of savings set aside for the future. Clients who increased savings reported, on average, an increase of $2,341. Thirteen percent of clients were able to reduce their non mortgage debt by 10%. On average, those who decreased their debt reported a $4,554 decrease in debt. Twelve percent of clients ever increased their credit score by 35 points. In addition to credit and debt, money management, budgeting, and savings were commonly discussed topics. The key business-related activity undertaken in financial counseling sessions was the separation of business and personal finances. By budgeting out personal and business finances, counselors helped clients understand income generation and cash flows, giving them a better picture of the financial state of their business. Additionally, in interviews and focus groups, clients and counselors expressed that building greater personal financial well-being provided a foundation for supporting their small business efforts, echoing the pilot's theory of change around the impact of connecting FEC financial counseling to small business and entrepreneurship services.

Integrating FEC Counseling into the Small Business Support Ecosystem

While the CFE Fund's FEC model remains focused on personal financial counseling, the pilot highlighted the value of helping counselors understand and respond to a wide range of business owners' interests and needs related to where clients were in their business lifecycle. For example, many clients had hesitations and concerns around small business financing. Counselors could help unpack the reasons for this hesitancy to inform clients about whether or not pursuing financing would make sense for them. Additionally, many clients needed help stabilizing their personal finances before they could begin to address business-related issues.

The SBB pilot produced several lessons for small business/financial capability integrations, including the importance of targeted counselor training and developing clear referral pathways to ensure clients receive support at all stages of their business development journey.

A core component of the pilot was to provide targeted financial counselor training regarding small business development. NALCAB provided four financial counselor training sessions and produced related materials for counselors to reference. Counselors and staff described the training as helpful, providing important background and guidance on the appropriate role (and limits) of financial counseling within the complex context of small business owners and entrepreneurs. Financial counselors were energized—they expressed wanting a longer-term relationship to ask questions throughout the pilot and expressed a desire for additional working group meetings to share notes, challenges, and successes across pilot sites.

Understanding and plugging into the local small business ecosystem is crucial for both counselors and clients, who need clear referral pathways to support their business and personal financial goals. Unsurprisingly, sites with more frequent inter-organizational communication tended to receive more FEC counseling referrals and providing a "warm handoff" or having the FEC reach out to clients directly seemed to work better for FEC service take-up. Further, the pilot revealed that, to successfully serve small business owners, FECs need not only to have entrepreneurs referred to them for counseling but also the capacity to refer entrepreneurs out to a variety of business support services over the course of their engagement with financial counseling.

Interviewees noted the difficulty of navigating what were at times siloed and disjointed local small business support ecosystems and identified this as an opportunity for local government to play a more central bridging role.

Finally, as with any inter-organizational partnership, maintaining institutional knowledge to account for staff turnover or availability, having formal mechanisms for problem-solving, and establishing robust data sharing agreements could help both the financial counselors and their small business ecosystem partners understand and respond to client needs and outcomes.

Conclusion

The Small Business Boost pilot demonstrated the salience of financial issues like credit, debt, and separating business and personal finances to small business owners, particularly Black and Latina women. During the pilot, SBB clients identified and made progress on a range of personal and small business goals, and interviews with both clients and counselors indicated that in successful engagements participants saw a clear link between personal and business financial well-being. Additionally, the pilot further demonstrated how free, one-on-one financial counseling as a public service could support small business owners and small business support ecosystems, when built upon robust partnerships that recognize evolving client pathways.

ACKNOWLEDGMENTS

This research was funded by the Cities for Financial Empowerment Fund, with support from the Principal Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission. We are also deeply grateful for the support of the five pilot sites in Akron, Ohio; Lansing, Michigan; Pittsburgh, Pennsylvania; Rochester, New York; and Polk County, Iowa. Staff from the Financial Empowerment Centers and pilot partner organizations and from clients we interviewed shared their insights and time throughout this project. We also thank our technical reviewer, Nancy Pindus.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

ABOUT THE AUTHORS

Mark Treskon, PhD, is a Senior Research Associate in the Metropolitan Housing and Communities Policy Center at the Urban Institute.

Alexa Kort is a Research Analyst in the Metropolitan Housing and Communities Policy Center at the Urban Institute.

Brett Theodos, PhD, is a Senior Fellow in the Metropolitan Housing and Communities Policy Center and director of the Community Development Hub at the Urban Institute.