Indianapolis

Small Business Ecosystem Assessment

Building a more inclusive, resilient Indianapolis

WINTER 2020

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Executive Summary

Indianapolis — the Crossroads of America — is the largest city and state capital of Indiana. The city and surrounding Marion County are home to the Indy 500, Fortune 500 companies Eli Lily, Cummins, and Anthem, and a diversified economy that employ and serve the region's diverse population of over 950 thousand residents. Indianapolis also touts a deep racial history, with records of Black business ownership since the mid-19th century on historic Indiana Avenue. In addition, just northeast of downtown was the site of Robert F. Kennedy's famous speech memorializing the late Reverend Martin Luther King Jr. on the night Dr. King was assassinated. However, in spite of this history, deep socioeconomic disparities persist across the region along racial and ethnic lines. Addressing these disparities requires solutions that build wealth across all communities in the city, among which are solutions that present equitable avenues to entrepreneurship and business ownership.

The advent of the COVID-19 pandemic and mounting civil unrest in response to acts of racial injustice have worsened these existing inequities and magnified financial distress among small businesses owned by people of color (POC).[1] Since the start of the pandemic, Black-, Latino(a)-, and Asian-owned businesses have had higher closure rates than White-owned businesses nationwide.[2] Over the same time period, POC-owned firms have faced larger cash balance and revenue declines compared to non-Latino(a), White-owned firms. The impact of the crisis has been particularly severe among Black- and Asian-owned businesses.[3]

At this critical moment, this report examines Indianapolis's unique historical context and the current state of play of the region's small business communities and supporting ecosystem, with a specific lens on businesses owned by POC and the COVID-19 response and recovery. This assessment culminates in a set of recommendations and a proposed path forward aimed at narrowing racial gaps across several dimensions – including business ownership, revenue, and employment –throughout Indianapolis and Marion County in the next five years.

1 Note: In this report, 'POC' refers to demographics outside of non-Latino(a), White populations, with a focus on Black, Latino(a), and Asian populations
2 Source: National Bureau of Economic Research, 2020
3 Source: JPMorgan Chase Institute, 2020

This report highlights the barriers that entrepreneurs and small business owners of color in Indianapolis face and the additional support they and those serving these entrepreneurs need to succeed, as gathered from data analysis, interviews, and local stakeholder convenings.

MAJOR TAKEAWAYS INCLUDE:

1. **There are disparities in small business ownership and revenue in Indianapolis that persist for entrepreneurs of color.** While Black and Latino(a) residents make up 29% and 11% of the population, they only own 4% and 2% of all businesses, respectively. Furthermore, Black- and Latino(a)-owned businesses operate with less revenue; Latino(a)-owned businesses employ fewer employees than their White-owned counterparts.

2. **Industries hardest hit by COVID-19 are overrepresented by Black-owned businesses.** Since the start of the pandemic, total small business revenue and the number of small businesses open in Indianapolis decreased by 25% and 27%, respectively.[4] Black-owned businesses in Indianapolis were the most affected as they were overrepresented in deeply and immediately impacted industries such as food services, laundry services, and retail.

3. **There have been disproportionately low rates of lending in Indianapolis's communities of color,** specifically in neighborhoods on the North Side in part due to a trend of regional and national bank closures and a nascent Community Development Financial Institution (CDFI) landscape committed to providing capital to the region's entrepreneurs of color. Additionally, there are fewer than 40 equity investments made in the city annually, further limiting the pools of capital that business owners of color can access.

4. **Business owners of color in Indianapolis lack awareness and access to the services they need to startup, sustain, and scale their businesses.** Only 27% of small businesses are at least moderately familiar with more than half of Indianapolis's business support organizations (BSOs).[5] Moreover, business owners of color lack access to networks that would facilitate access to business services. Given the city's growing Black, Latino(a) and immigrant communities, there is a heightened need for culturally and linguistically competent services to best serve them.

5. **Indianapolis's small business ecosystem requires heightened coordination and the corresponding resources across the city and county needed to best serve the region's small businesses.** Across the region, few formal coalitions exist to advocate for city- and county-wide small business priorities, coordinate ecosystem initiatives, and facilitate referrals across local providers. This has led to redundancies and inefficiencies in the small business ecosystem that, for local business owners of color, lacks financial and technical assistance capacity and is difficult to navigate. This lack of financial capacity points to a need for additional funding throughout the ecosystem, specifically for BSOs led by POC, and to finance pools of flexible capital.

4 Source: Opportunity Insights, 2020, as measured from January 15, 2020 to September 29, 2020
5 Source: Forward Cities, 2020

In response to these challenges, the research identified critical needs in equitable access to capital, customers, and services that were reaffirmed by local stakeholders. There is an opportunity to meet small businesses owned by POC where they are, provide them with services that have a transformational impact on their businesses, and create wealth and vibrancy in their communities. To do this, the small business ecosystem will need to focus on the following ecosystem pillars:

Continuum of Capital: Increase availability of flexible capital across the continuum by strengthening responsible capital providers and enhancing financial health

Recovery and Resilience: Build resilience among small businesses and the supporting ecosystem by expanding business services to recover from the COVID-19 pandemic and adapt to the "new normal"

Equitable Access to Networks: Expand access to networks of business services and avenues to customers for business owners of color seeking growth opportunities and form peer-to-peer networks

Ecosystem Building: Establish and sustain coalitions and navigator platforms to connect business owners, service and capital providers, funders, and other stakeholders across the ecosystem

Indianapolis's economic vitality, presence of corporations and anchor institutions, and momentum from recent small business relief initiatives leave it well equipped to create a stronger, more equitable small business ecosystem. The collection of leaders gathered throughout this project are committed to significantly narrowing ethnic and racial gaps in business ownership, revenue, and employment across Indianapolis and Marion County within the next five years, with the long-term goal of narrowing ethnic and racial disparities, by focusing on the ecosystem pillars detailed later in the report.

Introduction and Context

An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.[8]

Small businesses are core to the national economy.

In the U.S., over 30 million small businesses employ nearly half of the national workforce and create approximately two-thirds of new jobs.[6,7] In communities, small businesses serve as a critical means to build community and individual wealth. An estimated 68% of revenue generated by local businesses stays within the community through employment of community residents, compared to 43% of revenue generated by non-local businesses.[8] Small business families also have an estimated median net worth between four to six times higher than that of families that do not own a small business.[9]

Despite their critical role in communities, small business owners of color face institutional and systemic barriers in accessing capital and customers and encounter services gaps that stifle their businesses' sustainability and growth. Loan denial rates are twice as high for small business owners of color compared to White business owners, and loan sizes are 39% smaller for business owners of color approved for loans.[10] Moreover, while there are many public and private sector supplier diversity programs, business owners of color report that they continue to struggle to access large contracts due to lack of access to networks and marketplace discrimination.[10] Non-native English-speaking entrepreneurs also face barriers in finding culturally and linguistically competent support services; 22% of Asian and Pacific Islander entrepreneurs report not knowing where to find free help in their language.[11]

6 Source: Small Business Administration, 2020
7 Source: Big Ideas for Small Business, 2020
8 Source: Civic Economics, 2004
9 Source: Federal Reserve, 2007
10 Source: U.S. Department of Commerce Minority Business Development Agency, 2010
11 Source: National CAPACD, 2019

The COVID-19 pandemic has amplified the challenges facing small business owners of color.

An estimated 6 million small businesses closed through the first six months of the crisis - representing over 19% of small firms nationally – and approximately 60% of these firms are expected to stay closed permanently.[12,13,14] Between March and April 2020, businesses owned by POC faced even higher closure rates, with 41% of Black-owned businesses, 32% of Latino(a)-owned businesses, and 26% of Asian-owned businesses permanently shuttered nationwide[15] Over the same time period, cash balances of Black-owned firms and revenues of Asian-owned firms declined by over 25% and 60%, respectively, while Latino(a)-owned firms experienced larger cash balance and revenue declines than that of non-Latino(a), White-owned firms.[16] Even as businesses begin to recover through the reopening of local economies, disparities persist in the recovery. Altogether, this crisis has dramatically exacerbated existing inequities and financial distress among small businesses owned by POC.

To develop a more equitable small business environment nationwide, Next Street and Common Future partnered to conduct research and drive a community-centric process to develop solutions for businesses owned by POC. Next Street is a mission-driven consulting firm revolutionizing how its clients provide capital, customers, and services to small businesses, with national expertise in equitable small business ecosystems. Common Future is a network of leaders (re)building an economy that includes everyone. Through leadership and field building, capital aggregation and deployment, project incubation, and strategy consulting, Common Future connects and empowers wealth holders and wealth builders who believe in the power of entrepreneurship, business, and asset ownership to restore community wealth. These organizations brought their collective strengths to the work – Next Street's expertise in small business and data analysis and Common Future's insights in community building and uplifting voices – to conduct a rigorous analysis, shaped and grounded by local communities. The research and process will span across nine cities and localities across the U.S., including Indianapolis, and are centered around community engagement and fostering a network of relationships among local community organizations and leaders to catalyze solutions focused on racial equity and recovery from the COVID-19 pandemic.

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12 Source: Opportunity Insights, 2020
13 Source: Yelp Local Economic Impact Report, 2020
14 Source: SBA, 2019
15 Source: National Bureau of Economic Research, 2020
16 Source: JPMorgan Chase Institute, 2020

How We Approached the Research

From July to October 2020, Next Street and Common Future studied the local economic and social context of Indianapolis, the core capital and service needs of local entrepreneurs and small business owners of color, and the gaps present in the small business support ecosystem. The research was then synthesized and shared with a coalition of local stakeholders to inform strategies co-created to address the historical inequities for small businesses owned by POC, deepened by the COVID-19 crisis. This project balanced quantitative and qualitative data analysis with community engagement to deepen the network among local businesses, community organizations, and economic development and civic leaders by presenting a common language and set of facts for the ecosystem. Drawing on first-person data collection and engagement with those directly impacted by local conditions and leveraging publicly available datasets, webinars, and virtual events, this work aimed to elevate locally relevant insights that inform a better way forward for Indianapolis's small business communities.

KEY FOCUS AREAS AND DEFINITIONS

Through the course of the research for this project, several key definitions were used about the type of businesses focused on this work:

Defining "Small Business Ecosystem"

This report defines a "small business ecosystem" as a system of interdependent actors and relations directly or indirectly supporting the creation, sustenance, and growth of new ventures in a city or locality. Key elements of a strong ecosystem, as defined by the Kauffman Foundation and drawing from Next Street's and Common Future's collective experiences in regions across the U.S., include expertise that can help businesses grow, knowledge and resources to help small businesses, champions and conveners, access points and stories that help understand how to interact with the ecosystem, and robust social capital. Critical elements required to make an ecosystem inclusive include conversations about entrenched racism and inequities across a diverse network of key actors, systems that are designed to change beliefs, values, and priorities and alter power structures, and processes for decision-making that results in more equitable outcomes and access to opportunity for underserved groups.

Defining "Small Business"

This report defines "small businesses" as firms with 50 full-time employees or fewer, including micro-businesses, mom-and-pop businesses, and sole-proprietors or non-employer businesses. For cases in which data on this definition of small businesses is unavailable, the category of "employer businesses" is used. Employer businesses are defined as businesses with at least one, but fewer than 50 full-time employees.

Defining Geographic Focus

Based on the availability of quantitative data, most of the content in this report defines Indianapolis at the county level (Marion County). Broader geographic areas (including data at the metropolitan statistical area- and state-level) are referenced where county-level data is not available.

Demographic Breakdown

This report specifically focuses on businesses owned by POC, defined as populations outside of the non-Latino(a), White population – with a specific focus on Black and Latino(a) business owners. Census definitions are used for these demographic groups throughout the analysis performed.

RESEARCH ACTIVITIES

This report uses relevant data and insights from several sources, including prior reports, publicly available datasets, and insights from local stakeholders and small businesses. Potential data limitations that should be considered in the context of the overall research findings can be found in Appendix I.

RESEARCH TRACK	ACTIVITIES
Interviews and focus groups	Interviewed and hosted focus groups with over 30 local economic development stakeholders, capital and service providers, and business owners to understand their perspectives on the Indianapolis small business ecosystem and the needs of local businesses owners of color.
Secondary research	Aggregated, analyzed, and synthesized nearly 30 different sources, including relevant studies, local strategic plans, surveys, webinars, events, and other analyses to inform the analysis of Indianapolis's historical economic and social context and its small business communities (listed in Appendix).
Small business landscape	Analyzed census and other publicly available data to understand the current small business landscape in Indianapolis, including business size, industry, location, and ownership information among POC.
Business services landscape	Analyzed data collected from a sample of 42 business support organizations, including data on specialization and breadth of services, leadership demographics, and funding.
Capital landscape	Analyzed publicly available data and surveys on the flow of debt and equity capital to measure the current supply of capital available to small businesses in Indianapolis and to estimate and forecast small business capital demand before and during the COVID-19 pandemic.
Broad stakeholder engagement	Convened coalitions of over 45 local stakeholders that leveraged their knowledge of the Indianapolis small business landscape to provide project and strategic direction and co-create strategies to create a more inclusive small business ecosystem.

KEY STAKEHOLDERS

To ensure that this effort built upon the collective knowledge of individuals throughout the small business ecosystem, we brought together a variety of stakeholders who informed our approach and findings. A list of all stakeholders can be found in the Acknowledgements section. These include:

- **Project Leads:** Two local small business ecosystem leaders – Starla Hart, Independent Consultant, and Angela Smith-Jones, Health & Hospital Corporation of Marion County – who played a critical role in shaping and executing the work. The project leads served as primary points of connection between the project team and communities and worked directly with the project team to support and execute key elements of the research.
- **Working Group:** A group of 17 local stakeholders with expertise in the needs of business owners of color and an understanding of and connections to the local small business ecosystem. The Working Group helped shape the direction of the project, provided feedback on project direction on a monthly basis and helped to draw connections and find synergies across the ecosystem.
- **Advisory Council:** A steering committee of 48 local leaders and small business owners across the small business ecosystem. Members included small business owners, business support organizations, capital providers, government representatives, philanthropic organizations, and anchor institutions. The Advisory Council provided on-the-ground insights and advocated for the work within their networks.
- **Research Team:** An integrated team of advisors from Next Street and Common Future with collective expertise in community-led, small business development. The research team led the quantitative and qualitative research and project management with the Working Group and Advisory Council and facilitated the workshops across local stakeholder groups.

What We Found

HISTORICAL CONTEXT OF INDIANAPOLIS

Indianapolis is the capital and most populous city in the state of Indiana. Marion County, Indianapolis's surrounding county, is home to over 950 thousand residents who live within the county's 403 square miles. The city and county benefit from a diverse population, with 29% and 11% of the population comprised by Black and Latino(a) individuals, respectively. Indianapolis's population has shown modest growth in recent years; driving this growth has, in part, been an influx of foreign-born individuals who account for nearly a quarter of the population growth from 2009 to 2014 and now comprise 9% of the county's population.[17]

Unique assets support the region's economic vitality, including the relative strength of its advanced services and manufacturing, tourism, and life sciences industries. Historically an industrial city, Indianapolis has experienced a boom in the advanced services industries, such as engineering, computer systems, and telecommunications, when compared to other older industrial cities.[18] The presence of the Indianapolis Motor Speedway has driven advanced services and manufacturing jobs within a robust automotive industry. Furthermore, the Speedway's Indianapolis 500 powers over $300 million into the local tourism industry annually[19], to which Indianapolis's two major professional sports teams, the Pacers and Colts, also contribute. The city and the surrounding region are home to several Fortune 500 companies that are large employers of city and county residents, including Anthem, Inc., Eli Lilly, and Cummins Inc. All these companies have had a track record of investing in the local Indianapolis economy, as exemplified by a $400 million investment by Eli Lilly in 2019 to grow manufacturing facilities and add high skilled jobs to the regional economy.[20]

However, in spite of the city's longstanding history of black business ownership since the mid-1800s and as the home to the formerly bustling Black business hub on Indiana Avenue, Indianapolis's economic vitality has not been felt equitably amongst the city's communities of color, stemming from the region's history of racial discrimination. Historic redlining practices have contributed to racial residential segregation persistent throughout Indianapolis today; over the last two years, the average White resident lives in a neighborhood that is 81% White while 48% of all Black residents live in majority-Black neighborhoods.[21,22] Within these segregated neighborhoods, the city's residents of color face disparities in employment, income, and home valuation. In the region, White individuals, on average, make nearly 50% higher median hourly wages than POC.[23] Furthermore, Black residents in Indianapolis have historically higher levels of unemployment (11.3%) compared to the city's total unemployment (4.3%), which is on par with the national average.[24] As a result of historical disinvestment, homes in predominantly Black neighborhoods are valued at $18,000 less than similar homes in non-predominantly Black neighborhoods. Meanwhile, with the number of Latino(a) residents growing within the region, they face similar economic hardships, with nearly 30 percent of Latino men ages 25-64 classified as working poor.[25,26]

With all these considerations, communities of color in Indianapolis disproportionately face challenging socioeconomic conditions, pointing to a need for increased economic opportunity through means like small business ownership.

17 Source: New American Economy, 2017
18 Source: Brookings, 2018
19 Source: Indiana University, 2010
20 Source: Eli Lilly, 2019
21 Source: Brookings, 2018
22 Source: Indiana University, 2020
23 Source: National Equity Atlas
24 Source: Statistical Atlas
25 Note: Working poor is defined as working full-time with a family income below 200 percent of poverty
26 Source: PolicyLink, 2016

SMALL BUSINESS LANDSCAPE

Small businesses are a critical driver of the economy in Indianapolis and Marion County. Yet, the region's residents of color own disproportionately fewer small businesses than their White counterparts, compounding the inequities described previously in this report.

Indianapolis and Marion County house a robust small business ecosystem with approximately 21,000 employer small businesses in 2017 that accounted for 91% of all employer businesses in the region. Separately, there were also approximately 59,000 non-employer sole proprietorships in the region. These small employer firms and sole proprietorships account for 26% of the local workforce.[27]

These local small businesses have been historically clustered in leading industries, including Retail Trade (13%), Healthcare and Social Assistance (12%), Professional Services (12%), and Other Services (10%). Nearly half of employer small businesses were "micro businesses" that employ between 1 and 4 employees.

27 Note: Figures assume sole proprietorships serve as primary form of employment for self-employed individuals

Figure 1: Small business ownership, revenue, and employment by race and ethnicity

	Number of small businesses (2012)	**5-year growth rate in employer firms** (2012-17)	**Avg. revenue per employer firm** (2012)	**Avg. headcount per employer firm** (2012)
White	54k	0.2%	$2.9M	14.9 employees
Black	14k	-0.3%	$1.8M	15.0 employees
Latino(a)	4k	-2.2%	$1.5M	12.3 employees
Asian	2k	5.2%	$1.5M	8.3 employees
Other*	2k	N.A.	$1.3M	12.0 employees
Male	43k	-3.6%	$3.1M	15.4 employees
Female	30k	0.5%	$1.6M	10.8 employees

Non-employer businesses | Employer businesses | Avg. revenue per employer business

Note: * Other includes populations of American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau
Source: U.S. Census Survey of Business Owners (2012); U.S. Annual Business Survey (2017)

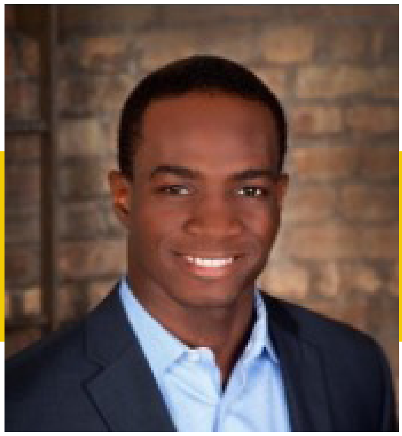
While Indianapolis has a diverse population, disparities in business ownership have persisted for businesses owned by POC. While Black and Latino(a) residents make up 29% and 11% of the population, they only own 4% and 2% of all businesses, respectively.[28] These ownership disparities also have been paired with revenue and employment imbalances, with Black- and Latino(a)-owned businesses historically with less revenue and Latino(a)-owned businesses with fewer employees than their White-owned counterparts, as shown in Figure 1.[29] While Black-owned employer businesses on average have more employees than any other racial or ethnic group, these firms are concentrated in industries that require more employees but generate lower revenues, such as Accommodation and Food and Transportation and Warehousing.

Local business owners in Indianapolis further expanded on the drivers behind ownership and revenue disparities through feedback provided in focus groups. The 11 small business owners who participated in focus groups for this assessment indicated their need for heightened access to networks, market opportunities, and flexible capital. They also emphasized gaps in capital and services for mid-stage businesses owned by POC. The business owners identified a lack of mentorship pathways and social networks for Black entrepreneurs as barriers to opportunity. Moreover, some focus group participants struggled to secure government contracts due to a complicated XBE[30] certification process that was not available online and struggled to secure corporate contracts due to a lack of corporate engagement. Amid these challenges, business owners of color cited barriers to accessing capital to finance their business objectives, noting a lack of banking relationships, few flexible growth capital options, and limited access to equity capital.

It is important to note that the small business statistics highlighted in this report are a snapshot in time, and during this COVID-19 pandemic, numerous small businesses have been and will be forced out of operation. The full impact of this crisis on the total number of establishments in the city and county is still unknown and will not be fully measured in this report.

28 Source: U.S. Census American Community Survey, 2016; U.S. Census Survey of Business Owners and Self Employed Persons, 2012
29 Source: U.S. Census Survey of Business Owners and Self Employed Persons, 2012
30 Note: Term to refers collectively to Minority-Owned Business Enterprises (MBE), Women-Owned Business Enterprises (WBE), and Veteran-Owned Business Enterprises (VBE).

Isaac Bamgbose



NEW CITY DEVELOPMENT

"One of our primary goals is high-impact developments that help break the low-expectation stereotypes that my industry and American society has of people who look like me."

In his six years at a major commercial development firm, Isaac Bamgbose moved up the ladder from financial analyst to Vice President of Development, learning every angle of the business along with way. Headquartered in Wisconsin, the firm led several high-profile developments in Indianapolis, including the Ironworks Hotel and the redevelopment of the iconic Coca-Cola building into the Bottleworks District. Bamgbose eventually moved to Indianapolis for the work. In the fall of 2019, he broke out on his own, launching New City Development, with the aim of being the city's first premier Black-owned real estate development firm.

> *"I left to enact my own vision and was fortunate to have options and limited risk such as no kids and no debt. Those facts coupled with my experience managing large, high-profile projects from soup to nuts meant I knew what it would take to start a company like this. Primarily, I knew I would need a lot of capital!"*

The company Bamgbose had worked for previously was self-funded by the owner, so he had little experience with raising capital from institutional investors. Even so, Bamgbose was able to leverage the strong network of relationships he had built in Indy such that only 8 months into launching New City Development, he had met his fundraising goals for general partner capital, and he was raising limited partner capital for a mixed-use redevelopment project of a 5-acre former grocery story site on 116th street in Carmel, IN. Still, there were challenges with being a relative outsider and a person of color.

> *"Despite my positive reputation, there were moments where I wondered if my white peers faced some of the difficulties and challenges I faced in raising capital. . . Investors in Commercial Real Estate aren't used to seeing people who look like me asking to invest or manage their money."*

Investors were not accustomed to seeing POC doing the kinds of projects that Bamgbose was tackling. Bamgbose' focus is on mixed-use projects that bring impact by meeting unmet demand. He works on not just market rate housing, office space, hotels, and retail but also affordable and workforce housing.

> *"When people think of Black people as developers of commercial real estate, I've found they typically think pretty strictly of affordable housing projects. Although the country certainly needs more affordable housing, I want to break that stereotype and help people understand that Black developers are capable of doing all types of development projects. My goal is to do a range of projects from high-profile and high-scale to high-impact and high-touch, socially."*

Bamgbose calls Black representation in the commercial real estate world "abysmal." A 2015 Equal Employment Opportunity Commission report found that the number of Black individuals in senior and executive roles in the U.S. real estate industry went down from 3.04% to 2.18% between 2010-2015. He knows that his success is not the norm.

> *"I know my experience was an anomaly as there are only so many $300 million projects in a given market for a person to manage, let alone someone who is Black. That why it was important for me to start New City Development. Hopefully my success will help ensure that the next Black entrepreneur who wants to start a Black-owned development firm will not have as difficult a time as I did starting my own."*

Impact of the COVID-19 pandemic

The public health measures adopted to reduce the spread of COVID-19, including the state's stay-at-home order in place between March and May 2020, and the other restrictions on local business practices, have devastated small businesses across the region. During this period, many small businesses were forced to temporarily close or reduce operations, resulting in some incurring significant revenue losses and others unable to withstand the impact of the economic crisis resulting from the pandemic permanently shuttered. In Indianapolis, total small business revenue and the number of small businesses open decreased by 24.5% and 26.6%, respectively, from January to September 2020.[31]

To better understand current and emerging needs of small businesses during this pandemic, this analysis focused across three main segments that were adapted from a segmentation developed by the Brookings Institution.[32] Industries were grouped across segments based on immediacy and severity of the impact felt by businesses, as shown in Figure 2.

Figure 2: COVID-19 risk segmentation by industry

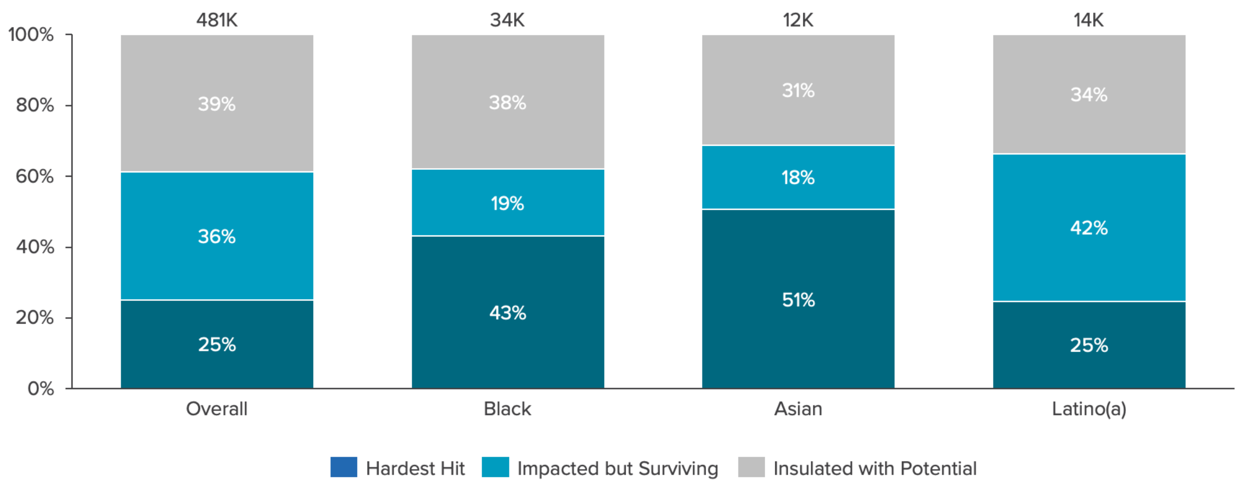
	Hardest Hit "How do I stay in business?"	**Impacted but Surviving** "How can I pivot or evolve?"	**Insulated with Potential** "How can I maintain and grow?"
Description	Non-essential businesses that have had to close or significantly adjust operations and face high risk of closure	Essential businesses that have lost revenue due to reduced spending from consumers and non-essential businesses	Essential businesses that have been able to continue operations and supply critical goods and services
% of small businesses^ in Marion County ('17)	25%	28%	47%
Key industries	• Food services and drinking places • Personal and laundry services • Clothing and accessories stores • Motor vehicle and parts dealers • Gasoline stations • Misc. store retailers	• Specialty trade contractors • Admin. and Support Services • Real Estate • Merchant wholesalers, durable goods • Construction of buildings • Truck transportation	• Social assistance • Prof. and technical services • Ambulatory and health services • Repair and maintenance • Insurance carriers and related activities • Securities, commodity contracts, investments

Note: Segments adapted from an industry segmentation framework developed by the Brookings Institution; ^ Includes businesses with between 1 and 49 paid employees
Source: Brookings Institution; Moody's Corporation; U.S. Census County Business Patterns (2017)

31 Source: Opportunity Insights, 2020
32 Source: Brookings Institution, 2020

Using historical surveys of owner demographics in Indiana, Black- and Asian-owned businesses operated more in the *Hardest Hit* industries, as shown in Figure 3.[33] Accordingly, this indicates that the region's small businesses owned by POC have been disproportionately represented in the most affected industries. Businesses owned by POC have long been concentrated in industries such as leisure, hospitality, and retail due to systemically-rooted racial disparities leading to lower education and capital barriers to entry.[34] The COVID-19 pandemic has compounded many entrenched barriers in accessing capital, customers, and services existent prior to the crisis that have kept these businesses from sustainability and growth.

Figure 3: COVID-19 risk segmentation breakdown of Indiana-based businesses, by race and ethnicity



Source: Brookings Institution; Moody's Corporation; US Census Bureau, County Business Patterns (2016)

33 Source: U.S. Census County Business Patterns Data, 2017
34 Source: U.S. Census Bureau Center for Economic Studies, 2013

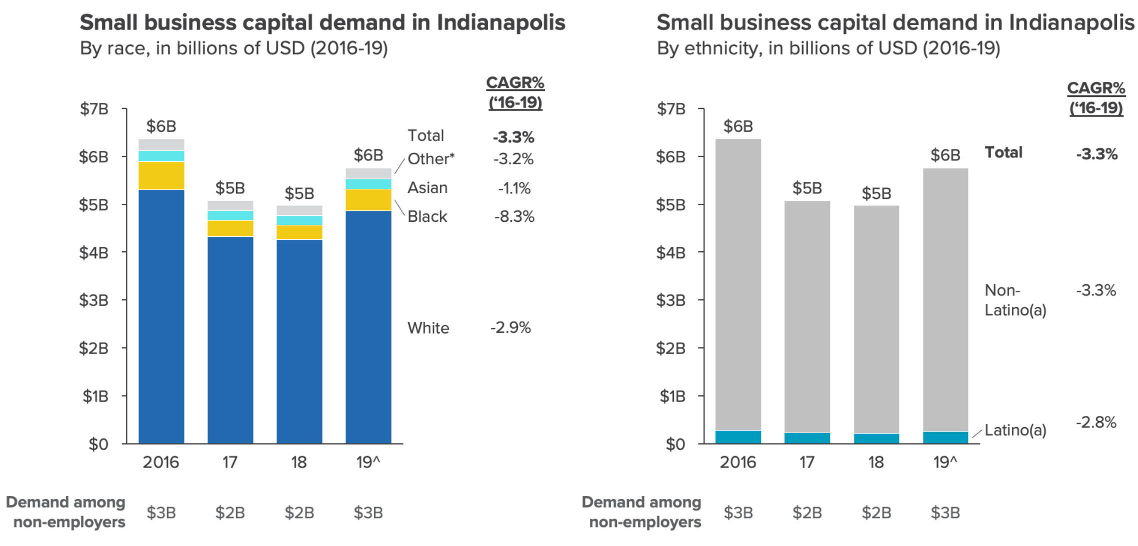
CAPITAL SUPPORT LANDSCAPE

The Indianapolis small business capital landscape is characterized by a significant shortage of capital to meet small business needs, disproportionately low rates of traditional lending in Black and Latino(a) neighborhoods, and a nascent Community Development Financial Institution (CDFI) community focused on small business lending. These market dynamics result in a capital landscape reliant on national and regional banks with few alternative lenders and equity investors to meet the region's immense capital demand, creating a challenging environment for business owners and entrepreneurs of color to raise capital for their businesses. To further understand the dynamics of Indianapolis's capital support landscape, the research team examined the capital demand and supply for small businesses within the region.

Debt and equity capital demand in Indianapolis declined between 2016 and 2019, as illustrated in Figure 4. This decline was, in part, driven by small business tax relief resulting from the 2017 Tax Relief Bill and by declining trust in traditional financial institutions among some demographic groups.[35,36] Over this period, estimated demand dropped most significantly for Black small business owners.[37]

Concurrently, small business capital supply in Indianapolis increased modestly in the years before the pandemic, driven by the region's supply of traditional commercial bank lending. From 2012 to 2017, total capital supply grew by 0.8% per annum (p.a.) to an estimated $1 billion, with the supply of debt capital increasing by 1.9% p.a. and the supply of equity capital decreasing by 6.2% p.a. Of the debt capital supplied, total SBA lending and non-SBA guaranteed bank lending amounted to $898 million in 2017, with most capital supplied by national and regional banks.[38] Meanwhile, local CDFIs in Indianapolis made less than $500 thousand in small business loans annually through 2017, representative of an underdeveloped market for responsible alternative lending for local business owners of color. These CDFI lending volumes are comparably low when measured against other cities with similar numbers of small businesses, such as San Antonio or St. Louis. While local stakeholders including Bankable and the Indy Chamber's Business Ownership Initiative have become officially certified CDFIs since 2017, total CDFI small business lending remains limited due to local CDFIs' low levels of balance sheet capital and operating capacity, limiting the amount of flexible alternative lending in the region.[39]

Figure 4: Estimated small business capital demand in Indianapolis



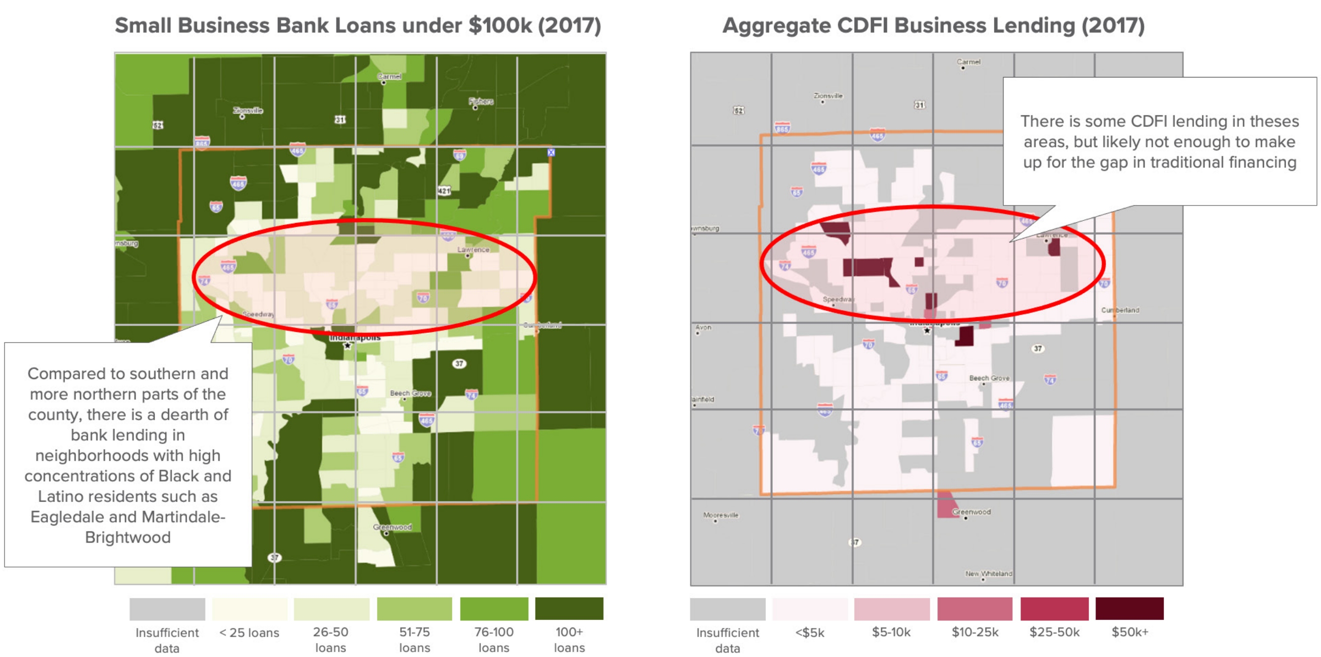
Source: U.S. Census County Business Patterns, U.S. Survey of Non-Employer Statistics; U.S. Annual Survey of Entrepreneurs; Federal Reserve Small Business Credit Survey

35 Source: Pepperdine Private Capital Markets Project, 2018
36 Source: Federal Reserve Small Business Credit Survey - Report on Minority Businesses, 2016-2018
37 Note: Detailed capital demand and supply methodology can be found in the appendix, p. 35-36
38 Note: SBA Lending includes SBA lending, excluding SBA loans made by CDFIs, and CDFI Lending includes all lending by CDFI Fund recipients
39 Note: Aggregate CDFI Lending statistics includes all lending by CDFI Fund recipients

Although the gap between capital demand and supply has declined incrementally in recent years, capital supply has not met the significant demands in the region. In 2017, there was an estimated $4.1 billion gap between small business capital supply and demand.[40] Examining debt capital, there was a dearth in the supply of small (under $100,000) and mid-sized loans (between $100,000 and $250,000).[41] This was consistent with national trends—for capital providers across the country, small-to-mid sized loans have the same fixed expenses to process and underwrite as larger loans but result in lower loan revenues, making them less profitable for prospective lenders. While new CDFIs have entered the market and increased total microlending activity in Indianapolis, their reach remains limited due to their aforementioned capacity constraints, resulting in continued unmet demand for smaller sized loans. Meanwhile, fewer than 40 equity investments were made in Indianapolis annually, further restricting the number of opportunities for businesses seeking growth capital to scale their business.[42] Moreover, entrepreneurs of color in the city are not commonly well-positioned for equity investments as they are concentrated in low-to-moderate growth industries, such as Food and Accommodation and the Creative sectors.

When examining small business owners' ability to access capital geographically, there were disproportionately low rates of bank lending in neighborhoods with high concentrations of Black and Latino(a) residents, as evidenced in Figure 5. This is most pronounced in northern neighborhoods such as Eagledale and Martindale-Brightwood, where residents have experienced a continual trend of bank branch closures[43] following a national trend of community bank consolidation since the 2008 financial crisis. Local CDFIs often fill lending gaps left by banks; however, in Indianapolis the lack of CDFIs further contribute to significant unmet capital demand.

Figure 5: Bank and CDFI lending in Indianapolis by census tract



Source: CRA and CDFI Fund data for Indianapolis (2017), accessed through PolicyMap

40 Note: the gap in capital demand and supply based on estimated capital demand and supply figures in 2017. Detailed capital demand and supply methodology can be found in the appendix, p. 35-36

41 Sources: Aggregate statistics sourced from Freedom of Information Act (FOIA) data to the Small Business Administration for all 504 and 7(a) lending data, CDFI Fund; PwC / CB Insights MoneyTree Report

42 Note: Series funding aligns to a company's expansion stage – while there is no standard funding threshold for Series A or Seed funding, an analysis over 38 Series B deals in June 2020 indicated the median Series B median was $26 million; Source: Fundz Database, 2020

43 Source: CRA and CDFI Fund data for Marion County, accessed through PolicyMap

In this crisis, while some small businesses in Indianapolis have adapted to position themselves for growth, most small businesses have tried to offset lost revenue, creating short-term increased demand for emergency funding at the start of the COVID-19 pandemic and long-term reduced demand for traditional financing. Many businesses were largely unprepared to weather a disruption in business lasting more than a few weeks—prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.[44] As such, many businesses sought flexible, emergency financing from federal, state, and local sources, including loans made available by the Paycheck Protection Program (PPP) of the U.S. CARES Act and local relief funds from Indy Chamber, Bankable, and LISC Indianapolis. That funding was difficult for businesses owned by POC to access as PPP lenders prioritized existing and larger borrowers while the distribution of local relief loans and grants was limited by local capacity constraints. As a result, in the month after the immediate advent of the pandemic, median small business cash balances fell 12.7% compared to pre-pandemic levels.[45] In the months after the onset of the pandemic and amidst the following recessionary environment, it is expected that there will be a subsequent decrease in capital demand driven by fewer small businesses able to take on additional debt or seeking investment capital given expectations that fundraising will be more difficult due to tighter underwriting and investment policies.

Prior to COVID-19, the average small business only possessed 15 days-worth of cash reserve buffers.[44]

44 Source: JPMC Institute, 2019
45 Source: JPMC Institute, 2020

Robin D. Staten

FOUNDER & CEO. TINY URBAN ESCAPES

"To have traction but not have access to capital has been a challenge."

When Indianapolis native Robin Staten conceived the idea for Tiny Urban Escapes, she knew that there would be a market for the intimate, unique hotel experience she had in mind. She could not possibly have anticipated how timely a global pandemic would make her business model. Tiny Urban Escapes transforms up-cycled shipping containers into luxe, private, micro-suites with high-end amenities including access to wellness and on-demand concierge services. Each individually designed, stand-alone, 160 square foot suite will provide isolation from other guests, with self-check-in on a serene, wooded plot just minutes from downtown Indianapolis.

Staten's plans include not just two sites in Indianapolis, but also a franchise model that will build ownership opportunities for other women of color. The prefabricated containers are built offsite and are cheaper and faster to construct than a traditional brick-and-mortar hotel. Once a site is secured, a boutique hotel can be up and running in about ten weeks.

Staten's dreams are well supported by her experience. She spent over a year as an assistant controller at a major hotel chain and eight years coordinating financial and student services at Indiana University Purdue University Indianapolis. When she went to seek capital, she brought with her solid financial statements, a viable business plan, an innovative concept lauded by significant pre-launch press, and the right skill set as CEO.

What she found was opportunities for start-ups and microbusinesses but not businesses owned by POC that were ready to scale.

She pitched to local entities including the Business Ownership Initiative, Indy Chamber of Commerce, IU Ventures, and Forward Cities as well as the New Voices Fund and Shark Tank. None of her efforts resulted in the amount of funding she needed.

"I researched multiple capital sourcing entities across Indianapolis for both debt and equity funding. I went to the SBA and pitched at pitch competitions across the country. What I learned was there is significant interest in the hair care and skin care industries but limited interest for a black female with an innovative product in hospitality."

Ultimately Staten decided to try to self-finance. With three children in college, the process has been cumbersome. She has not been able to find the mentorship she needs to feel comfortable with taking on equity and building a complex capital stack.

"Black Business owners stay ma and pa either by choice or because they don't have access to resources or longstanding relationships with local banking, and they don't have anyone to trust for mentorship."

Staten needs to hire designers and architects and secure real estate, and she is concerned that if she does not launch soon, someone else will take her idea. Already she has seen a white competitor be awarded a $700,000 loan to launch a similar model.

In numeric terms, the research team estimated an initial surge of capital demand in Indianapolis peaking at $1.8-$2.1 billion in the second quarter of 2020, with demand decreasing through a 'recovery' period between $0.7-$1.1 billion through the end of the calendar year. Subsequently, a 'post-recovery' period with stabilized and flattening demand is expected, rising slowly each quarter to an estimated $0.9-$1.6 billion by the end of 2021.[46]

With the research team's forecast, it was important to note that small business capital demand can serve as a proxy of the small business ecosystem's health, with higher longer-term demand for traditional financing correlated with a more robust ecosystem. To ensure that capital demand reaches levels prior to the COVID-19 crisis, an integrated small business ecosystem response among capital and service providers should serve as a method to promote the overall health of small businesses and the supporting ecosystem and accelerate recovery.

46 Note: Detailed capital demand and supply methodology can be found in the appendix, p. 35-36

BUSINESS SUPPORT LANDSCAPE

The Indianapolis business support landscape is characterized by numerous available resources and a culture of innovation that is shared by the city government, chambers of commerce, and individual business service providers. However, there are gaps in awareness, navigation, and capacity of resource providers with cultural competency to serve business owners of color in Indianapolis's growing Black, Latino(a), and immigrant communities. Business support organizations led by POC need adequate funding to best serve business owners.

Access to resources in Indianapolis is largely relationship-driven, but commonly, POC lack access to networks that would allow them to tap into these resources. Furthermore, there is a need for support that is tailored to business owners of color with scalable enterprises, including those seeking to secure the growing number of procurement opportunities in public XBE contracting following passage of Proposal 231 and through new corporate supplier diversity programs emerging from the Business Equity for Indy initiative.[47]

Across Indianapolis, business support organizations, capital providers, government agencies, and funders in the support ecosystem largely know of each other, but relationships have not evolved to coalesce around common goals, a shared set of metrics, or formalized modes of collaboration. There are historic and enduring divides amongst these groups that are perceived by local stakeholders in focus groups and interviews engaged through this report to be grounded in race and power. Past efforts to improve the ecosystem for small businesses have lagged in implementation because of insufficient funds and a lack of consensus on selecting a lead entity.

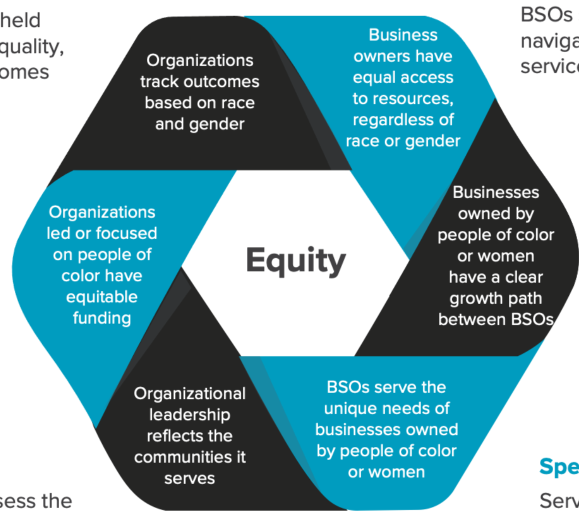
To further assess Indianapolis's business support landscape, the research team conducted analysis on a sample of 42 providers and a survey of 15 providers based in Indianapolis, examining the critical elements of a BSO ecosystem across the following areas depicted in Figure 6.

Figure 6: Critical elements in the local business support landscape

Impact & Measures:
There should be mutually held measurements of service quality, reporting impact and outcomes

Access & Navigation:
BSOs should be able to understand, navigate and access the landscape of service offerings

Sustained Funding:
The ecosystem should have sustained funding that supports the collaboration between business support organizations



Collaboration & Handoffs:
BSOs should collaborate with each other and with capital providers to effectively serve business owners

Leadership & Talent:
The leadership should possess the talent -- such as the ability to convene, influence and innovative -- to serve the needs of the business community

Specialization & Breadth:
Services should cover the continuum of needs. There is a set of specialized BSOs serving the unique needs of particular types of business owners

47 Note: Proposal 231 is a City-County Council of Indianapolis and Marion County proposition to increase the accountability, utilization and contracting of XBE firms by local government agencies for small businesses owned by POC

Access and Navigation

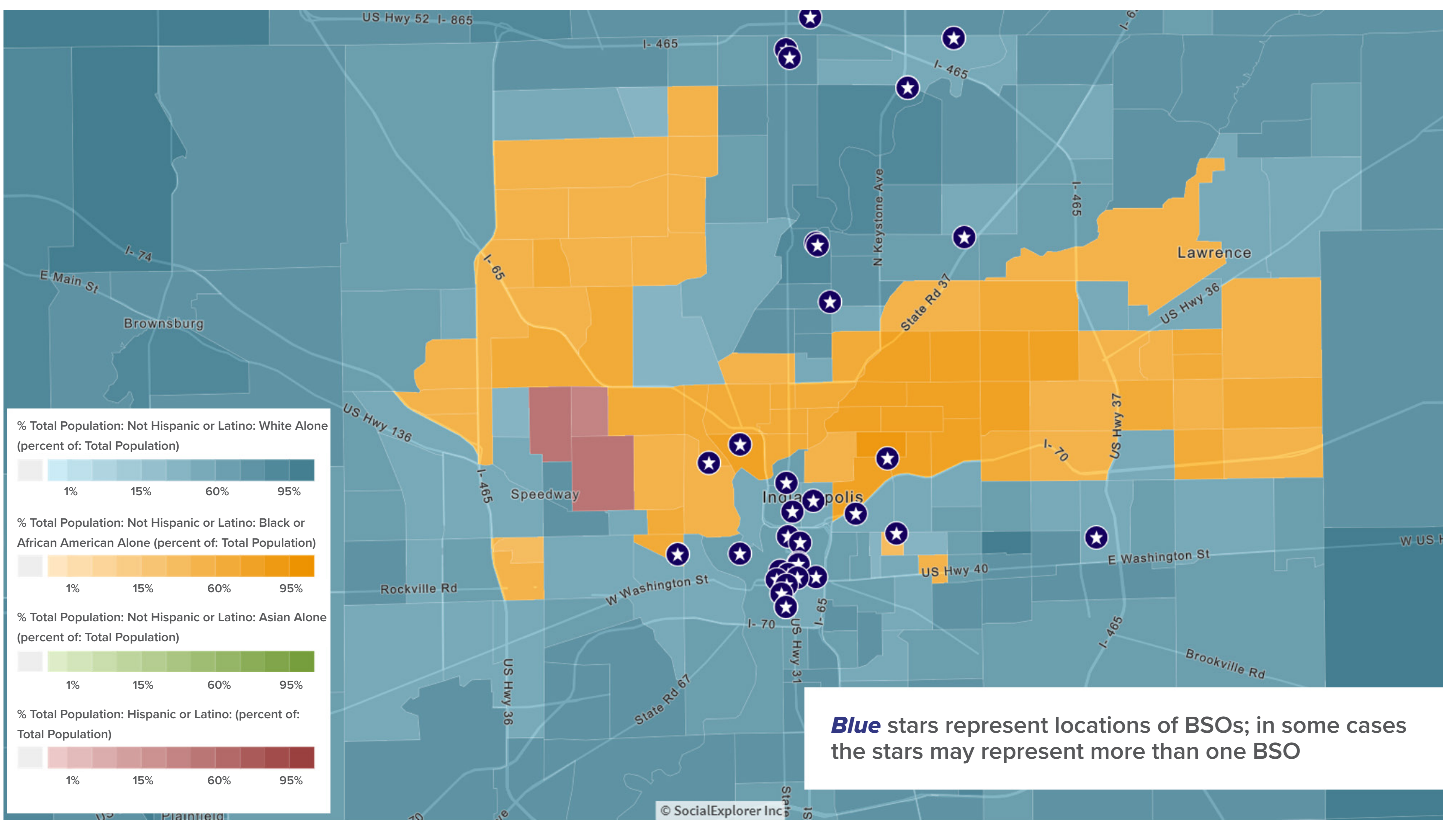
As shown in Figure 7, most of the 42 BSOs inventoried were clustered in downtown districts. The dearth of business support coverage in other areas may contribute to the lack of awareness of resources available to Indianapolis's communities of color. A 2020 study conducted by Forward Cities revealed that only 27% of small businesses were at least moderately familiar with more than half of the city's BSOs.[48] In addition, Indianapolis lacks a centralized resource hub through which business owners can be navigated to the services they need.

Through interviews with local business support organizations, it was surfaced that Indianapolis is relationship-driven. Social networks can provide access to support, information, and resources. Local interviews also revealed that social networks of POC are disconnected from circles of power and influence, as exemplified through inequitable access to prime contractor roles in the city's procurement and contracting opportunities.

There is a need for deliberate relationship-building between businesses owned by POC and decision-makers in the city, with particular emphasis on procurement and capital. There is also a need to build upon the existing peer-to-peer business networking infrastructure such as the Indy Chamber Hispanic Business Council organized across all underserved affinity groups to provide support and mentorship.

Figure 7: Geographic distribution of BSOs in Indianapolis

Number of Business Support Organizations inventoried (n = 42)



Blue **stars represent locations of BSOs; in some cases the stars may represent more than one BSO**

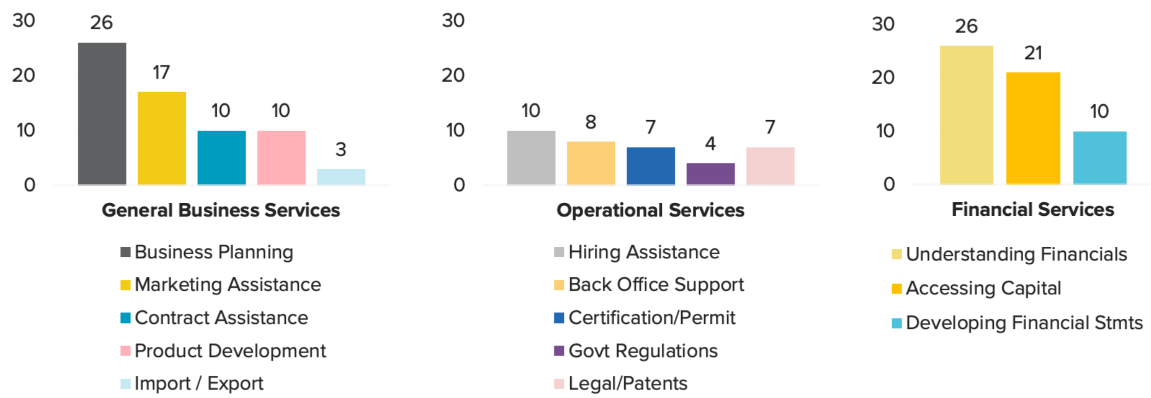
48 Source: Forward Cities, 2020

Specialization and Breadth

Available business services should cover the continuum of needs of small businesses across various stages in the ecosystem. In Indianapolis, the business support landscape offers a wealth of startup assistance, with business planning and understanding financials as two of the most frequently offered services, as shown in Figure 8.

Figure 8: Concentration of business service categories in Indianapolis

Number of Business Support Organizations inventoried (n = 42)



However, there are gaps in services provided by local BSOs and services needed by small businesses. The business support landscape does not adequately provide support for business owners of color seeking to sustain or grow their businesses outside of traditional, moderate growth industries (e.g. health and beauty, retail, restaurant and food service, and personal and health services). Moreover, few inventoried BSOs offer back office services—including IT services, accounting, human resources support—leaving a gap for business owners in accessing services that can help their businesses achieve greater financial stability, streamline operations, and increase capacity for non-back office tasks.

"People expect Black-owned businesses to be small, so business services in Indianapolis aren't available for mid-level businesses like myself."

- Owner and Founder of local wine maker

For local business owners of color, a greater emphasis is also needed for culturally- and linguistically-appropriate outreach—especially those in Spanish language and among immigrant communities—to result in better engagement with the business owners. Among the 15 BSOs surveyed, none currently offer services directed specifically at immigrant populations.

There is also misalignment in services most offered, services that BSOs report are most requested by businesses, and services reported as most needed by businesses who participated in focus groups. While business planning and understanding financials were among the services most commonly offered by BSOs, surveyed BSOs stated that they were not among services most frequently requested, nor did small business focus groups participants indicate that those were the services most needed. Focus group participants indicated a greater need for services related to pivoting their business during COVID-19 and marketing assistance—two services that are not among the most offered services by surveyed BSOs. To better serve businesses, BSOs must listen to and be able to respond to the needs of small businesses.

"Look to what's already taking place and who's doing this work. To reach and best support business owners of color, the ecosystem needs to build additional capacity in those longstanding organizations so that more of that work can be done."

- Inclusive Innovation Fellow, Forward Cities

Leadership and Talent + Sustained Funding

Ideally, organizational leadership reflects the communities it serves, and Indianapolis has proven to be fertile ground for POC and women seeking to lead mission driven organizations serving entrepreneurs and businesses in the city. As shown in Figure 9, of 39 BSOs inventoried, leadership of local BSOs largely mirrors the proportion of POC and women in Indianapolis.

While leaders of BSOs are largely representative of the population, there is a disparity in funding for BSOs led by POC and women compared to their White male counterparts, also shown in Figure 9. This mirrors national trends, as nonprofit leaders of color consistently face barriers to fundraising, driven by inequitable access to social networks, challenges in building rapport with funders due to interpersonal biases, lack of cultural understanding, and White-centric strategic priorities.[49] For example, only a third of White nonprofit leaders felt they lacked relationships with funding sources, compared to half of nonprofit leaders of color.[50] To more effectively serve the needs of the region's entrepreneurs of color, there is a need to further build the capacity of the BSOs in Indianapolis through equitable pools of funding and assistance.

Figure 9: Distribution of business support organizations by demographic and size

Number of Business Support Organizations inventoried (n = 39)

	People of Color	Women
% of population	40%	52%
% of businesses	11%	21%
% of BSO CEOs	53%	51%

Led by	Average Budget Size
White Men	$4.1M
White Women	$753K
POC Men	$2.0M*
POC Women	$2.2M
Total	$2.2M

*Sample size with reported budget was significantly smaller than other leadership types. Larger sample size is needed to draw conclusions.

49 Source: Stanford Social Innovation Review (2020)
50 Source: Building Movement, 2019

Collaboration and Support

Strengthening collaboration among the region's business support organizations, neighborhood-level community organizations, and capital providers is a critical step to improving the city's ecosystem for business owners and entrepreneurs of color. Within the region, referrals between organizations are commonplace. However, often there is a gap in knowledge of what one another offers, leading to unintentional misdirection and misinformation that frustrates business owners and reveals cracks in the ecosystem. In addition, collaboration is not consistent throughout the ecosystem; often, governmental actors and POC led-BSOs report lower levels of successful collaboration.[51]

Furthermore, due to proximity and long-standing personal relationships, neighborhood-level organizations often have greater access to the communities they serve but are not adequately integrated into the business support landscape. In Indianapolis, there needs to be additional formal modes of partnership among business providers and neighborhood-level organizations to bridge past divides and gaps in awareness of resources. There is an opportunity for a more efficient and inclusive business support landscape that ensures the community-based BSOs are adequately resourced, and the businesses they serve are represented in decisions about ecosystem strategy.

Further, the passage of Proposal 231 by the City-County Council provides a foundation for joint action by city, county, and anchor institutions to increase procurement and contract opportunities for businesses owned by POC and women. Moreover, Indianapolis has a robust ecosystem of corporate headquarters that have also made commitments to racial equity and supplier diversity through the Business Equity for Indy initiative, the recent partnership between local corporate leaders, the Central Indiana Corporate Partnership (CICP), the Indy Chamber, and the Indianapolis Urban League. A citywide, explicit commitment to equitable procurement practices, with shared metrics and support services to businesses provided at the city and neighborhood level, could significantly impact wealth creation for the region's communities of color.

Impact and Measures

The right set of mutually held measurements of service quality that report impact and outcomes help BSOs hold one another accountable and make for a more efficient ecosystem. However, in Indianapolis, metrics held amongst individual organizations are generally not mutual. There is a need to standardize shared metrics held in a shared repository to measure effectiveness and align efforts towards shared, measurable goals and ensure that services are having desired impacts.

> ***"I would want to see systems that are more able to effectively measure outcomes and establish shared accountability. Too often programs treat symptoms of systemic racism rather than the systems that propagate it."***
>
> ***- Senior leader of a local Business Support Organization serving over 250 businesses annually***

Furthermore, business owners and other local stakeholders emphasized the importance of tracking impact metrics by business owner race and ethnicity. These demographic indicators were not largely tracked across the ecosystem, and a targeted approach to serving Black- or Latino(a)-owned businesses will become necessary to move towards a more equitable ecosystem.

51 Source: Forward Cities, 2020

GAPS AND NEEDS IN THE ECOSYSTEM

From the research and insights from local stakeholders, it is clear that Indianapolis's small businesses owned by POC face significant barriers in accessing capital, customers, and services. Extensive quantitative and qualitative research surfaced 28 challenges impeding the success of small businesses owned by POC. The research team worked with 17 local leaders of the small business ecosystem in the Working Group and 46 leaders in the Advisory Council, representing a broader cross-section of the region's small business ecosystem, to refine the long list of gaps into a shorter list of priority focus areas. Through two initial workshop sessions, the groups discussed and further developed the gaps analysis and then completed a survey to prioritize the final 11 high-priority gaps (see Figure 10). Afterward, the groups came together in two additional working sessions to brainstorm strategies to address those gaps – drawing on the region's assets and unique dynamics of the existing Indianapolis small business ecosystem.

Local leaders aligned on the most significant challenges facing business owners of color in accessing capital, customers, and services, along with the greatest needs to support the ecosystem stakeholders who support small businesses. In accessing capital, stakeholders prioritized the need for flexible capital, increased pools of funding for alternative lenders, and training programs to support loan readiness for business owners of color. Leaders aligned on the need for a shared platform of professional services to support early-stage businesses. To support the growth of businesses, leaders prioritized the need for greater access to peer-to-peer networks and growth-oriented services. At the ecosystem level, stakeholders aligned on the need for a centralized digital repository of resources to create a more accessible business service landscape.

The COVID-19 pandemic further entrenched institutional barriers and disproportionately affected POC-owned businesses. In particular, this crisis exposed the greater need for flexible capital to help businesses sustain their operations or pivot their business model, as well as access to and availability of technical assistance to support the recovery and resiliency of businesses over the course of the pandemic.

Figure 10: Prioritized small business and ecosystem needs

Small Business Needs

Needs among small businesses in accessing financing, technical assistance, and markets

Access to Capital

Financing for small businesses to start, survive, sustain, or scale

1. Need for flexible capital across the continuum of capital for entrepreneurs to start up and sustain their businesses
2. Need for additional pools of funding for alternative lenders
3. Need for loan readiness and financial health training programs for business owners of color

Access to Customers and Services

Avenues for small businesses to reach customers and maintain and grow revenue; Technical assistance support for small businesses to start, survive, sustain, or scale

1. Need for a shared platform of professional services for startup and early-stage businesses
2. Need for growth-oriented services to support higher growth businesses
3. Need for more peer-to-peer networks and coalitions among business owners of color to share resources and build collective action
4. Need to establish new and build upon existing locally based technical assistance programs to support businesses to adapt and shift business models during and post COVID-19
5. Need for culturally and linguistically appropriate outreach and engagement with communities and business owners of color and immigrants

Ecosystem Infrastructure Needs

Needs among ecosystem stakeholders to better support small businesses with capital, customers, and services

1. Need for a centralized digital repository for all small business owners and ecosystem stakeholders to identify resources in the ecosystem, along with personalized service for navigation
2. Need for capacity building support for business support organizations operated by POC and women
3. Need for formal modes of city- and county-wide collaborations / communities of practice with shared metrics and collective policy agenda

Emerging Solutions

This research culminated in a set of ecosystem strategies designed to move Indianapolis and Marion County towards a shared vision of creating a more equitable small business environment that narrows the racial wealth gap in the region. The research team worked with the Working Group and Advisory Council through an iterative and collaborative process to advance a robust collection of solutions to address the priority ecosystem gaps. Throughout the solutions design process, the Working Group and Advisory Council developed strategies that recognize and harness the region's size, diversity, and existing assets. Strategies were designed to address root causes and create the enabling infrastructure to respond to the prioritized gaps. The strategies were developed from local stakeholder input and national best practices for place-based ecosystems and build from local momentum and existing initiatives that can be further formalized and expanded. A few select examples of local momentum are highlighted below.

These solutions are organized under four key strategic pillars and recommended to address the broad set of capital, customer, and services needs among small business owners of color in Indianapolis and Marion County:

CONTINUUM OF CAPITAL

Increase availability of flexible capital across the continuum by strengthening responsible capital providers and enhancing financial health. There are several new or emerging efforts in Indianapolis and Marion County that will create a strong foundation for this work. Examples include budding collaboratives and credit enhancement programs among local CDFIs (e.g. LISC, Bankable, Indy Chamber's Business Ownership Initiative, and Build Fund) and new investment funds (e.g., the Kheprw Institute's Integrated Fund) dedicated to providing growth capital to local entrepreneurs of color.

Fund of funds: Form and sustain an evergreen "fund of funds" that encourages new fund formations led by POC and/or with a dedicated focus on entrepreneurs of color

Expand pools of flexible capital: Establish new and/or enhance existing loan loss reserve funds and credit enhancement programs to expand lending through CDFIs

Financial health and credit building: Pair credit-building capital products with one-on-one financial advising to help business owners of color access affordable, non-predatory capital

RECOVERY AND RESILIENCE

Build resilience among small businesses and the supporting ecosystem by expanding business services that help firms recover from the COVID-19 pandemic and adapt to the "new normal". Recovery and resiliency efforts should draw from emergency efforts created in response to COVID-19 (e.g., the city's Rapid Response Loan Fund and Marion County Ready to Restart Grants) while working with organizations with culturally competent services (e.g., Indy Black Chamber and Indy Chamber's Hispanic Business Council) to engage business owners of color where they are.

Resiliency collaborative: Form an ecosystem-wide COVID-19 resiliency and recovery initiative that fosters and coordinates emergency funding and services, and builds capacity among BSOs during and beyond the pandemic

Small business liaisons: Hire a team of small business liaisons dedicated to proactively engage with small businesses, build trust, and connect them to the appropriate services

Back office support: Create and fund a collective of professional services providers (e.g., tax preparation, accounting, legal, HR) to provide expert advice to business owners of color

EQUITABLE ACCESS TO NETWORKS

Expand access to networks of business services and avenues to customers to business owners of color seeking growth opportunities and form peer-to-peer networks. Work to bolster access and quality of these networks should integrate and refine existing initiatives such as accelerator programs through Mid-States and Be-Nimble Foundation and corresponding entrepreneurial networks cultivated by the Indy Black Chamber and the Indy Chamber's Hispanic Business Council.

Accelerators for tailored growth strategies: Create an accelerator to provide tailored coaching and mentorship to help businesses owned by POC develop a strategy, secure capital, and form connections with large customers

Small business networks: Create and sustain network of small businesses owned by POC with a shared advocacy agenda, coalition structure, and programs for entrepreneurs to engage and connect

ECOSYSTEM BUILDING

Establish and sustain coalitions and navigator platforms to connect business owners, service and capital providers, funders, and other stakeholders across the ecosystem. Ecosystem building efforts should build off existing momentum created by collaboratives through Forward Cities, the African American Coalition of Indianapolis, and the new special committee of regional corporate leaders Business Equity for Indy, along with other past initiatives led by the Indy Chamber of Commerce.

Citywide collaboration: Form and sustain an integrated, ecosystem-wide coalition body to coordinate ecosystem initiatives and collective policy agendas, and track and report ecosystem-wide metrics, led by designated ecosystem champions

Resource navigator: Develop and sustain a searchable online resource navigator of all small business resources and services in the city and county

These community-informed solutions point to the necessity to take immediate action to support small business owners of color and the supporting ecosystem, with actionable steps towards addressing prioritized needs surfaced in this report. To illustrate how these solutions can be actualized, the following callouts on the Fund of Funds and Resource Navigator strategies provide additional context on local assets to build on and comparable examples of similar solutions in other peer American cities.

Envisioning
'Fund of Funds'

The Need

Across Indianpolis and Marion County, business owners of color historically have struggled to access affordable, flexible capital to grow and sustain their businesses. With regional capital historically concentrated among national and regional banks, local entrepreneurs have had few alternatives to access financing across the continuum of capital (including alternative lending and equity capital). Meanwhile, local and regional funds led by fund managers of color and operating with a dedicated racial equity investment focus report undercapitalization, citing an inability to fundraise due to implicit racial biases and inequitable access to funder networks.

Prior to COVID-19, local CDFIs in Indianapolis partnered with the city and county government to secure federal government grants (including Community Development Block Grants and grants from the U.S. Economic Development Agency) to support commercial lending in target neighborhoods of color in Indianapolis. During the pandemic, the enhanced focus on business owners and entrepreneurs of color spurred local providers to launch new funds (e.g., Kheprw Institute's Integrated Fund) designed to provide flexible capital across the capital continuum to entrepreneurs of color in the region. As local capital providers seek to expand their investments in the region's communities of color, aggregated pools of capital are needed to further capitalize existing and new funds and investors.

The Solution

To address the pervasive need for flexible capital in the ecosystem, local capital providers can partner with philanthropic, private, and public funders to form a self-sustaining evergreen "fund of funds" that will encourage new fund formations led by POC to ultimately expand pools of capital for entrepreneurs of color. In an evergreen fund structure, the investment fund is designed to have an indefinite fund life, as returns from borrowers and portfolio organizations are recycled back into the fund for future investments.

For this solution to be successful, stakeholders must align objectives of the evergreen fund to ensure focus on supporting fund managers and entrepreneurs of color. The fund will also require seed funding from public and private funders to catalyze investment from initial pools of capital. These funds and financial institutions require fundraising to fully launch, presenting further opportunities for local funders to offer seed funding (via grants or limited partnership investments) to further capitalize these funds.

Example Models

Across the country, new capital aggregation "fund of funds" models have emerged as examples that can be adopted by Indianapolis stakeholders. Illumen Capital, a Washington D.C. fund, offers a model for a fund of funds that works to eliminate implicit bias in asset management and increase access to capital for underserved businesses. Illumen Capital invests in funds paired with evidence-based bias reduction training and coaching for their fund managers to broaden their landscape of investable opportunities, ultimately driving capital to businesses owned by POC. Similarly, Community Investment Management is a Bay-Area based institutional impact investment manager that provides strategic debt capital to demonstrate and scale responsible innovation in lending for underserved communities; to date, CIM has lent out over $400 million to more than 5,000 businesses, all through intermediaries.[52]

52 Source: Kauffman Foundation, 2019

Reimagining
'Resource Navigator'

The Need

Awareness and accessibility of available small business resources are critical in the equitable small business development in Indianapolis. However, awareness of business services in the city and surrounding Marion County today is low, especially for business owners of color. Contributing to the limited awareness are, in part, inequitable geographic distribution of BSOs in communities of color, few formal matchmaking services offered by BSOs to connect businesses with the services and resources available, and limited culturally and linguistically competent outreach to engage and gain trust in communities.

At the advent of the COVID-19 pandemic, gaps in awareness and accessibility grew, as Indianapolis entrepreneurs were overwhelmed as they shifted to digitize their businesses and keep track of emergency financing opportunities. In response, local BSOs attempted to meet business owners' evolving needs by aggregating resources and news on their websites and other digital platforms. While these efforts support some businesses, businesses reported have difficulty identifying resources that fit their needs, creating greater confusion and aversion to the existing business support landscape.

The Solution

To address these evolving small business and ecosystem needs, ecosystem stakeholders should develop and sustain a centralized, searchable online resource navigator that aggregates small business resources and services in the city and county. An online navigator tool that is designed for a simplified user experience would create efficiencies in meeting small business needs with the appropriate services. Moreover, for the tool to be most effective, it will be critical to have collective buy-in from all ecosystem stakeholders who will be asked to support in sharing consistent updates on their services offered on the platform and driving marketing efforts that reach small business communities in Indianapolis.

In 2017, the Indy Chamber partnered with the Kauffman Foundation and SourceLink to launch its Indy Resource Navigator designed to tackle this need. The initiative, however, was discontinued due to a lack of funding for ongoing platform management. When reimagining this solution for sustained success in today's climate, stakeholders must build from lessons learned in the attempted effort for the Indy Resource Navigator, including securing long-term funding commitments to maintain operations, continuously engage with service providers, and update resources on a regular basis.

Example Models

Although the Indy Resource Navigator was discontinued, other SourceLink platforms outside of Indianapolis have been able to sustain funding and continue to connect businesses with resources. In particular, in the state of Missouri, MOSourceLink connects entrepreneurs with the resources they need to start up and grow through two ways: a "Network Navigator" staff member dedicated to building relationships with resource partners and connecting with entrepreneurs over the phone to match them with the right resources, and a corresponding online "Resource Navigator" tool that allows users to search for nearby business services to meet their specific business needs.

Another model to consider in Indianapolis is Ecomap, which functions as an online resource navigator and a platform that fosters connectivity among entrepreneurs, creators, and community builders. In Baltimore, Ecomaps provides access to over 500 resources and builds community among entrepreneurs, mentors, investors, and ecosystem builders. Its website uses artificial intelligence to constantly update upcoming events and resources, and the platform provides a rating system for entrepreneurs to grade service providers.

Conclusion and Call to Action

The time to act is now. As part of a broader national initiative across the nine cities and localities, the Indianapolis small business ecosystem is at a crossroads with the opportunity to lead, learn from, and coordinate with other cities to build a more equitable small business ecosystem across the U.S.

The research team recommends immediate action on the strategies articulated in this report, starting with the steps below to fulfill the vision of closing racial gaps in business ownership, revenue, and number of employees across Indianapolis and Marion County. The below priority measures will provide a strong foundation to drive execution and capitalize on existing local momentum across the other recommendations articulated in the report.

1

Organize a coalition of funders.
Bring together groups of funders to resource the next two phases of work – planning and implementation – and coordinate an immediate infusion of local funding to curtail further closures of small businesses owned by POC.

2

Identify Ecosystem Builders.
Designate between one and four local organizations with the influence and capacity to drive regional collaboration efforts forward. Ecosystem builders will be responsible for ensuring execution across the region and activating impact tracking across different initiatives.

3

Formalize the Advisory Council and align on priorities with responsibilities for execution.
Continue gathering people involved in this work and include others to foster collaboration, allow initiatives currently underway to expand and deepen, and develop implementation plans that are driven by and represent the needs of small businesses and the organizations that support them.

4

Take immediate action on any "low hanging fruit" solutions or areas where the businesses need support urgently. With businesses continuing to face instability due to the COVID-19 pandemic, implement programs to provide immediate relief as quickly as possible.

Acknowledgements

This report for Indianapolis and the national effort to create more equitable small business ecosystems across nine localities was created with the generous support of JPMorgan Chase & Co.

This project and was made possible with the collaboration of key partners in the Indianapolis ecosystem. These individuals supported this project through participating in the Advisory Council and Working Group, sharing local perspectives, and guiding research to ensure that findings bring real value to Indianapolis's small business owners. We greatly appreciate their engagement and commitment to this work.

In particular, the research team would like to recognize Starla Hart, Independent Consultant, and Angela Smith-Jones, Health & Hospital Corporation of Marion County, for their contributions and commitment to serving as Project Leads in Indianapolis.

Indianapolis Small Business Ecosystem Advisory Council

Members denoted in bold were also members of the Working Group

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Mambu Sherman, JPMorgan Chase & Co.

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About the Research Team

The core research team would also like to acknowledge the contributions from Next Street and Common Future, who partnered together to produce this report and underlying research.

Unless otherwise specifically stated, the views and opinions expressed in the report are solely those of Next Street and Common Future and do not necessarily reflect the views and opinions of JPMorgan Chase & Co. or its affiliates.

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They also acknowledge DRA Resources whom led the research of the business services landscape

Appendix

APPENDIX 1: DATA ANALYSES AND POTENTIAL LIMITATIONS

Small Business Landscape

The quantitative analysis combined data from several national, publicly available sources. Multiple data sources originate from the U.S. Census, but pose some minor inconsistencies in the data between sources.

Seven primary data sources were used to analyze the small business landscapes.

- U.S. Census Survey of Business Owners and Self-Employed Persons (SBO), 2012 data (latest available, provides business owner demographics / business characteristics by 2-digit NAICS code)
- U.S. Census American Community Survey (ACS) Public Use Microdata Sample (PUMS), 2018 5-year data set (provides workforce data by 2-6 digital NAICS code)
- U.S. Census Longitudinal Employer-Household Dynamics (LEHD) Quarterly Workforce Indicators (QWI), 2017 data (provides business data by 2-6 digit NAICS code)
- U.S. Census County Business Patterns (CBP), 2011-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Business Survey (ABS), 2017 data (latest available, provides business revenue and employee data by business owner demographics)
- U.S. Census Non-employer Statistics (NES), 2007-2017 data (provides non-employer firm data)
- Opportunity Insights Womply Dataset, 2020 data (provides small business revenue and closure data)

The most recent publicly available data consistently available from all datasets is from 2017 at this study occurred (apart from SBO); given the disparity in year that data was collected, it is possible that the data does not accurately represent current business dynamics.

Capital Landscape

Capital Supply Methodology

Four primary data sources were used to analyze the small business and capital landscapes.

- Federal Financial Institution Institutions Examination Council (FFIEC) Community Reinvestment Act (CRA) report data made available from the Freedom of Information Act, 2008-2017 data
- Small Business Administration 504 and 7(a) lending databases made available from the Freedom of Information Act, 2008-2017 data
- CDFI Fund Program Awardee Data Release, 2008-2017 data
- PwC and CB Insights MoneyTree Report, Series A or Series B or Series C or Series D or Growth Equity or Seed / Angel or Convertible Note or Other, 2008-2017 data

The data provided in this report is representative, but not necessarily comprehensive, of the capital providers located and operating in Marion County. There are some limitations and considerations that should accompany any analysis of this capital landscape dataset:

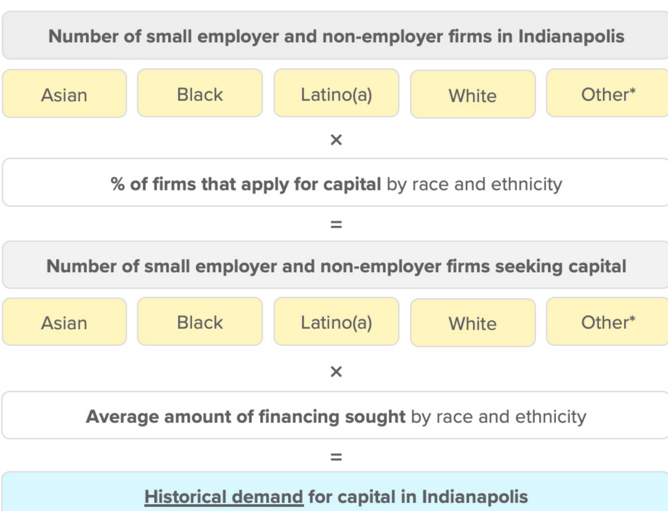
- FFIEC CRA data does not fully represent bank loans to small businesses, as only banks above a certain asset threshold are required to report CRA loans. Banks are also required report all loans under $1 million to businesses, indicating that some loans may actually be to businesses with more than 50 employees
- CDFI Fund data underrepresents loans to small business because not all CDFIs in Marion County report full loan data. As a result, the research team adjusted the data to estimate CDFI loans by scaling up estimates in this report to increase accuracy
- Equity data publicly available from the PwC and CB Insights MoneyTree Report is aggregated across the Indianapolis-Carmel-Muncie, IN metropolitan area, which may overrepresent equity deals made specifically to businesses located in Marion County

Capital Demand Methodology

The research team used a bottoms-up methodology that to directly estimate the historical demand for financing from small businesses across demographic groups in the Marion County, as shown in Figure 11.

Applying this methodology to forecast capital demand in 2020 and 2021, the research team made key assumptions to three forecast scenarios that measure the degree of impact the COVID-19 pandemic and resulting economic recession as illustrated in Figure 12.

Figure 11: Methodology to estimate historical small business capital demand



Note: *Other includes populations of American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders, among other races not classified by the U.S. Census Bureau

Four primary data sources were used to estimate historical and estimated small business capital demand.

- U.S. Census County Business Patterns (CBP), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Nonemployer Statistics (NES), 2007-2016 data (latest available, provides business data by 2-6 digit NAICS code)
- U.S. Census Annual Survey of Entrepreneurs (ASE), 2016 data (latest available, business owner demographics / business characteristics by 2-digit NAICS code)
- Federal Reserve Small Business Credit Survey, 2016-2019 survey results (latest available, provides data on capital demand trends by demographics / business characteristics)

The data sourced to estimate capital demand in this report provides a directional representation of capital demand but may not precisely account for capital demand among all small businesses operating in Marion County. There are some limitations in the datasets used to estimate capital demand that require additional considerations and assumptions:

- U.S. Census County Business Patterns and Nonemployer Statistics data is available up to 2016. To estimate the baseline number of small employer and non-employer firms following 2016, the research team scaled the total firms reported in 2016 by the annualized growth rate from 2014 to 2016
- U.S. Census Annual Survey of Entrepreneurs data is available up to 2016. To estimate the business ownership demographic breakdown by race and ethnicity across the historical and forecast period, the research team assumed that the breakdown remains fixed at 2016-levels.
- The Federal Reserve Small Business Credit Survey measured capital demand among small businesses across the U.S. As a result, the small business capital demand dynamics measured in the annual surveys may not fully represent the small business sentiments in Marion County.

Figure 12: Forecast assumptions for small business capital demand

	Number of small businesses	% of firms that apply for capital	Avg. amount of financing sought
Base case Expected scenario with assumptions that analysts deem most likely to occur	Net growth in employer and non-employer firms equal to median growth rates during financial crisis (2007-10)[53]	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[54] From 20Q4-21Q4, proportion seeking financing assumed to decline due to lower revenue expectations[55]	Amount sought to decline relative to lower expected revenue, assuming a direct relationship between revenue and capital demand[56]
Optimistic forecast Scenario based on a moderately severe recession due to C-19	Net growth in employer and non-employer firms equal to growth rates during the latter years of the financial crisis (2008-10)[53]	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[54] From 20Q4-21Q4, proportion seeking financing assumed to decline due to moderate revenue expectations[55]	Amount sought to decline relative to moderate expected revenue, assuming a direct relationship between revenue and capital demand[56]
Pessimistic forecast Scenario where C-19 recession results in conditions seen at the height of Great Recession	Net growth in employer and non-employer firms equal to growth rates at the height of the financial crisis (2007-09)[53]	Proportion seeking capital in 20Q2-Q3 equal to 65-70%, estimated from national surveys[54] From 20Q4-21Q4, proportion seeking financing assumed to decline due to significantly lower revenue expectations[55]	Amount sought to decline relative to significantly lower expected revenue, assuming a direct relationship between revenue and capital demand[56]

53 Note: Estimated based on historical data sourced from U.S. County Business Patterns and Non-Employer Statistics
54 Source: Goldman Sachs 10,000 Small Businesses, 2020
55 Note: Based on a logistic regression model assessing the relationship between the percentage seeking financing and the aggregate small business debt-to-income ratio
56 Note: Revenue decline expectations are based on the relative levels compared to estimated 2019 revenues, with expectations ranging from 25% to 90% of 2019 levels

APPENDIX 2: RESEARCH SOURCES

Interviews

- Program Officer for Community and Economic Development, Central Indiana Community Foundation
- Deputy Mayor of Community Development, City of Indianapolis
- Director of International and Latino Affairs, City of Indianapolis
- Principal Program Manager, City of Indianapolis, Department of Metropolitan Development
- SVP, Community Development Banking Market Manager, PNC Bank
- Local Director of Community Entrepreneurship, Forward Cities
- Executive Director, Hispanic Business Council at the Indianapolis Chamber
- Program Director, Immigrant Welcome Center
- Historian, Indiana Avenue Cultural District
- Business Broker, Indiana Business Advisors
- Director of Community and Economic Development, Indianapolis Mayor's office
- Project Manager, Indianapolis Mayor's office
- Executive Director of Entrepreneur Services and Business Ownership Initiative, Indy Chamber
- Program Officer, LISC Indianapolis
- Economic Development Director, NEAR Indy
- President, New City Development
- City Project Manager, Office of the Mayor, Indianapolis
- Executive Director, South East Neighborhood Development Corporation
- Director of Social Innovation Fund, United Way of Central Indiana
- Chief Executive Officer, Tiny Urban Escapes

Inventory of Business Support Organization in Indianapolis

- AgriNovus
- Be Nimble Foundation
- Business Ownership Initiative (BOI)
- Central Indiana Small Business Development Center - Butler University
- City of Indianapolis Office of Minority and Women Business Development
- Edna Martin Christian Center
- Elevate Ventures
- gBETA – Indy
- Grameen America
- INDIANA BLACK EXPO
- Indiana Business Advisors
- Indiana Economic Development Corp.
- Indiana Procurement Technical Assistance Center
- Indy Black Chamber of Commerce
- Indy East Business Association (IEBA)
- Indy Women in Tech, Inc.
- Kheprw Institute (KI)
- Launch Indy
- Local Initiatives Support Corporation (LISC)-Indy
- LYNX
- Minnis Consulting
- Minority Contractors Collaboration (M.C.C)
- PATTERN (St'artup 317 project)
- PitchFeast
- Prospanica-Indianapolis Chapter
- RUCKUS Makerspace
- SBA-All Small Mentor-Protégé program
- SBA-Women-Owned Small Business Federal Contracting program
- SCORE Indianapolis
- SOURCE River West Entrepreneurship Center
- Studio B Creative Exchange
- The Community Investment Fund of Indiana (CIFI)
- The Grindery
- The Indiana State Hispanic Chamber of Commerce (ISHCC)
- The Indy Chamber
- The Japan-America Society of Indiana
- The Learning Tree
- The Mid-States Minority Supplier Development Council (Mid-States MSDC)
- The National Association of Women Business Owners (NAWBO)-Indianapolis
- The Pass the Torch for Women Foundation
- The Speak Easy
- VisionTech Partners

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