

DAY ONE PROJECT

Establishing a U.S. Entrepreneurial
Corps to Foster an Inclusive Small
Business Ecosystem

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Summary

The next administration should create a U.S. Entrepreneurial Corps (“E-Corps”), a program to train, invest in, and build networks for the next generation of small business leaders. E-Corps should include three components: 1) a national network of 1,000 small business incubators co-located at Historically Black Colleges and Universities and at Land-Grant Universities, 2) a competitively selected cohort of 2,000 small business connectors to staff the incubators, and 3) underrepresented entrepreneurs to participate in the program. E-Corps reimagines the Federal Government’s approach to building an inclusive small business ecosystem by providing support to community anchor institutions while connecting underrepresented entrepreneurs to capital and historically inaccessible networks of financiers and advisors. E-Corps will become the connective tissue for entrepreneurial communities across our country, spanning both urban and rural communities.

Challenge and Opportunity

Research suggests that the size, durability, and financial success of a small business ecosystem is influenced by how connected its entrepreneurs are to “dealmakers,” or key individuals with large, diverse networks, and access to capital. The most successful ecosystems are further characterized by interconnectivity and cohesion between dealmakers themselves. Connectivity is more important than the aggregate number of entrepreneurs or investors within the community.¹

Typical dealmakers are repeat founders turned investors who tend to support a homogenous class of entrepreneurs, many of whom are white and have preexisting relationships with dealmakers. Zip code data from the first round of Paycheck Protection Loans (PPP) loans illustrates this pattern.² One of the strongest predictors of whether a small business received a loan was whether the applicant had a pre-existing relationship with a banking institution.³ On average, small businesses in majority-minority communities received PPP loans more slowly than small businesses in majority-white districts.⁴

This data underscore two challenges facing underrepresented entrepreneurs: limited access to capital and dealmaker networks. Eighty-three percent of businesses never access formal financing that is critical to growth, such as a bank loans or venture capital.⁵ This statistic reveals

¹ Zoller, Ted and Feldman, Maryann. 2012. “Dealmakers in Place, Social Capital in Regional Entrepreneurial Economies.” *Regional Studies*, 46(1): 23).

² Emily Flitter. 2020. “Black Business Owners Had a Harder Time Getting Federal Aid, a Study Finds.” *The New York Times*, July 15, 2020.

³ Liu, Haoyang and Volker, Desi. 2020. “Where Have the Paycheck Protection Loans Gone So Far?” *Federal Reserve Bank of New York blog*, May 6, 2020.

⁴ Liu, Sifan and Parilla, Joseph. 2020. “New Data Shows Small Businesses in Communities of Color had Unequal Access to Federal COVID-19 Relief.” *Brookings Institute Blog*, September 17, 2020.

⁵ Hwang, Victor, Desai Sameeksha, and Ross Baird. 2019. “Access to Capital for Entrepreneurs: Removing Barriers.” *Ewing Marion Kauffman Foundation: Kansas City*.



a critical need for alternative financing structures and the expansion of supportive networks for small business owners to exchange knowledge, information, and resources.⁶ The Federal Government is well positioned to strengthen place-based organizations that expand capital access to minority-led small businesses left off the PPP loan recipient list and to better connect these entrepreneurs into dealmaker networks.

Plan of Action

The next administration should create the U.S. Entrepreneurial Corps (“E-Corps”), a federal grant, training, and talent placement program focused on supporting underrepresented entrepreneurs who are unlikely to have traditional banking or venture capital relationships. It would be housed in the Small Business Administration or U.S. Department of Commerce.

The program will target early-stage, minority-led small businesses (under three years old) that provide products or services that can be delivered through or enabled by technology. The program will seek to equip the businesses’ minority founders with dealmaker networks, resources, and tools to better access outside capital and scale their businesses. For example, many of the 320 small businesses that would be supported annually by the recently proposed, bipartisan Next Generation Entrepreneurial Corp Act⁷ would be a natural fit for our initiative.

A national cohort of “Community Builders” composed of local leaders with experience supporting small businesses, including economic development professionals, Community Development Financial Institutions (CDFI) leaders, activists, and leaders at existing entrepreneurial incubators, will receive federal funding to scale support for underrepresented founders in their communities. E-Corps will fund, strengthen, and expand the operational capacity of organizations embedded in the community that are already doing the important work on the ground. Each Community Builder will be assigned an early-career professional (an “Entrepreneurial Fellow”) tasked with providing operational and administrative capacity. Community Builders will develop and deliver training curriculum for local entrepreneurs, connect them to capital, and facilitate local, regional, and national networking opportunities.

With grant support from the Small Business Administration (SBA) Office of Investment and Innovation, competitively selected Community Builders will launch 1,000 small business incubators nationwide.⁸ Building on the Economic Development Authority’s Build to Scale

⁶ Alternative financing structures, such as revenue-based mezzanine debt and self-liquidating equity, are financial instruments that mix and match elements of traditional debt and equity in ways that tailor financing to the needs of the business. See <https://thegiin.org/repository-of-alternative-financing-structures-for-early-stage-impact-investing>

⁷ For more information on this recently introduced legislation, check out the press release and fact sheet here: Coons, Chris. Bipartisan group aims to launch new generation of Main Street entrepreneurs. December 3, 2020.

<https://www.coons.senate.gov/news/press-releases/bipartisan-group-aims-to-launch-new-generation-of-main-street-entrepreneurs>.

⁸ The 1,000 figure is intentionally ambitious and was originally proposed in then-Vice President Biden’s racial equity policy proposal. See Biden, Joe. The Biden Plan to Build Back Better by Advancing Racial Equity Across the American Economy. <https://joebiden.com/racial-economic-equity/#>.

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program and the SBA's Inclusive Innovation Ecosystem Prize and Accelerator infrastructure, the next administration would fund 2,000 E-Corps team members (1,000 Community Builders and 1,000 Fellows) for a four-year pilot program to staff each incubator.

Suggested Structure, Roles and Support for E-Corps

Community Builder

- *Background:* A well-connected local organization that may already run an entrepreneurial support or economic development organization; the organization's leadership team should have close ties to entrepreneurs, philanthropy, community leaders, state and local government, and economic and community development organizations.
- *Responsibilities:* Develop the curriculum for and run the incubator program and provide financial, operational, and technical assistance to program graduates and other early-stage ventures within the community.
- *Funding:* The SBA grant will be competitively awarded to community-based entrepreneurship initiatives with the capacity and track record to successfully run the incubators.

Entrepreneurial Fellow

- *Background:* An early-career professional who will work as a deputy to the Community Builder's organization. Preference will be given to recent graduates either from the local community or who attended a university, college or technical college in the community.
- *Responsibilities:* Create the program's infrastructure while serving as an on-call resource to the participating ventures in the program; act as a connector for local SBA programs to those ventures.
- *Funding:* Similar to 18F and AmeriCorps, there will be an open national call for applications targeted at recent graduates. Fellows will receive a salary and benefits from the Federal Government, including \$10,000/year for educational debt forgiveness, for a two-year assignment.

Building the Incubator Network

As part of the E-Corps' program launch, the Federal Government will embed incubators in existing anchor institutions, focusing on Historically Black Colleges and Universities, Tribal Colleges and Universities, Minority Serving Institutions, Community Colleges, and four-year Land-Grant Universities with existing incubator space. The goal will be to leverage existing infrastructure and gathering places within target communities rather than building out new real estate. E-Corps teams will cultivate and manage the incubator network and develop the

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curriculum, which will incorporate Lean LaunchPad methodology,⁹ culturally competent educational training, and wraparound services for the founder community. By putting local community builders at the center, E-Corps will seed a more interconnected and inclusive small business ecosystem.

Anticipated Benefits and Outcomes

Founders who complete the program will have off-ramps, setting them up for continued success. They will have access to a dedicated pool of follow-on capital, a valuable and recognized accreditation from the Department of Commerce/SBA that can be leveraged to raise additional capital, and access to E-Corps resources and networks for at least two years following their completion of the program. Graduates will also have access to an earmarked pool of follow-on funding made available by CDFIs and a revamped State Small Business Credit Initiative's (SSBCI) Small Business Opportunity Fund. E-Corps success metrics will include net new firm creation, debt/equity capital raised by underrepresented entrepreneurs, jobs created, annual revenue of alumni ventures, and the number of entrepreneurs who obtained electronic financial and digital recordkeeping systems.

⁹ The Lean LaunchPad methodology integrates both scientific inquiry and industry facing discovery. It's data-driven approach used by the National Science Foundation's I-Corps curriculum and other federally-funded entrepreneurial programs.

Frequently Asked Questions

How is this model different from traditional entrepreneurial grant programs?

Traditional economic development and entrepreneurial grant programs often focus on importing outside talent to develop top-down entrepreneurial programming rather than implementing tailored entrepreneurial solutions based on community needs. E-Corps provides financial and operational support to established place-based organizations, empowering existing community leaders (Community Builders) to scale programs and democratize access to dealmaker networks. E-Corps will not replace the amazing organizations on the ground but rather strengthen them, providing capital and operational support. The Entrepreneurial Fellow component of E-Corps is unique in that it increases capacity for over-stretched Community Builders and counters regional brain drain with local, early-career opportunities for Entrepreneurial Fellows. The proposed Community Builder model was successfully piloted in Pittsburgh in 2019 (Equitable Entrepreneurial Ecosystems (E3) project¹⁰) and has since expanded to Columbus, OH, Indianapolis, IN, Kansas City, MO, and Wilmington, DE.¹¹ A key learning outcome from early pilots was that ecosystems need connectors who can act as aggregators of disparate small business and workforce development programs/networks.

Given that social capital and access to networks are critical to fostering inclusive ecosystems, how does the E-Corps model address these challenges directly?

With enhanced funding, expanded teams, and dedicated space at anchor institutions, Community Builders will become more visible to emerging businesses and better equipped to deploy social capital on behalf of under-networked founders. The incubator curriculum developed by Community Builders will have a dual focus: teaching new founders' business skills using the Lean LaunchPad methodology and connecting them with networks of potential customers and investors. Founders will have access to a dedicated mentor bench, hands-on support from an Entrepreneurial Fellow, and a cohort of peer founders. Founders will join a local, regional, and a national network of program participants at the 1,000 incubators across the country.

How does E-Corps align with and complement the existing SBA and Commerce Department ecosystem?

E-Corps builds upon the foundational work of Small Business Development Centers (SBDCs), Women Business Centers, Veterans Business Outreach Centers, and SCORE Mentors. While existing infrastructure connects entrepreneurs with one-on-one advisory services and lending

¹⁰ Bazzi, Hassan. Pittsburgh's Equitable Entrepreneurial Ecosystem (E3) Network. Forward Cities. November 22, 2020. <https://forwardcities.org/impact/stories/story/pittsburghs-equitable-entrepreneurial-ecosystem-e3-network/>.

¹¹ Wilmington, E3 join national program to support entrepreneurs. Delaware Business Times. September 22, 2020. <https://delawarebusinesstimes.com/news/e3-nlc-cie/>.

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opportunities, E-Corps focuses on connecting entrepreneurs with their local ecosystem, offering mentor connections, financing opportunities, and social capital. At the same time, E-Corps complements and adds capacity to Commerce's Build to Scale program. E-Corps will serve as a connector between existing organizations, structures, and programs but will not overlap with or supplant their mandates.

Why do we need to create more incubators?

It is fair to say that there is currently a glut of incubators and co-working spaces. The E-Corps incubator network is different because it does not build new spaces but rather re-imagines existing community hubs to support local job creators. E-Corps only creates new incubators in communities that do not already have comparable entrepreneurial programs. By positioning incubators within anchor institutions and community spaces, E-Corps reaches and supports underserved communities that lack access to institutional capital and closed power structures.

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About the Authors



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About the Day One Project

The **Day One Project** is dedicated to democratizing the policymaking process by working with new and expert voices across the science and technology community, helping to develop actionable policies that can improve the lives of all Americans, and readying them for Day One of a future presidential term. For more about the Day One Project, visit dayoneproject.org.