



LOCAL EXPERIMENTS IN
SMALL BUSINESS SUPPORTS:

What Works and What Doesn't?

CHALLENGES AND OPPORTUNITIES FOR CITY-LED EXPERIMENTATION



About the National League of Cities

The National League of Cities (NLC) is the nation's leading advocacy organization devoted to strengthening and promoting cities as centers of opportunity, leadership, and governance. Through its membership and partnerships with state municipal leagues, NLC serves as a resource and advocate for more than 19,000 cities and towns and more than 218 million Americans.

About the City Innovation Ecosystems (CIE) Program

Catalyzing the uptake and implementation of proven policies, programs, and practices that support inclusive, entrepreneurship-led economic growth in American cities. CIE connects city leaders to technical assistance providers, peer networks, and catalytic funding to help them achieve their goals.

Disclaimer. This brief has been produced under a contract with the National League of Cities (NLC). The information and views set out in this brief are those of the author(s) and do not necessarily reflect the official opinion of the NLC.

© 2021 National League of Cities. All Rights Reserved.



About the Innovation Growth Lab

The Innovation Growth Lab (IGL) is a global initiative that works to increase the impact of innovation and growth policy, by ensuring that it is informed by new ideas and robust evidence. IGL works at the intersection of research and policy, where it helps organisations become more experimental, test ideas, and learn from each other. To find out more please visit www.innovationgrowthlab.org

About the Authors

Charlotte Reypens is a Senior Researcher at the Innovation Growth Lab at Nesta.

Hugo Cuello is a Senior Policy Analyst at the Innovation Growth Lab at Nesta.

Acknowledgments

We would like to thank the following local officials and subject matter experts who helped inform this guide:

City of Oakland, CA:

Deborah Barnes, Marisa Raya;

City of Providence, RI:

Colleen Fonseca, Alejandro Tirado;

City of Philadelphia, PA:

Karen Fegely, Laura White;

City of Tulsa, OK: Clay Holk.

Contents

4	Why cities need to experiment to better support diverse businesses
7	The advantages of the experimental approach
9	Analyzing and addressing the main diversity challenges
10	Startup Challenge
13	Tailored Support Challenge
17	Opportunity Challenge
23	Conclusion
24	Annex 1 - Trial highlights
30	Annex 2 - Logic model

Why cities need to experiment to better support diverse businesses

Business support can be fundamental to accelerating a businesses' positive impact on job creation, innovation and productivity. This is why governments across the world spend [billions](#) of public funds to help more high-quality businesses start and scale. However, not all entrepreneurs have [equal](#) opportunities to succeed: research demonstrates, for instance, that minorities and women are often at a disadvantage when it comes to participating in entrepreneurship and accessing support and other resources.

Realizing the untapped entrepreneurial potential of minorities and women, national, state and local governments are increasingly setting up dedicated support initiatives to address barriers to entrepreneurship for these groups.

Cities in particular play an important role in supporting diverse groups of entrepreneurs, given that local-level, targeted business support is likely to be [more effective](#) than national policies. In 2020, the [National League of Cities](#) announced that more than 40 cities committed to driving inclusive entrepreneurship, for example by adjusting procurement practices, forming

partnerships with startups and creating new microlending and equity crowdfunding initiatives.

Various reports (e.g., by the [Urban Institute](#), the [US Chamber of Commerce Foundation](#) and the [Center for Inclusive Growth](#)) also document the efforts of specific cities towards more inclusive entrepreneurship, by improving entrepreneurs' access to finance, networks and markets. Initiatives range from [Cincinnati's Minority Business Accelerator](#), [New York City's fund](#) for female entrepreneurs to [Los Angeles' procurement platform](#) that makes it easier for minority entrepreneurs to identify suitable opportunities.

While, encouragingly, interventions to support inclusive entrepreneurship are increasing, to date, there is little robust evidence that shows which ones are most effective. There's also missing evidence on what context, timings and mechanisms work best. As a result, it can be difficult for city officials to decide which interventions to implement. This is where experimentation comes in. By robustly evaluating the impact of interventions, experiments can help identify which interventions are most likely to result in

meaningful changes in business outcomes, such as survival, productivity and/or growth.

Experimentation can benefit local governments in several ways. Cities and local governments are in an ideal position to tailor programs to the local market context, given their proximity. Hundreds of experiments are being tested at the city level, for instance to tackle [climate change](#), [technology-based development policies](#), or supporting [vulnerable communities](#). For instance, in 2021 eleven U.S. cities are experimenting with [guaranteed income schemes](#).

In 2020, the National League of Cities partnered with the Innovation Growth Lab (IGL) to help cities embrace experimentation. We worked with four U.S. cities to identify opportunities to test novel approaches to support Minority and Women-owned Business Enterprises (MWBEs). In particular, there was a strong interest in seeing how a more experimental approach could be applied to cities' procurement processes. Many cities struggle with legacy systems that have a number of weaknesses - e.g. failing to engage smaller and innovative business, and a lack of successful applicants led by female entrepreneurs or those from minority groups.

Originally, the objective for this support package was to convert this interest into practical experiments that participating

cities could use to pilot changes to their procurement system. However, unprecedented factors such as the COVID-19 pandemic and the Black Lives Matter movement had a major impact on project plans. IGL & NLC elected to pivot and to design this report with the intention of supporting cities in recognizing and considering different strategies to address business diversity challenges.

This report aims to offer city officials a range of policy interventions to better support minority and female entrepreneurs, for example through business training or procurement. We focus on interventions that address three common challenges:

- 1** How to achieve equitable rates of business formation.
- 2** How to improve business support and network opportunities for MWBEs.
- 3** How to improve equitable access to city contracts and local procurement opportunities.

For each of these challenges, we summarize the (often limited) evidence base, offer examples of existing initiatives and suggest fruitful areas for experimentation. We hope it will serve as a useful guide for city officials who want to use experimentation to design and evaluate

support initiatives for minority and female entrepreneurs.

The report uses the term business support to denote a range of policies, programmes and projects that city officials can adopt to enable more entrepreneurs to start and

grow a business. Examples include offering training, business advice or financial support, but also using procurement as a tool to help businesses access new markets and grow.



The advantages of the experimental approach

Governments typically introduce large new programmes without prior small-scale testing, and very limited knowledge of whether they will be effective. Instead of recognizing that they don't know what impact the programme will have, they typically assume that it will work.

In addition, there are always many possible design choices for a programme, yet despite not knowing what the best design is in order to achieve the greatest impact, a ministerial announcement follows shortly and millions are poured into it. The alternative is to set up small pilots to experiment with new programmes, evaluate them using rigorous methods such as Randomized Controlled Trials (RCTs), and scale up those that work.*

A randomized trial could address common pitfalls of public policy evaluations. Typical evaluations of innovation, entrepreneurship and small business programs only give a good answer to the question “how well

did the program participants perform before and after the intervention?”. They commonly fail to provide a compelling answer to the more important question: “what additional value did the program generate?”. Or in other words, is the improved performance of firms receiving the intervention the result of the program itself, or does it reflect some unobserved characteristics of the firms that chose (or were selected) to participate in the program?

Answering this question requires good knowledge of how participants would have performed in absence of the program, which is difficult to know unless there is a credible control group that provides a counterfactual. Randomized trials achieve this by creating two truly comparable groups - only differentiated by the randomization process (the lottery). In contrast, many other evaluations fail to create a credible counterfactual. As a result, they are only convincing to those

* RCTs can be the most powerful impact evaluation method; capable of providing an unbiased measure of how a programme affects an outcome of interest. Participants are randomly placed either in the treatment group (i.e. those who receive the programme) or the control group (those who do not). Small-scale pilots follow many of the same approaches but are more exploratory in nature. For more information click here.

who are already predisposed to agree with the evaluation findings, but fail to convince those who have other views.

The learning should not end when the experiment ends, it is important to continue evaluating and testing, since the fact that a programme is proven to work

well doesn't mean that it couldn't work better, or that it will continue to work when implemented at a larger scale. Ultimately, this experimental approach is a smarter, cheaper and more effective approach to develop better innovation and growth policy instruments.



Analyzing and Addressing the Main Diversity Challenges

City officials need to tackle at least three interrelated challenges when designing support programs for a diverse range of businesses. First, MWBEs are historically underrepresented. A first set of interventions therefore must focus on achieving equitable rates of business formation, by ensuring minority and female entrepreneurs have equal opportunities to start and grow a business. A second challenge relates to tailoring support programs so that diverse business owners perceive them as suitable and effective. This requires understanding the needs and constraints of different types of businesses. Finally, cities need to ensure that business owners have equitable access to city contracts and local procurement opportunities.

In what follows, we will unpack each of these challenges, provide some existing ideas to address them and illustrate how experimental methods could offer evidence-based solutions.

Before presenting specific solutions, we review the literature for existing evidence, particularly from rigorous experimental studies in different contexts. In general, the existing research points to additional physical and behavioral barriers that MWBEs face in this space. To explore the challenges in detail, it's crucial to consider and diagnose the root causes of those barriers.

To provide additional information and ideas to the cities, we also present a set of proposals to consider if cities aim to experiment with new solutions to the specific challenges. IGL would be happy to support any city that is willing to explore the design and implementation of any of these experiments.

STARTUP CHALLENGE:
How can cities achieve equitable rates of business formation?

KEY BARRIERS

According to the [Minority Business Development Agency](#), MWBEs are underrepresented in the US (they make up 29 and 36 percent of the business population respectively). These businesses also have lower average receipts than their counterparts and are less likely to have paid employees.

Various studies have indicated that external constraints hold minority- and women-owned businesses back, in particular unequal access to access finance, markets and networks. For example, one study documented how [minority founders](#) are less likely to obtain bank loans, even when adjusting for business characteristics and credit histories. Another study showed that women-owned businesses are less likely to sell to [corporate clients](#), again controlling for business traits such as size, age and industry. Finally, underrepresented founders are often excluded from formal and informal [business networks](#), inhibiting their access to valuable resources and connections.

In sum, MWBEs are underrepresented, especially in high-growth sectors. They face deeply rooted barriers when it comes to accessing finance, markets and networks. Experiments can not only help to document these barriers, but also to design interventions to support more entrepreneurs to start a business.

EXISTING INITIATIVES TO ACHIEVE EQUITABLE RATES OF BUSINESS FORMATION

City officials are adopting a range of initiatives to ensure MWBEs have equal opportunities to start a business:

- ◆ Expose high school and college students to entrepreneurship. [Enterprise education](#) can be an effective way to increase entrepreneurial aspirations among young people. For example, [Boston](#) connects the city's STEM students to entrepreneurship resources and programs as part of its efforts to boost minority and female entrepreneur's entry into high-growth sectors. In [Pittsburgh](#), Chatham University's business students are matched with women-owned businesses to get hands-on experience in entrepreneurship while supporting female entrepreneurs.

- ◆ Accelerate women and minorities' entry into entrepreneurship. For example, in [Kansas City](#), female entrepreneurs can participate in FastTrac classes to test the feasibility of their business concepts. The program is offered by OneKC for women in collaboration with the Kauffman Foundation.
- ◆ Create programs for youth entrepreneurship in disadvantaged neighborhoods. For example, in [Cleveland](#), a program was set up to encourage residents to pursue food entrepreneurship. By partnering with a foundation, a grant was made available to support young entrepreneurs to develop food-based businesses.
- ◆ Give visibility to minority and female entrepreneurs. For example, in [New Orleans](#) a festival was organized to celebrate minority entrepreneurs. Activities included a pitch competition, a business building boot camp and networking opportunities with investors.

WHAT DOES THE EVIDENCE SHOW?

While the above initiatives offer inspiration for what city officials can do to support entrepreneurs, to our knowledge their actual impact on minority and female entrepreneurs has not yet been evaluated using randomized controlled trials. As a result, we do not know whether they actually resulted in increased business formation among racial minorities and

women. The highlighted trials below demonstrate why it is important to run randomized trials to test whether interventions yield desirable results and are the most effective use of public resources. (For detailed descriptions of these trials see Annex).

- ◆ Does free entrepreneurship training result in higher business ownership by minority founders? Project GATE (Growing America Through Entrepreneurship) was a prominent randomized trial on the effect of free entrepreneurship training on business formation and growth. [The trial](#) showed that free entrepreneurship training does not always result in increased business ownership and may perpetuate [existing entrepreneurship gaps](#) if it is not designed with the needs of underrepresented entrepreneurs in mind.
- ◆ Does exposure to entrepreneurs encourage students to pursue entrepreneurship? Two trials (in the US and Germany) demonstrate that direct [exposure to entrepreneurs](#) - particularly of the [same gender](#) - can be an effective tool to increase entrepreneurial aspirations among university students. However, further research is needed to replicate this finding among non-university students (e.g. among young people in disadvantaged communities).
- ◆ Does social entrepreneurship training work to increase entrepreneurial activities among young people?

◆ One [trial](#) examined the impact of a national six-month training program to encourage leadership in social entrepreneurship among young people in France. Results showed that the training can increase their entrepreneurial activities, depending on how it is designed. For example, including social leadership skills training was more effective than analytical skills training.

Experiment ideas. There are many initiatives to increase business formation among minority and female entrepreneurs whose impact is yet to be experimentally tested. Based on our research and conversations with NLC cities, we identified the following unexplored questions that could benefit from experimentation:

- ◆ Do FastTrac classes for minority and female founders result in more viable business ideas?
- ◆ Do youth entrepreneurship programmes increase entrepreneurial aspirations in disadvantaged communities?
- ◆ How could entrepreneurship training be designed to increase business ownership rates among minorities and women?

Importantly, these initiatives alone are unlikely to have a long-term impact, if they are not complemented with tailored support to improve minority and female founders' access to finance, networks and markets. For potential interventions to provide such tailored support, see the next section.



TAILORED SUPPORT CHALLENGE:

How can cities improve business support and networking opportunities so women- and minority-owned businesses can thrive and grow?

KEY BARRIERS

Given that minority and female entrepreneurs face different barriers, they are likely to benefit from tailored support that matches their needs and preferences. Indeed, research shows how some business support programmes may be effective for MWBEs, but not for others. For example, one [study](#) found that an entrepreneurship training program helped encourage entrepreneurship among minorities (female and non-Caucasians), but had no impact on non-minorities. The researchers suggest that the program allowed minorities to access opportunities they would otherwise be unable to access, thereby benefiting them more than non-minorities. When it comes to [accessing finance](#), another study

found that 'startup helpers' increased the odds that female entrepreneurs seek external finance, but had no effect on male entrepreneurs' likelihood of seeking finance.

However, while offering tailored resources is important, this should not always result in separate programs for minority and female entrepreneurs. Research on creating [inclusive incubators and accelerators](#) suggests to offer tailored resources in addition to the standard business support, because segregating entrepreneurs into separate programs may undermine networking benefits.

In sum, a 'one size fits all' approach is unlikely to work to support a diverse range of businesses. As a result, business programmes should be designed and evaluated with a specific target group in mind. Experiments can be a useful tool to design and evaluate tailored support programs.

EXISTING INITIATIVES TO OFFER TAILORED SUPPORT PROGRAMS

When it comes to offering support, it is important that city officials go beyond interventions that seek to 'fix' female or minority entrepreneurs, a common tendency in [entrepreneurship policy](#), but instead focus on interventions that address inequalities in entrepreneurship ecosystems when it comes to accessing finance, markets and networks. Existing initiatives include:

- ◆ **Create dedicated financing routes.** Various cities make dedicated funding available for MWBEs. For example, New York City created the [WE Fund](#) to help women entrepreneurs access capital to grow their business. [Invest Atlanta](#) provides gap financing through various loan programs to small businesses, as well as minority- and female-owned businesses.
- ◆ **Experiment with novel funding mechanisms**, such as peer-selected investment or participatory grant-making programmes. These alternative finance mechanisms allow other entrepreneurs or community members to decide which businesses get investment. Organisations like [RSF](#) and [Village Capital](#) have reported positive outcomes from these approaches, including lower gender and race bias.
- ◆ **Diversify support networks** by engaging

local minority and female business leaders as panel experts, judges and mentors - and partnering with minority and women business associations to deliver business support. Research shows that such [role models](#) and [mentors](#) can have positive effects on entrepreneurs' skills and confidence, particularly when they are relatable. What's more, mentors and role models can help minority and female entrepreneurs make connections and expand their professional networks. Engaging with someone who is familiar with underrepresented entrepreneurs' needs can also instill trust and encourage uptake. For this reason, [TechTown Detroit](#) hired an entrepreneur in residence from a minority background who is dedicated to recruiting, educating and supporting diverse entrepreneurs. In [Kansas City](#), a group of female entrepreneurs founded the Athena League, set up to connect with other female entrepreneurs and offer them 'a safe space to network with people who look and sound like them'. The network was launched in 2013, offering support, mentoring, and inspiration to "aspiring and established female entrepreneurs".

- ◆ **Set up incubators to support business growth.** Incubators offer new ventures support to help them through the fragile stages of growth. For example, Atlanta set up the [Women's Entrepreneurship Initiative](#), an incubator that offers access to work space, a network of experts and targeted financial education. Recent

[evidence](#) suggests that incubators are effective to boost growth: ventures that participated in an incubator dedicated to low-income, underprivileged entrepreneurs in South Africa were more likely to grow their revenue and employee base than similar non-incubated ventures. However, as mentioned above, it is important that these incubators follow [inclusive practices](#), such as ensuring a diverse set of mentors and trainers, offering a mix of in-person and virtual support and offer child care support.

WHAT DOES THE EVIDENCE SHOW?

To our knowledge, there are no existing randomised trials that design and test which types of support are particularly effective for women and minority entrepreneurs. Below we highlight three trials that sought to evaluate the effectiveness of various types of business support (i.e., interaction with role models, business plan competition, pitch training) which may be helpful to design interventions targeted at women and minority entrepreneurs.

TRIAL HIGHLIGHTS

- ◆ Can exposure to role models improve business outcomes of micro-entrepreneurs? A [trial](#) carried out in Chile shows that exposure to role models as part of a group training session can be an effective tool to help entrepreneurs improve their business. It can even be as effective as individualised consulting sessions to increase micro-entrepreneurs' business outcomes, and is less expensive.
- ◆ Can a business plan competition help identify and support high-growth entrepreneurs? A [trial](#) carried out as part of a national business plan competition in Nigeria found that the competition, combined with a financial grant and business plan training, can help identify potential high-growth entrepreneurs, and support them to overcome financial constraints.

◆ Does offering aspiring entrepreneurs pitch training improve their funding prospects? A [field experiment](#), carried out during pitching competitions at Northeast Ohio universities, aimed to test the impact of pitch training. The results showed that pitch training only works to increase the interest of experienced investors in better ideas, but on average does not benefit entrepreneurs.

EXPERIMENT IDEAS

There are many untapped opportunities for experimentation to better understand what support works for MWBEs. Based on our research and conversations with NLC cities, we identified the following unexplored questions that could benefit from experimentation:

- ◆ How can access to finance be improved?
- ◆ Does involving other entrepreneurs or community members in funding decisions reduce bias compared to traditional panels?

- ◆ Is offering financial support alongside business training more effective than financial support in isolation?
- ◆ How can access to networks be improved?
- ◆ Do ‘segregated’ or mixed training programs result in greater networking benefits for minority and female entrepreneurs?
- ◆ Do similar or diverse mentors result in greater networking benefits for minority and female entrepreneurs?
- ◆ How can access to markets be improved?
- ◆ Do city-operated incubators help minority and female entrepreneurs access government contracts?
- ◆ Do minority certification programs increase the likelihood of business success and increase access to new markets?

OPPORTUNITY CHALLENGE:
How can cities improve equitable access to city contracts and local procurement opportunities?

KEY BARRIERS

Cities across the US have set up preferential procurement programs for MWBEs since the late 1960s. Specific policies include designating a budget (‘set-asides’), offering training and technical assistance with bidding, and adjusting procurement criteria. Although the effectiveness of preferential procurement programs has long been [questioned](#) due to design flaws and poor oversight, recent research shows more positive effects. Based on interviews with entrepreneurs, [researchers](#) observed that procurement programs can enable minority entrepreneurs to establish better businesses and achieve rapid growth - if they are well designed. In particular, researchers suggest that the programs help minority entrepreneurs identify relevant opportunities and help them view governments as suitable clients. Other studies also show that preferential procurement programmes increase [black ownership rates](#) and the amount of [federal](#)

[budget](#) dedicated to disadvantaged businesses.

However, even if preferential procurement programmes can be effective, some [researchers](#) have noted low levels of participation, across procurement stages. [Barriers to participation](#) for minority and female entrepreneurs include difficulty in identifying relevant opportunities, a lack of capacity to apply and meet documentation criteria, and award criteria that focus too heavily on price rather than value.

During IGL’s work with cities from the NLC, we explored and uncovered the barriers at different procurement stages. An unequal distribution of businesses through the different stages of the procurement process may indicate where the disparities originate. For instance, if a lower number of MWBEs hear about the programme but do not apply, the balance won’t be the same as in the previous stage. It will point to potential constraints regarding the application stage, such as difficulty complying requirements, lack of time or capability to write bids or unclear selection criteria.

In the figure below we present a hypothetical example with indicative data for minority-owned businesses (MBEs). It showcases the barriers at the different stages of the procurement process and the importance of keeping a consistent balance through the entire process.

After the diagnostic process is completed, cities may want to explore the mechanisms

behind their intended intervention. For instance, one of the U.S. cities aimed to increase the number of vendors participating in public bids. In particular, the number of MBEs participating in public procurement calls and those engaged with successful applicants through a set of pre-bidding workshops to all construction companies.

To facilitate the exploration of the mechanisms behind the pre-bidding workshops, we helped the city develop a logic model that would present the specific barriers to overcome and the assumptions and causal pathways of the potential intervention's impact. The development of a logic model is a very useful tool during policy design and when developing an experiment. For instance, identifying the outcome measures to track and the cause and effect assumptions that could be tested. We also helped them draft a randomised trial design to test the intervention. Both the logic model and the trial design can be found in Annex 2 of this document.

In sum, minority and female entrepreneurs have low levels of participation in procurement opportunities due to various reasons, including a lack of awareness of suitable opportunities, ambiguity around selection criteria or a lack of capacity to meet criteria. Experiments can help disentangle which of these mechanisms drive low levels of participation and can help design and evaluate interventions to improve equitable access to procurement opportunities.

EXISTING INITIATIVES TO INCREASE EQUITABLE ACCESS TO PROCUREMENT OPPORTUNITIES

Existing to improve access to procurement opportunities for MWBEs include:

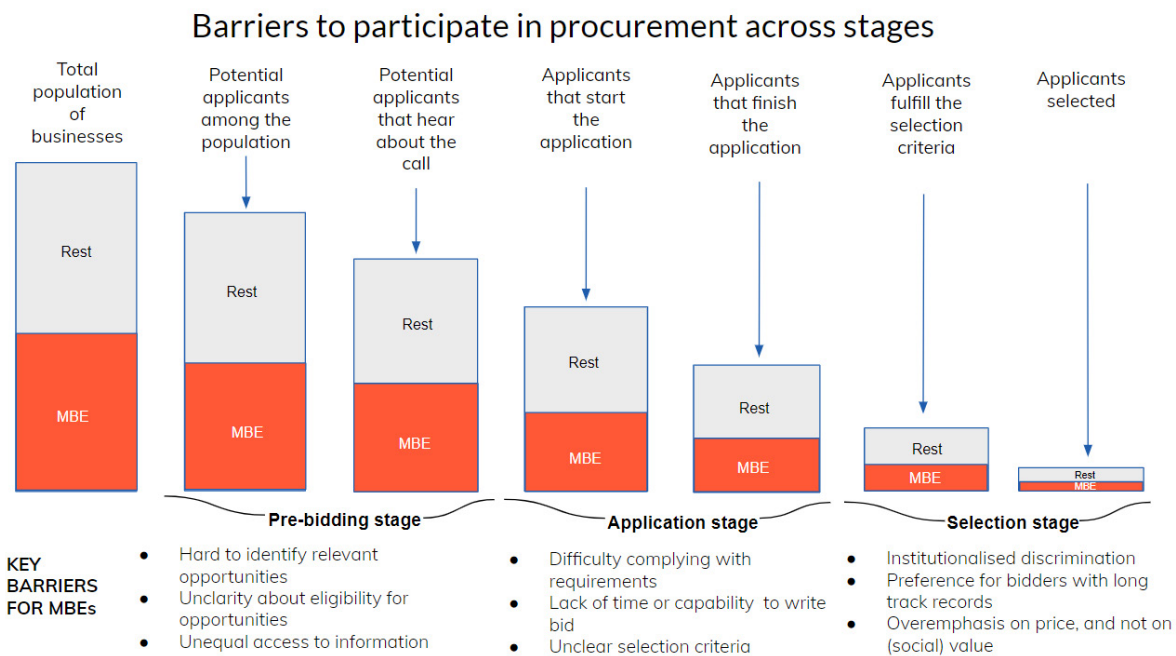
- ◆ **Improve accessibility of procurement opportunities.** Creating procurement platforms that clearly signpost relevant opportunities for minority and women entrepreneurs can increase their participation. For example, in 2020, [Los Angeles](#) announced plans to create a new online portal, Compete4LA, which will make it easier for MWBEs (and other small businesses) to identify relevant opportunities.
- ◆ **Set up pre-procurement programmes for startups.** To familiarise businesses with the city's ways of working and help them prepare their product or service for procurement, city officials can also consider 'pre-procurement programmes'. For example, [San Francisco](#) set up a startup in residence programme where startups worked with city departments to develop innovative solutions. After the residency, startups could access expedited procurement processes.
- ◆ **Engage in active outreach to increase awareness of procurement opportunities.** For example, [Seattle](#) carries out various outreach activities, including participating in events

with women and minority business associations, implementing a promotional campaign and facilitating meetings between MWBEs and department decision-makers. In terms of outreach mode, IGL has observed that using personal contacts and leveraging existing networks tend to be most effective to reach businesses. For example, a local council in the UK carried out visits to rural micro-businesses, which helped to generate new leads for support programmes offered by the council. An evidence review by [BIT](#) also suggests that real-time human interaction may be more effective than other modes. Similarly, in IGL's experience, channels such as newsletters, social media, direct mailing and press advertisements typically result in low response rates.

- ◆ **Design relatable outreach materials.** To increase minority and female entrepreneurs' engagement, outreach materials such as promotional images, videos and testimonials need to be relatable and represent minority and female entrepreneurs. A report by the [Behavioural Insights Team](#) (BIT) recommends various other techniques to encourage participation in various business support schemes (although not specifically for minority and female entrepreneurs). These include clearly explaining the programme and its benefits, minimising the number of steps and clicks in the application process and reducing complexity of the language.

◆ **Streamline application processes to minimise the burden on applicants.** [Equity in Philanthropy](#) recommends practices for inclusive grantmaking, many of which can be applied to streamline procurement application processes. Practices include making sure the process and timelines are clear, hosting optional information workshops and making applications short to minimise the burden on the applicants. Cities can also consider using letters of interest as a screening tool, before requiring full applications. Other [evidence](#) suggests that offering assistance with the application in addition to offering information can be helpful, although it is resource intensive.

◆ **De-bias selection processes for funding and business support.** To counter potential bias against female and minority entrepreneurs or their ideas, selection processes should be carefully reviewed with an equity, diversity and inclusion lens. Best practices include having a diverse selection committee, training panel members about subconscious biases against race and gender and being mindful of how questions are framed (e.g. avoid overemphasis on track record).



Property of Nesta (IGL). All Nesta (IGL) work is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License, unless otherwise noted

WHAT DOES THE EVIDENCE SHOW?

To date, there is little experimental evidence that shows how to increase participation rates of MWBEs in procurement opportunities. Some relevant evidence comes from other settings, such as how to increase participation rates in training courses or job applications. The majority of this evidence has been generated through ‘messaging trials’ that examine the effect of wording, format or diversity statements in outreach materials. As illustrated by the trials below, how messages are formatted or written can significantly influence application rates, if they are carefully designed.

TRIAL HIGHLIGHTS

- ◆ How does wording influence entrepreneurs’ likelihood to certify as a MWBEs? In a [randomised controlled trial](#) carried out by BIT, the city of Albuquerque sent letters to MWBEs to encourage them to self-certify with the city. By randomly varying the wording and formatting of the letters, the trial showed that simplified letters are not always more effective than traditional ones and require careful design and testing.
- ◆ Does de-biased outreach messages encourage more women to apply? One [trial](#) carried out in Latin America aimed to increase the number of women from low-income backgrounds that signed up

to a five-month coding bootcamp. The trial showed that including a de-biasing message that counteracts stereotypes about women in tech in the invitation message can be effective to encourage them to apply for a tech skills training course, in particular when the message features a role model.

- ◆ Do diversity statements encourage more women and racial minorities to apply? Messages that signal organisations’ explicit interest in recruiting women or racial minorities can increase application rates from these groups, but it depends on the design of the message. One [natural field experiment](#) conducted across 10 US cities found that equal employment opportunity (EEO) statements in job advertisements discouraged qualified racial minorities to apply. Another [trial](#), which used a different diversity statement, found that it increased the likelihood that racial minorities expressed interest, applied and got selected for a one-day summer internship program in finance at a Fortune 500 company.

EXPERIMENT IDEAS

There are fruitful opportunities for experimentation across the procurement stages, from the pre-bidding to the selection stage. Based on our research and conversations with NLC cities, we identified the following unexplored questions that could benefit from experimentation:

- ◆ How to increase the participation of MWBEs in the pre-bidding stage?
- ◆ Do pre-procurement programs help minority and female entrepreneurs access government contracts?
- ◆ Are minority and female entrepreneurs more likely to self-register if they are told how many peers have already done it?
- ◆ Do more inclusive messages to join the procurement process increase the participation of MWBEs?
- ◆ How to increase the participation of MWBEs in the application stage?
- ◆ Does offering support to complete the bid result in greater application rates?
- ◆ Does offering optional information workshops about the application process result in greater application rates?
- ◆ How to increase the participation of MWBEs in the selection stage?
- ◆ Do selection criteria that are focused on value rather than price result in greater selection rates of MWBEs?
- ◆ Do diverse selection panels result in greater selection rates of MWBEs?
- ◆ Do additional race-based points increase the opportunities of MWBEs to participate and win contracts without discouraging other types of businesses?

Conclusion

Cities play a leading role in supporting MWBEs. This report demonstrates how cities across the United States are undertaking a wide range of initiatives to (1) achieve more equitable rates of business formation, (2) tailor business support to diverse founders and (3) improve equitable access to city procurement opportunities. Policymakers face a complex and continuously evolving system and have very limited evidence of how to effectively influence it.

To better understand which initiatives are most impactful and should be adopted more widely, this report calls for more experimentation in this space. In particular, the application of a more scientific and rigorous approach to evaluation.

The use of randomised experiments to test small business programmes has been very limited, particularly in advanced economies, despite frequent calls from the research community to increase their use. Reasons for this are several and complex, from the overconfidence of some policymakers on the real impact of programmes to the lack of legal and institutional support, resources and data, limited research and evaluation capabilities and narrow attitudes towards change.

IGL has explored the [factors that influence the willingness to become](#)

[more experimental](#) in the context of European innovation agencies. We've also tried to [collect and understand the different barriers](#) that policymakers face to experiment, including recent studies on the gaps between [business support research and practice](#) in the US.

We believe that we need a more experimental approach to boost [diversity in entrepreneurship](#) and [tackle inequality in the public sector](#). As evidenced by our work with [business support providers](#) and innovation agencies, an experimental approach allows decision makers to trial new tools and to rigorously evaluate their impact, ultimately making more evidence-based decisions about which interventions to implement.

Based on IGL's work with the National League of Cities, complemented with desk research, this report highlights specific opportunities for experimentation to tackle various questions, ranging from how to design entrepreneurship training to increase business ownership rates among minorities and women to whether adjusting procurement selection criteria will result in higher selection rates of MWBEs. Get in touch with innovationgrowthlab@nesta.org.uk to discuss how we can help your organisation design and test novel ways to answer some of these questions.

Annex 1

Trial highlights

TRIAL HIGHLIGHT 1: Does free entrepreneurship training result in higher business ownership by minority founders?

Project GATE (Growing America Through Entrepreneurship) was a prominent randomised trial on entrepreneurship training, launched by the US Department of Labor and the Small Business Administration in 2003. The experiment involved individuals interested in starting or improving a business across seven cities. Participants in the treatment group were offered free training services, while participants in the control group were not offered any services. The results were discouraging: an [impact evaluation](#) found no long-term effects of the project on various measures of business ownership and performance (e.g., business entry/exit, earnings, sales, employees). Five years after the training, participants in

the control group were as likely as those in the treatment group to have started a business. Examining the effect of race, a [recent evaluation](#) of the same project found that it perpetuated existing gaps in entrepreneurship: white entrepreneurs were more likely to benefit from the project compared to African-American entrepreneurs. This discrepancy was best explained by differences in access to startup funding rather than differences in business skills.

Importantly, these findings do not imply that all types of entrepreneurial training will be ineffective to encourage entrepreneurship among racial minorities. Rather, they underscore the importance of developing tailored programmes with the needs of these entrepreneurs in mind. For examples of how to develop such tailored support, see section 2.2.

TRIAL HIGHLIGHT 2: Does exposure to entrepreneurs encourage students to pursue entrepreneurship?

One [trial](#) addressed this question by randomly assigning students in an entrepreneurship course at a US university to receive mentorship from an entrepreneur or a non-entrepreneur. Two years after graduation, students that were mentored by an entrepreneur were around 20 percent more likely to pursue an entrepreneurial career. Although it did not influence their likelihood to start a business, they were more likely to join an early-stage venture compared to those who were not mentored by an entrepreneur. The effect was particularly pronounced for students whose parents were not entrepreneurs, but the trial did not report differences in terms of gender or race.

[Another trial](#) carried out during an entrepreneurship course at a German university looked at the impact of female entrepreneurial role models on female students. Students were randomly assigned to work with either a female or male entrepreneur to prepare a business plan for the entrepreneur's startup. The

study showed that when female students were matched with female entrepreneurs, they reported higher entrepreneurial confidence, more favorable attitudes toward entrepreneurship and higher entrepreneurial intentions.

Overall, the evidence indicates that direct exposure to entrepreneurs can be an effective tool to increase entrepreneurial aspirations among university students, although it is unclear whether these findings would replicate outside a university context, for example to encourage youth entrepreneurship in disadvantaged communities.

TRIAL HIGHLIGHT 3: Does social entrepreneurship training work?

One [trial](#) examined the impact of a national six-month training program to encourage leadership in social entrepreneurship among young people in France. The program cost was around \$10,000 per participant, part of which was funded by the government. Participants came from various backgrounds, representing France's youth population in terms of socio-economic background, gender and education. To assess the program's

impact, researchers randomly selected 50 participants among the top 100 applicants to participate in the program and the remaining 50 participants were assigned to a control group.

After the first round of the experiment, the researchers found that the program had no influence on a range of outcomes, including social venture creation, sustainable behavior and leadership skills. The researchers then made substantial design changes to the program, for example, changing analytical skills training to social leadership skills training and social entrepreneurial identity development. After these design changes, the researchers found that those who participated in the program were more likely to engage in entrepreneurial activities (e.g. having a formally written business plan, submitting a patent application), but the program still did not result in increased social entrepreneurship intentions, activity or sustainable behaviour.

TRIAL HIGHLIGHT 4:
Can exposure to role models improve business outcomes of micro-entrepreneurs?

As mentioned above (section 2.2), exposure to role models can be effective to increase entrepreneurial aspirations among young people. A [trial](#) carried out in Chile shows that it can also be an effective tool to help existing entrepreneurs improve their business. As part of a training program, a group of micro-entrepreneurs (92 percent of which were women) were randomly selected to be visited by a role model, a successful alumnus of the training program. During a class, the role model gave a testimonial about his/her experience. Those entrepreneurs who were exposed to the role model reported increased household income a year after the program, mostly explained by increased business survival and business income. In fact, this role model intervention was found to be as effective as personalised, individual consulting sessions, with the role model intervention being the most cost effective option.

TRIAL HIGHLIGHT 5:
Can a business plan competition help identify and support high-growth entrepreneurs?

In an effort to boost high-growth entrepreneurship in Nigeria, a national business plan competition was launched aimed at people who wanted to start a new business or expand an existing one. The top 6,000 applicants were selected for a 4-day business plan training course, after which winners were selected. From a group of 1841 semifinalists, another 729 additional winners were randomly selected to be able to assess the [causal impact](#) of the program. The winners received an average of US\$50,000 to start or grow their business. The findings showed that the program had a large positive impact on applicants who aimed to start and grow their business. Those winners that used the grant to start a business, were more likely than the control group to have a business with ten or more employees. Those that already had a business, were more likely to survive, grow, innovate and report increased sales and profits. The study showed that these findings were best explained by the

winner's increased access to capital rather than changes in business networks or access to mentors. The trial demonstrated how the business competition was an effective way to attract potential high-growth entrepreneurs and help them overcome their financial constraints.

TRIAL HIGHLIGHT 6:
Does offering aspiring entrepreneurs pitch training improve their funding prospects?

One [field experiment](#), carried out during pitching competitions at Northeast Ohio universities, aimed to test the impact of pitch training. Participants delivered a 90-second elevator pitch to a panel of judges in order to win prize money. Prior to the pitches, participants were randomly assigned to five different treatments. The control group only received information about venture finance, but no information on pitching. The other four treatment groups received various forms of pitch training, covering multiple topics related to pitch content or style. All training was video-based, lasted 30 minutes and presented by the same actor. After the training, participants had 45 minutes to

write their final pitch. The findings showed that those who received training presented more informative pitches, which resulted in higher scores from experienced investors, but not from inexperienced investors.

TRIAL HIGHLIGHT 7:
how does wording influence entrepreneurs' likelihood to certify as a minority-owned or women-owned business?

In a [randomised controlled trial](#) carried out by BIT, the city of Albuquerque sent letters to MWBEs to encourage them to self-certify with the city. BIT created two versions: one letter was official and formal in tone (control group), the other was more personalised, used simplified language and included a clear call to action (treatment group). Surprisingly, the formal letter was more effective: after 30 days, businesses that received the formal letter were 22 percent more likely to register compared to businesses that received the other letter. According to BIT, the formal format may have signaled that the letter is important and from an official source, thereby increasing uptake. However, there could also be alternative explanations: perhaps the personalised letter could have been

better designed with the specific needs of minority and female entrepreneurs in mind or the personalised statements backfired because they were perceived as symbolic and ingenuine.

TRIAL HIGHLIGHT 8:
Do de-biased messages encourage more women to apply?

One [trial](#) carried out in Latin America aimed to increase the number of women from low-income backgrounds that signed up to a five-month coding bootcamp, ultimately to facilitate their entry into the tech sector. To invite women to participate, researchers randomly varied the information provided in the recruitment message. The control group received a generic message with basic information about the program. The treatment group received an 'identity de-biasing' message, intended to counter potential harmful stereotypes about women in the tech sector: it emphasised that firms in the tech sector were actively seeking to recruit women, it featured a successful alumna of the program as a role model and it highlighted the aim of creating a network of women in the industry. The de-biasing message resulted in a doubling of the number of applicants compared to the generic message. In a follow-up experiment, the researchers found that

featuring a role model in the invitation message was most effective to increase application rates. Emphasising the demand for women in tech or the networking benefits of joining the program also increased application rates, but to a lesser extent.

TRIAL HIGHLIGHT 9:
Do diversity statements encourage more women and racial minorities to apply?

In short, it seems to depend on the context and quality of the message. In a [natural field experiment](#) conducted across ten US cities, researchers investigated the effect of equal employment opportunity (EEO) statements in job advertisements. The researchers first posted a job ad for administrative assistant positions and asked job seekers to express interest. Then, the researchers randomly exposed interested job seekers to a job description with and without the following EEO statement: "(Employer) is an equal opportunity employer. All qualified applicants will receive consideration for employment without regard to sex, color, age, or any other protected characteristics". Surprisingly, researchers found that these statements discouraged qualified racial minorities to apply, particularly in cities

with white majority populations such as San Francisco, Houston and Denver. Based on a follow-up survey among interested job seekers, the researchers suggested that EEO statements increase the perception that racial minorities are token hires, which may have deterred minorities from applying.

In another [trial](#), researchers randomly varied the recruitment messages of a Fortune 500 company in the US for a one-day summer internship program in finance. The researchers created different types of messages that signaled the company's interest in employee diversity. For example, one message read: "Whatever you study, wherever you're from, whatever your background, {Firm Name} needs you! We need diversity in our skills and our minds, this does not change our principles but emboldens them". The researchers found that messages such as these increase the likelihood that racial minorities express interest, apply and get selected, but had no effect on women.

Combined, the findings suggest that whether signalling an explicit interest in recruiting women or minorities is effective may depend on the quality of the message. The statement used in the first trial was more standardised compared to the more personal messages used in the second trial, which may have provoked perceptions of tokenism. When including diversity statements in recruitment materials, it is therefore advised to evaluate their impact on the envisioned target group.

Annex 2 - Logic model

Logic model for pre-bidding conferences IGL

Challenge hypothesis <i>Write out your "if... then..." statement</i>	Inputs <i>What will you need to contribute to achieve this change?</i>	Outputs <i>What will be the immediate outputs?</i>	Short-term outcomes <i>What are the short-term changes or results you expect to see?</i>	Long-term outcomes <i>What are the long-term changes or results you expect to see? What's their magnitude?</i>
<p>If we provide MBEs with additional information and advice on public procurement through webinars and conferences then we can increase the numbers who participate and are successful in public procurement, especially among MBEs/WBEs</p>	<p>Resources</p> <ul style="list-style-type: none">• Funding to deliver the events• Contact details for certified and uncertified MBEs <p>Activity</p> <ul style="list-style-type: none">• Prepare pre-bid conference / webinars and promotional material for construction companies• Contact construction companies and MBEs with details on webinars• Deliver webinars and any follow up activity <p>Partners</p> <ul style="list-style-type: none">• Individuals delivering the information provision for construction SMEs and the pre-bid conference.	<ul style="list-style-type: none">• A total of xxx SMEs are contacted about the webinars including xxx certified and uncertified MBEs/WBEs• xxx webinars and pre-bid conferences delivered• Construction SMEs attend webinars for a total of 8 calls• Construction MBEs/WBEs attend webinars for a total of 8 calls	<ul style="list-style-type: none">• Contacted SMEs read the material and choose whether to attend the webinar• Improvements to awareness and knowledge of procurement process• Awareness of certification for MBEs/WBEs• Construction companies participate in public procurement - numbers of bids submitted• MBEs/WBEs participate in public procurement - numbers of bids submitted• MBEs expand networks/links to potential primes	<ul style="list-style-type: none">• Construction companies that receive the pre-bidding conference win more contracts• MBEs success in winning or being sub contractors on bids• MBEs complete certification• Increased growth ambitions of MBEs• Additional revenue and job creation
<p>Key assumptions</p> <p>Barriers to be addressed:</p> <ul style="list-style-type: none">• Expectation errors - they do not know what is required and potential benefits• Information gaps - eg primes and subcontractors not aware of each other• Lack of trust in the process• Complex rules• Unaware or uncertain about growth opportunities• Lack of access to relevant networks and exposure to• Reaching people at the most receptive times	<p>Key assumptions</p> <ul style="list-style-type: none">• No legal constraints to randomise information provision• Team committed to deliver information provision• Structured plan for webinars developed• Access to business data	<p>Key assumptions</p> <ul style="list-style-type: none">• Information campaign can be deliver and businesses reached• Business engagement can be monitor online and register businesses who attend the webinars	<p>Key assumptions</p> <ul style="list-style-type: none">• Information campaign can be deliver and businesses reached• Construction businesses, in particular MBEs/WBEs don't face additional constraints to begin the procurement process	<p>Key assumptions</p> <ul style="list-style-type: none">• Webinars are a successful tool to confront barriers• MBEs are not facing additional barriers to win the procurement that are not addressed in the webinar



Trial Design: Information provision and procurement engagement

PICO Approach

- **Population:** Construction companies from the an specific area
- **Intervention:** Introduction of pre-bidding conference and information campaign informing about it
- **Control:** Information campaign with no specific information on conference
- **Outcomes;** Engagement with the information campaign, as well as the procurement process

Key feasibility assumptions

- No legal or other limitations on how access to the webinars is randomised
- Plan and resources to deliver information campaign
- Capabilities to record and monitor information engagement (click-through rates, opening-rates or similar.)
- Delivery of pre-conference workshops or webinars
- Monitor procurement engagement of construction companies and MBEs/WBEs

