Economic Development Research Partners

The EDRP program is the “think-tank” component of IEDC, designed to help economic development professions weather the challenged and gran opportunities from economic changes affecting our communities. EDRP members are leaders in the field of economic development, working through his program to improve the knowledge and practice of the profession. IEDC would like to thank the Economic Development Research Partners program for providing the impetus and resources for this project.

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Executive Summary

The covid-19 pandemic and the racial reckoning within the United States has exposed the need for increased investment and support for businesses and entrepreneurs of color in communities across the country. Within just the first three months of the pandemic, Black business ownership dropped by 41 percent, Hispanic business ownership by 32 percent, Asian American ownership by 26 percent and immigrant business ownership by 36 percent. In comparison, White-owned businesses fell by 17 percent, making them less than half as likely to close than a Black-owned business. The Paycheck Protection Program (PPP), the federal government’s signature small business relief program, left significant gaps for small businesses of color, and especially Black businesses. According to the New York Federal Reserve, PPP loans only reached 20 percent of eligible firms in states with the highest densities of Black owned firms, and in counties with the densest Black owned business activity, coverage rates were typically even lower.

Economic development organizations (EDOs) have an opportunity to work with and support entrepreneurs of color to overcome short- and long-term barriers through programs tailored specifically for them. ‘Investing in Entrepreneurs of Color: A Playbook for Economic Developers’ – a publication by IEDC’s Economic Development Research Partners (EDRP) program – is a comprehensive guide for EDOs on how to support small businesses and entrepreneurs of color.

This playbook presents research on the effects of the pandemic on small businesses owned by people of color, identifies barriers these businesses face, makes an argument for why it is important for economic developers to address challenges at the local and regional level, and showcases multiple examples of how different EDOs around the country are successfully supporting local entrepreneurs of color.

The challenges and inequities entrepreneurs of color have faced during the pandemic are not new, and have contributed to a history of inequitable revenues, financing, employment levels, and other outcomes for businesses owned by people of color. These barriers include but are not limited to:

- **Access to Capital**: Gaining access to capital can be difficult for all entrepreneurs, but it is even more difficult for entrepreneurs of color. Black and Hispanic entrepreneurs struggle most with raising capital to start or expand their businesses. In 2019, 33 percent of all SBA loans went to a minority-owned small business, with only 3 percent going to Black-owned small businesses and 7 percent going to a Hispanic-owned small businesses. Greater likelihood of poor credit, discouragement about applying, and discrimination in general are among the underlying factors for this disparity.
Investing in Entrepreneurs of Color

- **Social Capital**: A large network of business relationships can help a business owner more successfully apply for a loan, secure clients, and learn the ropes of what it takes to be an entrepreneur. While lack of connections can be a barrier for all entrepreneurs, entrepreneurs of color are less likely to have connections to people in financial institutions and existing business circles, and to those who can provide technical assistance.

- **Access to Contracts**: Whether a business is just getting started, or is established and wants to scale-up, securing business is fundamental to staying open and growing. Smaller business networks can make finding and securing contracts and clients more difficult for entrepreneurs and business owners of color.

- **Access to Assistance**: Generic small business support programs may not always be effective in helping entrepreneurs of color for a variety of reasons. Language barriers and business support centers that are not accessible by public transport are some reasons why many small businesses owned by people of color are unable to fully utilize assistance programs.

- **Culture of Entrepreneurship**: Due to stereotypes of what and who an entrepreneur is, many people of color, especially youth, do not view entrepreneurship and business ownership as a way of life for themselves. Lack of exposure to a culture of entrepreneurship and lack of role models may lead to that belief.

Local and regional leaders including EDOs have been addressing some of these issues through local programs, especially during the pandemic. Many EDOs that had never worked directly with businesses found themselves learning all about small business financing, adding job portals to their websites to help spread the word about businesses that were still hiring, and engaging in more tactical activities like working with local elected officials to create temporary parking zones so restaurants can accommodate increased demand for takeout food. Several EDOs designed programs specifically for businesses owned by people of color in response to local and national data about disparity in outcomes. Others adapted well-established successful programs to address challenges arising specifically from the pandemic. Several such stories have been captured by other IEDC research during the pandemic and can be found on the [www.RestoreYourEconomy.org](http://www.RestoreYourEconomy.org) website.

This playbook showcases programs and organizations that focus primarily on entrepreneurs of color, whether by design or because the vast majority of their customers are underrepresented populations. Several themes emerge as lessons for other EDOs that want to design new or expand programs aimed at entrepreneurs of color.

1. **Doing Biz Differently or “Business as Unusual”**: The pandemic forced EDOs to get creative to address their communities’ and businesses’ needs. New ideas and business practices can and
should be similarly deployed to address racial inequities in entrepreneurship and small business development in the future.

2. **Work with Entrepreneurs to Overcome Barriers to Access Capital.** Raising capital is the biggest barriers for entrepreneurs and small business owners of color. Offering more flexibility when determining if a loan can be approved, becoming more comfortable with risk, and helping them qualify for future funding through assistance in improving credit and financial standing, are all ways to support entrepreneurs of color.

3. **Create Programs Specifically for People of Color.** Creating programs that were designed specifically for entrepreneurs and business owners of color is an effective way to provide targeted assistance. This holds true for access to capital, business assistance, and mentorship strategies.

4. **Think Long Term: Help Lessen Future Barriers.** Poor credit, lack of previous loan experience, and not having correct documentation are three of the main reasons why entrepreneurs of color are denied funding by traditional lenders. Offering programs that bridge the gap to traditional capital, boost entrepreneurs' credit while repaying loans, and mirror traditional lending applications so businesses understand the necessary documentation are all ways to help lessen future barriers.

5. **Identify and Fill Gaps through Collaboration.** The needs of entrepreneurs are so diverse that it is almost impossible for an organization to support every need an entrepreneur has. This is why it is critical that communities assess their entrepreneurship support ecosystem locally and regionally, assess gaps, and collaborate across multiple public and private agencies to fill those gaps for entrepreneurs of color.

6. **Rely on Community Leaders.** Local subject matter experts such as attorneys and accountants can provide practical and in-depth support to business owners and entrepreneurs. Sponsorship and mentorship from experienced business executives can help entrepreneurs grow their business network which could potentially lead to new business opportunities and clients.

Programs like those highlighted in the playbook alone will not be able to address the severity and scope of the problem of racial disparities and racial wealth gap in the U.S. A push towards business ownership should be a part of an overall strategy that aims to assess, identify and rectify long-held systemic barriers that lead to racial wealth gaps, both at the local and national level.