STUCK FROM THE START
The Financial Challenges of Low- and Moderate-Income African-American Entrepreneurs in the South
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If You Don’t Support Black Business Who Will?
INTRODUCTION

“Kayla” spent a decade working at a local hotel cleaning rooms, doing laundry and serving the continental breakfast. The hours of a housekeeper were long and hard to balance with raising a young family, but she loved the work. Inspired by her kids, Kayla started to dream of owning her own cleaning business serving local businesses and households. She signed up for business classes at a Women’s Business Center and wrote up a business plan through the program. Within a year, she got her first cleaning contract and enrolled in college to build her knowledge and skills. Since leaving the hotel, Kayla became a bona fide businesswoman with a sustained cleaning business and a Bachelor’s degree in Business Administration. Despite all her hard work and sleepless nights, Kayla is still barely making it. She’s only paid herself twice in five years, relying on her husband’s salary for the family’s income. As she doesn’t have the resources to hire employees or take on clients that would offer higher-paying contracts, Kayla is hoping to get a business loan to expand. Without strong profits and a thin credit history, she is stuck in an entrepreneur’s catch-22.

Kayla’s story mirrors those of many Black entrepreneurs, particularly those from low- and moderate-income households, which constitute 58% of all African American households. One avenue commonly used to advance greater economic security is business ownership. However, according to the Small Business Administration, business ownership among African Americans is growing, but disparities in the success of Black-owned businesses compared to White-owned businesses is worsening. Black-owned businesses averaged $58,000 in revenue while White-owned businesses averaged over nine times that amount ($546,000). Additionally, only 4.2% of Black-owned business had paid employees—another sign of a robust business—while 21.8% of White-owned businesses had paid employees. Even when compared to other minority groups, Black-owned businesses experience poorer performance on these outcomes of business success. These outcomes have their roots in a long history of racism in the public and private sectors that has left the African American community uniquely wealth and asset poor creating a major barrier to sustainable business development.

In order to understand how the small business and community development field can better support Black entrepreneurs in economically challenged communities, Prosperity Now conducted interviews with low- and moderate-income entrepreneurs in the Southern United States—specifically Georgia, Mississippi and North Carolina—who identified as African American. We focused on the South because it is where the gap in revenues between White-owned and Black-owned firms is particularly wide. The interviewees shed light on the experiences Black entrepreneurs in low- and moderate-income communities face as they build a business and reveal where they want additional support.

1 The names of entrepreneurs interviewed have been changed in this report to protect their privacy.
2 For the purpose of this research, we define low- and moderate-income households as those with annual household incomes below 80% of the Area Median Income. See “U.S. Census Bureau, American Community Survey, 1-Year Public Use Microdata Estimates, 2015,” Federal Financial Institutions Examination Council, April 2017, https://www.ffiec.gov/Census/default.aspx.
4 Ibid. See also Prosperity Now’s Assets & Opportunity Scorecard at http://scorecard.prosperitynow.org/. There are sizable differences in average revenues between employer and non-employer firms which change the magnitude of the revenue disparity. As our interviewees include both firm types, we report an average revenue for contextual purposes.
About The African American Entrepreneurs Interviewed

Throughout Summer 2016, Prosperity Now interviewed 30 entrepreneurs in eastern North Carolina, southwestern Georgia, and the Jackson and Delta areas of Mississippi who identified—at least in part—as non-immigrant African Americans. We limited our conversations to those with annual family incomes of less than 80% of the area median income. The entrepreneurs had an average family income of about $30,000 per year with a range between $4,800 and $46,000. We recruited interviewees through a network of partners throughout the regions and by cold calling entrepreneurs through Black business listings and referrals.6

LOCATIONS

1. Greenville, NC
2. Washington, NC
3. Wilson, NC
4. Ahoskie, NC
5. Elizabeth City, NC
6. Fayetteville, NC
7. Albany, GA
8. Macon, GA
9. Columbus, GA
10. Shaw, MS
11. Greenville, MS
12. Indianola, MS
13. Jackson, MS

TOP INDUSTRIES

- Cleaning Services
- Retail
- Health Care & Social Assistance
- Food Service
- Construction
- Finance & Insurance

NUMBER YEARS IN BUSINESS

1-3 Years
12
4-6 Years
4
7-10 Years
Over 10 Years

The locations of interviews were selected with the advice and guidance of practitioners that work with Black entrepreneurs in the Southern United States. Our partners encouraged us to focus recruitment outside the major metropolitan areas as many perceive these populations receive less attention from researchers.
CHALLENGES EXPERIENCED BY BLACK ENTREPRENEURS

Our interviews with Black entrepreneurs in Georgia, Mississippi and North Carolina were originally about cash flow difficulties, but the conversations led to a broad exploration of the financial challenges faced by the business owners. In interview after interview, the entrepreneurs described financial challenges that led our team to deeper questions, such as, “Why are so many struggling with low sales?” and “Why are so many pricing their services below market rates?”

The answers to these and many other questions are rooted in the history of African Americans’ economic disenfranchisement, which today accounts for much of the difference in success between Black-owned and White-owned businesses. Robert Fairlie and Alicia Robb studied this issue and noted that the three key factors affecting outcomes for Black-owned business are limited startup capital, limited managerial and industry experience, and operation in a lower-revenue industry. They also suggest that discrimination by lenders and consumer markets may also be at play.

The personal stories from the entrepreneurs we interviewed, bolstered by past research on minority entrepreneurs, help us understand how low- and moderate-income African American entrepreneurs in the South experience cash flow and other financial issues and reveal the underlying systems that foster unequal outcomes for entrepreneurs in the United States.

“Unless something changes to make things better and make more cash available, we’ll be where we are. I’m surviving. I pay one bill at a time. It’s a daily walk. It’s a faith walk.”

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5 Key Insights From The Interviews With Entrepreneurs

Five common themes on cash flow and other financial issues emerged from the interviews with Black entrepreneurs in this study:

1. Cash flow issues are often symptomatic of deeper business challenges: limited startup capital, limited managerial and industry experience, and operation in lower-revenue industries.
2. Financial challenges are compounded by experiences with and perceptions of discrimination in both business lending and consumer markets.
3. Beyond increasing revenues and decreasing costs, many resorted to covering business expenses by using other sources of income, forgoing a salary, cutting personal expenses, delaying payment of bills and taking on personal debt.
4. Few described feeling connected with a robust network of supportive institutions, though a number of entrepreneurs—especially those in more urban areas and with higher incomes—sought help from institutions to address their financial issues in the past.
5. Many reported needing capital to support startup, expansion plans or cover operating expenses; others called for greater support in the form of training, technical assistance and strategic advice from mentors.

LIMITED STARTUP CAPITAL

“Jeremy” is the owner of a used car dealership. Motivated to work for himself, he saved while in the military to start the business with his cousin. As a business owner, he learned the hard way about the complexity of the finances involved. “I thought it was going to be easy but it turned out there’s a lot more to selling cars.” Jeremy reflected. After exhausting his limited savings, Jeremy turned to online lenders to finance the purchase of cars at auction. “Traditional banks don’t like to deal with us because car dealerships are a risky business. They’ll loan to a mechanic shop but not to a car dealer. It’s too up and down.” He felt that taking on costly debt was his only option as no one in his family had financial resources to invest in the business.

Jeremy’s story illustrates the challenge of starting a business with little to no savings or family wealth. We heard a lot about these challenges in our interviews. A seamstress and clothing store owner explained her family’s situation by saying, “It has never been enough. Never, ever. We all suffer the same issue of no money so there isn’t a lot we can do other than moving in together.” In order to save rent, she had recently moved her business to a new shared location with lower traffic and worried about keeping the business afloat.

Unfortunately, many African Americans do not have savings or wealth to leverage either on their own or through their family networks. This racial wealth divide culminates from a myriad of factors including past discrimination that constrained asset accumulation in previous generations and current dynamics of institutional racism in housing and credit markets limiting asset development in today’s economy. Among startups, Black-owned businesses are most likely to begin with zero financial capital, least likely to borrow and are more often reliant solely upon equity capital than are White-owned business. As approximately 44% of Black households in Mississippi and 50% in Georgia are in asset poverty, few entrepreneurs can draw on family wealth to support their business. Beginning with less has real consequences because, for small businesses, more startup capital typically correlates with stronger business performance.

“We didn’t inherit nothing; nothing was passed down. Our parents do all they can for us, but it was all on us from the beginning.”

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This undercapitalization from the start is problematic because it means an entrepreneur does not have enough of a buffer to withstand financial shocks and take corrective action when they are learning how to run the business.12

The entrepreneurs told us about the consequences of starting an undercapitalized business and the many personal sacrifices they had made to address their business’ financial issues. Using other sources of personal income such as a spouse’s salary or their Social Security check to cover business expenses was noted by almost all the entrepreneurs and had become an ongoing experience for many. Other common sacrifices included forgoing a salary, cutting business and personal expenses, working side jobs, delaying bill payment, leveraging family who can work for free and taking on personal credit card debt.

While the entrepreneurs largely considered these sacrifices a regular part of owning a business, constantly shifting business and personal finances is the manifestation of a cycle where limited assets at the start of a business leads to stagnation of the business and its development as a viable source of income and assets. As the owner of a landscaping business said, “You’ve got to have some money to make some money.”

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The Many Ways Interviewees Responded to Financial Challenges in Their Business

The entrepreneurs we interviewed were never complacent about managing through the financial challenges in their business. To weather difficulties in their business finances, interviewees tried to:

- Increase revenues (e.g., by expanding product lines, service areas or clientele)
- Decrease costs
- Build or utilize savings
- Improve systems for late accounts
- Adjust pricing
- Improve recordkeeping
- Apply for a loan or establish a line of credit
- Receive gifts or informal loans from friends or family
- Improve their credit score

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The Importance of Financial Assets

Only a few of the entrepreneurs had avoided major financial challenges. These entrepreneurs were distinguished not so much by the strategies they utilized to address their financial issues, but rather by their greater access to financial resources. One of these entrepreneurs, “John” retired from military and civilian careers and was able to use his GI-funded college classes as a resource in building his food product business. His siblings helped finance the new food product business and his pension provided for his personal needs during startup. John was one of the few entrepreneurs not regularly running out of money before the end of the month. He secured a loan from a local community development financial institution after participating in a business planning class and also opened a line of credit on the basis of his strong credit score. As John recalled, “I knew about lines of credit from doing research, speaking with other business owners, talking to professors at school.” By leveraging a number of financial (and social) assets in his personal network, John appeared to be on a path toward building his business into an asset for his family.
“I’m still learning. I just know that working for somebody for 30-40 years is not it—not without having something of my own. Many young African Americans have limited savings or high student loan burdens that put them behind the curve, and limit their access to credit tools before they even have a chance to build anything.”

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The entrepreneurs we interviewed often talked about the challenges of trying to learn about their industry and how to manage a business while trying to keep their business going. They shared that they had learned lessons in financial management on their own through trial and error. For example, the owner of a tax preparation and bookkeeping business explained how he started his company out of necessity and learned the ropes through research at his local library and online. This type of research did not help him account for the full range of expenses he would encounter in his first season. He explained that his lack of experience in managing cash flow led to closing his storefront. “I couldn’t bring the income and expenses together and it dawned on me,” he recalled. “We were heading toward a cliff here during tax season…it was like baptism by fire.”

In general, entrepreneurs with managerial and industry experience are more likely to see positive business outcomes. And, while there are several ways entrepreneurs can get this prior to becoming a business owner (e.g., experience managerial and industry experience at another company), hands-on experience with a family’s business is particularly powerful. Unfortunately, the opportunity to work in a family business is limited for Black entrepreneurs. Only 12.6% of Black business owners had prior work experience in a family member’s business, compared to 23.3% of White business owners.

Some of the entrepreneurs mentioned having a family history of business ownership but did not discuss whether or not they worked in those businesses. Of note, Fairlie and Robb’s research found that while having work experience in a family business is a strong predictor of business performance, simply having a family member who owns their own business is not related to the entrepreneur’s business outcomes. Only one of the entrepreneurs, the owner of an audiovisual technology company, talked about working in a family member’s business. His experience working alongside his mother and father appeared to give him a sense of confidence in the direction of his business, saying, “You can lose clients, you can gain clients, there’s a lot going on, but at the end of the day, it feels pretty solid.”

Though most of the interviewees did not speak to learning business skills from a family business, they did share their many attempts to develop their own managerial and industry experiences. Many of the entrepreneurs reached out to institutions such as business development organizations, lenders, and college and university programs for support in the past. The owner of a hair salon explained that when she started out, she “didn’t know anything about the business […] I just had $500 and God.” This was the case until she attended seminars and classes from a community college and a local university to learn to how to manage her business’ finances.

While many of those interviewed were able to receive support from institutions, the entrepreneurs’ relationships were often limited to one strong organizational connection and some expressed complete disconnection from most of these forms of support. An entrepreneur with a small record label summed up this perspective: “If there’s help available, they haven’t done a good job of making themselves known. I haven’t sought it out as much, but as far as seeing stuff, I haven’t seen anything.” Others noted that existing programs may not be doing all they can to reach entrepreneurs in need of support.

“I heard about a program for minority entrepreneurs but they didn’t advertise. I found out about it but it had closed. They should have promoted it more.”

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14 Ibid., 30.
Another avenue for learning managerial skills and industry practices is through networks. Although there is little research on the potential impact of social and business networks on the differences in performance outcomes between Black- and White-owned businesses, this networking barrier was frequently mentioned by the entrepreneurs we interviewed. A public relations consultant explained her challenge in learning from other business owners, saying, “There is a lot of old money here from ‘hand me down business’ that are non-minority and older. They don’t want to make the time.” The owner of a used car dealership said, “Every car dealer I know is White, and they definitely aren’t going to tell me anything.” A few interviewees also noted the challenge of finding African American mentors or peers working in the same industry.

“Networking groups serve bigger businesses with money for marketing and advertising, which are typically White-owned.”

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Without the guardrails of significant startup capital or family wealth, room for error is razor thin for many African American entrepreneurs. Too many low- and moderate-income entrepreneurs learn by costly trial and error due to a lack of opportunity to work in a family business and because of racial discrimination in business networks.

16 There is some acknowledgement that highly established “old-boy” networks have helped to preserve the dominance of White-owned businesses in some industries, like construction. Bates, “Minority Entrepreneurship,” 216.
OPERATING IN LOWER-REVENUE INDUSTRIES

“Jacob” runs a shoe shine stand that has shrunk over the years. “I used to make $50-75 just shining shoes,” Jacob explained. “Now, it went down to $20, because your traffic isn’t there. You used to have more lawyers, office-type people who’ve been there for years.” There are also fewer people wearing shoes that require shining services. Over the course of 10 years, the combination of reduced traffic and changing shoe choices by consumers resulted in a reduction of about half his income. Jacob wants to continue the business as a tribute to his father, carrying on his legacy as an entrepreneur and local leader. To keep the shoe shine stand open, Jacob now works at a fast food restaurant to make ends meet.

Many of the entrepreneurs interviewed found themselves in industries with limited revenue-generating opportunities—especially when operating in geographies with declining economies. This includes industries such as personal, cleaning and food services as well as stores that sell goods directly to consumers. The Small Business Administration reports that a disproportionate number of Black-owned business are in the bottom 20 industries by sales.17 In aggregate, 58.9% of Black-owned businesses are in the bottom 20 industries, compared to only 30.6% of White-owned businesses.

In addition to the higher start-up costs that may be involved, limited education, occupational pathways, political and social systems built on segregation and other racist or discriminatory practices constrain many Black business owners from pursuing businesses with higher revenue opportunity.18 Additionally, like Jacob, many of the interviewed entrepreneurs choose industries for personal, social or cultural reasons. As the owner of a store offering Afrocentric products explained, “People in this area needed to reconnect with their history, culture and spirituality [...]. What I’m doing here is more about education and empowerment; it’s not like I make a lot of money.” While running a business to achieve a sense of personal freedom and cultural expression, he struggled to make the business profitable and largely relied on occasional side jobs in construction to cover his expenses.

In the face of limited revenue opportunities, many of the entrepreneurs responded by pricing slightly below what they understood to be market rate; in other words, they were knowingly undercharging to secure more business. This went beyond grappling with pricing challenges that is a normal part of gaining one’s footing in financial decision-making and exacerbates the entrepreneur’s financial strain. It shouldn’t be too much to ask that opportunities in their communities be socially fulfilling and economically viable, but at present, this is all too often a lofty proposition. More often than not, Black entrepreneurs seem to be stuck in industries that fail to materialize into more financially viable opportunities.

18 Prior to the 20th century, Black workers were limited to service fields that followed roles expected of freed slaves serving affluent White patrons. In the 20th century, Black-owned businesses diversified in industries, but were mostly limited to serving the growing Black middle- and upper-income classes. In the 21st century, opportunities to enter higher-revenue industries appears to trend with educational opportunities, so while the number of Black-owned business in higher revenue industries (i.e. technology) is growing, the level is still low compared to White-owned businesses. See, Bates, “Minority Entrepreneurship,” 162. See also Walker, The History of Black Business in America, for more about the history of Black-owned businesses.
“There weren’t a lot of people left in this area; a lot of businesses are no longer here. It forces us to have to lower our prices for people who are left here without jobs in this area.”

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DISCRIMINATION IN BUSINESS LENDING AND IN CONSUMERS MARKETS

Nearly half of the entrepreneurs we interviewed shared unprompted experiences of how discrimination contributed to their challenges or impacted their ability to address their business’ financial issues. Previous research on minority entrepreneurship finds that African American entrepreneurs experience discrimination both in business lending and in consumer markets. Fairlie and Robb deem a large portion of the Black-White gap in business outcomes as “unexplained” and potentially due to factors that could not be included in their model, such as discrimination.

Discrimination in Business Lending

Most interviewees personally encountered barriers to borrowing. The entrepreneurs interviewed identified many reasons for wanting to access credit to operate and expand their businesses. Some common reasons cited include repairing equipment, renovating their place of business, buying inventory, hiring additional staff and covering expenses that have to be paid where there’s not enough income. They noted hearing discouraging comments, such as “you don’t look like management material” from lenders, along with encountering racist double standards that require Black business owners to have “all your ‘T’s crossed and ‘I’s dotted.”

There is a well-documented collection of scholarly literature that “consistently finds Black-business borrowers pay higher interest rates and experience a higher incidence of loan denials than White-business borrowers, and these differences persist after firm and owner traits (including measures of credit worthiness) are controlled for statistically.” When they do receive loans, Black business owners are given smaller loans than White business owners in similar situations.

Timothy Bates notes in Foundations and Trends in Entrepreneurship, “The fact that Black-owned firms had less access to financing than White-owned firms had is well established and not controversial.” When Black business owners borrow for their businesses, they consistently borrow less than their White counterparts.

“I got denied a lot of loans through traditional lending. I think a lot of it was because of my race. They made it hard. The conversations were confusing and at first I thought it was just the way they do business, but after a while, I figured they were trying to confuse me. I’d send paperwork and it would get lost. It gets misplaced again […]. They aren’t mean. They are nice and courteous so they dress it up […]. Because of who you are, there are barriers […]. Being an African American woman. I can’t tell you how I know [that I face discrimination]. So I pray or just find serenity.”

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Some of the entrepreneurs interviewed never approached lenders due to poor credit history, lack of records or perceived low sales. One entrepreneur who owned a cleaning company said, “Getting a loan when you are just a ‘self-business’ is very hard. I can’t go that route. Instead you have to make everyone in the family sweat.” She—like many others—had, at least for the moment, assumed they would be denied. The effects of lending discrimination appear to have a circular effect: Black business owners are less likely to seek loans than White business owners, even if they are credit-worthy, which further hinders their ability to build their credit and borrow at affordable rates in the future. They may also be asking for loans of smaller dollar amounts.

Access to and relationships with financial institutions were also noted as barriers for some interviewees. We heard about how the closure of a local bank impacted the community. A family of business owners explained, “We had a Black-owned bank that was shuttered by the FDIC two years ago. That created a real void in the community [because] they’d extend you lines of credit where the bank across the street would not; at alarming risk, but they still did that because they understood the needs of small businesses.”

### Discrimination in Consumer Markets

The owner of a cleaning company explained how consumer choices also added downward pricing pressure. Many of the interviewees shared their challenges attracting a diverse customer base due to their race and/or gender. Unprompted by the interviewer, the owner of a new cleaning service explained that she had potential clients that refused to speak with her, preferring instead to deal with her husband despite her primary role as the owner. She said, “There’s a lot of prejudiced people; prejudiced by color and gender.”

There is some evidence of discrimination in consumers markets—when business owners of one race do not have patrons of other races or are excluded from markets with potential clients from other races—but the research results are less consistent than the research reported on discrimination in lending markets. In the past, researchers argued that minority business owners self-selected into minority consumer markets because White clients were not likely to patronize their businesses. Over time, minority businesses concentrate in predominantly minority areas and have a hard time breaking into broader and wealthier markets.

Being limited to less affluent markets often means serving low-income consumers, which limits an entrepreneur’s revenue potential. An owner of a holistic health practice explained that industry standard is $1 per minute for a massage but, because of his desire to help his community, he often charges less than market value or provides services for free, saying, “Sometimes I have clients who can’t pay so I accept them anyway [...]. Charging them something that I feel like they may not be able to afford is hard [...]. I’m not struggling in a way that they are because I spend less than I make.” The challenges of running a business with limited financial resources appeared to be compounded by the markets in which they operated. Only one of the entrepreneurs we met spoke of charging a premium for her product. Most others were charging slightly or well below market rate.

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25 Ibid., 167.
28 It’s important to note that operating in industries with limited revenue opportunities and operating in less diverse markets are both at play for the entrepreneurs interviewed, illustrating the web of challenges these entrepreneurs face as they try to build a business.
It takes resources to expand services or explore new markets. For example, a public relations consultant developed a growing client base in a larger city, rather than her hometown, because she saw more potential for growth there. Despite the long commute, she hesitated to move to the city due to higher rents and knew it would take quite some time to build up the needed savings. Some scholars note that as African Americans gain more access to higher education, they are entering more lucrative industries with greater representation of diverse clientele, businesses and government clients. But, it is important to keep in mind that it takes resources and networks to expand services or explore new markets.

The leviathan of discrimination and racism continues to limit individuals and, in turn, their communities. Whether it’s blatant and well-documented, as in the case of discriminatory lending practices, or more subtle, as in the case of consumer choice or inclusion in business networks, Black entrepreneurs are seeing discrimination hamper their businesses from building the kind of wealth needed to make a dent in our country’s racial wealth divide.

“Vous can’t charge because there are a lot of people who are desperate for a job.”
ENTREPRENEUR IN MISSISSIPPI

ibid., 247-248.
CALLS FOR SUPPORT

The entrepreneurs we interviewed mentioned many ways they attempted to address financial issues. They also struggled to identify places they could go for support for their business. As they reflected upon their experiences, they shared opportunities for the small business and community development fields to better support both them and other African American business owners in the South. In particular, they requested help in four primary areas:

- Startup capital to invest in business or weather emergencies
- Loans for operating expenses and expansion plans
- Actionable training and technical assistance on business management skills
- Industry-specific mentorship and networking opportunities

Startup Capital to Invest in Business or Weather Emergencies

Given the struggles many of the entrepreneurs faced, it’s no surprise that they want opportunities to access startup capital. A number of interviewees looked into getting grants, but found that there are not many grants available to small businesses beyond building improvement grants. They reasoned this could be because there are not any grants available for businesses like theirs, or that the grants are available but they don’t know about it. These discussions about grants suggest there is likely confusion around how a business owner seeks startup funding for their business among the interviewees. In practice, grants are not a practical form of startup finding for most business owners as they are very limited and have stringent application or usage requirements. The underlying need being expressed is help in seeking and navigating the world of startup financing.

Access to Credit to Cover Operating Expenses and Expansion Plans

To help overcome discrimination in small business lending, the entrepreneurs called for greater access to credit products and a more open stance from lenders. Most of the entrepreneurs did not mention specific loan products with the exception of a desire to see more lines of credit, as well as credit-building products. Others spoke of the assistance many entrepreneurs need in learning about credit, understanding credit scores, and building or repairing their credit before accessing loans. Additionally, a few entrepreneurs wanted to see a more holistic loan application process that encourages the lender to better understand the borrower’s business history and unique circumstances in decision-making. Greater transparency on decision-making and coaching to ensure applicants understand how to position their business for future approval, if denied, was also requested.

“Human Capital” Training and Technical Assistance with Connections to Affordable Products and Services

The entrepreneurs interviewed expressed a desire for training and technical assistance to sharpen their business capabilities. They often suggested that training should be offered by other business owners, in workshops with similar businesses as peers and/or with substantial one-on-one tailored support. Additionally, training and technical assistance opportunities need to fit into their busy, time-limited schedules, be mindful of their skill levels, advertise directly to them, and be culturally appropriate.

In terms of desired content for training, the interviewees typically said they wanted to build their capabilities on tactical business skills like advertising, streamlining operations and financial recordkeeping. However, as

the challenges expressed by many of the entrepreneurs are at a more strategic level (i.e., industry choice, geographic constraints, startup capital access, consumer demand, business model and organizational structure), it is questionable whether or not training should focus narrowly on those tactical skills. Rather, it seems that there is an opportunity for training and technical assistance providers to help these entrepreneurs gain knowledge and advice on foundational business strategy questions, alongside the tactical skills.

In reviewing the challenges the entrepreneurs expressed, there also appear to be gaps in supports to address specific financial management issues. In particular, the entrepreneurs may benefit from support in addressing late or non-payment issues, pricing challenges, and how to anticipate and handle emergencies or unforeseen circumstances. They also thought connections to affordable professional services (e.g., bookkeepers, accountants, etc.), staff training and technology (e.g., billing and inventory systems) might make their business operations and management more efficient. The entrepreneurs were rarely aware of products and resources such as crowdfunding, microloans, buying clubs, contract-based funding or lines of credit which indicate additional space to extend support.

Industry-Specific Mentorship and Networking Opportunities

As many of the entrepreneurs did not know other entrepreneurs like themselves, they felt it was important to connect with others who work in the same industry through additional mentorship and networking opportunities. Their hopes for what a mentor might provide are similar to what the entrepreneurs hope to see from training and technical assistance: strategic, one-to-one advice on how to move their businesses forward. Some of the entrepreneurs shared that while mentorship from business owners outside their industry might meet some of their needs, nothing quite replaced guidance from someone with industry experience. Given that some interviewees perceived that White business owners were less than forthcoming in sharing their experiences, help connecting with other African American owners held broad appeal.

Making Personal Financial Development a Part of Business Development

Training on how to anticipate and weather the personal sacrifices of starting a business and how to manage family involvement in the business were mentioned as training needs. Almost all of the entrepreneurs regularly used other sources of income to cover business expenses. A few viewed their household and business finances as one and the same, though most understood that, in theory, separating business and personal finances is a best practice for business owners. In both cases, supporting personal financial capability can and should be a part of developing entrepreneurs’ business finances, and a few of the entrepreneurs specifically called for this kind of advising.
EXPLORING WAYS TO ENHANCE SUPPORT FOR BLACK BUSINESS OWNERS

These requests for support from the interviewees offer a number of opportunities for the field to explore innovations in the ecosystems of support for Black business owners. In this section, we list out these opportunities, framing them as open questions for the field to explore. We believe there is a role for government and philanthropic funders to support inquiry and action on these questions.

Opportunities for Direct Support to Black Business Owners

How might we support entrepreneurs by:

- Simplifying the process of finding information on startup financing opportunities?
- Integrating personal financial capability development resources and advising services with business development services (e.g., to help make decisions about when to continue work at another job until business is strong enough to pay themselves, to help repair personal credit so they can access loans for their businesses, etc.)? See Center for American Progress' proposals for expanded apprenticeship models in "A Progressive Agenda for Inclusive and Diverse Entrepreneurship," (Washington D.C., Center for American Progress, 2016), https://www.americanprogress.org/issues/economy/reports/2016/10/13/146019/a-progressive-agenda-for-inclusive-and-diverse-entrepreneurship/.
- Encouraging African American entrepreneurs with good credit to apply for loans or access safe credit-building loans?
- Creating more opportunities for aspiring and early-stage business owners to save through savings programs or lending circles? This flexibility is laid out in the legislation for the Assets for Independence program, upon which many IDA programs are modeled. Programs using private funds have the flexibility to make these design choices in a variety of ways.
- Offering technical assistance on how to reach profitable customers (e.g., in higher-income communities, with institutions/government, etc.)?
- Helping them to address persistent late and non-payment from customers?
- Connecting them with affordable professional services, staff training and technology for their business?
- Being more effective at marketing and outreach for technical assistance on business development?
- Encouraging paid apprenticeships with business owners in similar industries for aspiring or early-stage entrepreneurs?
- Making it easier for business owners to join professional networks (i.e., groups where participants share ideas for outreach, reducing costs, etc.)?

Leveraging Individual Development Accounts (IDAs) for Lower-Income Entrepreneurs

Individual Development Accounts, or IDAs, are matched savings accounts that help people with modest means to save toward the purchase of an asset, such as a business. When an entrepreneur in the program reaches the project requirements and receives the savings match, they can either use the combined savings to immediately purchase things that help them start or grow their businesses (e.g., buying inventory, designing a website, attending a trade show, joining a business association, hiring consultants, purchasing a company vehicle), or deposit it all into an account dedicated for business capitalization in the future. This flexibility for business capitalization in the IDA program, though often unrecognized, makes it a great resource for many lower-income entrepreneurs. See IDAs are a match savings programs that help lower-income people to save for key assets. Federally-funded Assets for Independence IDAs become increasingly flexible for entrepreneurs. Existing IDA programs across the country could consider targeted messaging and outreach specifically to aspiring and early stage business owners in the communities they serve. This flexibility is laid out in the legislation for the Assets for Independence program, upon which many IDA programs are modeled. Programs using private funds have the flexibility to make these design choices in a variety of ways.
STUCK FROM THE START

INTRODUCTION
Building Up Supportive Institutions to Improve Service Offerings to Entrepreneurs

In this section, we explore ways to improve support for institutions serving entrepreneurs, along with ways to support entrepreneurs directly. This is important because the institutional support available to lower-income Black business owners is limited. The Association for Enterprise Opportunity reported they were unable to find any national initiatives focused on low-wealth communities, particularly in rural areas.\(^{35}\) Local initiatives serving low- and moderate-income entrepreneurs often have financial constraints that limit their ability to serve these communities.\(^{36}\) For example, in Kayla’s case, the Women’s Business Center that provided valuable support to start her business closed due to lack of funding. Without a healthy ecosystem of institutional support, Black entrepreneurs are left with very limited resources to help them develop healthier businesses.

As our interview recruitment strategy involved partnering with business development organizations, a number of the entrepreneurs shared positive experiences with at least one organization. Unfortunately, this one positive experience did not typically translate into a more comprehensive system of support. Some entrepreneurs shared negative experiences with city- or county-level business development agencies when they reached out for support. Moving forward, how can institutions focused on developing Black-owned businesses gain more support to expand their services, geographical reach and sustainability? And, how can existing small business and community development entities that don’t currently have a focus on serving Black entrepreneurs become a stronger part of the ecosystem of support?

**OPPORTUNITIES TO SUPPORT INSTITUTIONS THAT SERVE ENTREPRENEURS**

How might we support institutions by:

- Providing monetary and technical support for research and development related to savings and credit-building opportunities for entrepreneurs (e.g., Create an IDA program within the Small Business Administration)?
- Funding programs with a mission to provide startup capital and technical assistance for lower-income, African American business owners?
- Exploring why there are continued barriers to information on startup funding among African American entrepreneurs?
- Investing more into CDFIs and other mission-based lenders?
- Enforcing fair lending laws more comprehensively?
- Encouraging more diverse hiring in leadership positions in business training and lending institutions?\(^{37}\)
- Incentivizing technical assistance that target business owners beyond the startup stage as they mature or need to pivot their business model?
- Seeding more business services (e.g., marketing and customer development, back office support, etc.) so that business owners don’t always have to perform these functions themselves?
- Expanding the types of organizations that might contribute to developing entrepreneurial ecosystems (e.g., churches, fraternities and sororities, and historically black colleges and universities)?

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\(^{35}\) Reimagining Technical Assistance: Shifting the Support Landscape for Main Street (Washington, DC: Association for Enterprise Opportunity, 2016).


CLOSING THOUGHTS

Our interviews underscore how starting and growing a business is difficult—especially for lower-income, Black entrepreneurs in the South. Despite their best efforts, Black entrepreneurs are systematically hampered by limited startup capital, knowledge gaps, operation in lower-revenue industries and discrimination. Opportunities are further limited by lack of access to or relationships with business development institutions. Entrepreneurs like Kayla, Jeremy and Jacob put a lot of themselves into operating their businesses, but it never seems to be enough. As Kayla shared, “I feel like I’m constantly falling [...]. My friend told me not to give up and I knew it was going to be hard [but] I feel like I can’t grow the business the way I want to.” We hope that by raising their voices within the small business and community development fields, we can collectively answer these entrepreneurs’ calls for support and create a future where the business success deck isn’t stacked quite so high against these drivers of local economies.

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