NYC Black Entrepreneurs: Barriers, Challenges and Opportunities

TruFund Financial Services
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Greater Jamaica Development Corporation

Harlem Entrepreneurial Fund

Preface

TruFund Financial, Greater Jamaica Development Corporation, and the Harlem Entrepreneurial Fund are Black-led CDFI's that serve a largely MWBE client base, and a significant number of these businesses are Black-owned. Each of the organizations have faced unique challenges in serving this population. In the context of providing access to capital to these businesses, in general, these businesses require a greater allocation of resources via technical assistance, an elongated timeframe of service provision, and are in need of one-on-one support to be equipped to undertake the loan underwriting process.

As CDFIs, working in similarly situated communities, the leaders of these organizations decided to form a collaborative that would investigate, through primary research, reasons for the unique challenges facing the businesses, identify key insights and propose culturally sensitive strategies that would better support these businesses.

TruFund Financial Services, Inc.

About TruFund Financial Services, Inc.

TruFund Financial Services, Inc. is a 501(C)3 certified Community Development Financial Institution (CDFI) headquartered in New York City with remote locations in Alabama, Louisiana, and Texas. Established in 2005, TruFund's mission is to promote and foster economic development within underserved communities and among disadvantaged populations by providing affordable loan capital, business advisory services, and technical assistance to small businesses. To accomplish its mission, TruFund provides innovative financial solutions and tailored products and services that have impact, revitalize communities, and create jobs.

TruFund has been instrumental in strengthening low- and moderate-income communities and their minority- and women-owned small businesses. As of Jan. 31, 2021, TruFund has approved approximately $170 million in small business loans to over 2,000 small businesses. It has helped create and retain more than 12,000 jobs and provided $97.1 million to the Minority- and Women-Owned Business Enterprise Program (MWBE). TruFund has also provided technical support to thousands of minority- and women-owned small businesses throughout its markets and the nation.

From 2005 to present, TruFund's disaster relief initiatives and programs have assisted small businesses all over the country and supported recoveries from crises and natural disasters such as Hurricanes Katrina and Rita, the 9/11 World Trade Center attacks, the 2010 BP oil spill, 2012's Superstorm Sandy, and the COVID-19 pandemic.

Over the past year, TruFund has processed over 1,150 loans totaling $35 million through the U.S. Small Business Administration's Paycheck Protection Program (PPP), providing many underserved small businesses with the resources and support they needed to continue serving their constituents during the pandemic. To date, more than 87% of PPP loan dollars have been deployed to minority-owned businesses.

TruFund® FINANCIAL SERVICES

More than a loan. An opportunity.

James H. Bason

President & Chief Executive Officer

Greater Jamaica Development Corporation

Greater Jamaica Development Corporation

About Greater Jamaica Development Corporation

Greater Jamaica Development Corporation (GJDC) is a community-building organization that plans, promotes, coordinates, and advances responsible development to revitalize Jamaica, Queens, and strengthen the New York metro region. Formed over 50 years ago, GJDC operates a Community Development Financial Institution (CDFI) whose role is to provide financial services in low-to-moderate Income communities.

As a local economic development corporation, GJDC is well-positioned in the CDFI space. In addition to providing financing and business support, GJDC owns properties in Southeast Queens and operates them strategically to support the small businesses and create economic opportunities with the neighborhood and the NYC region.

In the 1970s, GJDC opened parking facilities to make it easier for car-oriented shoppers to visit the downtown and patronize local businesses. Recently, GJDC has been working with the private sector to develop its properties into transit-oriented, mixed-use affordable housing developments; build out office space; and advocate for hotel development in the downtown to ensure Jamaica is a community where people can live, work, and play. GJDC also operates a food hall for restaurant entrepreneurs. In addition to creating space and attracting potential customers for small business, the properties GJDC manages generate revenue that contributes its CDFI's operating budget and helps to support the economic engine of a thriving transit-oriented community. Partnering with the public sector, GJDC also advocates for infrastructure improvements in Southeast Queens that both support residents and attract visitors.

GJDC's CDFI offers financing and technical assistances to all business owners in Southeast Queens and minority-owned business owners throughout the borough. The majority of GJDC loan recipients are minority-owned and female operated businesses.

Since its inception, through its CDFI, GJDC has loaned over $10 million in capital which has created or saved over 1,000 jobs. Over the last five years, GJDC lent more than $2.5 million through 84 loans that saved or created over 200 jobs. In addition to this work, GJDC has also helped local businesses access grant funds, tax incentives, procurement opportunities with state and local entities, and other business services.

Hope Knight

President & Chief Executive Officer

Harlem Entrepreneurial Fund

About Harlem Entrepreneurial Fund

Harlem Entrepreneurial Fund (HEF) was established in 2007 by Harlem Commonwealth Council, Inc. to address the local business community's challenges resulting from the Great Recession. HEF began lending in 2008, and in 2012 became a Community Development Financial Institution (CDFI). HEF's mission is to serve low-income and minority populations by providing lending capital and technical assistance to facilitate small business expansion and job creation in underserved Harlem, Washington Heights, Inwood, and Bronx communities in New York City. HEF targets minority and women-owned business enterprises (MWBEs), who comprise over 90% of the institution's borrowers and consist mainly of Black and Latinx entrepreneurs.

Additionally, the Harlem Entrepreneurial Fund provides technical assistance through its business education programs, Opportunity for Growth and Growth Path, and operates the NYC Business Solutions Centers of Upper Manhattan and Washington Heights on behalf of the NYC Small Business Services (SBS) to facilitate small business expansion.

The Harlem Entrepreneurial Fund provides affordable loan capital to minority and women-owned small business owners in Harlem, Washington Heights, Inwood, and the Bronx. Since its inception, HEF has originated more than 265 loans for over $5 million to small businesses and helped create or retain over 650 local jobs. Over the past five years, HEF has originated over 225 loans for $3.6 million to small businesses, of which 85% are Black-owned business owners, and helped create or retain 465 local jobs. During the COVID-19 pandemic, HEF served Black and minority-owned small businesses in Harlem and its surrounding communities by providing access to capital as a Certified Lender of the U.S. Small Business Administration (SBA) Paycheck Protection Program. HEF also broaden its loan offerings and products through the submission of applications to become a Community Development Entity (CDE) through the U.S. Department of Treasury - Community Development Financial Institutions Fund and a Microlender through the SBA.

HARLEM EF ENTREPRENEURIAL FUND

E. Hamil Douglas

Managing Director

Goal of Research

The goal of this work is to perform an analysis of New York City's Black-owned business landscape and unearth the unique challenges and barriers faced by Black entrepreneurs at different stages of the business lifecycle. Our analysis includes key findings and strategies to support Black-owned businesses through building capacity and accessing capital. With this study we hope to better enable CDFIs and other stakeholders to support the success and growth of Black-owned businesses.

What is unique about this work?

- We focus on the unique experience of Black entrepreneurs in New York City
  - Black entrepreneurs are one of the most underutilized groups in New York City procurement
  - Previous reports take a broader M/WBE focus, which often overlooks the fact that the M/WBE group itself is quite diverse
  - This focus allows us to provide insights and recommendations specific to the Black entrepreneurial community, rather than taking a one-size-fits-all approach
- Where previous work has focused exclusively on M/WBEs in City procurement, we also look at other procurement opportunities
- We offer practical solutions that stakeholders can implement, rather than focusing solely on bureaucratic issues

Background: Black Entrepreneurs in NYC

The Business Community in New York City is Very Diverse

- Of the **27.6 million** businesses operating in the US:
  - **9.4%** are Black-owned
- Of the **1.1 million** businesses operating in New York City:
  - **15.7%** are Black-owned

*Source: 2012 Survey of Business Owners
Note: Data include both employer and non-employer businesses. While the 2012 Survey of Business Owners is several years old, it is the only data source available that provides population estimates of the number of businesses (both employer and non-employer) by gender, race, and ethnicity of the owner at the city level.

This Leads to a More Diverse Pool of Potential Vendors for Procurement Opportunities, Yet Black-owned Businesses are Underutilized

- As an example, according to the 2018 City of New York Disparity Study, of all "available" vendors for city contracts, **11.3%** are Black-owned
- Yet Black-owned businesses are only **1.5%** of awardees:
- And according to the 2018 Making the Grade report for New York City, in FY 2018, the City spent **$1.5 billion** on requirements contracts, of which only **$1 million** (0.1**%**) was awarded to Black-owned businesses

*Source: City of New York Disparity Study (2018). Making the Grade: New York City Agency Report Card on Minority- and Women-Owned Business Enterprises (2018)..
Note: "Available" is defined by a business' active pursuit of registration to work with any public agency.

Why should we care?

- Black Americans have historically been deprived of opportunities to build economic security.
- Limited intergenerational wealth transfer, a lack of investment in majority-Black communities, and many other factors contribute to a racial wealth gap. Black households have one-tenth the median net wealth of White households.
    - Business ownership represents one way that this cycle of low wealth can be broken. The median net worth of Black entrepreneurs is higher than non-entrepreneurs by a factor of 12.
- Despite a strong entrepreneurial spirit, Black-owned businesses fall behind the national average in terms of size and revenue and are more likely to fail.
    - Black entrepreneurs have limited assets and wealth to start and grow their business, are underserved by financial institutions, resulting in a credit gap, and the accumulated experience of bias and discrimination has led to a lack of trust in institutions.
- Accessing procurement opportunities can provide opportunities for growth and expansion for these businesses, but they are dramatically underutilized in procurement.

*Source: Association for Enterprise Opportunity. 2017. "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success."

Research Methodology

Research Methodology

A mixed-methods research approach was used to provide a detailed analysis of the landscape for Black-owned small businesses in New York City.

This research included:

- A survey of 195 entrepreneurs and a survey of 21 stakeholders*
- Individual interviews with 14 entrepreneurs and 23 stakeholders
- Three focus groups: one with 9 entrepreneurs, one with 18 stakeholders, and another with both entrepreneurs and stakeholders (11 participants)*

*Stakeholders include supplier diversity/procurement, general contractors and practitioners whose work includes supporting the growth of black-entrepreneurs

Our Entrepreneur Sample

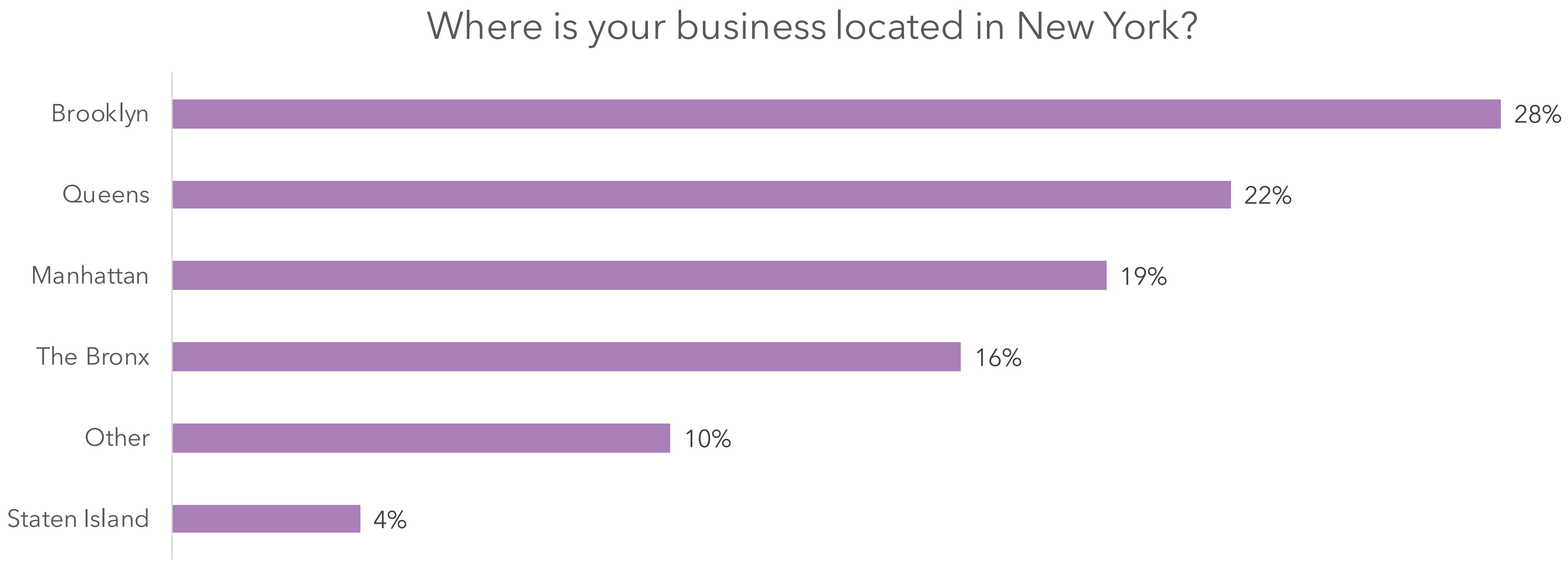
We are reasonably confident that our sample of Black entrepreneurs in New York City adequately reflects the actual challenges and opportunities facing the population. Specifically:

- Our sample represents a diverse group of Black entrepreneurs in New York City (see the "Characteristics of the Sample" section)
- The findings from our analysis are similar to those found in previously-published research, such as the 2018 City of New York Disparity Study
- Given the size of our population of interest (~166,000 Black entrepreneurs in New York City), the size of our sample (195), and assuming a 95% confidence level, the margin of error for our sample is 7%.*

*Most survey researchers view 4% to 8% as an acceptable range for margins of error.

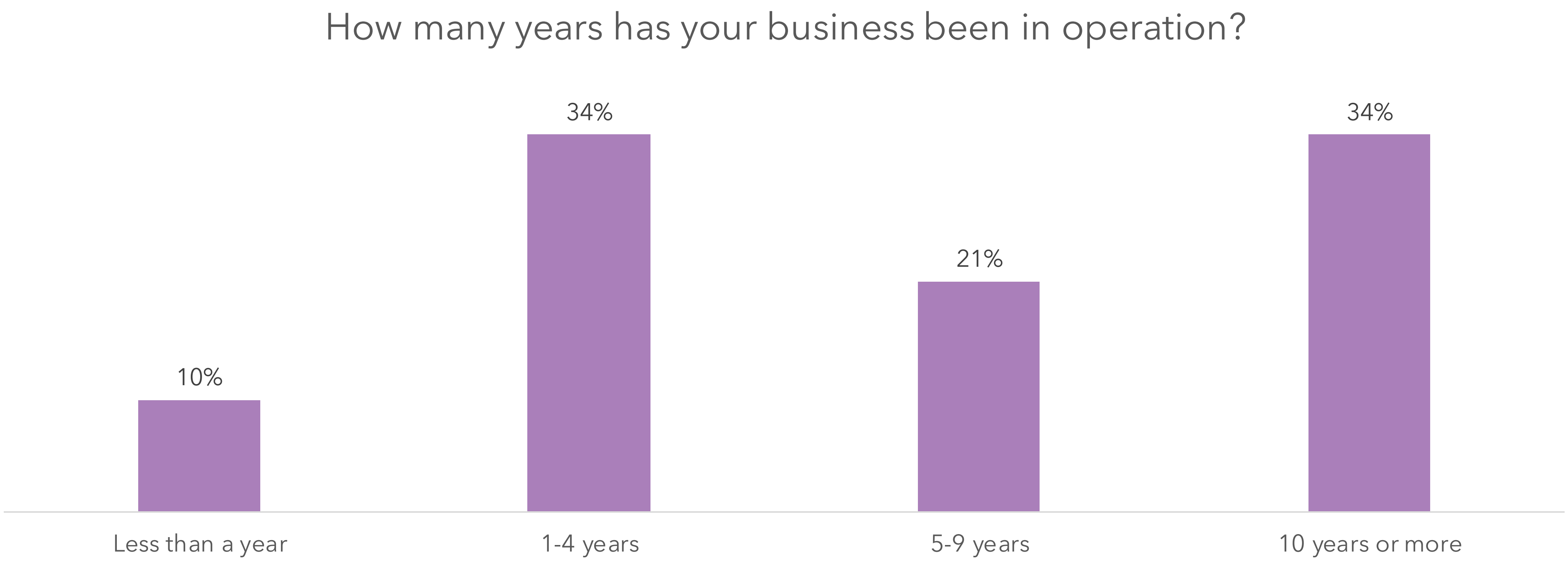
Characteristics of the Sample

The Black-owned businesses in the sample are distributed across the five boroughs



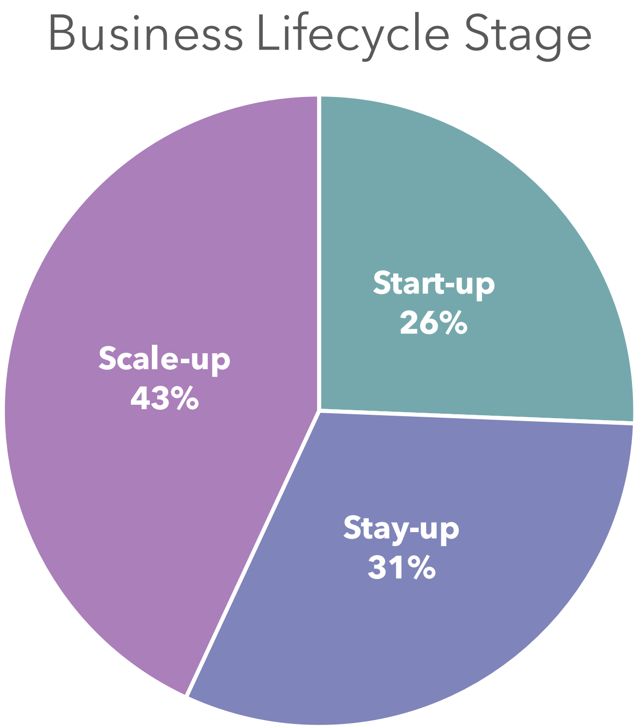
Notes: Percentages may not add to 100 percent because respondents could select more than one response. Total response = 195.

Most of the Black-owned businesses in the sample have been in operation for years



Notes: Total responses = 195.

Many of the businesses in the sample consider themselves to be in the "scale-up" stage of the business lifecycle



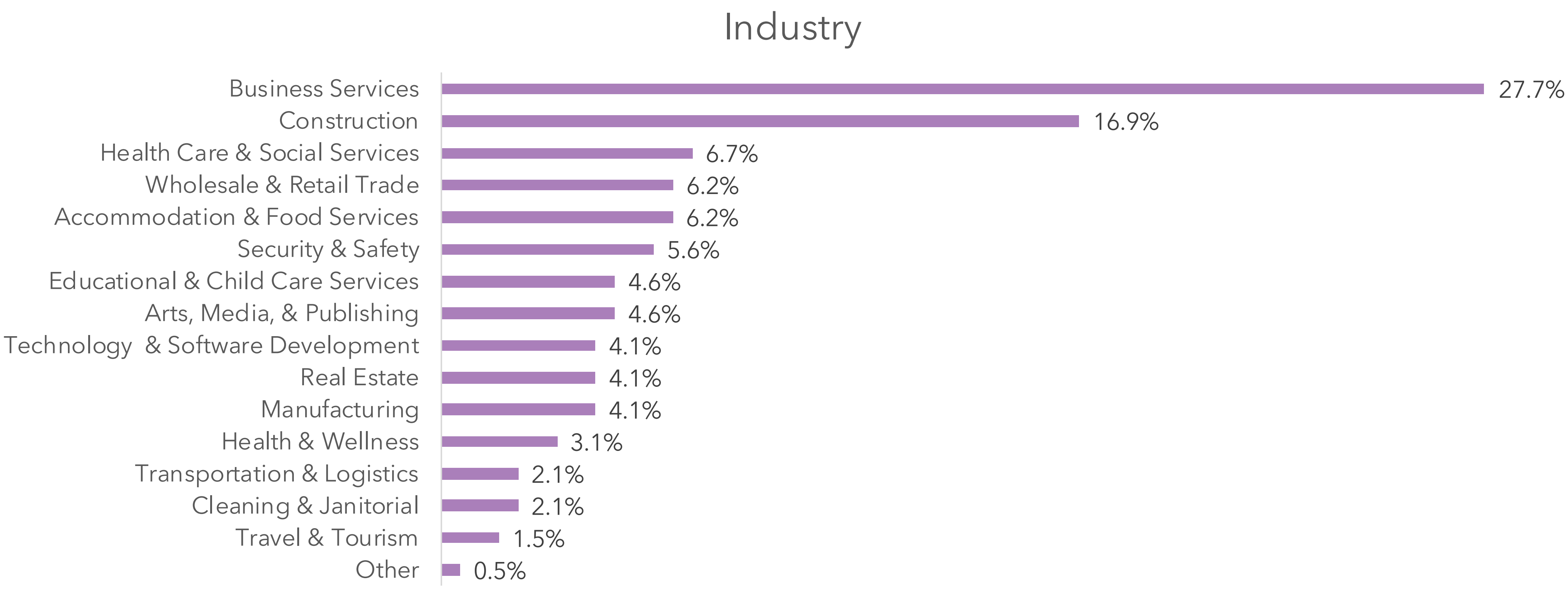
Start-up refers to a young business that is just beginning to develop and determine a market fit.

Scale-up refers to a business that has already validated its product in a market and has proven sustainable.

Stay-up refers to a business that has determined its market fit but its product/service has not been validated nor has it achieved sustainability.

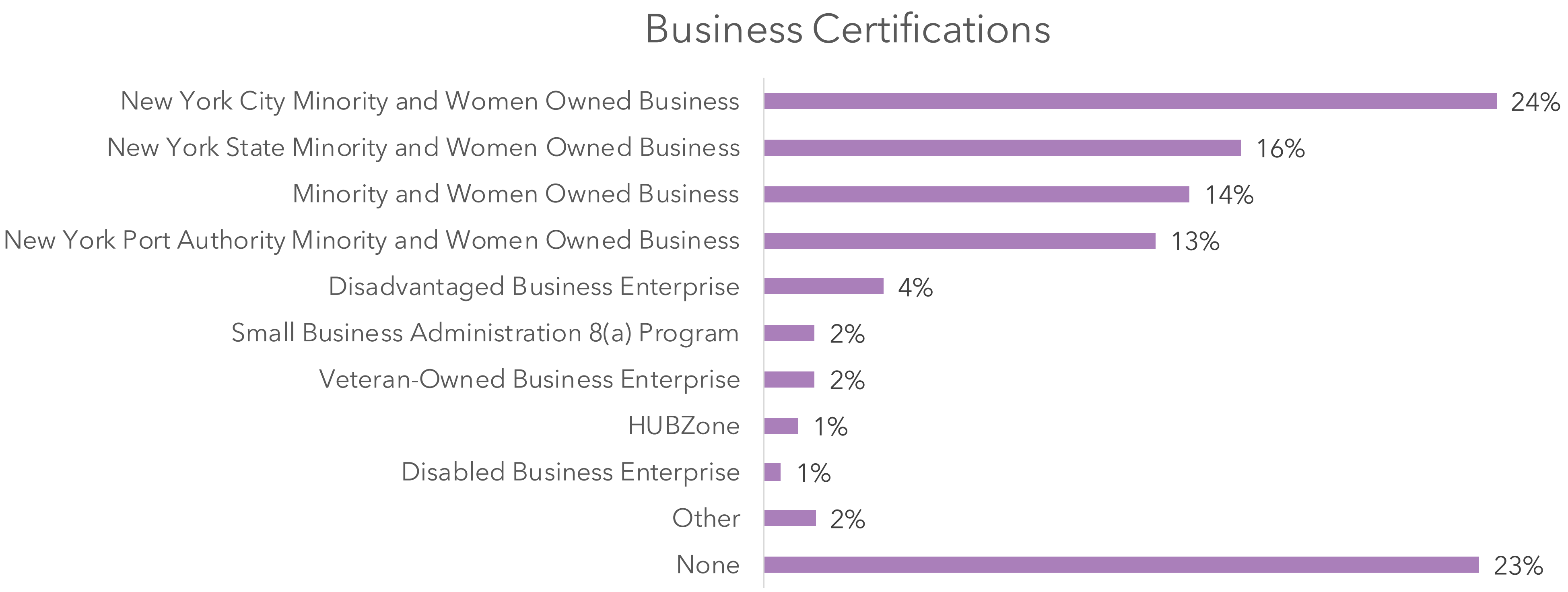
Notes: Data are based on individual self-reporting and may not accurately reflect their actual lifecycle stage as measured by revenues, years in business, etc. Total response = 195.

Business services and construction are the most common industries among Black entrepreneurs in the sample



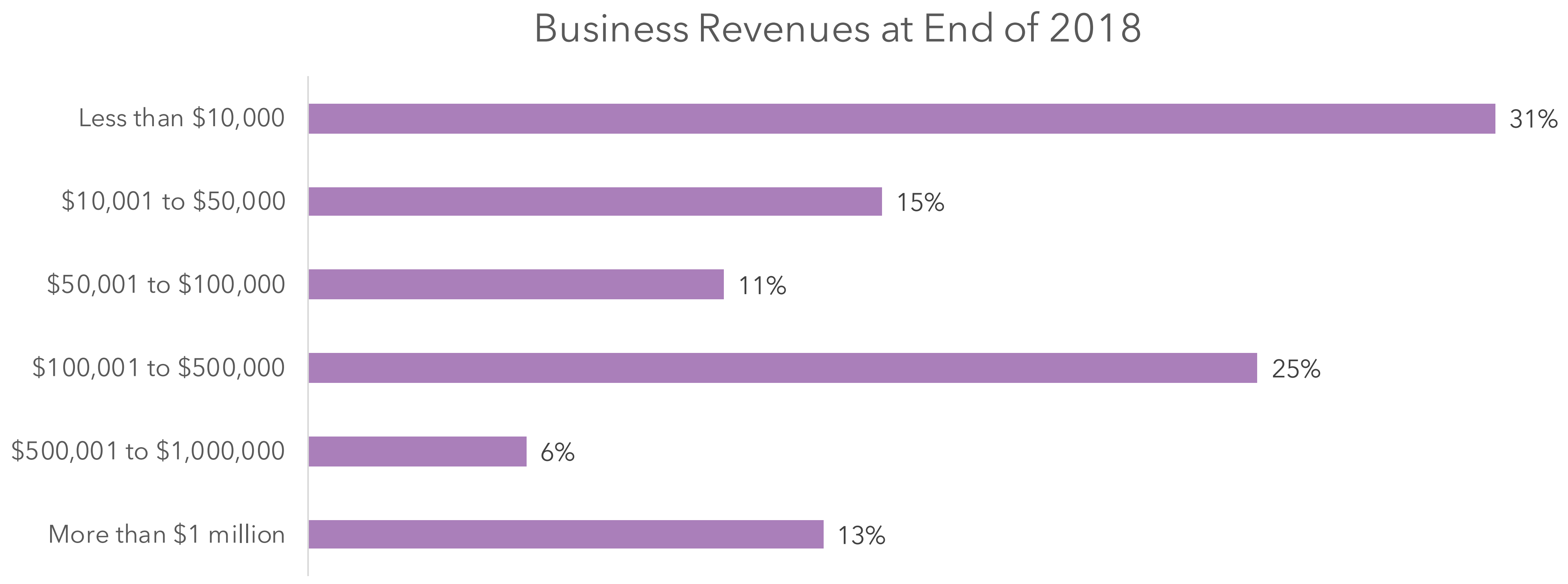
Notes: Total response = 195.

New York City/State Minority and Women-Owned Business certifications are most common among Black-owned businesses in the sample



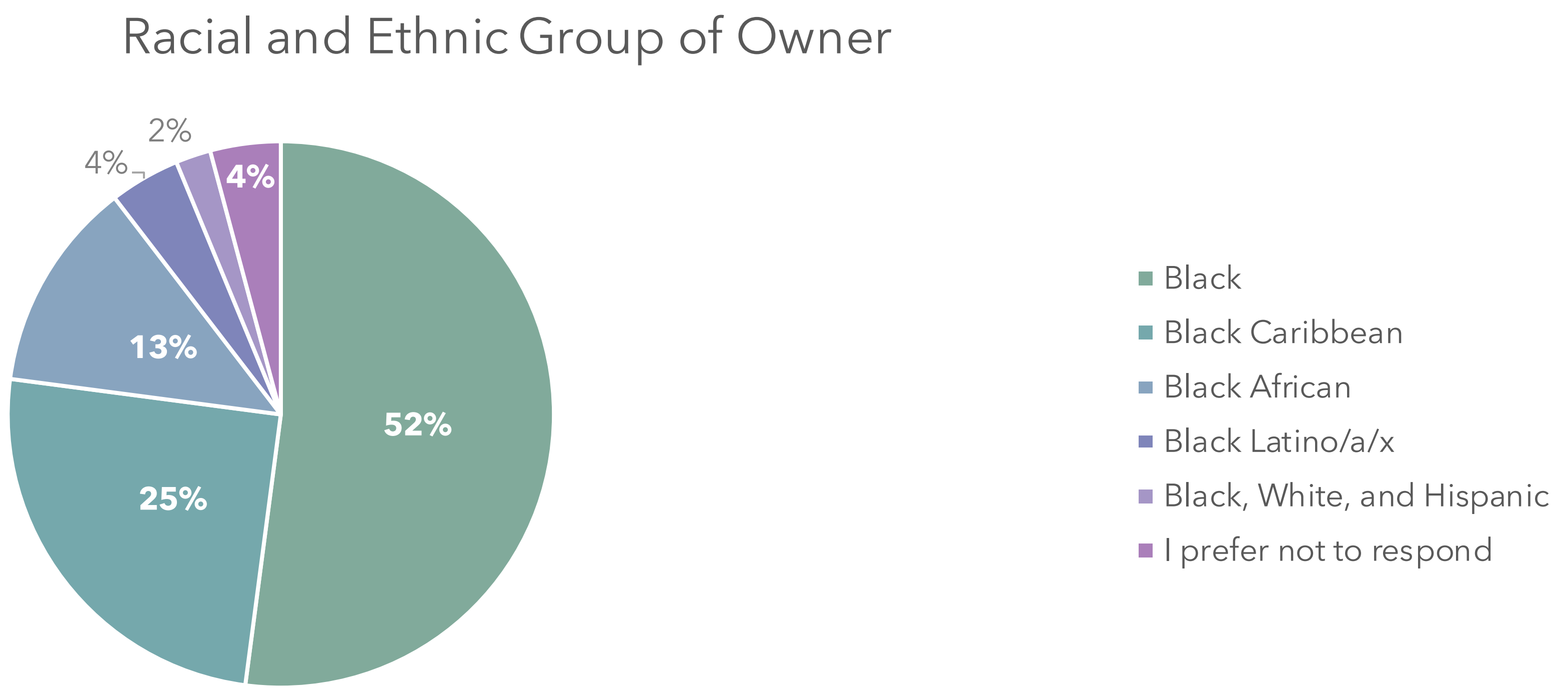
Notes: Total response = 89.

Businesses in the sample are operating at a range of revenue levels: One in three Black-owned businesses in the sample had revenues less than $10,000, while just 19% had more than $500,000. A quarter had revenues between $100,000 and $500,000.



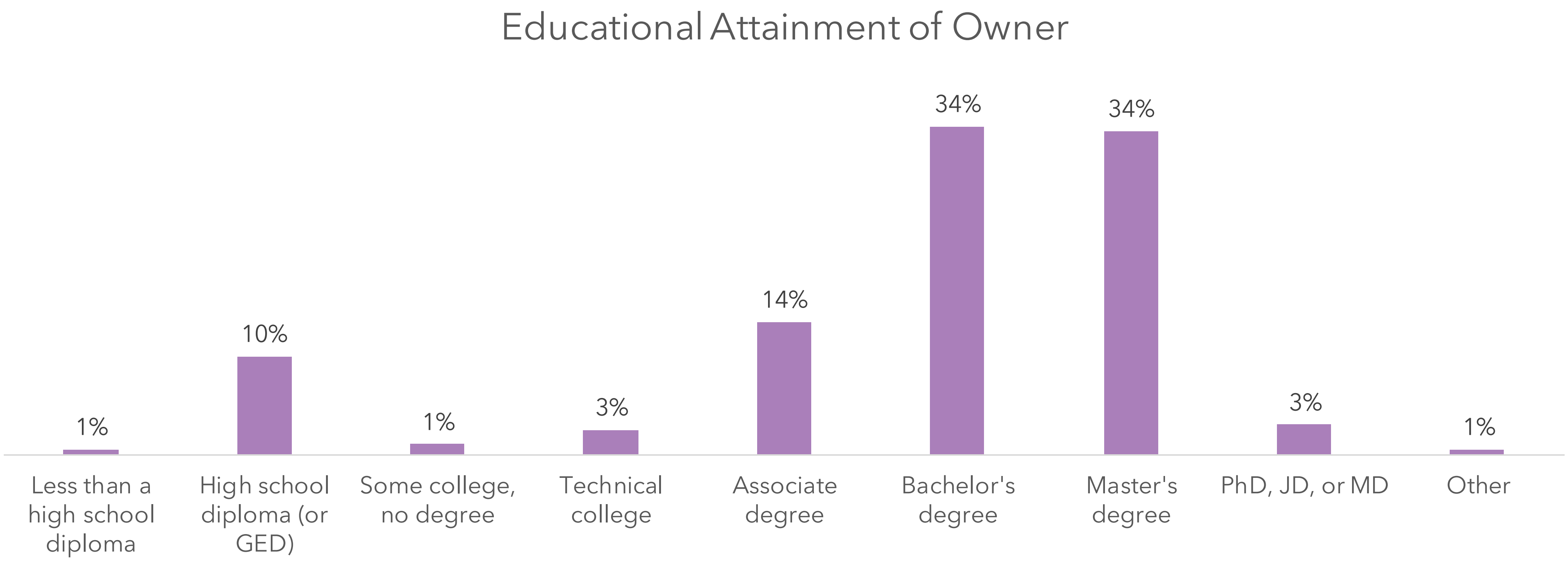
Notes: Total response = 195.

There is significant racial and ethnic diversity within the Black entrepreneurial community



Notes: Total response = 48.

More than 70 percent of Black entrepreneurs in the sample have at least a Bachelor's degree



Notes: Total response = 195.

Significant shares of businesses in the sample had pursued contracts with the City and State, but relatively few received contracts

Of the entrepreneurs in our sample:

- **55 %** had pursued business with the City of New York. Of those that pursued business:
  - **49 %** received contracts
  - **51 %** did not receive contracts
- **34%** had pursued business with the State of New York. Of those that pursued business:
  - **41%** received contracts
  - **59%** did not receive contracts

Businesses in the sample also did business with other types of institutions

33% had done business with Anchor Institutions

38% had done business with Private Sector Companies

Summary

- Our survey respondents represent a diverse group of Black entrepreneurs
- Our sample is very highly educated
- 44% of businesses in our sample have revenues over $100,000, 87% have less than $1 million
- A significant share of businesses in our sample (65%) have pursued contracts with different types of institutions, and would thus have important insights on the different challenges and barriers faced

The sample represented businesses at every stage of the business lifecycle. Different services are required at each lifecycle stage depending on their unique needs. The following analysis identifies the unique challenges that each group experiences and proposes solutions to address them.

Summary of Findings from Entrepreneur and Stakeholder Surveys

Regardless of lifecycle stage, Black entrepreneurs in our sample cited acquiring capital and contracting with the government as some of their top challenges in operating their business

What are the biggest challenges to running your business?

Start-ups

1) Finding Customers (70%)

2) Acquiring Capital (48%)

3) Contracting with the Government (38%)

Stay-ups

1) Finding Customers (59%)

2) Contracting with the Government (52%)

3) Acquiring Capital (43%)

Scale-ups

1) Acquiring Capital (59%)

2) Contracting with the Government (52%)

3) Hiring and Retaining Qualified Staff (46%)

Notes: Percentages may not add to 100 percent because respondents could select more than one challenge.

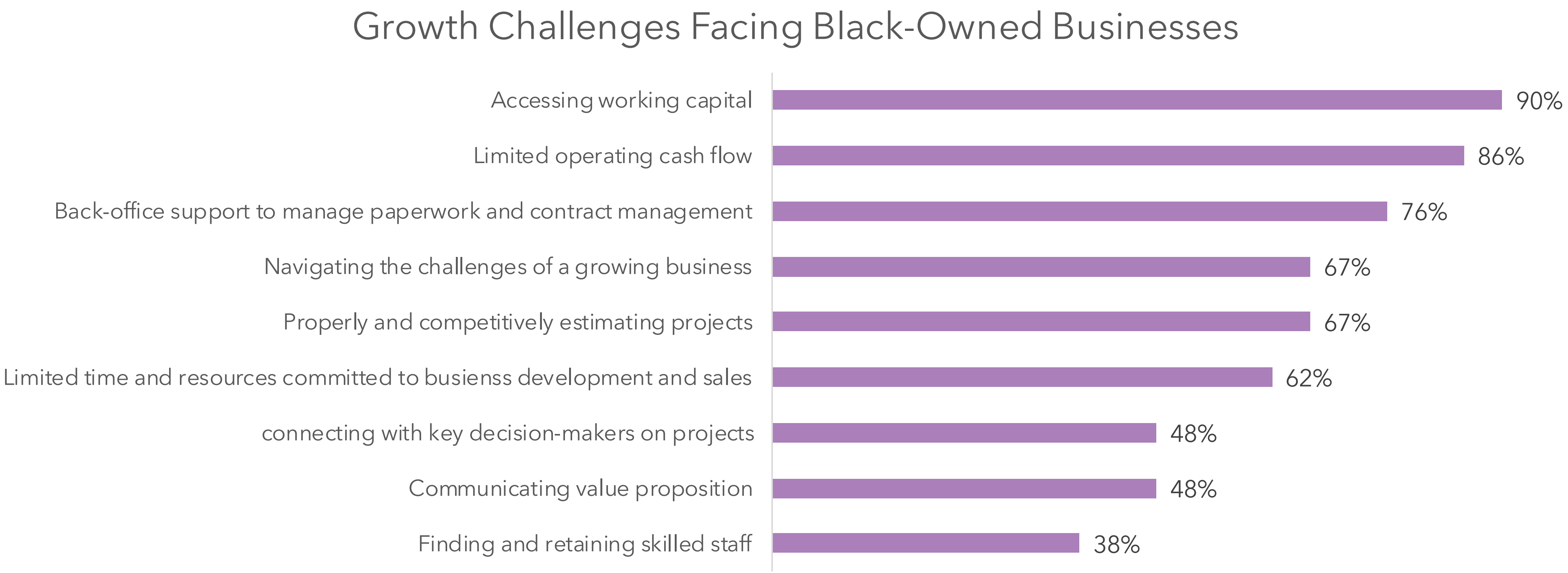
All entrepreneurs surveyed highlighted the importance of access to capital and the need for trusted guidance provided by coaches and members of professional networks

What areas are most important to help sustain or grow your business?

Start-ups	Stay-ups	Scale-ups
1) Access to Capital (46%)	1) Professional Networking (53%)	1) Access to Capital (49%)
2) Business Coaching (46%)	2) Access to Capital (42%)	2) Business Coaching (43%)
3) Professional Networking (46%)	3) Business Coaching (40%)	3) Professional Networking (40%)

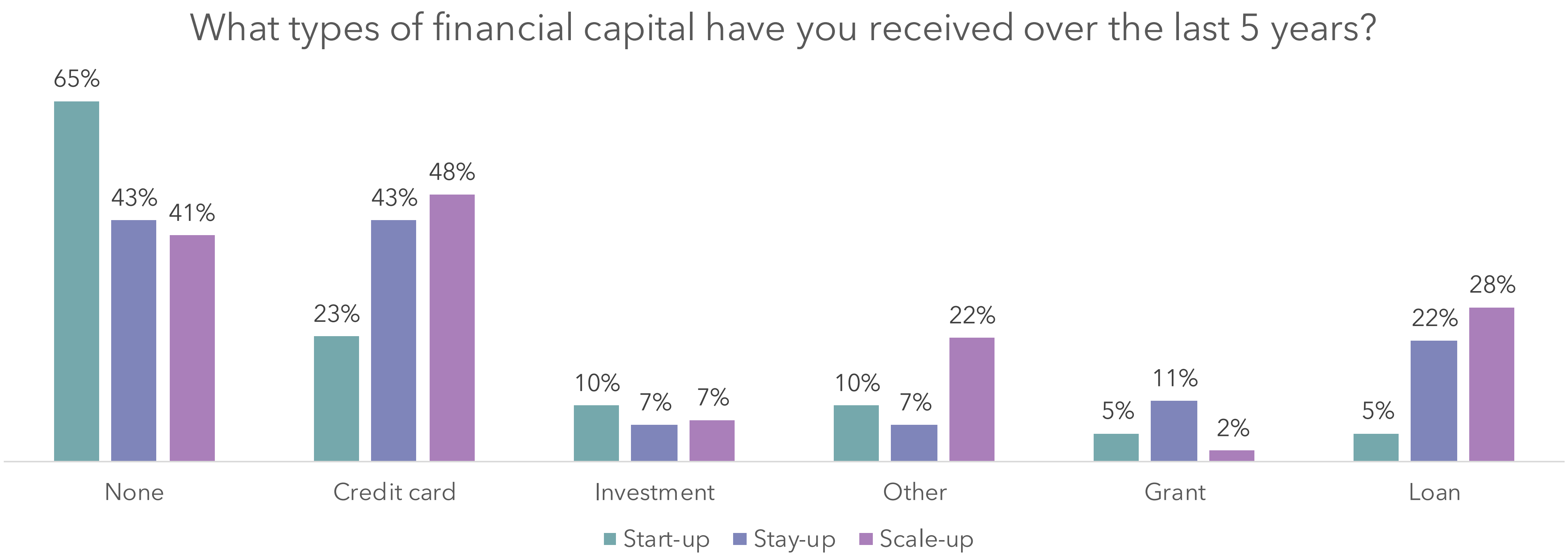
Notes: Percentages may not add to 100 percent because respondents could select more than one challenge.

Stakeholders identified similar challenges facing the Black-owned businesses they work with, highlighting accessing working capital and limited operating cash flow as the top growth challenges



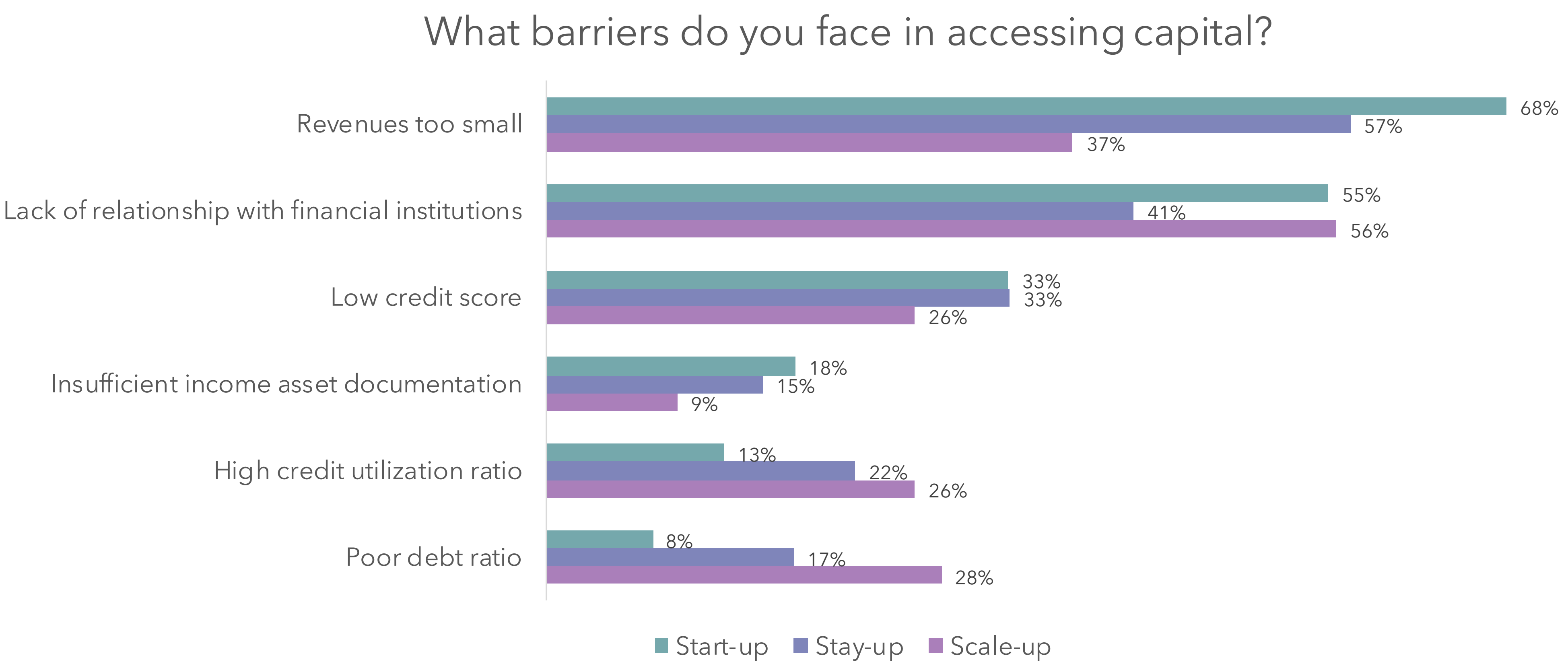
Notes: Percentages may not add to 100 percent because respondents could select more than one response. Stakeholders include supplier diversity/procurement, general contractors and practitioners whose work includes supporting the growth of black-entrepreneurs. Total response = 21.

Despite the demonstrated need for capital, nearly two-thirds of the Black start-ups and more than 40 percent of the stay-ups and scale-ups surveyed received no financial capital over the past 5 years. Of those that did receive capital, many are turning to high-cost credit card debt to finance their businesses.



Notes: Percentages may add to more than 100 percent because respondents could select more than one response. Each respondent to the entrepreneur survey, regardless of lifecycle stage, was asked the same question "Which type(s) of financial support has your business received over the past five years?" For businesses that have been in operation for less than 5 years, it is assumed that they would have responded with any financial support that they had received since starting their business. Total response = 40 (start-ups), 46 (stay-ups), 54 (scale-ups).

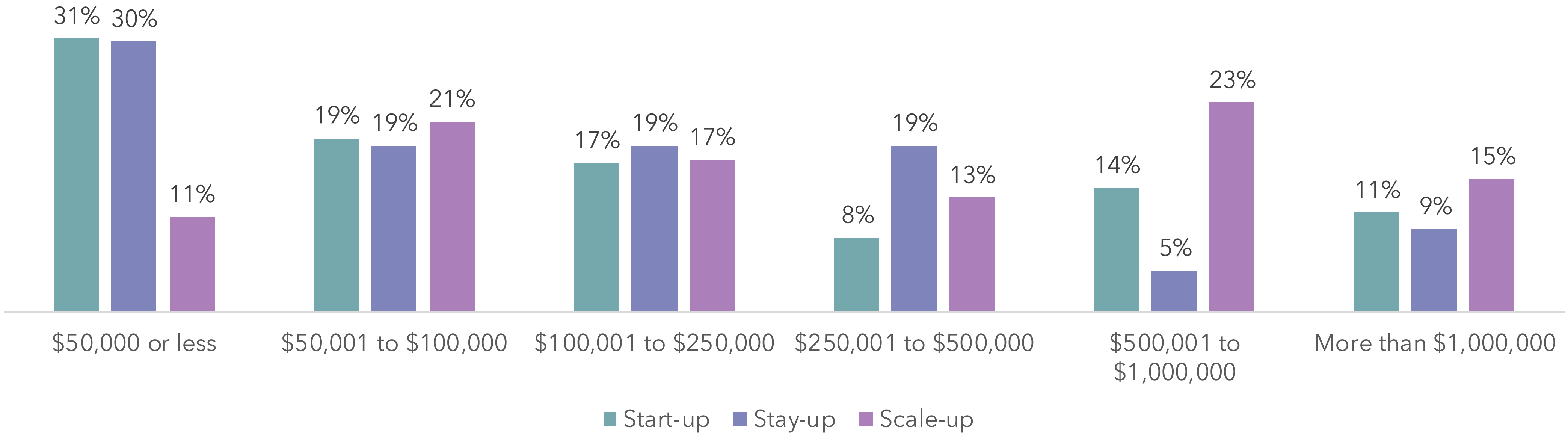
Regardless of lifecycle stage, low revenues and a lack of relationships with financial institutions are the biggest perceived barriers to accessing capital among the entrepreneurs surveyed. Start-ups and stay-ups, however, are more concerned about poor credit scores.



Notes: Percentages may add to more than 100 percent because respondents could select more than one response. Respondents could also select Federal and State Tax Liens, Poor Background Check, and Not a US Citizen. These categories had low selection rates and have been removed from this figure for ease of viewing. Total response = 40 (start-ups), 46 (stay-ups), 54 (scale-ups).

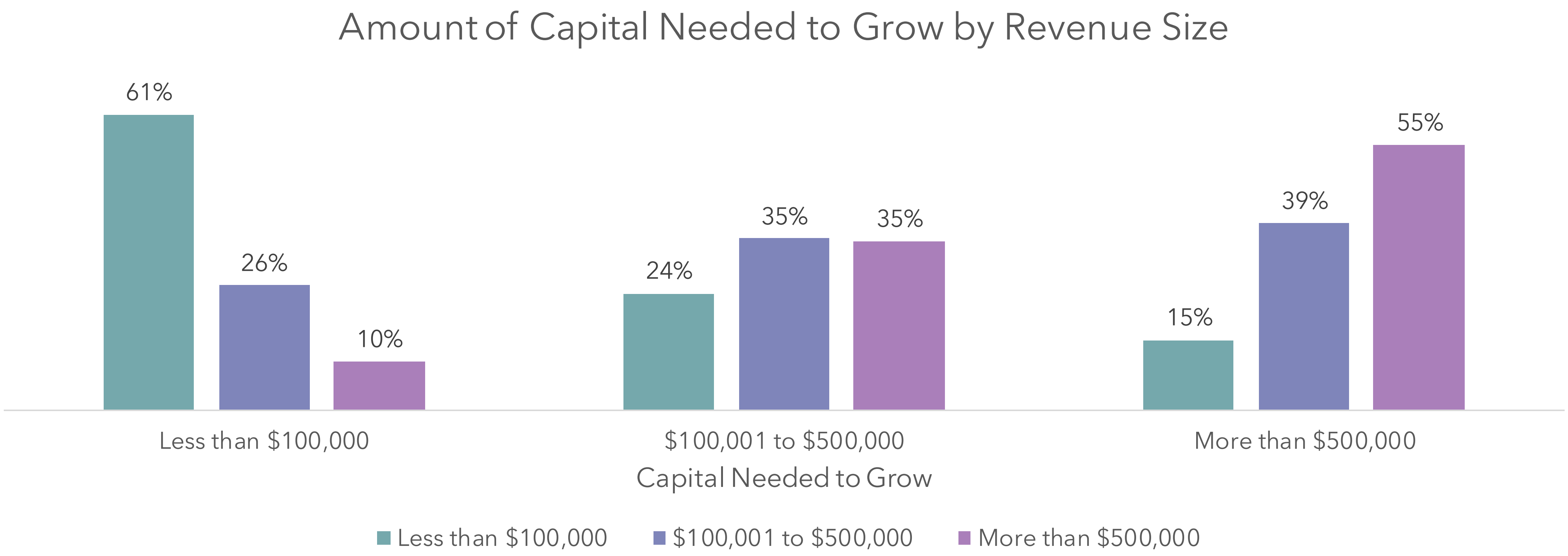
Many Black entrepreneurs surveyed in the start-up and scale-up stage indicated needing less than $50,000 to grow their business. Perceived need among scale-ups is much higher–38% report needing at least $500,000.

How much capital will your business require over the next 1 to 3 years to grow?



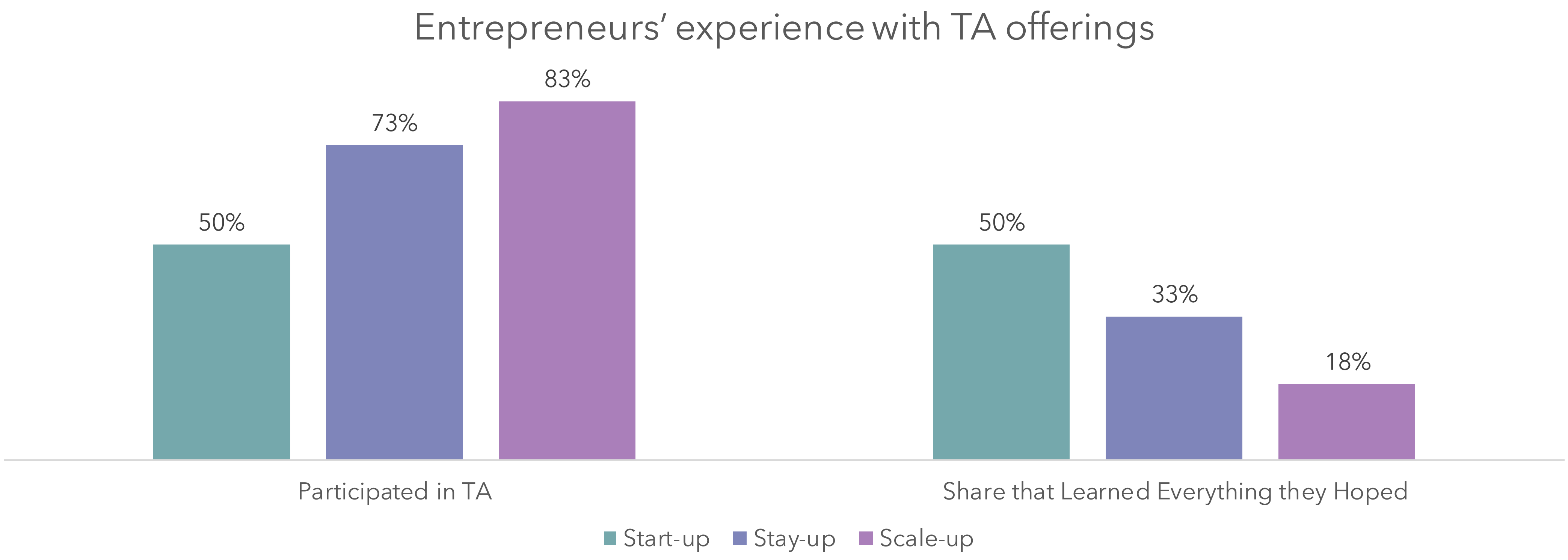
Notes: Total response = 36 (start-ups), 43 (stay-ups), 47 (scale-ups).

The perceived amount of capital needed to grow increases with revenue size. Businesses with higher revenues reported needing more capital to grow, whereas low-revenue businesses reported needing substantially less.



Notes: Total response = 36 (start-ups), 43 (stay-ups), 47 (scale-ups).

Among the Black entrepreneurs surveyed, awareness of and participation in technical assistance (TA) increases as they progress through each business lifecycle stage. Yet for those entrepreneurs with more mature businesses, they reported learning less than they had hoped when pursuing TA. This suggests a need for more tailored and individualized support based on business lifecycle stage.



Notes: Total response = 24 (start-ups), 26 (stay-ups), 30 (scale-ups).

Mentoring and coaching top the list of TA needs among the Black entrepreneurs surveyed at every lifecycle stage. There is a need for trusted advisors who can help connect the dots.

"Having that industry mentor is key to me […] Having the right financial advisor […] support and development in growing my business is imperative"

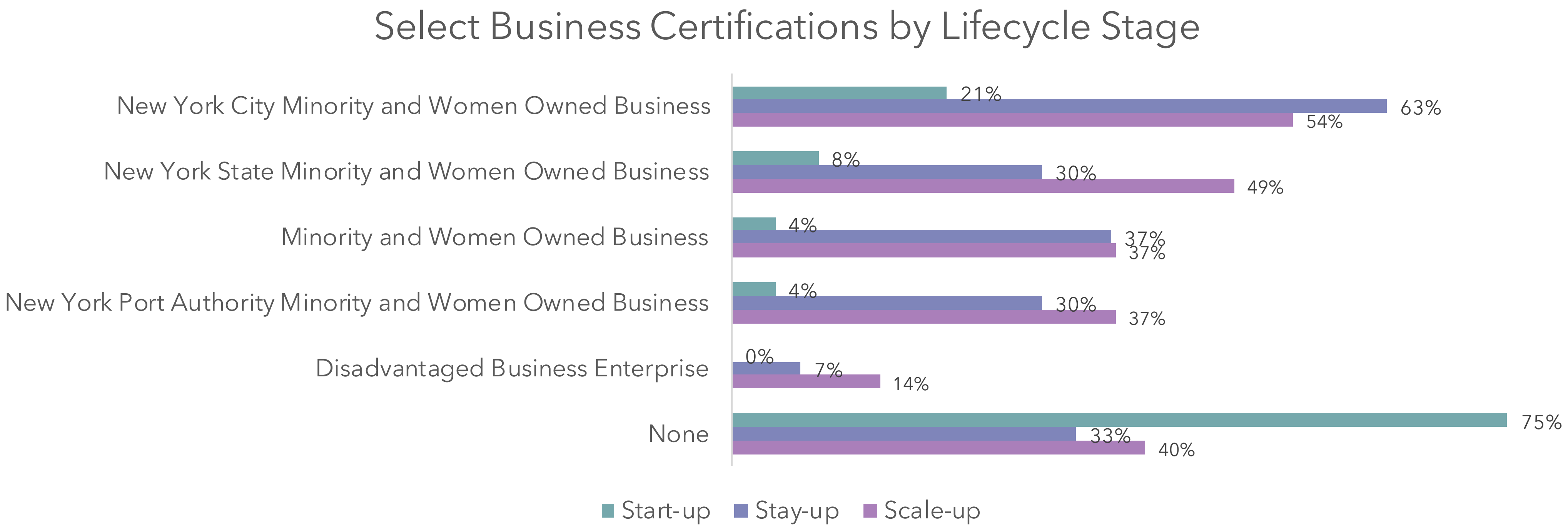
If made available, what technical assistance would you need?

Start-ups	Stay-ups	Scale-ups
1) Mentoring and coaching (53%)	1) Mentoring and coaching (51%)	1) Mentoring and coaching (33%)
2) Business plan development (41%)	2) Specialized help for legal issues, accounting, or accessing markets (32%)	2) Specialized help for legal issues, accounting, or accessing markets (29%)
3) Loan application assistance (41%)	3) Business incubation (30%)	3) Business development classes or seminars (29%)

Notes: Percentages may not add to 100 percent because respondents could select more than one challenge.

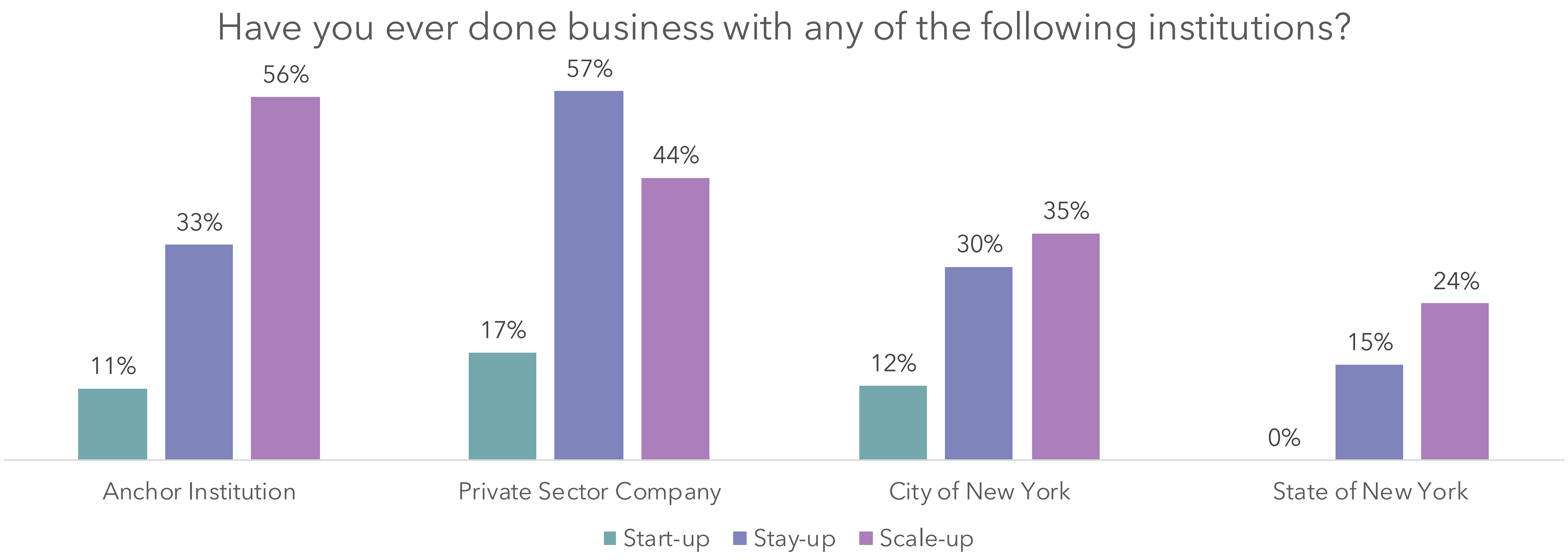
Significant shares of businesses across each lifecycle stage did not have the certifications necessary to compete for contracts.

"I work in a fast-paced industry that changes policy and regulation regularly. In order for me to compete, I have to stay current with standards, certifications and employee training."



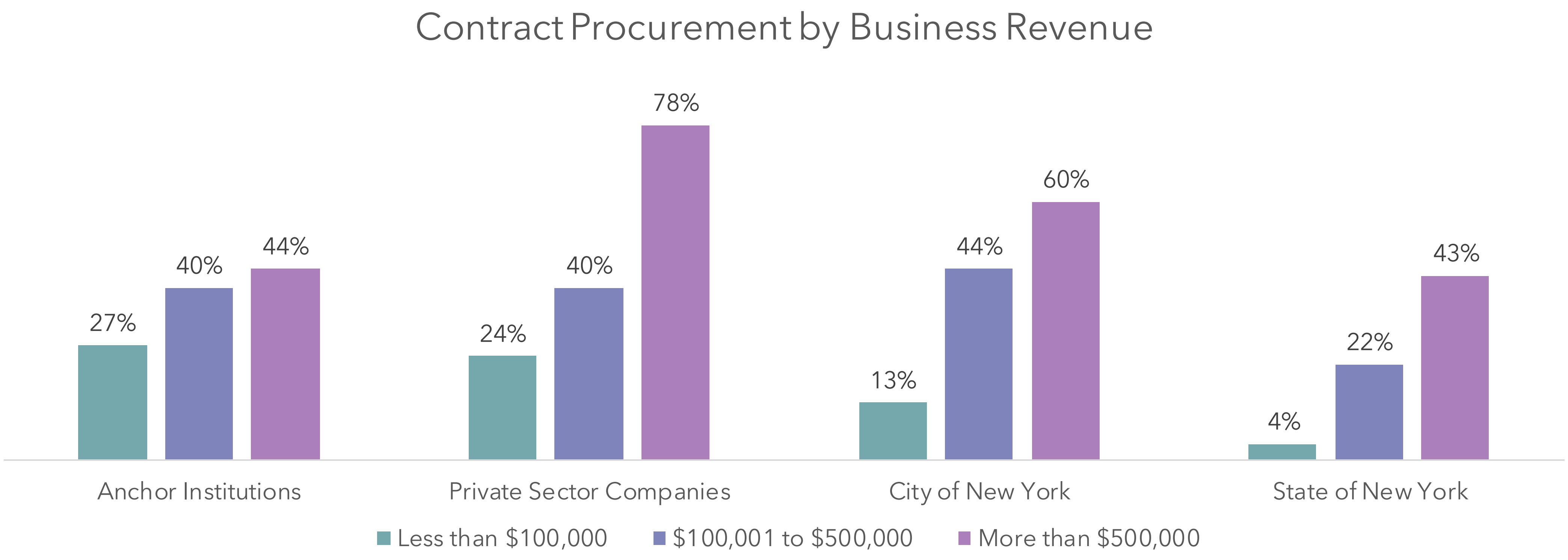
Notes: Percentages may add to more than 100 percent because respondents could select more than one response. Respondents could also select Small Business Administration 8(a) Program, Veteran-Owned Business Enterprise, HUBZone, Disabled Business Enterprise, or Other certifications. These categories had low selection rates and have been removed from this figure for ease of viewing. Total response = 24 (start-ups), 30 (stay-ups), 35 (scale-ups).

Contracting was far more prevalent among the stay-up and scale-up businesses surveyed (compared with start-ups), with most doing business with anchor institutions and private sector companies.

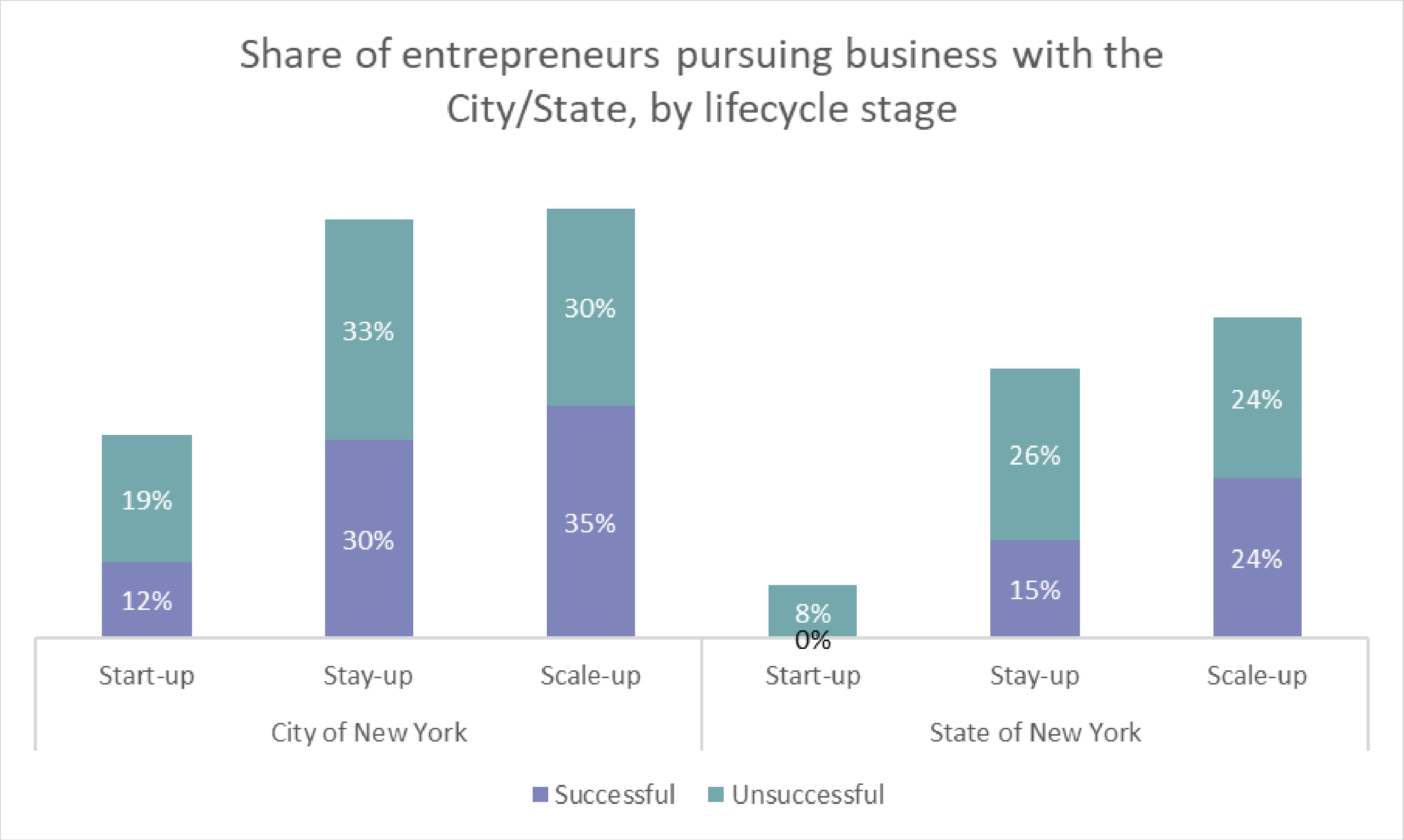


Notes: Total response = 18 to 26 (start-ups), 14 to 30 (stay-ups), 16 to 37 (scale-ups).

Further, the likelihood of procuring contracts increases dramatically with business revenue



Significant shares of stay-ups and scale-ups in our sample have pursued business with the City and State. However, many face challenges and are unsuccessful in obtaining contracts.



Notes: Total response = 25 to 26 (start-ups), 27 to 30 (stay-ups), 33 to 37 (scale-ups).

A lack of awareness of relevant RFPs and a lack of opportunities to partner on bids were challenges that businesses in our sample faced in securing business with the City and State, regardless of lifecycle stage. Start-ups and Stay-ups were also likely to cite a lack of resources to meet bid requirements as challenges.

What are the barriers to securing business with the City and State of New York?

Start-ups

City of New York

- Lack of awareness of relevant RFPs (56%)
- Lack of resources to meet bid requirements (44%)
- Lack of willingness to work with smaller companies/lack of opportunities to partner on bids (32%)

State of New York

- Lack of awareness of relevant RFPs (54%)
- Lack of opportunities to partner on bids (38%)
- Lack of resources to meet bid requirements/lack of training on RFP response (33%)

Stay-ups

City of New York

- Lack of awareness of relevant RFPs (56%)
- Lack of resources to meet bid requirements (44%)
- Lack of willingness to work with smaller companies/lack of opportunities to partner on bids (32%)

State of New York

- Lack of awareness of relevant RFPs (54%)
- Lack of opportunities to partner on bids (38%)
- Lack of resources to meet bid requirements/lack of training on RFP response (33%)

Scale-ups

City of New York

- Lack of awareness of relevant RFPs (44%)
- Lack of opportunities to partner on bids (38%)
- Lack of effective and efficient proposal processes (34%)

State of New York

- Lack of opportunities to partner on bids (47%)
- Lack of awareness of relevant RFPs (43%)
- Lack of willingness to work with smaller companies (33%)

Notes: Percentages may not add to 100 percent because respondents could select more than one barrier.

Interviewees shared their frustrations with the contracting process, citing the cost and confusion around getting certified as major challenges, as well as observations that they are competing against more advantaged groups who also qualify as MBEs.

"I just had to take another course to get certified to work in another County. It cost $295 to take the course. To get the certifications, I had to pay $700. That's almost $1000 for one County. It's expensive and confusing."

"Networking events for contracting [...] I've been to quite a few in my first couple of years in business. It really doesn't lead to anything. Especially ones for government agencies–they send someone to set up a booth and give out pamphlets. You really need to speak to someone who can help you navigate the system."

"As an MBE, getting into City works is a big limitation. City work is where the money is at when it comes to the type of work that I do [...] Two of the three largest MBEs in the City are owned by a White Italian guy and the other by a White Jewish guy. The City is letting white people get their MBEs."

Like the survey respondents, interviewees also identified the importance of relationships in getting access to contracts but that these relationships take time to nurture.

"You have to really leverage those relationships. You have to put yourself out there and shake a few hands. An MBE certification is not going to get you a contract. I didn't get a contract for 2 years after I got it. I had to build relationships."

"When you have a business and no one knows who you are, you need to gain credibility as soon as you can. Usually, that takes time over years. […] aligning with the right organization gives you a better chance."

In addition to the barriers survey respondents identified in accessing opportunities with the City and State of New York, interviewees also identified a lack of diversity at events and conferences as problematic and shared how they felt they were treated differently because of their race.

"I went to a diversity/inclusion info session where I was asked to mingle with the main vendors [...] you are moving in rooms where they are wealthy and well established. The face of these vendors do not look like you."

"I go to events where I am the only African American in the room. I feel the difference. They don't have confidence in my ability to do the work."

"I go to these conferences (diversity & inclusion, procurement) to meet potential clients. I always stand out by the way I look (as an African American). I have to try to prove myself more to get access to the type of work that I want."

This perception of unfair treatment carried over into their contracting relationships. Interviewees shared stories of negative perceptions about their capability on the part of project managers as well as poor treatment.

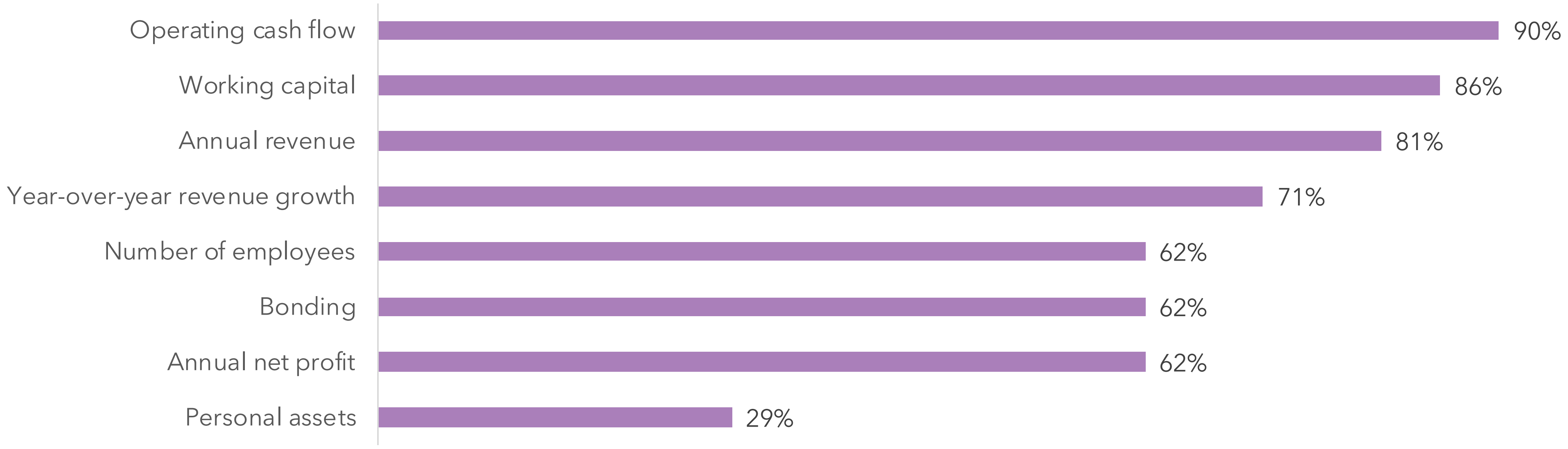
"These contractors and project managers don't want to use MBEs. They feel resentful to have to use them. They try to sabotage the project."

"The General Contractor's Project Manager would do things like tell us all things like I think we should stop for the day and go home early. And then on the next day send an email asking why we went home early."

"I had to go to a General Contractor owner because the Project Manager just didn't want to give us our money. Once I explained everything to him, I got the payment within a week. This was 6 months after the job was completed."

The stakeholders surveyed believe that successful project performance by Black-owned businesses is heavily dependent on measures of financial health. This includes operating cash flow, working capital, and revenues—areas that start-ups and stay-ups in our sample cited as challenges.

What factors determine capacity to perform successfully on a project?
(share that agree)



Notes: Percentages may not add to 100 percent because respondents could select more than one response. Stakeholders include supplier diversity/procurement, general contractors and practitioners whose work includes supporting the growth of black-entrepreneurs. Total response = 21.

Summary

- Regardless of lifecycle stage, acquiring capital and contracting with the government are top challenges facing the entrepreneurs in our survey
- Start-ups and stay-ups, however, tend to be more resource constrained, which can hold them back from realizing their growth ambitions
- Entrepreneurs at each lifecycle stage need some combination of business education, networking/mentoring opportunities, and financial capital in order to grow and thrive, though their exact needs differ by stage
- Significant shares of stay-ups and scale-ups are pursuing contracts, though many are unsuccessful. Many indicate a lack of resources, limited social capital, and a contracting process that is difficult to navigate as major challenges.

Discussion: Barriers, Challenges & Strategies

Key Barriers to Growth: Based on the responses to our surveys and conversations with entrepreneurs and stakeholders, we uncovered numerous barriers and challenges that hamper the growth of Black entrepreneurs in NYC at various stages of the business lifecycle. This report focuses on four key barriers:

LACK OF FINANCIAL RESOURCES

LACK OF BUSINESS KNOWLEDGE

LACK OF SOCIAL CAPITAL

BARRIERS TO ENTRY IN PROCUREMENT

Key Strategies to Support Black Entrepreneurs:

While the strategies identified to support Black entrepreneurs vary by lifecycle stage, they largely fit within three categories

ACCESSING AND BUILDING FINANCIAL CAPITAL

TAILORED TECHNICAL ASSISTANCE

BUILDING SOCIAL CAPITAL

START-UPS

Profile

In our sample, a start-up refers to a young business that is just beginning to develop and determine a market fit. These businesses typically have limited resources and social connections that they can leverage to help them grow and expand. The owners of these businesses also tend to need technical assistance to boost their general business knowledge and skills.

*Note: Business lifecycle stage is based on entrepreneur self-reporting and may not accurately reflect their actual lifecycle stage as measured by revenues, years in business, etc.

Lack of Financial Resources

- **80%** of the start-ups in our sample had revenues **under $50,000**
- For these businesses, **70%** noted that finding customers was one of their biggest challenges

Lack of Financial Resources

- Acquiring capital was the second most cited challenge start-ups in the sample faced (**48%**)
- Nearly two-thirds (**65%**) of the start-ups in our sample received no financial capital in the past 5 years*
- Among those that did receive some capital, credit cards (which tend to have higher interest rates) were the most commonly received (**23%**)
- Poor credit scores (**33%**) and a lack of relationships with financial institutions (**55%**) were cited as major barriers to accessing capital for these entrepreneurs
- Resource constraints were also cited as a barrier—**68%** said that having revenues that were too small was a major barrier to accessing capital.
  - This is a catch-22 for these businesses, since typically they need capital to grow their business (and revenues), but they are perceiving the need to have higher revenues in order to get that capital.

*Each respondent to the entrepreneur survey, regardless of lifecycle stage, was asked the same question "Which type(s) of financial support has your business received over the past five years?" For businesses that have been in operation for less than 5 years, it is assumed that they would have responded with any financial support that they had received since starting their business.

Lack of Social Capital

- The Black-led start-ups in our sample often did not have relationships built up with financial institutions (**55%**), which was perceived as a major barrier to accessing capital
- Nearly half (**46%**) felt that networking opportunities and coaching were important areas to help them sustain or grow their businesses
- Not only is this lack of social capital likely resulting in limited access to financial capital, it is also likely resulting in a lack of awareness of business opportunities and resources:
  - **44%** of the start-ups who hadn't sought TA did not seek it because they were unaware of the opportunities out there
  - Many cited a lack of awareness of relevant RFPs as a barrier to pursuing work with the City (**56%**) and the State of New York (**54%**)

Lack of Business Knowledge

- Despite being a start-up that has been in business for only a short period of time, this is a highly-educated group–**68%** have at least a bachelor's degree
- Only 50% had received TA
  - Most of the TA that was sought focused on fundamentals such as business development classes (**75%**) and business plan development (**67%**)
  - Only **half** reported learning everything they were hoping to learn from these interactions. Many expressed a need for more opportunities to practice what was taught (**44%**) and a desire for providers to decrease the level of difficulty (**33%**) of the material presented, suggesting that a more individualized approach that meets start-ups where they're at is needed.
- **Half** of all start-ups in the sample said that they would need **less than $100,000** in capital to grow their business
  - While this amount may be large relative to the businesses' average revenues, many may lack the knowledge of how to utilize capital to grow. For example, of the **50%** of start-ups that had received TA, only **8%** had received assistance with strategic/growth planning.

Barriers to Entry in Procurement

Most start-ups in the sample are not yet ready to pursue contracting opportunities (**61%** had never had a contract)

- **Three quarters** of the start-ups surveyed had no business certifications
- The bidding process can be confusing for start-ups and many do not have the knowledge or resources yet to navigate it:
  - **95%** of the stakeholders surveyed said that the Black entrepreneurs they worked with needed guidance on preparing bids and proposals in order to be prepared for contracting opportunities
  - **81%** of the stakeholders surveyed also said that annual revenues were a determinant of entrepreneur capacity to perform successfully on a project and reported that **85%** of the Black-owned businesses they worked with had revenues of at least $100,000. Yet **86%** of the entrepreneurs in our sample had revenues below $100,000.

Strategies to support Black-led start-ups

Tailored Technical Assistance

- Technical assistance for start-ups needs to first focus on building the entrepreneurial mindset and teaching the Black entrepreneurs how to lead their businesses.
- TA also needs to expand on the fundamentals by focusing on skills like marketing (to increase customer base and boost revenues) and cash flow management (which is critical to ensuring stability).
- TA should be coupled with trusted mentors and coaches who look like the entrepreneurs they are serving and can provide individualized guidance to the entrepreneurs as their business matures.

Building Social Capital

- Black-led start-ups are in need of more opportunities to build social capital.
- They need to make connections with financial institutions and investors (to help them build capital in the future), with technical service providers (to help them build their business knowledge/skills), and with other businesses (who may be potential partners on contracting opportunities).
- CDFIs and technical assistance providers can facilitate this by being more intentional about providing networking opportunities for their clients and making introductions to other influential people/institutions.

Building Financial Capital

- For Black-led start-ups, a holistic approach to building capital is needed.
- Many of these businesses are unable to access capital at all because they can't demonstrate that they can service a loan.
- Since many have limited or no credit history and poor credit scores, they will need assistance in building and/or repairing their credit.
- Many of these businesses are not yet ready for larger loans, so CDFIs can step in to provide right-fit capital which meets their current needs and prepares them for larger loans in the future.
- CDFIs can also facilitate connections with other financial institutions and provide education on how to use capital to grow and scale a business.

STAY-UPS

Profile

In our sample, a stay-up refers to a business that has determined its market fit and its product/service is past the proof-of-concept stage, but it has not yet achieved sustainability. This is a more diverse group than the start-ups and scale-ups, but generally these are in between in terms of years in business and revenues. This group is starting to explore contracting but has had limited success.

*Note: Business lifecycle stage is based on entrepreneur self-reporting and may not accurately reflect their actual lifecycle stage as measured by revenues, years in business, etc.

Lack of Financial Resources

- While the stay-ups in the sample have higher revenues than the start-ups, a significant share (**56%**) have revenues **under $50,000**
  - Like start-ups, finding customers was cited as the most common challenge facing their business–**59%** identified this as one of their biggest challenges
- Acquiring capital was also cited as a major challenge among stay-ups and was the third most cited challenge in the sample (**43%**)
  - Of the stay-ups in our sample, **43%** received no financial capital in the past 5 years
  - Like the start-ups in the sample, poor credit scores (**33%**), a lack of relationships with financial institutions (**41%**), and having revenues that were too small (**57%**) were cited as major barriers to accessing capital

Lack of Financial Resources

This lack of capital can impact their ability to get and complete contracts

- A lack of resources* was cited as a major barrier to securing work with the City (**32%**) and State (**36%**) among stay-ups
- In an analysis of businesses who were successful in securing contracts with the City/State (regardless of lifecycle stage)**, a lack of timely payments was also cited as a major barrier for **33%** of businesses, which can represent a major financial hardship for these businesses–they have limited resources and can't afford to not get paid on time.

"Yes, I've used traditional banks before for funding. But that only goes so far. With a lot of these construction public works jobs, you have to front the expenses for the first 3 months or so."

*A lack of resources could be interpreted in a number of ways by entrepreneurs and could include financial resources, human capital, materials, etc. While this barrier may not be explicitly related to a lack of financial capital, financial capital is likely critical for entrepreneurs in helping them access the other resources that they need to complete their contracts.

**Sample sizes were too small to analyze barriers among stay-ups that were successful in securing a City/State contract. Data represented are for all businesses that were successful in securing a City/State contract regardless of lifecycle stage.

Lack of Social Capital

- The Black-led stay-ups in our sample often did not have relationships built up with financial institutions (**41%**), which was perceived as a major barrier to accessing capital
- More than half (**53%**) felt that networking opportunities and **40%** felt that coaching were important areas to help them sustain or grow their businesses
- As with start-ups, this lack of social capital can result in limited awareness of opportunities and resources, but for this group it also manifests in limited opportunities to partner on contracts
  - **32%** cited a lack of partnership opportunities as a major barrier to doing business with the City (**20%** with the State)

Lack of Business Knowledge/Barriers to Entry in Procurement

The contracting process can be complex. Many stay-ups in the sample lacked specialized knowledge and experience in navigating the contracting process, which held them back from securing business with the City and State.

Contracting with the government was the second most cited challenge in running their business among the Black-led stay-ups in the sample–more than half (**52%**) reported this as a major challenge.

- Many reported that a lack of training in RFP response was a major barrier to doing business with the city (**24%**) and the State (**33%**)
- These challenges are compounded by a lack of communication throughout the process–**28%** reported this as a challenge in securing business with the City, as did **25%** with the State

Strategies to support Black-led stay-ups

Tailored Technical Assistance

- Technical assistance for stay-ups should shift towards focusing on back office operations that will allow businesses to operate efficiently and respond to RFPs more effectively.
- TA should also begin to demystify the contracting process, helping entrepreneurs navigate the process from start to finish.
- As with start-ups, TA should be combined with trusted mentors and coaches who can provide more individualized support and guidance.

Building Social Capital

- For this group, connections at financial institutions and with potential partners on bids are more important. Both are perceived as important in successfully securing contracts.
- CDFIs and technical assistance providers can facilitate this by being more intentional about providing networking opportunities for their clients and making introductions to other influential people/institutions.

Building Financial Capital

- Businesses in this group are more likely to need capital to help them complete their contract work and to fill in the gaps due to payment issues.
- CDFIs can step in to provide collateralized loans (contract assignment) that meet these needs.
- CDFIs can also provide education and assistance to stay-up businesses on how to utilize capital to grow, and make connections with other financial institutions that can provide growth capital when the entrepreneurs are ready.

SCALE-UPS

Profile

In our sample, a scale-up refers to a business that is past the proof-of-concept stage and has proven its capacity to be sustainable. This group is well-established and better-resourced than the start-ups and stay-ups. These businesses are actively pursuing contracts with different institutions with reasonable success.

*Note: Business lifecycle stage is based on entrepreneur self-reporting and may not accurately reflect their actual lifecycle stage as measured by revenues, years in business, etc.

Lack of Financial Resources

- Scale-ups reported significantly higher revenues than start-ups and stay-ups–**65%** had revenues higher than $100,000.
- Whereas start-ups and stay-ups reported struggling the most with finding customers, acquiring capital was the most cited challenge facing the scale-ups in the sample (**59%**)
- **21%** had received TA for strategic growth planning, though many didn't learn everything they had hoped to (**18%**)
- Despite their growth ambitions, **41%** had not received any financial capital in the past 5 years
- The scale-ups in the sample need significant investments in order to grow–**38%** say they will need **at least $500,000** to finance their growth ambitions

Lack of Social Capital

Like start-ups and stay-ups, limited social connections can result in limited opportunities

- Of the scale-ups in our sample, **43%** were not aware of relevant City or State RFPs, which limited their ability to get contracts
- Many also cited a lack of opportunities to partner on bids as a major barrier to doing business with the City (**38%**) and the State (**47%**)

Barriers to Entry in Procurement

- Contracting with the government was the second most cited challenge facing scale-ups in the sample (**52%**)
    - About **65%** had pursued business with the City, and of that 65%, **54%** were successful. Similarly, **48%** had pursued business with the State, and of that 48%, **50%** were successful.
    - These businesses are seeking TA to navigate the procurement process (**54%**), but most (**82%**) did not learn everything they hoped to learn
- A lack of effective and efficient proposal processes were major barriers to doing business with the City (**34%**), as was a lack of willingness to work with smaller companies with the State (**33%**)
- Of all businesses who were successful in securing contracts, **33%** said a lack of timely payments was a challenge*
- Further, **46%** of scale-ups in the sample reported hiring as a major challenge in running their business–they lack capital to attract and retain top talent, and if they are not getting paid in a timely manner on contracts, it can be difficult to meet payroll

"There can be capital constraints–sometimes you find yourself struggling to make payroll. …You are working out-of-pocket for months before getting paid."

*Sample sizes were too small to analyze barriers among scale-ups that were successful in securing a City/State contract. Data represented are for all businesses that were successful in securing a City/State contract regardless of lifecycle stage.

Strategies to support Black-led scale-ups

Tailored Technical Assistance

- Technical assistance for scale-ups should focus more on sustainable growth strategies as well as on navigating the procurement process.
- As with all lifecycle stages, this TA should be coupled with trusted mentors and coaches who can provide individualized support and guidance.

Building Social Capital

- Partnerships with other businesses are key for this group of entrepreneurs, as they represent a way to be more competitive on contract bids.
- CDFIs, technical assistance providers, and public agencies can help businesses form these connections by providing more networking opportunities as well as connections to mentors and coaches who can help guide entrepreneurs through the contracting process.

Building Financial Capital

- Capital access efforts for scale-ups should focus both on providing working capital to help them complete their contracts and to fill in the gaps left by a lack of timely payments, as well as on providing growth capital.
- As with stay-ups, CDFIs can step in by providing collateralized loans (contract assignment) to scale-ups so that they can complete their contracts without financial strain.
- CDFIs can also provide guidance on how to utilize capital to grow and make connections with larger financial institutions and investors that can provide the amount of capital needed to grow.

Further Recommendations

Further Recommendations

Modernize antiquated government procurement systems. Entrepreneurs reported that MTA's technology platform streamlined the contracting process.

Develop a **uniform process for collateralizing loans (contract assignment)** and get buy-in from all institutions.

Ensure **minorities are in decision-making positions** within contracting organizations.

Offer **alternative funding for firms** that have acquired public and private contracts.

Link small businesses to **hiring incentive programs** that provide small business owners with assistance to help cover learning and training costs.

Embed the acceptance of contract assignments as standard operating procedure across all agencies to support a broader cultural shift toward acceptance.

Ensure programs that are intended to include minority firms in contract procurement are accountable to goals; monitor implementation of diversity inclusion and programs ensure equitable access for minority business owners.

Provide creative ways to **incentivize primes to work with minority firms**.

Provide **more oversight of MBE & WMBE certification programs to ensure compliance** and prevent misuse of certifications, especially in the construction sector.

Concluding Remarks

The need for more customized support that considers the unique needs of Black entrepreneurs at every stage

There is clearly a demand for technical assistance and a need for it, however, Black entrepreneurs across all lifecycle stages are not learning everything they need from these offerings.

- There is a lack of awareness, particularly among younger businesses, of the different offerings available
- Black entrepreneurs in our study reported needing more specialized support that is tailored to their unique needs and circumstances
- For many entrepreneurs, TA needs to go beyond business fundamentals and focus more on back office operations, strategic growth planning, how to use capital to grow and scale, and how to navigate the complicated procurement process
- Further, there is an overwhelming need for more mentoring and coaching that can be paired with TA offerings. Mentors and coaches serve as trusted advisors that can help entrepreneurs apply what they have learned through TA to their own unique challenges and guide them through critical stages of their business' development.
- Finally, partnership opportunities with other businesses were critical for entrepreneurs seeking to access contracts with the City and State. TA programs can help businesses forge these connections through providing ample networking opportunities.

The need for right fit capital

- Access to capital was cited as a major challenge facing entrepreneurs at every stage of the business lifecycle, though business needs varied:
  - For younger businesses, the focus needs to be on building and repairing credit and preparing them for larger loans in the future.
  - More established businesses, who may be attempting to secure contracts, may need financial capital to help stabilize their business while they wait for payments as well as to provide them with enough resources to meet the requirements of the contract.
  - Businesses at the scale-up phase may also require capital to help them fulfill their contracts, but at this stage they will also need larger infusions of capital to finance the growth of their business.
- At every stage there is a need for technical assistance and guidance on how to use the capital provided to meet the business' needs.
- There is also a need for more networking opportunities between entrepreneurs and financial institutions. Many entrepreneurs do not have existing relationships with such institutions and may be unaware of the options available to them.

The role of CDFIs

CDFIs can play an important role in supporting Black entrepreneurs in New York City

- Respondents shared that they did not view traditional banks as an available resource to address capital constraints.
- The participants that received funding from CDFIs overwhelmingly agreed that if CDFIs did not exist, managing the additional expenses that came with executing the contract would have been extremely challenging.

"They [CDFIs] were very good at taking us step by step through the process. It was a long process but being walked through it makes a big difference. …They are my go-to bridge loan agency. …they want us to be successful and that's what I'm looking for in a funder."

Addendum: The Impact of COVID-19 on Black-Owned Businesses

What does all this mean in the context of COVID-19?

When we first undertook this work, no one foresaw a social and economic disruption of the magnitude that COVID-19 has had on the US.

While COVID-19 has dramatically altered the small business ecosystem, Black-owned businesses are still largely facing the same challenges previously identified—lack of financial resources, lack of business knowledge, lack of social capital, and barriers to entry in procurement—but now these challenges are being exacerbated.

Though this work was completed prior to the pandemic, we wanted to place our findings in the context of what is currently happening in the US economy.

Black-owned businesses have been disproportionately impacted by COVID-19

- According to a report by McKinsey & Company, Black Americans are nearly **twice as likely** to live in counties that are most at risk of disruption due to COVID-19.
- The five industries that have been hardest hit by the pandemic—leisure and hospitality, retail trade, transportation and utilities, construction, and other services—represent nearly **40% of revenues** for Black-owned businesses compared with **25%** among all businesses.
- According to a study by the Federal Reserve Bank of New York, the closure rate of Black-owned businesses was nearly twice the national average (41% compared with 22%) and these closures have been even more keenly felt in the State of New York. In February, 2020, the state had over 98,000 active Black-owned businesses, but by June 2020, this number had declined below 30,000, a closure rate of 70%.

Despite the significant impact of the pandemic on the lives and livelihoods of Black entrepreneurs, many of the challenges and inequalities facing this community now are the same ones that they have been grappling with for years—COVID-19 has merely shone a bright light on them.

Sources: McKinsey & Company. 2020. "COVID-19: Investing in black lives and livelihoods." Federal Reserve Bank of New York. 2020. "Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities."

A lack of financial resources is keenly felt, especially in today's economy

Because Black-owned businesses tend to be smaller, it can be more difficult for business owners to build up savings that can be used in the event of an emergency, meaning a significant drop in demand (such as with COVID-19) puts them at higher risk of bankruptcy.

AEO's COVID-19 Small Business Impact Survey highlighted these challenges:

- **36%** of Black-owned businesses had no savings and could not survive without any incoming cash flow. Another **32%** reported that they could only last a few weeks up to one month.
- The revenue losses experienced by Black-owned businesses throughout the pandemic have been so great that **29%** reported having to shut down. An additional **33%** saw revenues decrease by 50% or more.

Source: Association for Enterprise Opportunity. 2020. "COVID-19 Small Business Impact Survey."

Financial capital can help fill in some of these resource gaps, but Black entrepreneurs have been left out of relief efforts

The federal government has taken action to support small businesses through programs like the SBA's Economic Injury Disaster Loan (EIDL) and Payroll Protection Program loan (PPP). Further, the CARES act calls for approved lenders to prioritize making these loans to small businesses in underserved and rural markets, including those owned by people of color. Yet despite making up more than **9%** of all businesses in the US, Black-owned businesses are only estimated to have received **1.9%** of all PPP loans.

Sources: Coronavirus Aid, Relief, and Economic Security Act (CARES Act); Ugwi, Gregory. 2020. "Black-owned businesses received less than 2% of PPP loans while white-owned businesses received 83%"; AEO Analysis of the 2012 Survey of Business Owners.

Limited relationships with financial institutions and struggles with back office operations may have hindered Black entrepreneurs' access to emergency relief funds

There are myriad reasons Black-owned businesses may have been left out of relief efforts. As previously noted, a lack of relationships with financial institutions is one of the biggest challenges Black-owned businesses face in accessing capital, with more than half of start-ups and scale-ups citing this as a major barrier. This was also true of businesses applying for emergency relief, as many banks prioritized existing small business customers for PPP loans.

In addition to this lack of social capital, many Black-owned businesses may have struggled in applying for emergency relief because they did not have their back-office operations in order and/or could not provide the needed financial documents and paperwork to complete their applications before the deadline passed and funds were exhausted.

The organizations partnering on this work observed similar struggles among the Black-owned businesses they serve, noting that businesses need help putting relevant information together in a way that can be processed by a lender. This service need is particularly apparent in relation to complex programs, like PPP. In providing services black-owned businesses applying for the PPP program, one organization noted that businesses needed more assistance with completing applications (especially around calculation of loan amount). Additionally, many businesses faced delays or were unable to provide backup paperwork—some did not have taxes prepared, certifications of incorporation were missing, and some businesses did not have technology to scan and return documents.

Source: Common Future, Next Street, & JPMorgan Chase & Co. 2020. "New York City Small Business Ecosystem Assessment."

Black-owned businesses have also been left out of critical procurement opportunities that have arisen in response to the pandemic.

In response to the pandemic, many local governments worked with vendors, through procurement opportunities, in order to provide essential supplies, such as PPE. These contracts enabled many vendors to stabilize and maintain operations during the pandemic, however, they tended to go to larger, non-minority-owned businesses.

A Crain's analysis highlighted this stark inequality in access in New York City. It found:

- Of the **$3.4 billion** in contracts awarded, minority-owned businesses were granted just **5%**; just **1%** went to Black-owned businesses.
- Of the **622 contracts** awarded related to the pandemic, just **29 were awarded** to businesses registered as Black, Latino, or Asian-owned with the city from a combined **pool of 9,815 businesses** with those certifications.

Source: Gwen Evertt & Gerald Schifman. 2020. *Crain's New York Business*. "Black-owned firms snubbed by city for multibillion-dollar Covid-19 contracts."

COVID-19 is posing more than just financial challenges to Black-owned businesses

COVID-19 is posing challenges to business' very ways of operating, not just their bottom lines. The Black-owned businesses represented in AEO's COVID-19 Small Business Impact Survey, for example, reported also struggling with operational challenges.

- **54%** found making strategic business decisions challenging
- **51%** struggled to ensure their personal wellbeing and safety, and **33%** struggled to ensure the wellbeing and safety of their employees
- **38%** found it difficult to find and retain customers
- **23%** reported challenges in diversifying revenue streams

Source: Association for Enterprise Opportunity. 2020. "COVID-19 Small Business Impact Survey."

Black-owned businesses may struggle to make the changes necessary to stabilize, shift, and succeed

Despite these operational challenges, most Black-owned businesses in AEO's survey focused their efforts on cutting costs rather than making pivots to their businesses that could help them become more stable and sustainable in the long-run.

- **19%** created a digital presence for their business
- **19%** utilized new technologies to maintain operations
- **14%** shifted to provide new products or services
- **12%** shifted to online sales

Source: Association for Enterprise Opportunity. 2020. "COVID-19 Small Business Impact Survey."

Future Implications

As we have shown, Black-owned businesses face myriad challenges to starting and growing businesses and COVID-19 has exacerbated these challenges. The effects of the pandemic on Black-owned businesses are likely to be felt long after the crisis has abated and we have recovered from the subsequent economic downturn.

After the Great Recession in 2008, for example, it is estimated that 53% of Black wealth was wiped out as unemployment rates for Black workers skyrocketed. Over a decade later, the Black community still hasn't fully recovered, and estimates show that by 2031, a typical Black household's wealth is could be nearly 40 percent lower than it would have been without the Great Recession. The COVID-19 pandemic has resulted in similar levels of unemployment among Black workers (16.7% as of May 2020). While it is too early to tell what the long-term implications will be, research on the impact of the Great Recession seems to indicate that the effects will be dramatic and long-lasting.

Sources: National Association of Real Estate Brokers. 2013. "The State of Housing in Black America 2013"; Jan, Tracy. 2020. "This is how economic pain is distributed in America"; Social Science Research Council. 2015. "Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations."

Where do we go from here?

Because of existing wealth and credit gaps, and the disproportionate impact the pandemic has had on the bottom lines of Black-owned businesses, solutions that help these entrepreneurs access liquidity are going to be essential during the pandemic and subsequent economic recovery. However, financial assistance is just one piece of the puzzle.

McKinsey & Company suggests that there are five stages that companies need to think and act across in order to stabilize, shift, and succeed: resolve (address immediate challenges), resilience (address near-term cash management challenges and broader resiliency issues), return (create a plan to return business to scale), re-imagination (reimagine the next normal), and reform (understand how environments in industry may change).

For Black-owned businesses emergency relief funding only addresses the first two stages. In order for these businesses to survive and succeed, this financial assistance needs to be paired with trusted guidance to help them navigate the recovery, making the pivots necessary to ensure their long-term stability and success.

Source: McKinsey & Company. 2020. "Beyond coronavirus: The path to the next normal."

Trust is crucial

Research has shown that addressing the interplay between the wealth, credit, and trust gaps is crucial to supporting Black entrepreneurs. In the current context, however, trust is a particularly critical piece of the needed assistance among Black entrepreneurs. The accumulated experiences of institutional and individual racism among Black Americans have resulted in them being "one of the least trusting groups in America." And for many Black Americans, the historic culture of resource scarcity in their communities has led them to develop a go-it-alone mindset.

Among entrepreneurs, this may manifest in a reluctance to seek support needed to stabilize and recover during the pandemic, putting them at greater risk of having to shut down. It is also seen in the fact that fewer Black-owned businesses have an existing relationship with a bank. In the context of PPP, a lack of existing relationships with a lender significantly hindered the ability of Black-owned businesses to access emergency funding. Therefore, it is critical when developing support services for Black-owned businesses that particular attention is paid to building trust within the Black community so that resources are accessed and advice is acted on.

Source: Association for Enterprise Opportunity. 2017. The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success."

While CDFIs are uniquely situated to address the needs of Black-owned businesses throughout the pandemic and recovery, they face their own set of challenges.

As part of this work, TruFund Financial, Greater Jamaica Development Corporation and the Harlem Entrepreneurial Fund reflected on the unique challenges they have faced serving entrepreneurs in predominantly Black communities. These include resource constraints, personnel recruitment, and relatively riskier loans—all challenges that must be met while providing the high level of services their clients need.

- ***Resource constraints***: CDFIs in predominantly black communities, and especially black-led CDFIs, struggle to access resources. Funding for business development is often highly competitive and prior relationships with funders are critical. Smaller organizations in often overlooked communities may miss out on important funding opportunities.
- ***Personnel recruitment***: Hiring personnel who are qualified to provide quality business assistance in the non-profit world can be difficult. Business-minded people tend to stay in the private sector, which means there are few eligible hires. Smaller non-profits also must compete for talent with larger organizations. Additionally, staff must be culturally competent.
- ***Riskier loans***: As a result of longstanding service and resource gaps, businesses in predominantly black communities tend to be riskier. As a result, CDFIs in those communities must set aside higher loan loss reserves, and delinquency rates on loans may be higher.
- ***High client need***: While facing significant challenges around financing, personnel, and business risk, CDFIs in predominantly black communities must also provide resources that meet the intensive capacity building needs of businesses. As previously discussed, those needs can be substantial.

While these challenges only represent those that these individual organizations have experienced, it is likely that many other business development organizations have similar experiences.

Further Recommendations

Provide support for Black-owned businesses to navigate emergency funding and resources.

There are myriad grant opportunities, loan programs, and other emergency support programs available for Black-owned businesses, but they need help identifying appropriate programs, understanding their eligibility, and applying.

Integrate strategic planning focused on adapting to uncertainty into new and existing technical assistance programs.

Because Black-owned businesses are predominantly concentrated in the industries that have been hardest hit by the pandemic, it is crucial that technical assistance programs provide them the support they need to operate through uncertainty and make the necessary pivots needed to stabilize, shift, and succeed.

Provide resources and assistance to Black-owned businesses to put in place crisis preparedness and recovery plans and to build the technological skills needed to thrive in today's digital world.

Many businesses are struggling to adapt in the current business climate, which places much more emphasis on digital presence, due to a lack of basic technological skills. Entrepreneurs need training on how to utilize these skills and integrate them into their operations.

Develop policies and programs that address the issues that previously existed and were further amplified as a result of COVID and the civil unrest.

As previously described, Black-owned businesses faced myriad barriers to growth that were exacerbated by the pandemic, including inadequate or nonexistent business documentation, limited access to capital, and limited networks that they can leverage to identify opportunities and resources as well as gain knowledge and advice.

Expand resources available to CDFIs so that they are able to effectively and efficiently address the wealth, credit, and trust gaps facing Black entrepreneurs identified in AEO's Tapestry report.

CDFIs are trusted resources in Black communities, and now, more than ever, trust is critical in ensuring that Black-owned businesses are able to access the resources they need to stabilize, recover, and build wealth and to ensure that the advice given is acted on. COVID-19 has also placed pressure on the resources of CDFIs, limiting their ability to provide much-needed services in their communities. At the national level, increasing funding and support available through the CDFI fund would provide access to needed financial resources. And at the state and local level, building equitable support through grant programs, long-term and low-cost debt initiatives for capacity building, credit enhancements, CDFI-centered tax credits, and regulatory-friendly structures to support operation and growth would also help support CDFIs in pursuing their mission.

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