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UNSTACKING THE DECK

Toward Financial Resilience for African-American Entrepreneurs in the South

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ABOUT THIS FIELD SCAN

This field scan marks the beginning of a research-driven initiative led by CFED: ***Toward Financial Resilience for African-American Entrepreneurs in the South***. This initiative aims to create and enhance solutions that help financially vulnerable African-American entrepreneurs weather cash flow difficulties and achieve financial well-being through business ownership.

Through interviews with over 30 practitioners who serve African-American entrepreneurs in the South, we pieced together a more complete understanding of the problem we aim to solve. We explored the ways in which these practitioners' clients experience cash flow difficulties, the drivers that cause these difficulties and the solutions currently in place to address them. Based on these conversations, we learned that:

- **The primary causes of cash flow difficulty** among this population include low or inconsistent sales, higher-cost business expenses, mismatched payment and receipt cycles, emergencies or unforeseen circumstances and difficulty making well-informed financial decisions.
- **There are three core, interconnected categories of financial capability that affect entrepreneurs' ability to mitigate cash flow difficulties,** including: an individual entrepreneur's financial management abilities and resources; the social networks that connect them to external resources and support; and the social, economic and public systems in which they operate.
- **African-American entrepreneurs in the South often struggle with all three categories of financial capability** in ways that may prevent them from weathering cash flow difficulties. For instance:
    - African-American entrepreneurs are less likely than their white counterparts to have the household net worth or access to safe, affordable loans that would equip them to cover gaps between income and expenses. Many also lack the records, financial statements or ability to conduct financial analysis that could help them avoid foreseeable cash flow difficulties.
    - African-American entrepreneurs' social networks are often under-resourced or constrained in terms of net worth, mentors or model entrepreneurs and access to deals.
    - The nature of the economies, financial institutions and sometimes even mission-driven organizations with which African-American entrepreneurs must interact often limit their access to financial products, services and other supports—like banking products, high-quality loans, equity investment and training—that might help them weather cash flow difficulties. These factors simultaneously shape entrepreneurs' attitudes about money, their ability to exercise what financial knowledge they may have and even their ability to seek help.

The findings from this field scan will inform our next steps: interviews with African-American entrepreneurs in the South. Through these interviews, we will investigate how entrepreneurs themselves experience cash flow difficulties, how they address them or recover and what they would want to see in solutions.

INTRODUCTION

Small and microbusiness ownership is an important source of income and wealth for millions of American families.[1] African-American entrepreneurs, however, often struggle to transform their businesses into high-value, wealth-generating enterprises.

The striking imbalance between the average value of businesses owned by African-American entrepreneurs compared to white-owned businesses offers one indicator of this disparity, and is most disparate in some Southern states.[2] Nationwide, the average revenues of White-owned firms ($641,742) are over eight times that of Black-owned firms ($73,226). It's even worse in the South: in states like Mississippi and Georgia, White-owned firms' average sales outpace Black-owned firms' by 16 times and 13 times, respectively.

An entrepreneur's revenues directly affect their ability to build equity—the value of their investments and retained earnings—in their business. This is what separates businesses that purely generate income from those that become valuable, transferrable assets for their owners. While no single factor is entirely responsible for the disparities in business outcomes, we know that cash flow difficulties—situations in which business owners don't have enough cash on hand to meet their business expenses— are particularly prevalent, severe and persistent among low- and moderate-income entrepreneurs and tied closely to both business and household financial outcomes.[3]

In the event of cash flow inconsistency, African-American households are less likely to have access to liquid reserves, other household assets or debt capital to draw on. Nationally, African-American households are nearly 2.5 times as likely as white households to experience asset poverty: a measure of whether a household's net worth, including assets like a home or business, offer

Why cash flow difficulty?

In CFED's 2014 *In Search of Solid Ground* study, difficulty managing cash flow was the challenge most frequently reported by microbusinesses of every size and age.

37%

of all respondents cited cash flow difficulties as their top business challenge

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[1] In 2010, for instance, female-headed family households in which at least one person owned a microbusiness generated $8,000 to $13,000 more in annual household income than similar households without a business owner. **See** The Association for Enterprise Opportunity. *Bigger than You Think: The Economic Impact of Microbusiness in the United States*. November 2013.

[2] *Assets & Opportunity Scorecard* (Washington, DC: CFED, 2016). Data Source: *Survey of Business Owners.* Washington, DC: U.S. Department of Commerce, Census Bureau, 2015. May 1, 2016.

[3] In CFED's 2014 study, *In Search of Solid Ground,* 37% of online survey respondents identified cash flow difficulties as their most significant business challenge. **See** Lauren Williams and Kasey Wiedrich. *In Search of Solid Ground: Understanding the Financial Vulnerabilities of Microbusiness Owners* (Washington, DC: CFED, 2014), http://cfed.org/assets/pdfs/Understanding_the_Financial_Vulnerabilities_of_Microbusiness_Owners_Updated.pdf. This finding is reinforced by the 2015 Small Business Credit Survey, in which 22% of all firms and 26% of microbusiness firms (10 or fewer employees) noted that cash flow was their most significant business challenge. **See** *2015 Small Business Credit Survey: Report on Employer Firms*

enough of a financial cushion to replace income at the poverty level for three months or more.[4] Liquid asset poverty—a measure of whether a household's *cash savings* is sufficient to replace income at the poverty level for at least three months in the event of a disruption—is even more severe.[5] Sixty-seven percent of African-American households in the US experience liquid asset poverty, compared to only 34.7% of white households. These statistics illustrate both the depth and breadth of the racial wealth divide. Combined with the dearth of safe, affordable small business credit,[6] this vulnerability amplifies the dangers of cash flow inconsistency and renders African-Americans' entrepreneurial endeavors even riskier than they should be.

The **racial wealth divide** refers to the disparity in net worth between white households and households of other races. For example, the latest data (2013) from the Pew Research Center reveals that the median net worth of white households ($141,900) in the US is 13 times that of African-American households.

The purpose of this initiative is to create and enhance solutions that help financially vulnerable African-American entrepreneurs weather cash flow difficulties and achieve financial well-being through business ownership.

This field scan is a first step in the research phase of this initiative. In it, we compile the expertise and experiences of practitioners who work with African-American entrepreneurs in the South to articulate an initial understanding of the problem and gather insights that will help us shape meaningful solutions in the future. Thus far, our research has included a review of existing literature and phone interviews with practitioners—including technical assistance providers, financial service providers, researchers and other experts—in the fields of small and microbusiness development and financial capability.

We conducted semi-structured phone interviews with 35 practitioners in Louisiana, Alabama, Mississippi, Georgia, Arkansas, Florida, Tennessee, South Carolina and North Carolina between March and April 2016.[7] In the course of these conversations, we sought to answer the following questions, specifically as they relate to entrepreneurs of color and the nature of their experiences in the South:

- How do cash flow difficulties typically manifest for entrepreneurs?
- What structural, institutional or systemic barriers might prevent entrepreneurs from weathering cash flow difficulties?

(Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond and St. Louis, 2015), https://www.newyorkfed.org/medialibrary/media/smallbusiness/2015/Report-SBCS-2015.pdf.

4 The asset poverty rate for Black households is 46% compared to 19% for white households. **See** *Assets & Opportunity Scorecard* (Washington, DC: CFED, 2016). Data Source: *Survey of Income and Program Participation, 2008 Panel, Wave 10. Washington, DC: U.S. Department of Commerce, Census Bureau, 2013. Data calculated by Haveman Economic Consulting.* Retrived May 1, 2016.

5 *Assets & Opportunity Scorecard* (Washington, DC: CFED, 2016). Data Source: *Survey of Income and Program Participation, 2008 Panel, Wave 10. Washington, DC: U.S. Department of Commerce, Census Bureau, 2013. Data calculated by Haveman Economic Consulting.* Retrieved May 1, 2016.

6 Robert W. Fairlie and Alicia M. Robb. *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs.* http://www.mbda.gov/sites/default/files/DisparitiesinCapitalAccessReport.pdf

7 See page 24 for a full list of interviewees.

- What behavioral or practical barriers limit entrepreneurs' ability to weather cash flow difficulties?
- What solutions are in place to prevent or mitigate the effects of entrepreneurs' cash flow difficulties? Who are the key stakeholders involved in delivering those solutions?

We sought out organizations that serve small and microbusinesses owned by people of color. We started our inquiry with the broadest interpretation of people of color—to include all non-White individuals—in order to allow the experts we interviewed to inform whether and how we might refine our focus on subgroups within that demographic. The overwhelming majority of practitioners noted that the most common subgroup within people of color they serve includes native-born Black or African-American entrepreneurs, particularly descendants of American slaves. This is reflective, too, of the fact that the majority of the Black population lives in the South: although 14% of all Americans identify as Black or African-American—alone or in combination with other races—the African-American share of the population is more than double that in many Southern states.[8] Our findings reflect that reality and focus primarily on non-immigrant African-American entrepreneurs. Though the range of business sizes served varies by organization, we spoke with organizations predominantly serving entrepreneurs with 20 or fewer employees.[9]

This report summarizes what we have learned to date and will be used to inform our next step: a series of in-depth, in-person interviews with African-American entrepreneurs in Southern states.

Ultimately, what we learn from this body of research will be used to validate and refine our understanding of cash flow difficulties as experienced by entrepreneurs of color in the South and isolate where gaps exist between entrepreneurs' needs and the solutions accessible to them. Practitioners' insights about the populations they serve will also shape the ways we further segment this group of business owners and help to identify locations in the South where we will continue pursuing this work.

[8] In Georgia, for instance, 32% of the population identifies as Black or African-American; 29% in in South Carolina; 39% in Mississippi; 39% in Louisiana. Author's calculations based on 2014 American Community Survey 1-Year Estimates. Washington, DC: U.S. Department of Commerce, Census Bureau, 2015.

[9] As context, the overwhelming majority (96%) of Black-owned businesses in the U.S. are sole proprietorships.

WHAT WE LEARNED

On the whole, we confirmed our hypothesis that cash flow difficulties remain one of the greatest business challenges facing entrepreneurs. We found that this holds true for many African-American entrepreneurs in the South as well. We also learned that "cash flow difficulties" is a broad category of financial challenge that must be examined with greater nuance in order to drive toward solutions. Practitioners' insights exposed the key drivers of cash flow difficulty based on the experiences of the African-American entrepreneurs they serve and illuminated the key financial capabilities needed to help entrepreneurs weather those challenges. Many of these hold true for any entrepreneur, irrespective of their race, ethnicity or location.[10] But the severe financial vulnerability of many African-American entrepreneurs in the South leaves them particularly susceptible to the damaging consequences of cash flow difficulties.

What Drives Cash Flow Difficulty?

Cash flow gaps arise when an entrepreneur does not have enough cash on hand to cover their business expenses. According to the experts interviewed, the primary drivers of this phenomenon include:

- **Low or inconsistent sales.** Many practitioners identified low or inconsistent sales as a common driver of cash flow difficulty among their clients, though driven by a range of different factors. As expected, many practitioners pointed out that inconsistent sales as a result of seasonality is more commonly reported in industries like retail and agriculture. Inconsistent sales is also a function of the economic realities of the South: some suggested that this issue is particularly pronounced in rural regions where it's simply harder to do business than in more highly populated metropolitan areas. Low population density and wide dispersion of potential customers makes it more challenging to thrive with just one line of business. As one expert noted, "…many of these folks have four or five

> "The economy is so inefficient here. **You don't have the people, you don't have the volume, you don't have the disposable income or access to the supports and services you'd have in a more urban market.** There may be 10,000 people in town and maybe 20,000 in the entire county and they're all geographically dispersed."
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> *Dominik Mjartan, Southern Bancorp*

[10] Many of these factors have also been investigated in CFED's other primary research about entrepreneurs' financial capability needs. Through the 2015 Microbusiness Solutions Learning Cluster, CFED collected insights from entrepreneurs across the country—in Albuquerque, NM, Marquette, MI, and Brooklyn, NY—about their financial challenges and learning preferences for financial management training. Many of the findings that were determined to be consistent across sites are summarized in the *Finding Common Threads* brief.

businesses: to make it work, they have to. To make a living in those communities, you can rarely be a small business owner with just one line of business."

Some practitioners theorize that low sales experienced by Black-owned businesses may result from difficulty garnering consistent sales amid the loss of a dedicated customer-base. Several practitioners commented on the ways in which Black-owned businesses have been affected as policy and social dynamics have evolved in the South. These practitioners remarked that, in some respects, Black-owned businesses had a more stable customer base before integration. In part, this is a reflection of the fact that many of the earliest Black-owned businesses were enterprises created to meet the needs of African-American consumers who were legally and structurally excluded from patronizing white-owned businesses. Today, African-American consumers have much greater freedom of choice than they did in the past. As neighborhoods in some Southern areas become more integrated and, in some cases, even gentrified, Black-owned businesses predicated on serving a predominantly African-American customer base may struggle to adjust to the loss of a captive audience and meet the needs of a changing demographic.

- **Higher-cost business expenses,** especially associated with doing business in remote, rural markets. According to some practitioners, the elevated cost of doing business in remote places—especially when it involves long periods of transit—can cut into one's profits more quickly than it might in urban communities. As Dominik Mjartan of Southern Bancorp commented: "Everything takes more time, more money and it's more difficult, which makes it even harder on a small business owner."

- **Mismatched cycles for payments to suppliers and receipts from customers.** In effect, when an entrepreneur's supplier demands a more immediate form of payment—such as cash—and their customers pay on a more protracted timeline, entrepreneurs may struggle to cover their costs. This challenge can affect any entrepreneur who needs to pay a supplier before they receive payment from their customers, such as farmers in need of seed, retailers in need of inventory or any service-provider contracted by government agencies or corporations. Many practitioners highlighted the prevalence of this challenge for contractors and subcontractors[11] especially, in part because the timing mismatch is often exacerbated by the notorious difficulty of collecting in a timely way from larger organizations whose payment cycles can stretch to anywhere from 60-120 days.
- **Emergencies or unforeseen circumstances** that require business owners to make immediate expenditures to stay in operation. Many practitioners shared stories about clients who fell into a downward financial spiral after running into an emergency (e.g. a truck in need of repair, damaged equipment) and being unable to cover the expense immediately.

[11] In this context, we are defining contractors as businesses that earn the majority of their revenue by providing goods or services under contract to larger institutions like government or corporations. These firms may operate in many different industries, such as transportation, construction, catering, event planning etc. Contractors may hire subcontractors to complete a project.

- Difficulty making well-informed financial decisions (e.g. pricing, appropriately allocating one's spending). This challenge is multifaceted in the sense that the ability to make well-informed financial decisions requires that an entrepreneur keeps detailed records of income and expenses and can use those records to create financial statements and conduct analysis on which they might base sound financial decisions. If one piece of that puzzle is missing, it can severely diminish an entrepreneur's ability to manage through cash flow difficulties and emerge financially intact. Some practitioners posited that very small enterprises and entrepreneurs operating entirely in cash may struggle more with making well-informed financial decisions than slightly larger or more formal small businesses. Those operating in cash, for instance, may be less likely to have formal income and expense records that could be used to inform future financial decisions.

While we have assembled the major underlying drivers of cash flow difficulty into these five broad categories, it's important to keep in mind the ways that each type of challenge and its effects will vary based on a unique combination of factors like business size, age, formality and industry. These distinctions will not only affect how we interpret what we learned from these interviews, they will also inform how we begin to consider and evaluate potential solutions to these challenges.

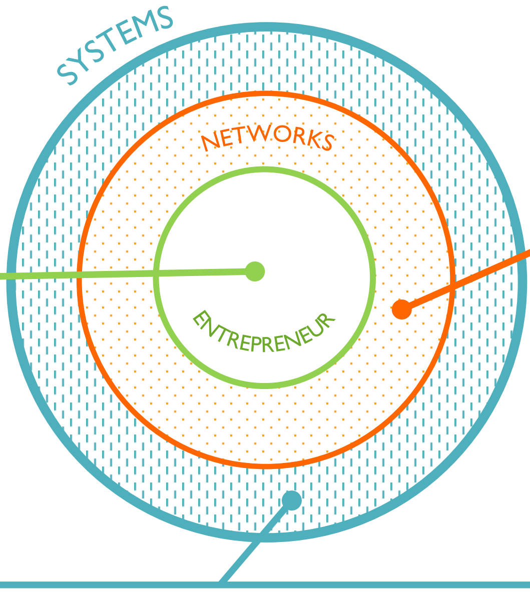
What Determines Entrepreneurs' Ability to Weather Cash Flow Difficulty?

Cash flow difficulty is a challenge that affects all entrepreneurs. In and of itself, this difficulty is not unusual or inherently problematic, but it begins to threaten entrepreneurs' financial well-being when they struggle to weather those situations resiliently. Based on our interviews, the financial capabilities that enable entrepreneurs to prevent or mitigate the effects of cash flow difficulty fall into three interconnected categories: an individual entrepreneur's financial management abilities and resources; the social networks that connect them to external resources and support; and the systems in which they operate. These factors are inextricably linked, as depicted in the diagram below. For example, a business owner's level of access to formal financial institutions might shape the ways in which she regards and manages her money, while her ability to build a personal credit history might affect her access to safe, affordable financial products.

Entrepreneurs' Financial Ability & Resources

An individual entrepreneur's attitudes, knowledge, skills and behaviors with respect to financial management and/or their personal financial resources. These characteristics may include:

- Keeping accurate, and complete and formal financial records
- Producing accurate and complete financial statements (including profit and loss statements, balance sheets)
- Using financial records to forecast, calculate break-even analysis and determine appropriate pricing
- Allocating expenses appropriately
- Filing complete, accurate tax returns
- Separating personal and financial records and accounts
- Knowledge about how to identify and access safe, affordable financial products and services and avoid predatory loan products (e.g. title loans, pawn, payday, check cashers)
- Ample personal or business savings (cash reserves) or other net worth (e.g. investments, home, car, land, equipment)
- Sound credit history



Social Networks

An entrepreneur's social networks—made up of family, friends, staff and/or professional connections—affect their access to other helpful resources such as money, collateral, mentors, model entrepreneurs and deals.

Social, Economic and Public Systems

The systems in which entrepreneurs operate and the institutions within those systems affect the quality and accessibility of::

- Equity investment (e.g. seed capital, venture capital, institutional investment)
- Affordable and flexible loan capital (e.g. microloans, lines of credit, farm loan)
- Protections from predatory financial products (e.g. title loans, pawn, payday, check cashers)
- Banks, other financial institutions and/or CDFIs offering safe, affordable financial products and services
- High-quality, professional assistance for key functions like bookkeeping, accounting and tax preparation
- Training and technical assistance to build financial management knowledge, skills and behaviors

How do African-American Entrepreneurs in the South Fare?

Nearly every practitioner commented that the African-American entrepreneurs with whom they work often lack the skills, resources, tools and support needed to weather cash flow difficulties. As a result, the slightest volatility in cash flow might upend a business's financial stability and send the firm—and its owner's household—into a downward financial spiral. In this section, we articulate the ways in which African-American entrepreneurs' financial capability either enables or inhibits them from successfully preventing or weathering cash flow difficulties. It should be noted, however, that an entrepreneurs' abilities and resources, their social networks and the systems and institutions with which they interact are deeply interconnected. Further, they are shaped by social and racial dynamics that ultimately influence entrepreneurs' access to the financial resources, knowledge, mentors, model entrepreneurs, deals and customers needed to develop wealth-building businesses. In our analysis, we attempt to layer our understanding of the problems and potential solutions in order to identify key gaps and opportunities for improvement.

Entrepreneurs' Financial Abilities & Resources

An individual entrepreneur's attitudes, knowledge, skills and behaviors with respect to financial management and their personal financial resources affect their ability to weather cash flow difficulty.

African-American entrepreneurs are much less likely than their white counterparts to have sufficient wealth to draw on in case of a cash flow gap or simply to provide a general sense of financial well-being, whether in their immediate households or through networks of extended family and friends.

Entrepreneurs often draw on personal assets to launch and maintain their businesses. Studies have shown that wealth—particularly wealth derived from homeownership and inheritance—directly relates to an individual's ability to become a successful entrepreneur: liquid assets like savings are critical for startup and weathering cash flow gaps, while equity in assets like a home can provide enough financial padding to mitigate the risk associated with starting a new business.[12] But nearly every practitioner interviewed remarked that the entrepreneurs they serve simply don't have much, if any, personal or business savings, cash reserves or other liquid assets. The most recent data (2013) from the Pew Research Center reveals that the median net worth of white households ($141,900) in the U.S. is 13 times that of African-American households, an increase from an eight-fold disparity in 2010.[13] As a result, many African-American entrepreneurs start out severely undercapitalized, which puts them in an even more precarious financial position to begin with. This shaky footing only exacerbates the danger of cash flow problems.

Practitioners acknowledged the factors behind the racial wealth divide as the prevailing cause of low cash reserves. Some held additional hypotheses about why their clients lack liquid savings: for instance, some pointed to the fact that their clients are often operating on such low incomes that they have little room to dedicate to savings after paying for basic living expenses. This was particularly pronounced in rural regions, where persistent poverty and

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[12] Emily Fetsch. "Does Racial Wealth Disparity Hinder Entrepreneurship?" January 21, 2016, Kauffman Foundation, accessed April 16, 2016, http://www.kauffman.org/blogs/growthology/2016/01/does-racial-wealth-disparity-hinder-entrepreneurship.

[13] Rakesh Kochhar and Richard Fry. "Wealth inequality has widened along racial, ethnic lines since end of Great Recession," December 12, 2014, Pew Research Center FactTank, accessed April 16, 2016, http://www.pewresearch.org/fact-tank/2014/12/12/racial-wealth-gaps-great-recession/.

lower-wage, less-consistent employment makes it difficult for aspiring entrepreneurs to save or secure assets. Some practitioners suggested that entrepreneurs may spend down cash reserves at year end to avoid additional tax liability. Others said their clients haven't developed strong savings habits, and still others noted that what they observe as a lack of savings habits may be shaped by African-American entrepreneurs' perceptions that savings is not an activity "meant for them" since their financial resources have always been so constrained and their access to formal banking systems has historically been so limited. At the root of all these explanations is the lasting legacy of racial discrimination that continues to restrict African Americans' economic opportunity, wealth accumulation and financial capability development.

While many practitioners emphasized the importance of building savings and net worth, few offered solutions directly aimed at addressing low savings levels among entrepreneurs. The most commonly mentioned savings solution was matched Individual Development Accounts (IDAs) for business use, offered by organizations like Southern Bancorp Community Partners (serving parts of the Mississippi Delta and southern Arkansas) and HOPE Credit Union (serving economically distressed regions of Arkansas, Louisiana and Mississippi). That said, these practitioners remarked that IDA programs are particularly difficult to fund sustainably; in part, this is why HOPE had to discontinue their business IDA program and now only offers homeownership IDAs. Others, like the North Carolina Rural Center in Raleigh, NC and Increasing HOPE Financial Training Center in Charleston, SC, encourage personal or business budgeting through one-on-one consulting relationships to help entrepreneurs identify opportunities for savings.

Lower homeownership rates[14] and depressed levels of home lending to people of color in recent years[15] prevent many African-American entrepreneurs from amassing home equity. Practitioners noted that long-held discriminatory mortgage lending practices have prevented many African-American families from owning homes. In some places, they explained that access to traditional mortgage lending is still so restricted that African-American families may turn to alternative home financing mechanisms like contracts for deed. Even when Black families do own

> "If you look at prime mortgage lending numbers in Mississippi since the Great Recession, lending to white households has completely recovered to pre-recession levels. We still haven't gotten back to the levels that African-American households were realizing before the recession. **This has serious implications as home equity is one of the major resources that can be leveraged for business investment."**
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> *Ed Sivak, Hope ECD*

[14] Nationwide, the homeownership rate for white households (71.0%) is 1.7 times that of Black households (41.2%). **See** *Assets & Opportunity Scorecard* (Washington, DC: CFED, 2016). Data Source: 2014 American Community Survey. Washington, DC: U.S. Department of Commerce, Census Bureau, 2015.

[15] The share of mortgage lending to Blacks for home purchases fell to 4.8% in 2013 from 5.1% in 2012; it reached a high of 8.7% in 2006. **See** Clea Benson and Alexis Leondis. "Lending to Minorities Declines to 14-Year Low in U.S." Bloomberg, September 24, 2014, accessed June 15, 2016, http://www.bloomberg.com/news/articles/2014-09-24/lending-to-minorities-declines-to-a-14-year-low-in-u-s-.

homes, they don't accrue wealth through homeownership at a rate on par with white households. A recent study estimates that for every $1 in wealth that a Black family builds as a result of homeownership, white families accrue $1.34.[16] Another recent study explores the stark disparity in the values of white- versus Black-owned homes in Atlanta: it uncovers that at the height of the housing bubble in 2006, even well-off African-American homebuyers were more likely to be given subprime loans than white homebuyers when they should have qualified for much better terms.[17] Even when controlling for income, housing quality, severity of earlier foreclosure crises and how far housing prices fell, race was the most significant factor affecting homeowners' negative equity levels. Today, predominantly Black zip codes are home to the highest rates of lingering negative equity in the South, which suggests that the uneven housing recovery is further exacerbating the wealth divide between Black and white homeowners in the region.

This dismal reality, a function of both American policy, housing segregation and lending discrimination, means that African-Americans who become entrepreneurs tend to have lower net worth and less housing security before launching their enterprises. It also leaves many African-American entrepreneurs without ample home equity to secure financing for startup or growth.

African-American entrepreneurs' relative lack of illiquid assets like homes, land, equipment or vehicles also restricts their access to loans that might help them weather cash flow gaps.

Beyond homeownership and savings, practitioners noted that their African-American clients are also less likely to have other real or personal property or access to guarantors who could help them qualify for traditional term loans, many of which must be secured by collateral or guaranteed by a co-signer. In some cases, this precludes entrepreneurs from accessing the debt they need altogether; in others, it drives lenders to offer higher priced debt in the absence of collateral. Even when entrepreneurs of color *do* own real or personal property, they may be understandably hesitant to leverage their only asset—such as a home or a car—as collateral to secure a loan. To explain the dearth of asset-ownership, some practitioners pointed to discriminatory property ownership policies in the South, discriminatory mortgage lending practices (including in the years since the Great Recession) and USDA farm lending practices that stripped many African-American families of their land. Low household wealth across the African-American community also makes it more difficult for entrepreneurs to rely on family members or friends to serve as guarantors when seeking debt capital. Alternatively, lenders who may turn to cash flow-based lending in these situations could struggle to make those loans work if the entrepreneur also lacks sufficient financial or tax records that demonstrate cash flow.

Many African-American entrepreneurs' access to affordable credit is further constrained by damaged or nonexistent credit histories.

In rural locations especially, practitioners reported that some African-American entrepreneurs are more likely to operate entirely in cash even if they have higher incomes. This tendency leaves them outside the formal credit reporting system and, in some cases, without a credit history at all. In some cases, practitioners believe that their clients may have been unaware of the significance of credit history and its influence on their financial lives. Others,

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[16] Laura Sullivan, Tatjana Meschede, Lars Dietrich & Thomas Shapiro. *The Racial Wealth Gap: Why Policy Matters* (The Institute for Assets and Social Policy, Brandeis University and Demos), http://www.demos.org/sites/default/files/publications/RacialWealthGap_1.pdf.

[17] Emily Badger. "This can't happen by accident," The Washington Post, May 2, 2016, accessed May 2, 2016, https://www.washingtonpost.com/graphics/business/wonk/housing/atlanta/.

however, may have damaged their credit in the course of simply attempting to stay afloat financially. In the event of a cash flow emergency, entrepreneurs may resort to borrowing from less scrupulous lenders; in the absence of a strong credit history, predatory lenders may be the only source of debt entrepreneurs *can* access. In states like Alabama, Georgia and South Carolina, especially, practitioners highlighted the prevalence and danger of predatory loan products, mainly auto title and payday loans. Though entrepreneurs justifiably turn to these providers when they need to borrow, many practitioners recalled cases where entrepreneurs have ultimately run into more trouble repaying these loans and fallen into a downward financial spiral as a result. As Shawn Thomas of the Tri-State Bank of Memphis remarked: “It’s like a mouse on a treadmill, and it never stops.”

Irrespective of race, ethnicity or location, many entrepreneurs struggle to keep good records or conduct financial analysis and planning that leads to well-informed financial decisions. The same is true of many African-American entrepreneurs in the South.

The relative financial vulnerability of African-American entrepreneurs as compared to their white counterparts leaves them in a significantly more precarious position in the event of a cash flow disruption precipitated by misinformed financial decisions. Trainers, coaches and lenders across many states reported that their clients often exhibit:

- Lack of formal financial records that meet financial institutions’ accounting standards. Many practitioners noted that their clients don’t keep accurate and detailed financial records. In some cases, lack of recordkeeping is a function of not knowing *how* to keep records appropriately. Many echoed a comment from Sharon Oxendine, Director of the Support Center’s Western Women’s Business Center: “People aren’t really tracking what’s coming in and going out. Sometimes it’s just in their head, but they don’t put it on paper.” In other cases, practitioners reported that entrepreneurs may keep records that don’t accurately reflect their earnings in order avoid a higher tax liability. While reporting lower revenues on one’s tax returns may garner a short-term tax benefit, it may be more detrimental in the long run if it prevents entrepreneurs from qualifying for loans or paying into safety net programs like Social Security.
- Lack of formal financial statements or financial analyses. More practitioners noted that even when clients *do* have records of their income and expenses, they may not know how to use them to create formal financial statements or perform analysis that could help them prepare for foreseeable cash flow gaps or plan out the timing of their expenditures.
- Underpricing their goods and services. Some practitioners mentioned that entrepreneurs may price their goods or services below cost without understanding how it will affect their bottom line. Others remarked that entrepreneurs may *knowingly* underprice their offerings simply to secure what little business they can.
- Misallocating their expenses. Some practitioners explained that even when entrepreneurs have solid income flowing into their businesses, they may incur expenses in a way that endangers their cash flow: for example, entrepreneurs may use money from their cash register to cover expenses throughout the month without having recognized it in their records. Others may choose to pay bills or vendors in a sequence that leaves them without the cash they need on hand to replenish inventory or cover more essential expenses.

In part, these weaknesses in financial management ability may be attributable to lack of understanding or expertise. On the other hand, they may be a result of entrepreneurs' lack of time: practitioners noted that their clients are often stretched thin working *in* their businesses and rarely have the time to dedicate to working *on* their business by taking classes or getting one-on-one help to learn the details of financial management. While having a bookkeeper or accountant can be helpful, practitioners emphasized that it's still critical for an entrepreneur to understand how to interpret the information and analysis they receive from professional service providers in order to make sound financial decisions. Some practitioners also noted that, justifiably, many African-American entrepreneurs may be afraid, distrustful or wary of asking for help and giving outsiders—including technical assistance providers—unfettered access to their finances in order to problem-solve.

"They're wearing so many hats, they're always in crisis mode."

John Thornton, North Alabama Revolving Loan Fund

"**Cash flow is the problem that we've never really spent enough time helping people to understand.** It's been a problem for the [microbusiness development] industry as a whole. The concentration on building a business plan has historically been the way we do training. But, the meat of business is managing and understanding how your business runs and how it ties into those financial statements."

Elizabeth Wilson, Georgia Micro Enterprise Network

Many practitioners prioritize offering knowledge- and skill-building solutions like training, one-on-one coaching or counseling. Still, some think the offerings in the field fall short. Where technical assistance is available, some commented that these offerings focus too heavily on topics like business plan development and visioning but not enough on essential recordkeeping, financial analysis and financial management skills. Further, knowledge- and skill-building solutions are not consistently accessible across all states. In Mississippi and Arkansas, for instance, there seem to be fewer service providers offering this type of guidance altogether. In addition, in rural regions, practitioners remarked on the difficulty of serving such widely dispersed geographies with face-to-face workshops, classes or one-on-one sessions.

Social Networks

An entrepreneur's social networks—made up of family, friends, staff and/or professional connections—affect their access to other resources that may help them weather cash flow difficulty, such as money, collateral, mentors, model entrepreneurs and deals.

The relative financial vulnerability of many African-American households means that the financial resources of an entrepreneur's family and friends are likely to be as constrained as their own.

The racial wealth divide leaves African-American entrepreneurs with less access to borrowed, gifted or inherited capital from friends and family at startup or throughout the life of their business. Further, the same constraints that inhibit many African-American entrepreneurs from accessing credit (e.g. poor credit history, lack of collateral) also prevent family members from serving as co-signers or guarantors for a loan.

Having fewer African-American entrepreneurs as visible role models diminishes the likelihood that others will successfully venture into entrepreneurship and weather cash flow difficulties.

One of the greatest determinants of whether someone will become a successful entrepreneur is whether or not they have had a family member do so before them.[18] Practitioners highlighted the importance of models for helping entrepreneurs formulate expectations about how to manage their finances, how to structure a business so that it becomes an asset rather than just an income generator, who to go to for help and what to do when they run into financial trouble. Some practitioners suggested that a legacy of entrepreneurship does not exist within many African-American communities in Southern states as it does in other communities. In part, they attribute this to the wealth extraction and discrimination that have prevented many families from participating fully in entrepreneurship and the economic system more broadly. For the same reasons, where African-American entrepreneurial models do exist, practitioners believe they may not mirror the same metrics of success against which white-owned businesses are typically evaluated, such as business formality, value and size.

Limited social networks can constrain entrepreneurs' access to deal flow.

Many practitioners commented on the importance of minority procurement initiatives as a means for ensuring that entrepreneurs of color are included in contracting opportunities available through state, federal and local government agencies. But in industries in which government and corporate

A few solutions we encountered focus on enabling minority entrepreneurs to take advantage of contracting opportunities. The Minority Supplier Institute in Shreveport, LA, for instance, offers its members businesses training, connections to deals and contract-based financing to bridge the gap. The Institute for Minority Economic Development in Durham, NC, offers training and technical assistance to help small businesses in the transportation and construction industries compete and bid on contract opportunities.

[18] Fairlie and Robb found that business outcomes are 15-27% better if the owner worked in a family business prior to starting their own. Robert Fairlie and Alicia Robb. *Race and Entrepreneurial Success: Black- Asian- and White-Owned Businesses in the United States* (Cambridge, MA and London, England: The MIT Press), https://mitpress.mit.edu/sites/default/files/titles/content/9780262514941_sch_0001.pdf.

contracting are more prevalent, many noted that African-American entrepreneurs often struggle to land these types of contracts in the first place. Some cited difficulty breaking into the relevant networks as a key barrier, in addition to limited capacity to deliver on large deals and inability to secure the appropriate insurance or bonding needed to compete.

Social, Economic & Public Systems

The systems in which entrepreneurs operate and the institutions within those systems directly affect entrepreneurs' ability to manage cash flow difficulty. In addition to shaping the business environment more broadly, these systems can determine the quality and accessibility of financial products, services, and tools and training, professional support or advice.

The growing absence of retail banks and long history of exploitation and exclusion by mainstream financial institutions has shaped many African-American entrepreneurs' relationships with banks, lenders and money in general.

The practitioners we interviewed have watched many large banks exit markets that cannot sustain sufficient transaction volume. Large swaths of the rural South have been left without consumer-facing financial institutions that might hold deposits, provide basic banking products or offer loans. In part, this trend was precipitated by federal deregulation in the 1990s that allowed banks to merge and serve larger, more profitable geographic regions rather than local communities.[19] Southern states—including all nine states in which we conducted interviews—top the national list for bank deserts, featuring more than 10 rural bank deserts each.[20] As a result, some entrepreneurs don't have relationships with formal financial institutions at all, which affects their access to financial products and services and shapes their financial management habits and preferences.

"Most of our clients don't understand or embrace the financial system as the majority of America understands it and knows it. For them, it's something they approach with hesitation. **They always believe the institution will deny them because they've been systemically discriminated against.** So you might not be as forthcoming when you go to a bank, and you might not report all your income on your tax returns, and you might not bank everything you have. When you show a salary, you're not actually showing what you take out of the business to pay for your family and household expenses. The revenues never make it to the financial statement and [as a result] the business is always undervalued."

Thelma Johnson, Albany Community Together

[19] Brewer, Jackson, Jagtiani and Nguyen. *The price of bank mergers in the 1990s.* (Chicago, IL: Federal Reserve Bank of Chicago, 2000), https://www.chicagofed.org/publications/economic-perspectives/2000/1qepart1

[20] Russel D. Kashian, Ran Tao and Claudia Perez-Valdez. *Banking the Unbanked: Bank Deserts in the United States.* (University of Wisconsin, Whitewater), http://swfa2015.uno.edu/F_Banking/paper_90.pdf

Many practitioners noted that, even before mainstream banks started leaving these markets, outright racial discrimination and exclusion rendered many African-American business owners distrustful of or intimidated by financial institutions overall. There are countless examples of cases in recent history in which African Americans have been excluded or exploited by systems or individuals acting on behalf of formal institutions. These are not isolated incidents, and they remain ingrained as cautionary tales in the collective memory of African-American communities in the South. In effect, this long history of discrimination shapes the ways many interact with predominantly white financial institutions and, by extension, their own money.

A Cautionary Tale

A few years ago, Jessica Norwood, Executive Director of the Emerging ChangeMakers Network and President of the Runway Project in Mobile, AL was involved with a local effort to develop an alternative financing product for African-American entrepreneurs. The product was created specifically for entrepreneurs involved in food systems—from agriculture to value-added food processing and more—in Alabama. She worked with a network of partners to get the product designed to meet entrepreneurs' needs. But, upon introducing it to entrepreneurs, they found them hesitant to take advantage of the loan. Jessica sat down with one African American entrepreneur to find out why. What he explained exemplifies the long-lasting effects of exclusion and distrust on an interpersonal and institutional level.

As a young man, he grew up in the segregated South as a sharecropper. After the owner of the land where he lived and worked died, he saw an opportunity to buy a plot of land to build a more stable financial future for himself and his family. He shared his desire with the white family for whom he had worked nearly his whole life, and they agreed to sell him a small tract of land. The family set up a meeting for him with their family banker. The banker offered to set up a loan for him to buy the land. The former sharecropper made on-time monthly payments for ten years, and upon completing his final payment, returned to the bank to retrieve what he called his ownership papers. The banker told him to come back in a week; so he did, but was turned away again. For weeks, he returned to the bank to retrieve the deed for the land he thought he'd been making payments on for a decade; for weeks, the banker avoided his requests. In the end, it turned out that he had never actually had a loan to purchase the land: the family had tricked him into an arrangement and cheated him out of ten years' worth of payments.

For this reason, he explained, he was skeptical of any unfamiliar financial product or service. His experience—having been intentionally exploited and misled by a family and institution he thought he could trust—left an indelible mark on the way this man interacts with financial institutions. His story isn't an isolated incident; experiences like this one remain ingrained in the collective memory of African-American families in the South and influence the ways many other entrepreneurs approach formal financial systems.

Consequently, some practitioners—especially in rural areas—noted that their clients' discomfort with banks or debt may lead them to operate entirely in cash or avoid mainstream financial products altogether. In turn, however, these entrepreneurs are less likely to have formal financial records, less likely to have had their financial history reported to credit bureaus and more likely to resort to predatory alternative lending institutions when they need to borrow. While many have been able to maintain their businesses in cash for long periods of time, practitioners recounted many cases in which entrepreneurs eventually find themselves unable to access the products they need to grow or adapt at affordable rates in today's financial market.

The lack of African-American representation in financial institutions also hinders African-American households' access to small business loans, mortgage loans, savings accounts and other mainstream financial products through which one might build wealth. As one practitioner noted, "it's harder to get [borrow] money from people who don't look like you."[21] In part, this challenge is exacerbated by the rapid disappearance of Black-owned banks that have historically served African-American communities and could, in theory, accommodate these needs. In some sense, Black bankers are faced with the same challenges as African-American owned-businesses: they were once the one and only banking choice for Black consumers during segregation, but in an increasingly integrated context, they struggle to compete with mainstream financial institutions. In 2001, there were 48 Black banks in the U.S.; as of December 2015, there were 22.[22] While Black banks have historically held a tiny share of assets compared to mainstream institutions, their financial troubles deepened during the recession and have extended through the recovery alongside the dire financial position of their primary customer segment.[23]

To some extent, the underrepresentation of Black frontline staff also holds true at the many other institutions within an entrepreneur's ecosystem: corporations, government agencies and, in some cases, even nonprofit technical assistance providers. In effect, this influences African-American entrepreneurs' ability to access the capital they need to start their businesses, the advice that might help them weather financial hiccups or the deals needed to sustain and grow their enterprises.

"[The regulators will criticize our underwriting and say] '…this is probably a loan that the bank shouldn't have done.' **But we're looking at it from a community development perspective, we're the only institution that will serve these businesses.** It's not about just not providing a loan, it could be the difference between employees having a job or being unemployed in the long-term. We [Tristate Bank] have to take certain risks that no other bank will."

Shawn Thomas, Tri-State Bank of Memphis

[21] This finding is reinforced by studies like Tim Bates and Alicia Robb's *Impacts of Owner Race and Geographic Context on Access to Small-Business Financing*, which suggest that banks engage in discriminatory practices limiting credit availability to minority-owned businesses.

[22] Federal Deposit Insurance Corporation. *Minority Depository Institutions Program, Fourth Quarter 2015.* (Washington, DC: FDIC, 2016), https://www.fdic.gov/regulations/resources/minority/MDI.html.

[23] Michael A. Fletcher. "The country's last Black-owned banks are in a fight for their survival," The Washington Post, February 13, 2015, accessed April 16, 2015, https://www.washingtonpost.com/news/wonk/wp/2015/02/13/the-countrys-last-Black-owned-banks-are-in-a-fight-for-their-survival/.

African-American entrepreneurs' access to debt capital is severely constrained and loans from alternative financial institutions partially fill the gap.

As noted previously, traditional small business loans are often inaccessible to financially vulnerable African-American entrepreneurs. Accordingly, many practitioners see alternative financing options—those offered by mission-driven nonprofit business development organizations, Community Development Financial Institutions (CDFIs) or community development credit unions—as a key solution for managing cash flow. These lenders are better equipped than mainstream financial institutions to serve low-wealth and low-income entrepreneurs. They can offer more flexible terms up front or adjust terms if an entrepreneur runs into trouble repaying, they often accept lower credit scores or help borrowers repair their credit histories and they often provide more pre- and post-loan technical assistance.

Practitioners in states where payday and auto-title lending is widely accessible noted that some entrepreneurs are using these sources of exorbitantly priced debt to survive cash flow dips. It is notable, however, that few practitioners identified alternative *online* lenders as a common source of capital among the entrepreneurs they serve. The proliferation of alternative online lending has taken the small business lending markets by storm over the past few years.[24] Growing and evolving rapidly, this industry has brought much needed capital to entrepreneurs, created a new class of competition for financial institutions and raised questions among small business and consumer advocates who decry some of these products as high-cost debt without transparent terms. In Illinois and California, for instance, efforts are underway to explore policy interventions that would provide more transparency and protections for potential small business borrowers seeking loans online. The fact that so few practitioners had seen clients use these platforms to access credit—coupled with the prevalence of predatory storefront lending operations—suggests that African-American entrepreneurs' borrowing options in these markets may be more constrained than elsewhere.

> **Few mission-driven lenders are able to offer products as immediately and accessibly as storefront predatory lenders are. But, Community Works Carolina developed a Borrow and Save consumer loan:** a small-dollar loan with a built-in savings component to help consumers self-fund future emergencies instead of borrowing again. This product is designed as a safer, more affordable alternative to traditional payday products, and while it is broadly targeted at consumers, not entrepreneurs, the reality is that many microbusiness owners end up using consumer products to address business needs.

Not all loans are created equal: flexible, working debt capital—like lines of credit—may be more appropriate than a traditional term loan to cover gaps in cash flow. But lines of credit are few and far between.

As John Thornton of the North Alabama Revolving Loan Fund noted and many others echoed: "A lot of times, borrowed money is just a Band-Aid to the problem."

Even when loans *are* the right solution, entrepreneurs may struggle to find the types of loans they really need. Many loans offered by mission-driven lending organizations are structured as term loans. Fewer practitioners offer the

[24] Kevin Wack, Colin Wilhelm and John Adams. "Innovation of the Year: Online Marketplace Lending," American Banker, December 17, 2014, accessed May 1, 2016, http://www.americanbanker.com/news/bank-technology/innovation-of-the-year-online-marketplace-lending-1071693-1.html

types of specialized loans that might be better suited to bridge cash flow gaps—like crop loans or contract-based loans—than traditional small and microbusiness loans. While some organizations do offer crop loans for agricultural businesses—like the Support Center in North Carolina and Southern Bancorp in Mississippi and Arkansas—these are also riskier loans to make due to the nature of the industry (business' profitability is subject to weather, pests and commodity prices) and because they function somewhat like receivables loans[25] for which borrowers make interest-only payments until the crop is sold. Fewer practitioners offered lines of credit, which may be more appropriate to address cash flow issues in some situations. In part, this is because these loans are more difficult to finance: lenders must set aside the full value of a line of credit as if the loan has been fully funded, which puts them in a more precarious financial situation.

Access to external equity investment is virtually nonexistent for African-American entrepreneurs in the South.

The dearth of seed capital and equity investment means many African-American entrepreneurs end up self-funding their businesses, leaving them further undercapitalized and without the cash needed to absorb early startup losses or weather gaps in cash flow. While it's worth noting that venture capital investment is the exception, not the norm for startups seeking investment, it's equally important to note the relative disparity in access to that type of investment. Equity investment simply doesn't flow to African-American entrepreneurs. A 2014 study found that ethnic-minority entrepreneurs are nearly 22% less likely to raise private equity funding and 22% less likely to raise venture capital than their white counterparts.[26] In the South, where relationships are still deeply constrained by race and class, practitioners noted that African-American entrepreneurs are even less likely to have access to equity investment or large monetary contributions from their similarly under-resourced friends and family. In part, this is derivative of the relative asset poverty in communities of color and the fact that the field of equity investors generally doesn't feature many African-American investors. As one practitioner noted, "people invest in people they know," and the relative absence of Black equity investors leaves Black entrepreneurs with even fewer potential supporters.

Some practitioners commented on the recent buzz around newly released SEC regulations that allow small, unaccredited investors to buy equity stakes in small businesses starting in May 2016.[27] Some of these practitioners expressed hope that lowering the barriers to entry for investors might represent an opportunity to direct more equity investment to Black-owned firms. Others remained skeptical that such an option would do little to overcome the racial bias embedded in traditional equity investment circles.

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[25] Receivables-based financing functions like a cash advance that is collateralized by a business's outstanding invoices.

[26] John Paglia and Maretno A. Harjoto. "The Effects of Private Equity and Venture Capital on Sales and Employment Growth in Small and Medium Sized Businesses." Journal of Banking and Finance, Vol. 47 (2014): 177-197.

[27] Zach Komes. "How New Equity Crowdfunding Rules Will Benefit Black Entrepreneurs," Fast Company, December 8, 2015, accessed May 1, 2016, http://www.fastcompany.com/3054276/the-future-of-work/how-equity-crowdfunding-empowers-Black-entrepreneurs.

Reflecting on the bigger picture, some practitioners noted that nonprofit organizations that provide entrepreneurs with training, advice, capital and other services are struggling with some of the same challenges as their clients: resources are tight and they often serve widely dispersed geographic regions with limited staff.

Practitioners' ability to address their clients' needs is a function of the environment in which they operate and the quality of the infrastructure that supports their work. Some nonprofit service providers and lenders who rely on philanthropic funding noted the relative lack of large foundations funding this type of work in the South compared to other regions of the United States. According to many practitioners, the philanthropic landscape in the South is dominated by smaller family or community-based foundations, many of which have relatively restrictive funding mandates based on the priorities and prescriptions of their benefactors. On a similar note, one practitioner at a small, rural CDFI lamented the difficulty securing funding—including loans and program-related investments—that would offer them greater flexibility to provide services they know African-American entrepreneurs in their region need most. They remarked that funders often prefer to associate themselves with successful CDFIs and associate success with higher-volume loan portfolios: in effect, they tend to support larger CDFIs serving urban regions. Operating with constrained resources over expansive geographies, mission-driven service providers and financial institutions may struggle to meet the needs of their clients.

Not only do entrepreneurs have issues accessing capital; some small, rural organizations do too.

CONCLUSION

In compiling this field scan, our goal was to validate and construct a more complete understanding of the problem at hand. Overall, our broad problem definition held up well under scrutiny: cash flow difficulties are a significant factor affecting business outcomes for African-American entrepreneurs in the South. Our findings also underscored the reality that, at least among those with whom we spoke, African-American entrepreneurs constitute the largest subset of our target audience—entrepreneurs of color—and experience these financial challenges in a way uniquely shaped by American history and racism. Practitioners' insights helped us shape a more nuanced definition of how cash flow difficulties manifest in the lives of the African-American entrepreneurs with whom they work. They also illuminated some of the systemic, interpersonal and skill-based barriers undergirding entrepreneurs' cash flow difficulties while helping us capture many of the solutions already in place.

Next Steps

Going forward, we'll speak directly with African-American entrepreneurs through in-person interviews to continue expanding our understanding of the problem as they experience it. In the course of these interviews, we'll also explore entrepreneurs' motivations, needs and desires for solutions. The questions guiding our continued inquiry include:

1. **How do entrepreneurs experience cash flow difficulties?** Practitioners noted a number of underlying drivers causing entrepreneurs to run into cash flow problems: low or inconsistent sales, higher costs, emergencies, difficulty making well-informed financial decisions and mismatched payment and receipt cycles. Going forward, we need to explore the nature of cash flow difficulties as experienced by entrepreneurs themselves, find out how they explain and identify those challenges and articulate what they believe the sources of those challenges to be. Doing so will allow us to contrast their perspectives with those of practitioners and understand how the two relate to one another, where their perceptions align and where dissonance exists so we can fill in the gaps. This will be critically informative as we move forward, ensuring that we know enough about what entrepreneurs want in the language, approach, tone and features of solutions in order to design responsive, appealing ways to address cash flow difficulties.
2. **How do entrepreneurs currently prevent or resolve their cash flow difficulties?** We heard from practitioners that many of the African-American entrepreneurs with whom they work struggle to avoid or manage their cash flow problems. In large part, they blame the severe lack of wealth, entrepreneurs' difficulty accessing debt capital needed to bridge gaps or their inability plan for growth as culprits. In many ways, African-American entrepreneurs' experiences with the financial systems in the South have inhibited their access to the financial tools they need to operate; more importantly, the exclusionary nature of the system has forced entrepreneurs to regard and make decisions about their finances that don't always fit well in that prevailing system. The pervasiveness of alternative—often predatory—financial services, for instance, has filled the gap left unserved by traditional financial institutions. And while mission-driven business development and financial service providers attempt to serve entrepreneurs' needs, they often struggle to overcome similarly limited resources and capacity as their clients. Going forward, we need to

explore the strategies entrepreneurs currently use to make it through tight financial situations and the full set of solutions they have at their disposal. Doing so will help us isolate what solutions already exist and, where possible, what can be learned from entrepreneurs' own resourcefulness in overcoming financial shortfalls.

3. **What solutions do entrepreneurs think might help resolve their cash flow difficulties?** To date, our analysis of existing solutions has been informed by the practitioner perspective on what's best and most prudent for entrepreneurs' financial success. Going forward, we need to understand what solutions may exist but remain inaccessible—or perceived as such—to African-American entrepreneurs. We'll also explore entrepreneurs' perspectives on the range of programs, products and services intended to help them manage cash flow difficulties and find out how they view the different institutions—including nonprofits, government and corporations—involved in serving small businesses. Giving African-American entrepreneurs a chance to articulate what requirements they would want potential solutions to satisfy will help inform responsive, appealing solutions that resonate with them.

Most importantly, as we move from defining the problem to exploring solutions, we may reveal opportunities to tweak financial management trainings or generate creative new financial products that help entrepreneurs address cash flow gaps. But it will be critical to acknowledge that these types of solutions cannot exist in a vacuum. Without addressing systemic issues, new products or services will only superficially scratch the surface of the underlying drivers of cash flow difficulty and disparity in business outcomes experienced by African-American entrepreneurs in the South. The depth and pervasiveness of race as a factor in banking, lending and social networks demand that any solutions we lift up or design at least attempt to reengineer the economic and social ecosystem in which entrepreneurs must operate in order to create lasting change.

INTERVIEWEES

The list below identifies the 35 experts interviewed, their positions, affiliations and locations.[28] The listed location may only indicate where the individual or main office is located, not the organization's entire service area; many of the organizations listed here serve multiple counties or states.

	Organization	Name	Position	Location
AL	HERO	Pam Dorr	Executive Director	Greensboro, AL
AL	Alabama MicroEnterprise Network	Gaynelle Jackson	Director	Birmingham, AL
AL	Emerging Change Makers Network	Jessica Norwood	Executive Director	Birmingham, AL
AL	FDIC	John Olsen	Community Affairs Specialist	Montgomery, AL
AL	LiftFund	Lisa Riley	VP Delta Region	Tuscaloosa, AL
AL	North Alabama Revolving Loan Fund	John Thornton	Loan Fund Manager	Huntsville, AL
AR	Asset Funders Network	Abby Hughes Holsclaw	Director of Member Engagement	Little Rock, AR
AR	Southern Bancorp	Dominik Mjartan	CEO (Community Partners) & EVP (Southern Bancorp Inc.)	Arkadelphia, AR
FL	NAACP Florida	Torey Alston	Economic State Chair	Fort Lauderdale, FL
GA	Southwest Georgia United	Lin Barnes	Community Finance Specialist	Vienna, GA
GA	Southwest Georgia United	Robert Cooke	Executive Director	Vienna, GA
GA	Access to Capital for Entrepreneurs	Luis Izaguirre	Director of Strategy	Atlanta, GA
GA	Albany Community Together	Thelma A. Johnson	President & CEO	Albany, GA
GA	Federal Reserve Bank of Atlanta	Will Lambe	Senior CED Adviser, Community Development Finance	Atlanta, GA
GA	Georgia Micro Enterprise Network	Elizabeth Wilson	Executive Director	Atlanta, GA

[28] We also gathered insights as participants in convenings held by the Association for Enterprise Opportunity (AEO) on access to capital issues for Black entrepreneurs; the National Women's Business Council, SBA and Walker's Legacy on challenges and opportunities affecting Black women entrepreneurs; and the Runway Project, working to bridge the friends and family capital gap for African American-owned businesses.

LA	Strategic Action Council, Minority Supplier Institute	Jeffrey Thomas	Executive Director	Shreveport, LA
MS	HOPE	Kara Adams	Branch Manager	Biloxi, MS
MS	HOPE	Elaina Jackson	Director of Communications	Jackson, MS
MS	SOCAP & Neighborhood Economics	Kevin Jones	Co-Founder	-
MS	HOPE	John McCarty	Program Officer	Biloxi, MS
MS	HOPE	Ed Sivak	Chief Policy & Communications Officer	Jackson, MS
MS	HOPE	Ray Williams	Vice President Commercial Lending	Jackson, MS
MS	HOPE	Pearl Wicks	SVP Retail Services	Jackson, MS
NC	Institute for Minority Economic Development	Farad Ali	Executive Director	Durham, NC
NC	Urban Advisors	Michael Boulware	Director of Impact and Innovation	Charlotte, NC
NC	The Support Center	Sharon Oxendine	Director, Western WBC	Candler, NC
NC	NC Rural Center	Barry Ryan	Senior Director, Programs	Raleigh, NC
NC	NC Rural Center	Amanda Sorrells	Director, Entrepreneurship & Microenterprise	Raleigh, NC
NC	The Support Center	Edward Timberlake, Jr.	Business Services & Lending Director	Raleigh, NC
SC	Charleston LDC	Sharon Brennon	Executive Director	Charleston, SC
SC	Increasing HOPE	Dorothea Bernique	Executive Director	North Charleston, SC
SC	SC Association for Community Economic Development	Bernie Mazyck	Executive Director	Charleston, SC
SC	Community Works Carolina	Deborah McKetty	President & CEO	Greenville, SC
SC	SC Commission for Minority Affairs	Rogie Nelson	Program Coordinator	Columbia, SC
TN	Tri-State Bank of Memphis	Shawn Thomas	Senior Vice President	Memphis, TN

CFED's work makes it possible for millions of people to achieve financial security and contribute to an opportunity economy. We scale up innovative practical solutions to empower low- and moderate-income people to build wealth, we drive responsive policy change at all levels of government and we support the efforts of community leaders across the country, advancing economic opportunity for all.

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