

RESILNC



**A PARTNERS IN
EQUITY INITIATIVE.**

**DON'T KNOCK THE HUSTLE: PLOTTING TO SCALE
NC'S BLACK BUSINESSES POST-COVID**

DECEMBER 2020



RESILNC



A PARTNERS IN
EQUITY INITIATIVE.

by: Partners In Equity

Napoleon Wallace

Wilson Lester

Talib Graves-Manns

[Partners in Equity \(PIE-NC\)](#) is a North Carolina-based small business and real estate investment firm focused on underestimated entrepreneurs, especially businesses owned by women and people of color.

[ResilNC](#) is a small business data and investment collaborative launched to better understand the capital and development needs of diverse businesses caught in the margin of inequity.

CONTENTS

4	Acknowledgments
5	Foreword
6	Introduction
8	Opportunities: Understanding NC's Black Business Landscape
10	Black Businesses in NC: Disproportionately Impacted by COVID
14	State and Local Support: Adequate, but Incomplete
16	Black Businesses: In the Spotlight and In Transition
19	Opportunities: A New Way of Supporting Black Businesses
22	Equity for Equity's Sake: The Capital Stack as a Driver for Equitable Outcomes
24	Balancing Budgets for Supplier Diversity
26	Conclusions and Recommendations
27	Riffs and Freestyles
28	Product Summary and About PIE-NC.org
30	About the Authors
31	Dedication

ACKNOWLEDGMENTS

COLLABORATORS

We'd like to thank all of the local, regional, and state-wide community-based business development organizations that helped us complete the ResilNC Initiative by providing insights on the diverse business communities they serve. These organizations are critical to NC's Black business ecosystem, and we are immensely thankful for their contributions.



ALLIES

We'd like to thank all of the interviewees and contributors who provided their time, feedback, and brilliance in helping us to complete the ResilNC Initiative.

Mark Little
Executive Director of CREATE, Kenan Institute of Private Enterprise, University of North Carolina at Chapel Hill

Jamie McCall
Vice President of Research, Carolina Small Business Development Fund

Henry McKoy
Professor and Director of Entrepreneurship, North Carolina Central University

Lewis "Lew" Myers
Chair, North Carolina Institute of Minority Economic Development

Andre Perry
Fellow, The Brookings Institution

This work was made possible through the generous support of:

Partners in Equity, Truist Bank, Doner and 4S Bay Partners.



Doner.



4S Bay Partners LLC

SUPPORTERS

4S Bay Partners



4S Bay Partners LLC

FOREWORD

Facing a global health pandemic, economic deterioration, and a national reckoning on race, in November 2020, our country elected Joe Biden to be the 46th President of the United States and elected Senator Kamala Harris as our nation's first female, first Black, and first South Asian–American Vice President.

Although not all Americans voted for Biden, the incoming President has called upon the nation to unite, take time to heal, and begin the hard work of building a more equitable nation. As President-elect Biden stated in his victory speech, “America has called upon us to marshal the forces of decency, the forces of fairness, to marshal the forces of science and forces of hope in the great battles of our time.”

While these great battles are numerous—controlling the coronavirus, building prosperity, securing health care, restoring decency, defending democracy, and giving Americans a fair shot—one battle is essential to winning the rest: “the battle to achieve racial justice and root out systemic racism in this country,” as President-elect Biden stated.

The advancement of racial and economic equity anchors the Biden-Harris Build Back Better plan, with some of the clearest opportunities to improve national outcomes being to:

- Spur Public-Private Investment through a New Small Business Opportunity Plan,
- Reform Opportunity Zones to Fulfill Their Promise,
- Make a Historic Commitment to Equalizing Federal Procurement, and
- Ensure Equity in Biden's Bold Infrastructure and Clean Energy Investments.¹

We could not agree more with these priorities, and just as President-elect Biden and VP-elect Harris work to end systemic racism in the country, Partners in Equity will continue to create avenues for black businesses to obtain capital, build wealth, and obtain the support they need.

¹ Biden for President, “[The Biden Plan to Build Back Better by Advancing Racial Equity Across the American Economy](https://www.bidenharris.com/plan).”

INTRODUCTION

As the old adage goes
“When White America catches
a cold, Black America catches
pneumonia.”

The COVID-19 pandemic and ensuing economic slowdown has reminded us of just how true that statement remains, even in 2020. The pandemic has brought our nation’s history of structural racism, economic inequality, and disparate health access into plain view, and with this clear vision, we’ve seen the devastating toll that our collective ambivalence to these social maladies continues to inflict on Black families, Black communities, and our nation as a whole. In the words of Rashad Robinson, President of Color of Change, “The failed and corrupt response to COVID-19 is killing black businesses, killing black jobs, killing black votes and killing black people—much more than other communities.”

Just as Black Americans were disproportionately sickened by the disease, Black businesses have been disproportionately crippled by the economic slowdown that resulted from the pandemic. “The COVID-19 pandemic has exposed acute and deep-rooted connections between physical and economic health,” according to a Federal Reserve Bank of New York report, with communities “reeling from the health crisis, business closures, and job losses.”²

In North Carolina, many of our Black businesses closed at the start of the pandemic, and a disproportionate number of these businesses never reopened. Worse, without the proper financial and advisory resources, more of these businesses will not survive the impending economic headwinds.³ Worst of all, as an impact investor seeking to deploy capital in response to the pandemic, we discovered that real-time, locally relevant data on the needs of Black businesses was virtually non-existent. Despite a clear and present need for risk-tolerant capital, we also found that the networks built to channel capital and resources to Black businesses at the best of times are critically under-resourced to deliver these same tools at the worst of times.

With these concerns in-mind, [Partners in Equity \(PIE-NC\)](#) sponsored the [ResilNC Initiative](#), a small business data and investment collaborative, to better understand the capital and development needs of diverse businesses caught in the margin of inequity. To get a better understanding of COVID-19’s impact on North Carolina’s Black businesses, ResilNC partnered with 10 community-based business development organizations from across North Carolina to collect and compile relevant data on over 250 Black-owned businesses that are diverse geographically and by sector, through a standardized small-business needs assessment.

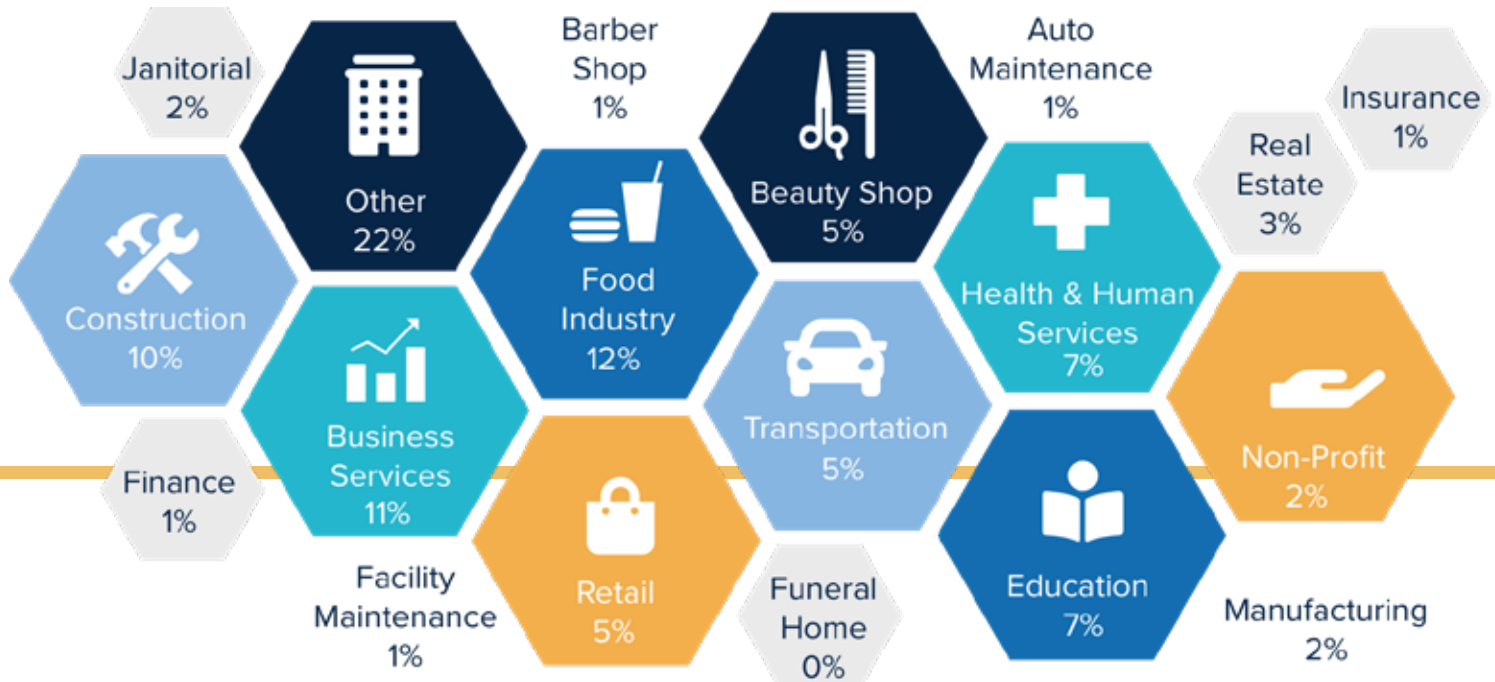
²Claire Kramer Mills and Jessica Battisto, “[Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities](#),” Federal Reserve Bank of New York, August 2020.

³Carolina Small Business Development Fund, “[Assessing the Economic Impacts of COVID-19 on North Carolina’s Small Business Community](#),” April 2020 Research Report.

SUMMARY OF RESILNC SURVEY RESPONSES:

- At a high level, ResilNC survey respondents are from stable businesses, with 36 percent operating for 10 years or more, 18 percent for 6–9 years, and 36 percent for 5 years or less. Two thirds of these businesses have 1–5 employees, and 64 percent have annual revenues of \$250,000 or less. In terms of business type, 12 percent are in the food industry, 7 percent are in health & human services, 5 percent are in retail, and 6 percent are beauty shops or barbers; 10 percent are in construction, 11 percent are in business services, and 22 percent are classified as “other.”

Please indicate the primary industry of your business.



- In terms of property, 38 percent of the survey respondents own their business locations, and 66 percent lease. Of those who lease, half want to own commercial property for their business.
- Gross revenue ranges from less than \$100,000 to more than \$10 million, and in terms of financing, only 49 percent of respondents have financing through a local, regional, or national banks while 60 percent rely on a combination of personal loans, credit cards, friends and family, and online lenders. 6 percent have equity investors and another 6 percent rely on community development or foundation grants.
- Only 37 percent have founders and chief executives who pay themselves a full-time salary.

The ResilNC partners hope that the data and insights to emerge from this initiative will help capital allocators, such as investors, banks, governments, and foundations, better infuse equity into their capital decisions, as they continue their COVID-19 recovery efforts and align with the needs of Black businesses. Further, we hope that the findings and recommendations of the report will speak to the critical role that Black-led community-based business development organizations—such as CDCs, CDFIs, Black Chambers, and other business networks—play in the survival and success of Black businesses across our state. Investment into these organizations is critical to their success, and their success is critical to the economic ecosystem.



OPPORTUNITIES: UNDERSTANDING NC'S BLACK BUSINESS LANDSCAPE

THE PLIGHT OF BLACK BUSINESS:
BAD FORTUNE OR BAD POLICY?

“Luck is what happens when preparation meets opportunity,” or at least that’s how the saying goes. But what happens when you substitute disinvestment for preparation and global pandemic for opportunity? To be clear, it’s not good, and it has nothing to do with luck.

The coronavirus pandemic has adversely affected communities of color across the United States, and because of long-standing economic and health inequities, Black Americans have been dying at a much higher rate than White Americans. In some cities, death rates among Blacks were triple to quadruple the death rates of White residents.⁴

Those same inequities, promoted by years of discriminatory social and economic policies, led to similarly devastating death rates among Black businesses.⁵ “One thing that is clear is the lack of wealth in the Black community comes out in the wash in the ability for Black business owners to sustain themselves during economic shocks,” said Andre M. Perry, a fellow at The Brookings Institution and author of *Know Your Price: Valuing Black Lives and Property in America’s Black Cities*.⁶

In June 2020, when Yelp partnered with My Black Receipts to give businesses a way to self-identify as Black-owned, the initiative encouraged consumers to

⁴ “Creating a toxic storm of death and illness, the pandemic is devastating black communities across the United States and revealing the deadly legacy of inequality.” Rodney A. Brooks, [“African Americans Struggle with Disproportionate COVID Death Toll,”](#) National Geographic, April 24, 2020.

⁵ US Bureau of Labor Statistics, Private sector establishment births and deaths, October 28, 2020.



spend over \$5 million at a select group of Black-owned businesses in the short window between Juneteenth and July 6.⁷ Similar initiatives have also launched on other food delivery apps, with DoorDash spotlighting Black-owned businesses on its app and Uber Eats waiving fees for a period. Despite the related bumps in visibility and revenues, approximately 40 percent of Black businesses nationwide were forced to shut down during the pandemic. And according to new Yelp research, approximately 60 percent of businesses that have shut down during the pandemic will never reopen, with

restaurants suffering this fate most often.^{8,9}

“Most businesses have to rely on some type of nest egg to endure the social distancing,” Perry says. “Because a lot of Black business owners don’t have that kind of equity due to structural racism, they have less of a cushion to withstand this particular moment in time.” Today, with the clarity of hindsight, we know that cushion (or lack thereof) is a vestige of federal-, state-, and locally sanctioned discrimination in health, housing, employment, education, and lending policy that lasted well into the 20th century.^{10,11}

⁷ Alicia Lee, [“My Black Receipt’ Campaign Encourages Consumers to Spend \\$5 Million at Black-Owned Businesses through July 6,”](#) CNN Business, June 24, 2020.

⁸ Robert W. Fairlie, [“The Impact of COVID-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey,”](#) National Bureau of Economic Research, June 2020 working paper.

⁹ [Yelp: Local Economic Impact Report](#), Yelp Economic Average, September 2020.

¹⁰ Kriston McIntosh et al., [“Examining the Black-White Wealth Gap,”](#) The Brookings Institution, February 27, 2020.

¹¹ William Darity Jr., [“Running the Numbers on Closing the Racial Wealth Gap,”](#) August 2019.

BLACK BUSINESSES IN NC

DISPROPORTIONATELY IMPACTED BY COVID

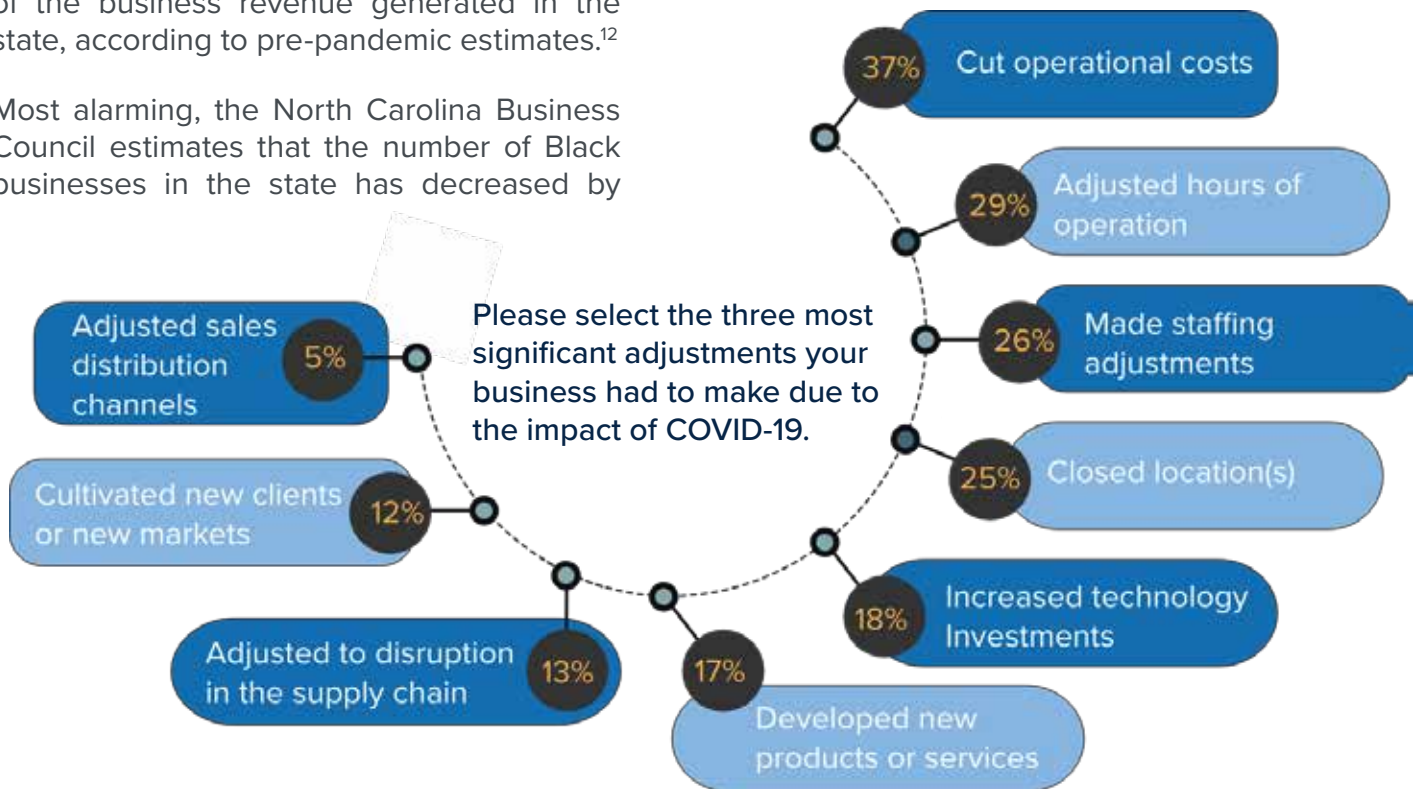
In North Carolina, from 1997 to 2018 the number of diverse-owned businesses roughly tripled, from 61,551 to 183,333, meaning 13 percent of North Carolina businesses were diverse owned. Of these diverse-owned firms, 20,400 had paid employees, including 5,500 Black-owned firms.

Interestingly, young businesses—those operating for fewer than four years—were more likely to be diverse-owned, with 22 percent of young businesses being diverse owned compared to 13 percent of businesses overall. Although Black businesses accounted for 4.2 percent of firms in North Carolina, Black-owned firms made up only 1.3 percent of the business revenue generated in the state, according to pre-pandemic estimates.¹²

Most alarming, the North Carolina Business Council estimates that the number of Black businesses in the state has decreased by

41 percent since the COVID-19 pandemic began.¹³ While it's difficult to know exact numbers at this point, we can say with certainty that many of North Carolina's Black businesses have already closed for good, and more could be forced to shut down as the economic devastation continues through 2021.

Not surprisingly, the overwhelming majority (86 percent) of ResilNC survey respondents were adversely affected by the pandemic. These businesses primarily dealt with the pandemic slowdowns by cutting costs, reducing hours, adjusting staff, and shutting



¹² Jamie McCall, "Assessing the Economic Impacts of COVID-19 on North Carolina's Small Business Community," Carolina Small Business Development Fund, April 2020.

¹³ Vicki Lee Parker-High, "Black Businesses Matter," North Carolina Business Council.



Even though Black-owned businesses disproportionately struggle to obtain credit, many are over-leveraged relative to their equity capital, which can keep Black businesses small.

down locations. Nearly 40 percent of the ResilNC respondents had to cut costs as a result of COVID-19, and nearly 30 percent made staffing cuts.

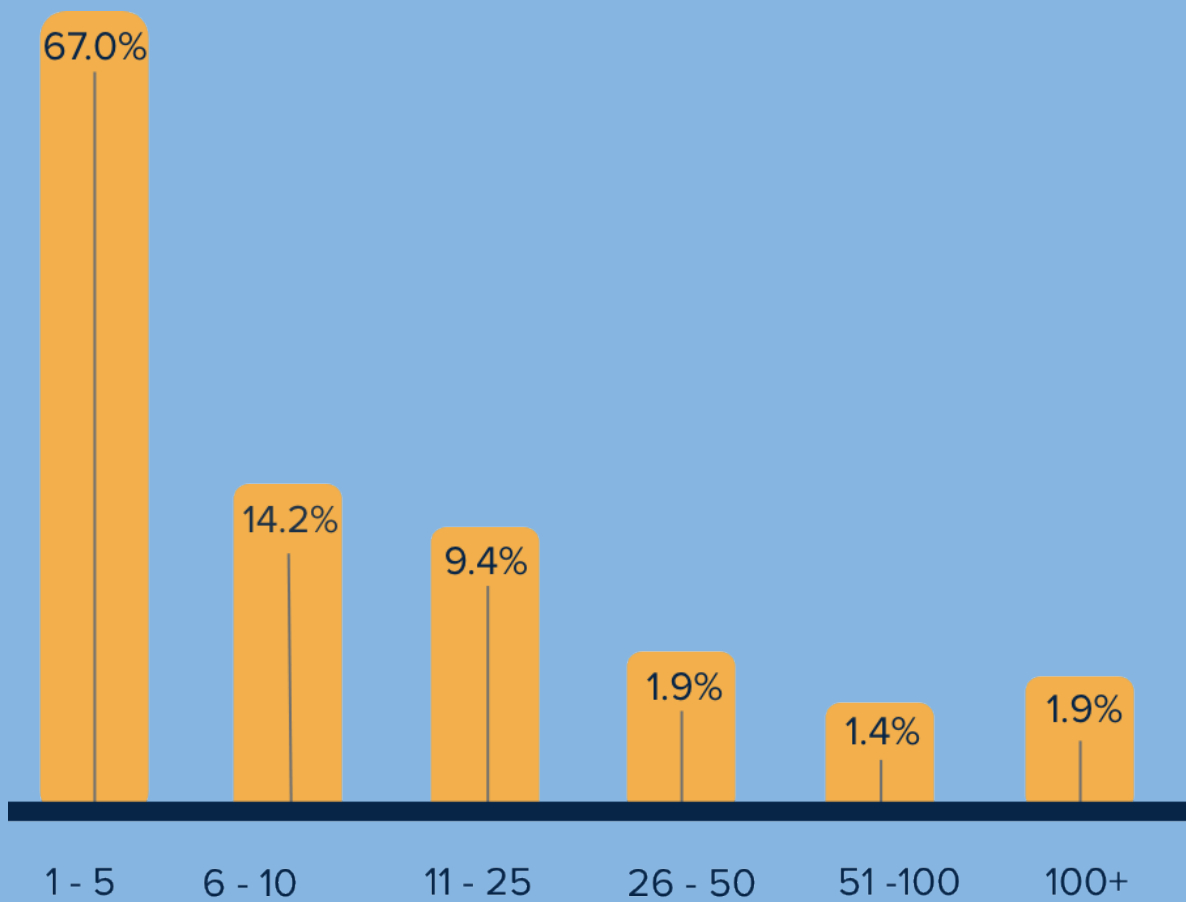
Henry McKoy, Professor and Director of Entrepreneurship at North Carolina Central University, agrees that exact numbers are difficult to come by, but says that closure estimates of up to 50 percent are “believable.” “Part of the challenge is the fact that so many are sole proprietorships. It doesn’t take a lot to put them out of business,” says McKoy. “Nationally, 95 percent of Black-owned businesses have no employees compared to 78 percent of White-owned firms, respectively.”

“Many of our businesses were underfinanced to begin with,” says Lewis “Lew” Myers, Chair of the North Carolina Institute of Minority Economic Development. “When you are a neighborhood business, running a bodega or a convenience store, what is the impact when customers don’t have any money?” Consumer-focused businesses such as food service and restaurants, in which Black Americans are concentrated, were hit the worst and are not likely to come back. “Many restaurants were at 30 percent capacity,” Myers says. “If margins were thin at 100 percent capacity, they certainly can’t make money serving meals at 30 percent capacity.”

Mark Little, Executive Director of CREATE, an economic development center at the Kenan Institute of Private Enterprise at UNC-Chapel Hill, says that when Black businesses fail, the owners can't simply start a new one. "They don't have the funds or the right kinds of relationships with [investors] who see them as an investment opportunity," says Little. "My concern is not just ownership, but wealth in general. We are on track to being much more unequal."

"Historically, whenever there is a shock, the recovery time is longer for Black folks and people in the margins," Little says. "If you don't have wealth, insurance, and all those tools to get you through six months or a year of bad times, it can affect you for years."

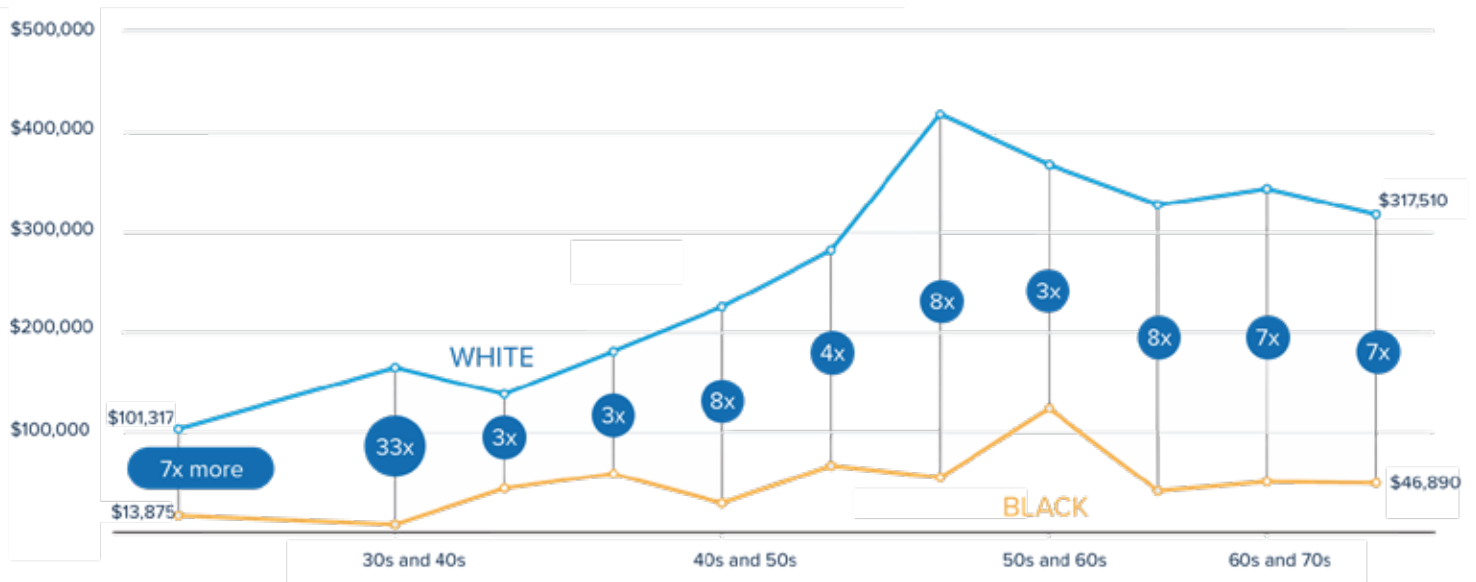
Instead of a model that stops with teaching how to file taxes or how to apply for a loan, our businesses and entrepreneurs need vested partners that will work alongside them, share their own experiences, invest over the long-term, and advise on which opportunities to pursue and which hurdles to avoid.



How many employees does your business employ, including the business owner?



Median Family Wealth for Those Born 1943-51 by Race



SOURCE: URBAN INSTITUTE CALCULATIONS FROM SURVEY OF CONSUMER FINANCES 1983-2016

STATE AND LOCAL SUPPORT: ADEQUATE, BUT INCOMPLETE



How satisfied are you with the LOCAL government response to the COVID-19 crisis as it relates to small businesses?

“Too little support [will] lead to a weak recovery, creating unnecessary hardship for households and businesses,” argued Federal Reserve Chair Jerome Powell in a speech to an economic conference in October 2020. He warned that a too-slow recovery would be “tragic” and “exacerbate existing inequalities.” The nation’s highest-ranking economist made this argument in hopes that the country can stave off a deep recession. Given that Black communities have borne the brunt of the past three recessions (’90–’91, ’01, and ’07–’09), faring 23–35 percent worse in terms of wages, business closures, and employment, we agree that strong fiscal stimulus that supports Black businesses and communities is imperative¹⁴

According to ResilINC survey data, 76 percent of the businesses surveyed applied for COVID-related federal government assistance, with CARES Act Paycheck Protection Program (PPP) loans and Economic Injury Disaster Loans (EIDL) being the most-utilized programs of those that received funding. The PPP stimulus program did not help Black businesses as much as it could have, because the program relied heavily on banks to deploy loans, and since fewer Black businesses had a relationship with banks, Black businesses had more difficulty accessing the program.¹⁵ “Black people have much less access to traditional banks,” says Perry. “Blacks receive business loans at about half the rate of their White counterparts, and when we do receive loans it’s at higher interest rates.”

¹⁴ Kristie M. Engemann and Howard J. Wall, “[The Effects of Recessions Across Demographic Groups](#),” Federal Reserve Bank of St. Louis Review, January/February 2010, 92(1), pp. 1–26.

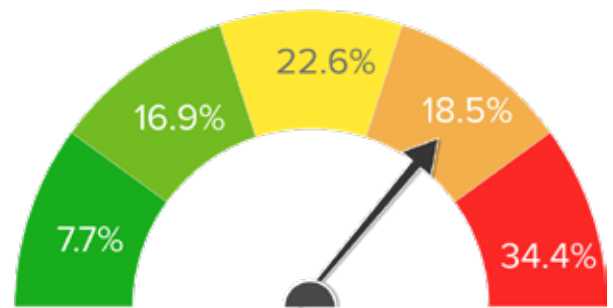
¹⁵ Mills and Battisto, “Double Jeopardy: COVID-19-19’s Concentrated Health and Wealth Effects in Black Communities,” August 2020

“Your ability to achieve financing is dependent on your relationship with banks, and that is implicit bias,” says Jamie McCall, Vice President for Research at the Carolina Small Business Development Fund. “Underserved entrepreneurs, like African-Americans, women, and rural business owners, have the most difficulty breaking in,” he says. As state and federal government implement future rounds of economic stimulus, the ResilNC partners hope these efforts include a broader universe of community-based deployment partners—such as CDCs, CDFIs, and community-based business development organizations—from the beginning, to ensure that all communities have equitable access to much-needed resources.

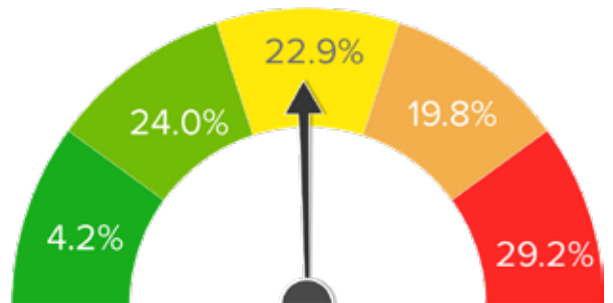
Despite the visible announcements of state and local emergency loan and grant programs, only 15 percent of other ResilNC survey respondents applied for state or local loans or grants. The state and many local NC governments offered assistance, but few Black businesses benefited from these programs. One challenge is that, when local and state governments offered stimulus and support, they carried over many underwriting and outreach parameters from federal initiatives—such as firm size, credit profile, bank relationships, and reporting requirements—which further excluded Black businesses from meaningful participation. As a result, such programs haven’t had a dramatic impact in terms of getting support for and money into the hands of Black entrepreneurs. One notable exception is the RETOOLNC, which provides small, certified Historically Underutilized Businesses (HUBs) and Disadvantaged Business Enterprises (DBEs) with up to \$25,000 in non-dilutive grant capital to help them navigate current economic headwinds.

Overall, ResilNC respondents rated the state and local government’s business response to the crisis as only adequate, while they rated the federal government’s

responses below adequate, with only 24 percent of respondents saying they were satisfied with the federal response. We believe a broader universe of diverse, community-based deployment partners, like those that RETOOLNC models, will drive the reach of federal and local programs; furthermore, we see many opportunities for private and philanthropic organizations to provide complimentary funding to community-based business development organizations in order to expand the breadth and depth of outreach, and accordingly, enhance the inclusiveness of small business recovery efforts state-wide.



How satisfied are you with the FEDERAL government’s response to the COVID-19 crisis as it relates to small businesses?



How satisfied are you with the STATE government’s response to the COVID-19 crisis as it relates to small businesses?



BLACK BUSINESSES: IN THE SPOTLIGHT AND IN TRANSITION

The worldwide condemnation of the deaths of Black Americans such as George Floyd and Breonna Taylor has resulted in a renewed look at the impact of racism and discriminatory policies on Black communities, businesses, and economic development. As an extension of the socio-political environment within the U.S., the year 2020 ushered in conditions whereby “Black Lives Matter” is printed on the jerseys of NBA players and on league basketball courts—all to be witnessed by the entire nation.

This impact has extended to North Carolina, where the Asheville City Council and

Buncombe County Board of Commissioners have separately approved resolutions apologizing for slavery and approving slavery reparations for their citizens.^{16,17}

“We’re trying to grow generational wealth through homeownership or minority business development and growth,” says Asheville Mayor Esther Manheimer, “creating the kinds of things that create generational wealth in the community and target the things that the white community has enjoyed, and the black community has not. The fact that these incredible disparities are being more broadly recognized is important.”¹⁸

¹⁶ Nia Davis, [“Asheville Reparations Resolution Is Designed to Provide Black Community Access to the Opportunity to Build Wealth,” Asheville Office of Equity and Inclusion](#), City of Asheville, NC, July 20, 2020.

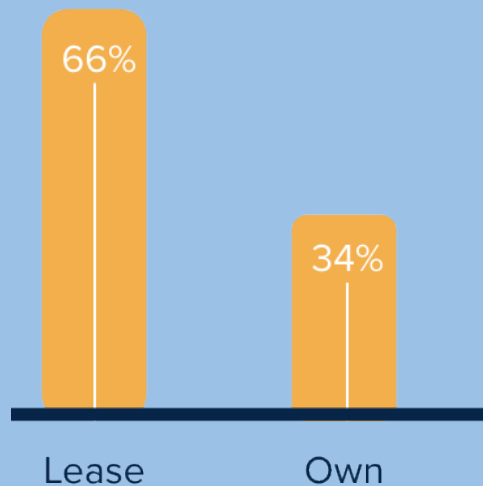
¹⁷ County Commission of Buncombe County, NC, [“Resolution to Support Community Reparations for Black People in Buncombe County,”](#) August 4, 2020.

¹⁸ Rodney Brooks, [“How Reparations Would Work Today,”](#) Quartz, October 6, 2020.



As future rounds of economic stimulus are implemented, we hope to see them include a broader universe of community-based deployment partners—such as CDCs, CDFIs, and business development organizations—from the beginning, to ensure that all communities have equitable access to much-needed resources.

Mark Little agrees as he has seen a growing level of excitement among both entrepreneurs and investors. “There are a lot of people who are turning the anger of the moment into real action,” he says. “We’ve come across that not just on the investment side, but the business side. Things are happening. I think it is kind of exciting, and I’m hopeful that there can be enough concerned interest from organizations to drive it in the right direction. There is enough wealth in the broader Black community to do some things. It will take a lot of work and new ideas, but I’m hopeful.”



Do you lease or own your business location?

Knowing whose advice to take and on what topic is the single most important decision an entrepreneur can make.

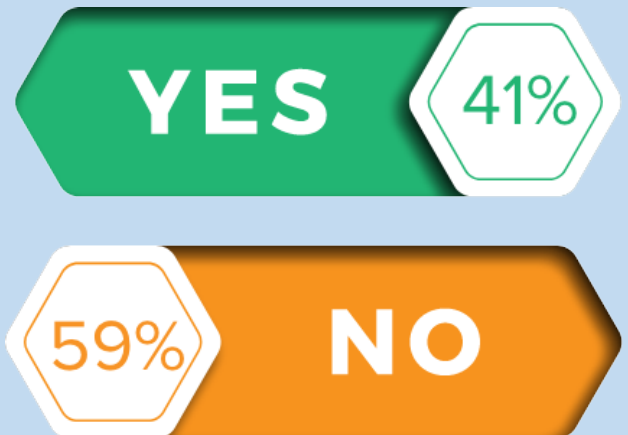


OPPORTUNITIES: NEW WAYS OF SUPPORTING BLACK BUSINESSES

EVOLVING TECHNICAL ASSISTANCE INTO STRATEGIC ADVISING

Famed venture capitalist and entrepreneur Vinod Khosla once said that “knowing whose advice to take and on what topic is the single most important decision an entrepreneur can make.” Quality advice can mean the difference between surviving and thriving, and from the ResilINC survey we found that the needs of Black businesses are as varied as they are numerous.

However, the survey revealed that 59 percent of respondents were not familiar with the term “technical assistance,” and 80 percent had sought neither formal nor informal management assistance since the start of the pandemic. This is true even though most CDFIs, CDCs, and other community-based business development organizations identify “technical assistance” as their primary method of providing non-financial support to businesses. Clearly there is a gap between the providers offering valuable technical assistance and the potential clients who need that assistance.



Prior to taking this survey, were you familiar with the term “Technical Assistance” as used in the small business industry?

Technical Assistance refers to the education and guidance provided to entrepreneurs and small business owners to help them start and grow businesses.

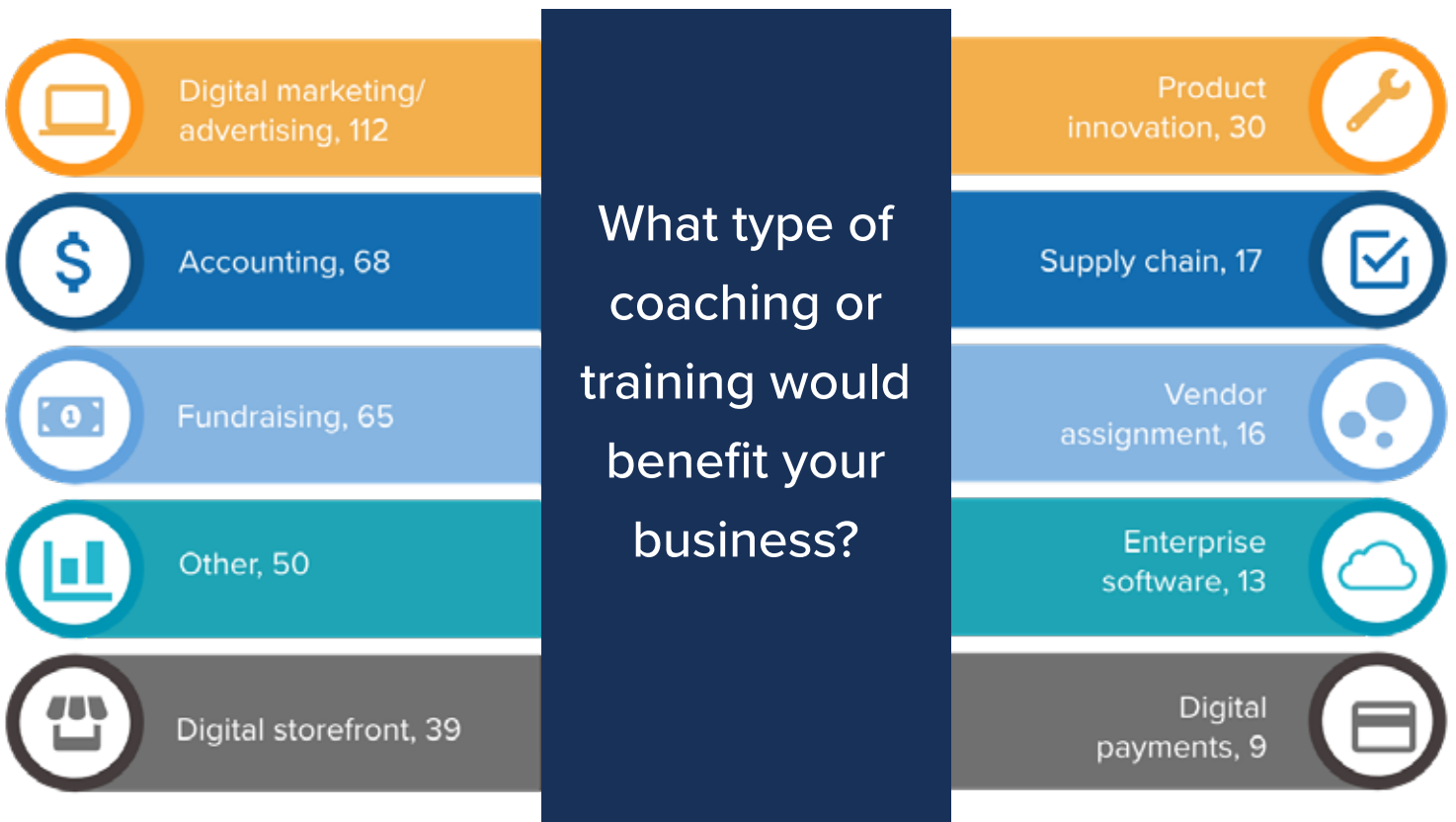
In short, business owners do not understand what technical assistance is, and accordingly, there is a disconnect between the offering of it and its value. Our data suggest that, to be most impactful, entrepreneurial support organizations and their funders might explore evolving the concept of technical assistance as well as the offerings they include within the scope of services.

For instance, ResilNC survey respondents consistently raised the need to improve social media and digital marketing as a clear opportunity. However, assistance in this area is virtually non-existent. There is plenty of assistance for the preparation of applications, such as bank loans and relief funds, but beyond this what businesses need is strategic advice on digital advertising and customer acquisition in a COVID-19 environment.

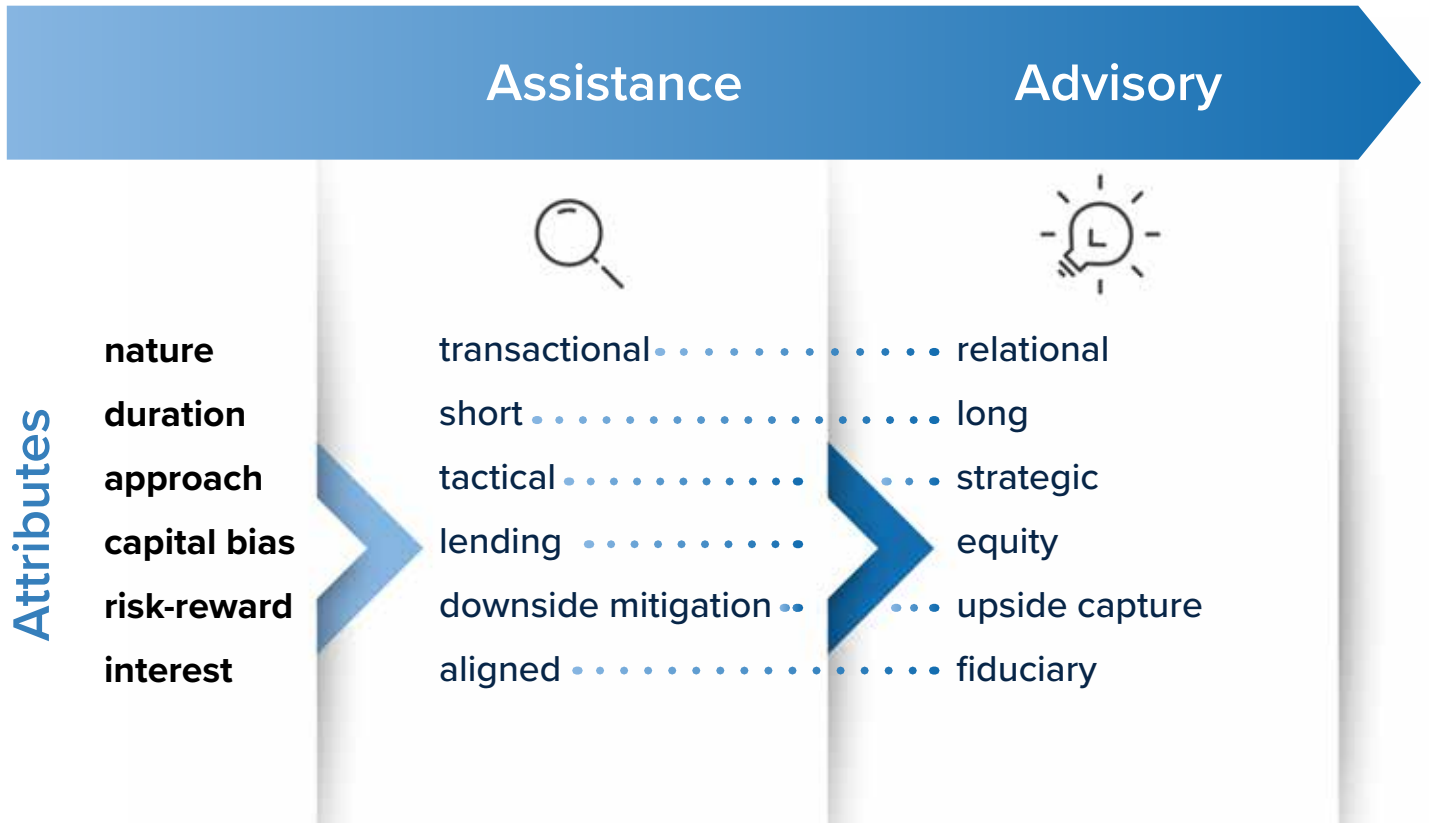
“Technology is probably the biggest challenge,” said one respondent, “being able to pivot when so many things are moving in the virtual space.” Another said that keeping up with changes—in the industry and social media—is “the hardest part. I took a six-week course to learn Facebook ads in order to promote my online courses more, but what I really needed was a digital storefront.”

One of the fundamental issues with technical assistance is its duration (or lack thereof). In engaging with small business owners, we found that most assistance that takes place in a Black community is transactional, while in other communities it is more advisory and relational. Instead of a model that stops at teaching how to file taxes or how to apply for a loan, our businesses and entrepreneurs need vested partners that will work alongside them, share their own experiences, invest over the long-term, and advise on which opportunities to pursue and which hurdles to avoid.

This model, one in which *coaching and capital go hand-in-hand, is more of an equity model, whereby “interests” are not only aligned but also vested.* As one survey respondent said, “Since an equity investment means you’re taking risk alongside an entrepreneur and only getting upside when they succeed, equity is the fairest and most efficient way for [an advisor] to get the full value of their advice...many other ways of pairing capital and advice can lead to misaligned interests.” To best serve Black businesses at this critical time, the equation for support should include financial, intellectual, and relational capital.



The Assistance to Advisory Spectrum



EQUITY FOR EQUITY'S SAKE: THE CAPITAL STACK AS A DRIVER OF EQUITABLE OUTCOMES

An August 2020 report from the Federal Reserve Bank suggests that the lack of strong banking relationships and weakened financial positions were the primary reasons that Black-owned businesses were underrepresented in the Paycheck Protection Program (PPP).¹⁹ The report goes on to say that Black business-owners were less likely to apply because they believed they would be denied, which is also a credible concern.²⁰

Beyond the racial disparities in loan counts, Black businesses' low representation among PPP recipients is uniquely troubling because it is likely to exacerbate the racial wealth gap.²¹ In NC, for example, of the \$12.3 billion in total state-wide PPP lending, \$3.8 billion was made to small- to medium-sized businesses (loans up to \$150,000), and of that only \$17 million (0.44 percent) went to businesses identified as Black or African-American.²² PPP funding was non-dilutive, forgivable loan capital that directly and almost immediately bolstered the equity of recipient businesses, and, if delivered equitably, could have provided a direct equity boost to Black businesses statewide.

Capital is associated with better business performance, and risk-tolerant capital—such as forgivable loans (like PPP), friends and



family funding, equity, or grants—allows entrepreneurs to take chances, navigate uncertainty, and make the most of their entrepreneurial visions. This risk-tolerant capital is the “jet fuel” that accelerates firm growth.²³ Unfortunately, a spillover effect of the racial wealth gap is that, when it comes to accessing this type of patient, risk-tolerant, growth-oriented capital (such as equity or friends and family funding), Black businesses and wealth networks have much less access to that “jet fuel.”

The average White household has wealth of \$171,000 and the average Black household has wealth of \$17,000, and as a consequence,

Access to credit alone will not solve the capitalization issues of Black businesses.

¹⁹ Mills and Battisto, “Double Jeopardy: COVID-19’s Concentrated Health and Wealth Effects in Black Communities,” August 2020.

²⁰ Federal Reserve Bank of Atlanta, “[Small Business Credit Survey: Report on Minority-Owned Firms](#),” December 2019.

²¹ Brookings Institution, Liu and Parilla, “New data shows small businesses in communities of color had unequal access to federal COVID-19 relief,” September 17, 2020

²² U.S. Small Business Administration, Office of Capital Access, “[Paycheck Protection Program Report through August 8, 2020](#).”

²³ Brian Headd, “[Redefining Business Success: Distinguishing between Closure and Failure](#),” *Small Business Economics*, August 2003, 21(1), pp. 51–61.

²⁴ Robert Fairlie, Alicia Robb, and David T. Robinson, “[Black and White: Access to Capital among Minority-Owned Startups](#),” Stanford Institute for Economic Policy Research, working paper 17-003, February 2017. Cited in David Baboolall et al., “Building Supportive Ecosystems for Black-Owned Businesses,” McKinsey.com, October 29, 2020, note 23.

²⁵ Federal Reserve Bank of Atlanta, “Small Business Credit Survey,” 2019.

white entrepreneurs start their businesses with approximately \$107,000, while Black entrepreneurs start businesses with only \$35,000.²⁴ In fact, only 5 percent of Black-owned businesses obtain equity investment, and of those, the average amount of new equity investment into diverse firms with high sales is only 38 percent of that invested into non-diverse firms of the same kind.²⁵ There is a clear imbalance in the risk tolerance, financial runway, and space for visionary thinking afforded to Black entrepreneurs as opposed to White entrepreneurs, and as a result, only 4 percent of Black businesses in the U.S. survive the start-up stage, even though 20 percent of Black Americans start businesses.²⁶

PPP funding missed an opportunity to help bridge this gap in risk capital, and consequently it missed an opportunity to equitably expand wealth by supporting Black entrepreneurs who, on average, have 12 times more net worth than their peers who are not self-employed. That said, the need is obvious, and the opportunity is present.

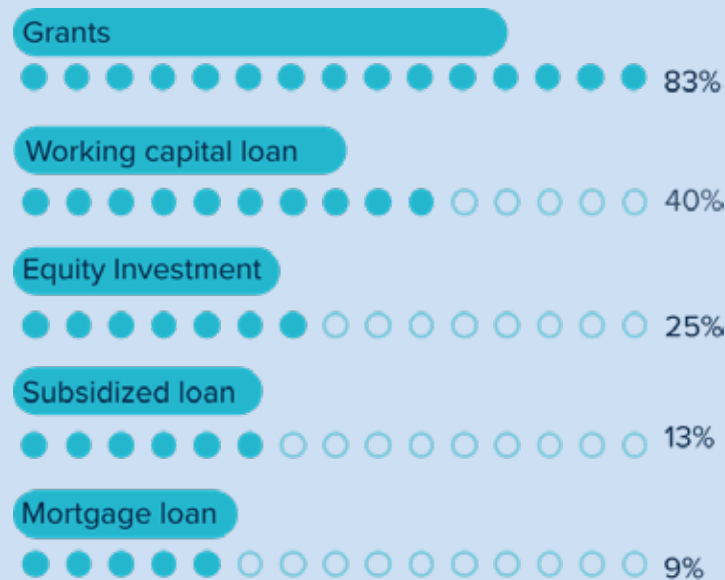
To be clear, access to credit alone will not solve the capitalization issues of Black businesses. Even though Black-owned businesses disproportionately struggle to obtain credit, many are over-leveraged (relative to their equity capital). Whether through personal loans, credit cards, business lines, trade credit, or merchant cash advances, Black-owned businesses report higher ratios of debt to revenue compared to white-owned firms, and nearly 30 percent of Black-owned businesses spent more than 50 percent of revenue to service debt in 2019.²⁷ As one Black business owner said, “I don’t want more loans. I have applied for grants, relief funds, and sought equity, but have not won them yet.”

Businesses with a disproportionate amount of leverage can’t sustain growth, and these businesses will increasingly avoid risk and the associated opportunities. However, if

Black-owned businesses find ways to reduce debt and increase equity, these businesses could focus on opportunities as opposed to risk, on growth as opposed to debt service. Ways to accomplish this include business grants (such as RETOOLNC), forgivable loans (such as PPP), or creative and patient equity investments into and alongside businesses (such as PIE-NC equity).

In the case of PIE-NC, Partners in Equity invests Opportunity Zone equity into experienced and underestimated entrepreneurs and businesses to help them purchase the real estate where their companies operate. The capital is patient, risk-tolerant equity investment that bridges gaps in collateral and provides down-payment assistance to entrepreneurs—who would otherwise be unable to acquire new or preserve existing commercial real estate because of racial wealth disparities.

Which of these forms of investment are you interested in for your business?



* Respondents provided multiple answers-percentages will sum greater than 100%

²⁶ Global Entrepreneurship Monitor, “[GEM 2017/2018 Global Report](#),” 2018.

²⁷ David Baboolall et al., “[Building Supportive Ecosystems for Black-Owned Businesses](#),” McKinsey.com, October 29, 2020. See 24, which cites, “McKinsey & Company COVID-19 US SMB Financial Pulse Survey, n = 1,004; responses collected: May 8–13, 2020, from small and medium-size businesses with less than \$500 million in an

BALANCING BUDGETS FOR SUPPLIER DIVERSITY



A recent analysis ranked North Carolina as the fifth-best state in the nation for Black businesses, highlighting the state's vibrant startup climate, attractive tax structure, resilient economy, inclusive social environment, and culture of Black business success.²⁸ Based on these choice measures, NC seems to be a haven for Black businesses, which is somewhat true. However, much distance remains between today's strong Black business community and a future in which the state's businesses enjoy an equitable distribution of opportunities and resources, regardless of racial characteristics.

For instance, the state's Black businesses still do not get their fair share of work from state agencies. According to a recent *Triangle Business Journal* analysis, the state's HUBs have lost out on nearly \$3 billion in contract opportunities in the last decade.²⁹

"Despite two decades of work from the DOA office created to increase spending, the state's goal has gone unmet, a frustrating outcome for HUB owners—and especially for those of color, who can struggle to even get their share of HUB contracts," the article says. "For example, last year 50 percent of total HUB spending was received by white women-owned businesses—about 2.5 percent of total goods and services spending. At the same time, Black businesses received just 16 percent of HUB spending."

As President-elect Biden cites in his Build Back Better plan, the new administration is committed to equalizing federal procurement as a way to drive racial equity outcomes. Likewise, equity and diversity in NC'S largest public and public-adjacent budgets, including state and local government spending, are a prerequisite to achieve equitable business outcomes in NC.

Like the Build Back Better commitment, an equitable recovery demands that NC's state and local governments renew and strengthen their commitment to equitable procurement -- especially through proven and effective strategies that encourage prime contractors to be more inclusive, catalyze subcontractor development, modernize contract administration, expand of supply chain preferences for small, disadvantaged businesses, and incent state and local governments (and private sector partners) to contract with those same small, disadvantaged businesses.

Fiscal equity and supplier diversity in NC'S largest public and public-adjacent budgets are a prerequisite to achieve equitable business outcomes in NC.

²⁸Valerie D'Orazio, "[Black Entrepreneurship 2020: A Special Report and Definitive 50-State Ranking](#)," *FitSmallBusiness.com*, February 18, 2020. This article includes a link to the [full data table](#).

²⁹ Seth Thomas Gullede, "[Rising Inequality: Why Black Businesses Miss Out on Billions in North Carolina Contracts](#)," *Triangle Business Journal*, July 17, 2020.



CONCLUSIONS AND RECOMMENDATIONS



In all, the ResilNC Initiative engaged 10 community-based business development organizations, obtained over 250 Small Business Surveys, and interviewed 20-30 thought leaders, investors, and allies. The data, research and insights clearly show a need for NC to move on from the old ways of thinking when it comes to providing support for Black-owned businesses. To generate a Black business community that is growing and thriving, we must embrace a new paradigm for investing, supporting, and advising Black-owned businesses across our state.

Overall, the ResilNC initiative found three clear and present opportunities to advance the success of NC's Black-owned businesses.

The Capital Stack as a Driver of Equitable Outcomes

To be clear, access to credit alone will not solve the capitalization issues of Black businesses. Although Black businesses disproportionately struggle to obtain credit, a singular focus on debt can result in over-leverage relative to equity capital, which hinders business growth. Access to equity, grants and forgivable loans must be prioritized alongside access to credit, if we are to seed real growth and wealth creation among black businesses and black entrepreneurs, respectively.

Evolving Technical Assistance into Strategic Advising

Black businesses need trusted, growth-oriented advisors, rather than assistance that is merely transaction-focused. To best serve Black businesses at this critical time, the equation for business support should include a combination of financial, intellectual, and relational capital that is committed to and aligned with the long-term success of the business (and entrepreneur).

Balancing Budgets for Supplier Diversity

The state's Black businesses still do not get their fair share of work from state agencies. To achieve equitable business outcomes in NC, state and local governments must renew their commitment to equitable procurement statewide, via our largest public-sector budgets. The stronger the commitments, the lower the hurdles to access, the better the outcomes will be.

In addition to creating new inroads for access to capital and sustained support for Black businesses we must be thoughtful in aligning the interests of investors, advisors and entrepreneurs for the benefit of Main St. and local economies. Whether it's growing the reach of advisors, making procurement more equitable, or expanding the supply of growth-oriented capital, NC needs to utilize every tool in its toolbox to ensure an equitable recovery and prosperity for ALL North Carolinians.

RIFFS AND FREESTYLES

Invest in NC's Black Business Ecosystem

Investing in NC's Black Business Ecosystem: Over the course of the ResilNC initiative, numerous community-based business development organizations from across the state shared their perspectives on Black business development through our interviews and surveys. This process revealed a strong diversity of firms, types, and services that make up the business development ecosystem. While many are small and emerging, they are all investment-ready and they each speak with the voice of the communities they serve. In the spirit of an inclusive and equitable recovery, these community organizations should be leveraged by foundations, local governments, financiers and others trying to drive positive local change. These organizations are trusted local allies with valuable context and their participation is essential to delivering a recovery that benefits all, especially marginalized voices.



Look to Young Talent as Our Most Valuable Commodity

Looking to Young Talent as Our Most Valuable Commodity: As a result of COVID-19, the share of young adults living with their parents has grown to a majority, surpassing the previous peak during the Great Depression.³⁰ Of young adults 18–29, 52 percent are living at home, and many are college educated. These digital natives are now in their communities, where they can help grow family and local businesses—if these businesses learn (and can afford) to see them as an asset. There is new capacity in hometowns across the state, and consequently, there is an emerging opportunity to capitalize a new crop of Black entrepreneurs, apprentices, or e-apprentices—ensuring that as brilliant Black youth begin to decide what to do after graduation, over the summer or in-between online courses, entrepreneurship is at the top of the list.

Consider, Create and Commit to NC22by22 Goals

While we strive and fight for equity, parity may be a nearer-term goal where a real and immediate opportunity exists. Given that NC's Black population is approximately 22%, parity in strategic advising means that advisors would allocate at least 22% of their new client time in the support of black businesses; capital providers would deploy at least 22% of their new capital in support of black business, especially allocations of patient equity, non-dilutive capital and equity enhancing grants; and at least 22% of supplier spending in operating budgets, especially public-interest budgets like governments, schools, and large nonprofits, would be supplied by black businesses. Admittedly, putting a 22% strategy in place by 2022 would require NC's capacity and infrastructure for diversity and inclusion to stretch by a country mile, but as best said by Freedom Rider and US Representative John Lewis, "If not us, then who? If not now, then when?"

³⁰ Richard Fry, Jeffrey S. Passel, and D'Vera Cohn, "[A Majority of Young Adults Live with Their Parents for the First Time since the Great Depression](#)," Pew Research Center, September 4, 2020.

ABOUT PIE-NC.ORG

“Buy Back The Block” has become a neighborhood mantra within disinvested communities throughout the U.S., especially in communities of color. This mantra has grown out of a recognition that ownership of property is a critical means by which to fight commercial displacement, reverse trends of economic debility, and grow wealth. However, due to persistent wealth disparities, Black and Brown businesses continue to face hurdles in accessing the business capital they need to survive and thrive. In fact, Black-owned businesses:

- Are only half as likely to pursue business credit, due to fear of rejection;
- Are denied business loans 3 times as often as other firms (42 vs. 16 percent denial);
- Receive only 61 percent of the loan amount other firms get (average loan of \$149,000 vs. \$310,000); and
- Pay 1.4 percentage points higher interest rates on business loans (paying 7.8 vs. 6.4 percent).

This results in the severe and unwarranted undercapitalization of an entire U.S. business segment: 28 percent of Black-owned businesses say they don't have sufficient access to capital. The U.S. commercial real estate (CRE) lending market generally requires at least 20 percent borrower equity in each deal, which limits access to owner-occupied CRE ownership for low-wealth communities. Even powerful and proven economic capital access programs—such as the SBA 504 program, which has generated over \$90 billion in loans, created over 2.4 million jobs, and has a minimum equity requirement of 10 percent—makes only 1 percent and 9 percent of its loans to Black- and women-led firms, respectively.



PRODUCT SUMMARY

The Partners in Equity team provides equity-based down-payment assistance to Black-owned small businesses, to help them qualify for conventional owner-occupied CRE loans. Our approach supports equitable development, drives Black ownership, promotes job creation, and provides quality returns. We help lenders secure more CRE closings by providing first-loss down-payment assistance to improve the credit metrics and collateral positions of these businesses. In addition, our work supports existing Community Reinvestment Act (CRA), programmatic, and community development goals, such as to:

- Improve, diversify, or stabilize the local economy;
- Revitalize a business district of a community with a written revitalization plan;
- Expand small businesses owned and controlled by women, veterans, and minorities;
- Bring new income into the community; and
- Aid rural development.

In addition to wealth creation, we expect to experience the positive externalities of job creation, anti-displacement effects, and policy changes that reduce the wealth bias in small business real estate lending. In addition to these programmatic goals, our investments:

- Fight displacement. Providing Black firms with a means to acquire their property reduces the likelihood that they will fall prey to commercial displacement.
- Expand ownership and neighborhood wealth. Commercial property is an underutilized vehicle for wealth creation among Black- and women-owned businesses.



ABOUT THE AUTHORS



Napoleon Wallace is the Co-Founder of Partners in Equity NC, an investment fund focused on supporting owner-occupied commercial real estate for Black- and women-owned businesses. He is also the Co-Founder of Activest, a fiscal justice research and investment advisory firm. In addition, Napoleon is a Senior Fellow at Frontline Solutions, a Black-owned management consultancy working with the nation's largest nonprofits and philanthropies. With more than 15 years' experience in finance and community economic development, Napoleon has led and supported numerous successful impact efforts within private, public, and nonprofit sectors.

Most recently, Napoleon served as the Deputy Secretary of the North Carolina Department of Commerce. Over the course of his career, he has served as a Social Investment Officer at the Kresge Foundation, on the executive staff at Self-Help, as the turnaround CEO for two troubled CDFIs, and as an investment banker with Wells Fargo Capital Markets. Napoleon is a native of rural eastern North Carolina, the proud son of a teacher and a small-business owner.



Wilson Lester is the Co-Founder of Partners in Equity NC. An accomplished entrepreneur and leader, he is widely regarded as a community finance and economic development expert. He built Piedmont Business Capital, a NC-based CDFI that has delivered millions in impact capital to black and brown entrepreneurs across North Carolina. Also, he is a Co-Founder of the ACCESS Center for Equity and Success, which supports minority business enterprises with securing public and private contract opportunities.

A strong believer in the role philanthropy plays in building communities, Wilson serves on various boards that support health and economic development. This includes his work on the African American Alliance of CDFI CEOs Advocacy Committee that helps shape policy that directly scales black businesses.



Talib Graves-Manns is the Co-Founder of Partners in Equity NC. His commitment to entrepreneurship extends beyond his own career: He helps to build profitable and scalable businesses that also serve the needs of underrepresented communities—from students to entrepreneurs to the community groups that support them.

Talib served as a Google Entrepreneur-in-Residence (2015–2016), and since that time has founded a CDFI-backed HBCU Entrepreneurship Center, Knox St. Studios, and Black Wall Street Homecoming. His day-to-day responsibilities across his interests are varied and cross-functional, mostly centering on business strategy and driving growth. Talib subscribes to a customer-centric thesis, whereby the customer's voice is paired with marketplace trends and met with innovation, to deliver above-par experiences, products, and solutions.

In memory of Andrea Harris

a visionary, trailblazer, and mentor who
continues to inspire each of us to
“be a part of saving the world.”



RESILNC



A PARTNERS IN
EQUITY INITIATIVE.