Equity in Access to Capital for Food Entrepreneurs in Durham

An analysis of the barriers minority entrepreneurs face in starting a restaurant or food truck in Durham

Bridging to Better Policy

April 2019
Executive Summary

Policy Questions

What barriers do minority food entrepreneurs face in accessing capital in Durham?

What services can the Duke World Food Policy Center and Self-Help offer to address the challenges minority food business owners in Durham face in accessing capital?

Introduction

Food entrepreneurs of color in Durham—building restaurants, food trucks, catering businesses, and grocery stores—face significant barriers in starting up and growing their businesses compared to their white counterparts. One of the most critical challenges these business owners face is achieving access to capital. The Federal Reserve’s Small Business Credit Survey found that 40% of African American business owners had been discouraged from completing a loan application, versus 14% of their White counterparts.1 A recent study controlled for credit scores, business type, and industry differences, yet still found that black-owned startups are much more likely to experience loan denials and unmet need for capital than white-owned startups.2 Racial inequity in Durham’s food ecosystem can perpetuate gaps in the city’s food security and economic development.

Data Collection

Interviews were conducted with 11 black and Hispanic food entrepreneurs in Durham, who own catering businesses, food trucks, and restaurants. Respondents were asked about the initial resources they used to start their businesses, the barriers they faced in accessing capital, resources they wished they’d had in the process, and advice for other minority food entrepreneurs in Durham. Interviews were primarily conducted over the phone for 20-60 minutes.

Results

Strongest Barriers

1. Minority food entrepreneurs are discouraged by interactions with lending institutions.

2. Loans become an option after the food entrepreneurs need it; by the time they have reached the required profit level, they are not always seeking more capital.

3. Various regulations around food trucks, restaurants, and catering businesses are difficult to manage; there is a need for a more consolidated checklist just for food entrepreneurs.

Alternative Resources

1. Minority food entrepreneurs are relying on their own capital and full time or part time jobs on the side to support their businesses.

2. A few entrepreneurs have found alternative working capital options through Square, Kabbage, and Kiva.

3. Small business resources offered in Durham can provide another path to success through mentors and grants for entrepreneurs without access to lending institutions.

Recommendations

1. Encourage working capital through Square / Kabbage / Shopify and other alternatives.

2. Provide a small business resource map for business plans and information packets.

3. Strengthen lending institutions’ role in Durham’s food ecosystem.

4. Introduce an economic development grant in Durham.
Economic development is a key goal of virtually every local and state government, with many initiatives focusing on economic output, an increase in the level of employment or income in a region. However, economic development can also be a more qualitative measure of an area’s well-being that allows for inclusion of environmental sustainability and social equity.\(^3\)

In the early twentieth century, Durham’s economy was nationally known as a hub for African American business and entrepreneurship. Centered around Parrish Street and bordered by the residential neighborhood Hayti, “Black Wall Street” was praised for its vitality in the midst of the Jim Crow era.\(^4\) However, by the 1960s urban renewal initiatives in Durham had destroyed most of Parrish Street’s black business community.

The U.S. Census Bureau’s most recent Survey of Business Owners (2012) shares business ownership data on 20,470 firms (out 21,339 total firms) with or without paid employees in the city of Durham. 63% were White-owned, 29% were Black-owned, and 5% were Hispanic/Latino owned. This stands in contrast to the current demographics of Durham. Out of a total estimated population of 251,761, about 39% are White, 40% are Black or African American, and 13.9% are Hispanic or Latino.\(^5\) Black and Hispanic residents are therefore underrepresented in Durham businesses.

Business ownership specifically in the “Accommodation and food services” industry in Durham illustrates a similar picture, with the race/ethnicity of owners broken down as follows out of 752 firms: 58% White, 22% Black or African American, 19% Asian, and 7% Hispanic or Latino. The disproportionate level of White business ownership in Durham compared to its population demographics may reflect disparities in opportunity and resources. The difference in median household income by race in Durham further demonstrates such disparities; while white households had an estimated median household income of $64,265 in 2016, black households stood at $39,989 and Hispanic or Latino households at $41,123.\(^6\) Lower income and subsequently lower wealth can directly affect an individual’s opportunity and ability to apply to a loan and start a business.
**Literature Review**

**Food Entrepreneurs**

The Duke World Food Policy Center seeks to develop a food system that can act as a model for other communities. A food system is defined as “the chain of activities connecting food production, processing, distribution, consumption, and waste management, as well as the associated regulatory institutions and activities.” A model food system includes communities with easy access to supermarkets and other healthy food options. Furthermore, transformed food systems center around racial equity, self-determination, and dignity for food business owners and consumers.

Food entrepreneurs are an essential aspect for a model food community. Alongside grocery stores and food co-ops, restaurants can stimulate economic development and revitalize underserved communities. While there is little empirical research on the direct effects of a new restaurant entering a neighborhood, there are clear associations between the socioeconomic status and racial composition of a neighborhood and its accessibility to food stores. A study of 685 census tracts in North Carolina, Maryland, and New York found that low income and minority neighborhoods have a less diverse food environment, with lower access to fruit and vegetable markets, bakeries, natural food stores, and specialty stores. The authors emphasize the need to identify systems that could help these underserved neighborhoods attract and retain more diverse and healthy food choices.

Supporting minority food entrepreneurs has the potential to spur job growth, economic development, and a more robust food environment.

Restaurants are critical to the nation’s small business development, as over 90% of restaurants have fewer than 50 employees. Furthermore, restaurant employees make up 10% of the overall U.S. workforce, with 1.6 million new jobs projected for the industry by the year 2027. The National Restaurant Association boasts that the restaurant industry is a diversity champion, boasting “more minority managers than any other industry.” Between 2007 and 2012, there was a 51 percent increase in Hispanic-owned restaurants, a 49 percent increase in African American-owned restaurants, and a 40 percent increase in women-owned restaurants.

**Case for Racial Equity in Access to Capital**

By 2050, people of color will represent the majority of the United States’ working age population. However, there are significant barriers that hinder the success of minority-owned businesses. A model food community cannot be sustained without racial equity in access to different resources. A gap of $110,000 in median net worth persists between white households and households of color. Redlining practices throughout the 20th century in the U.S. created neighborhood boundaries that denied people of color access to home-ownership, so that Whites became the primary home-owning class in America. This leaves non-white households with relatively less equity and collateral for bank loans. The subsequent wealth gap thus acts as a significant barrier to the ability of people of color to start a business.

Closing the racial equity gap is critical, “lessening, and ultimately eliminating, disparities and opportunity differentials that limit the human potential and the economic contributions of people of color.” Supporting the success of populations of color will be an important driver of social justice and economic well-being. The W.K. Kellogg Foundation explores key economic advantages of racial equity, including reducing the skills gap, increasing economic output, increasing consumer spending power, and reducing health disparities. Focusing on racial equity may require innovation in financing efforts to serve a more diverse consumer base and to nourish a strong workforce.

**Access to Financing Efforts**

Historical discriminatory lending practices for home ownership and businesses are perpetuated in today’s financial services lending decisions. One of the most essential aspects of ensuring racial equity is through access to capital. People of color own nearly a third of all small businesses in the U.S., yet these businesses are typically smaller and less profitable than White owned businesses. Current bank lending practices tend to discourage minority entrepreneurs from even applying to a loan. The Federal Reserve surveyed over 15,000 firms in all 50 states for the Small Business Credit Survey and found that “forty percent of African Americans reported being discouraged from completing an application, compared with 14 percent of white business owners.”

Lower credit scores and less collateral limit access to credit for people of color, restricting future growth for their businesses. 31% of black households and 29% of Latino households are either unbanked or under-banked, while this is true for only 19% of white households. Even if credit is an option, “business owners of color pay 30 percent higher interest rates than their White counterparts.”

The low median wealth of black and Latino households translates to a critical barrier for bank-loan accessibility. An empirical study also found that black entrepreneurs are less likely to access outside debt in the founding year of their businesses, and these initial funding differences perpetuate inequality over time. Despite controlling for credit scores, business type, and industry differences, black-owned startups are much more likely to experience loan denials and unmet need for capital than white-owned startups.

Wells Fargo worked with Gallup to commission a national study of over 3,000 diverse small business owners who identified with at least one of the following six attributes: African American, Asian, Hispanic, LGBT, veteran, and women. While these diverse small business owners are extremely interested in building a strong application for business credit, they are more likely to report issues with their personal credit and being denied for business credit.

Their businesses also were more likely to be in the startup or growth stages, with revenues below $50,000. Furthermore, revenue may not be the best proxy for all food businesses, as small business owners may focus on sustainability and subsistence in their business model. They subsequently face challenges qualifying for conventional bank loan options.

Because of the initial barriers in access to capital, black entrepreneurs start businesses at a lower rate and scale than white entrepreneurs, with less financial capital in the first few years of business operation. One federal policy, the Community Reinvestment Act (CRA), was implemented to increase opportunity for minority-owned entrepreneurs. The CRA mandates that banks invest funds in the communities where they are located, and “firms owned by entrepreneurs of color located in low-to-moderate-income areas have higher approval rates from large banks that are subject to CRA review.”

There are also many examples of positive change and innovation in underwriting practices by financial intermediaries to address the need for more equitable communities. Wells Fargo and the Opportunity Finance Network partnered to commit $75 million to Community Development Finance Institutions (CDFI) that work with diverse entrepreneurs. They also formed an underwriting working group to address the three key issues: to find alternate risk models for borrowers with poor credit and to adjust underwriting criteria for borrowers without collateral and owner equity; and to accelerate loan decision-making for an improved borrower experience.
Fund allows borrowers with insufficient owner equity contribution to delay repayments until the business has realized increased cash flow.36

Another service innovated to meet the needs of minority business owners is PayPal’s Working Capital (PPWC) loan, which determines credit risk using PayPal sales history and processing volume rather than personal credit scores or the availability of collateral. The simplified credit process features instant approvals and fixed fees for “credit-starved” communities of color.37 Regions Bank serves the South and Midwest regions of the U.S., with a focus on the nearly one million households, predominantly people of color from low-income communities, resorting to predatory non-bank financing.38 Their model helps consumers get comfortable with affordable checking and savings accounts that feature minimal fees, no minimum balances, saving incentives, and a flexible credit line. Consumers are then better equipped to navigate more complex products, like business loans.39 Despite various positive examples of innovation in underwriting and financial access, inequality in Durham and the broader U.S. remains high.

Durham Resources

There are a few resources for entrepreneurs and small business owners in Durham that are available online, but it is difficult to evaluate the utilization levels or effectiveness of each program. The City of Durham’s Office of Economic and Workplace Development has a Small Business Advisory Committee that provides program and services for small businesses, including business plan development, marketing strategies, financing, management skills training, and business counseling.40 It connects rising and existing small businesses and entrepreneurs to technical assistance, such as the Durham Technical Community College Small Business Center, the Greater Durham Black Chamber of Commerce, Sustain-a-Bull, Self-Help Credit Union, and the Carolina Small Business Development Fund. Durham’s Self-Help works closely with two specialty loan funds focused on stimulating economic opportunity in North Carolina. Both the Golden LEAF Small Business Assistance Fund and the Small Business Assistance Fund strongly encourage minority and women business owners to apply.41

North Carolina Central University also houses a NC Small Business and Technology Development Center, where small and mid-size business owners can request a counselor or attend conferences and workshops. Entrepreneurs can access comprehensive online guides and resources for starting a business, writing a business plan, and financing.42 The “Capital Opportunities for Small Business” guide provides information about all the financing options available to companies and startups in North Carolina.43 However, the guide does not offer industry-specific information, such as resources best fit for restaurant owners. Finally, the Durham Business & Professional Chain is an advocacy group for African American businesses, with a mission of “wealth creation through the removal of structural barriers to African American economic participation.”44

Further Reform

The Trump administration’s tax overhaul contains a provision for states to expand “opportunity zones,” with tax benefits for investors who invest unrealized capital gains into certain low-income areas certified by the U.S. Treasury.45,46 The provision includes seven Durham census tracts, which may help stimulate investment in the city’s low-income neighborhoods to improve racial equity in economic development. Four can be found around Old East Durham and one is right off of Duke’s West Campus. See Appendix 2 for a map of all seven opportunity zones in Durham.

Despite some innovation in underwriting as outlined previously, there are still significant gaps in service to help identify, foster, and support entrepreneurs of color. A healthy entrepreneurial ecosystem at the local level consists of all the policies, organizations, and services that interact to help local business owners start up, operate, and further grow. Two organizations, CityLab and Living Cities, conducted research into various entrepreneurial environments across the country in order to recommend investment strategies in the opportunity zones.47 They identify four promising reform measures for increasing access to capital and potential for small business growth. One major gap for minority entrepreneurs is the investments from friends and family that often give business owners their initial startup boost. New fund structures could help provide larger levels of initial capital to minority small business owners for improved chances of success.

Next, social networks are a powerful lever for small business entrepreneurs, boosting the likelihood of access to mentorship, funding, and resources. More formal and intentional network connections can help minority entrepreneurs start and grow their businesses.48 Even if funding is secured, minority entrepreneurs often lack technical assistance to help guide through the overwhelming levels of organizations and services for business development. A healthy entrepreneurial system needs more accessible assistance. Finally, a successful environment for local entrepreneurs must follow through with small businesses to ensure they are leveraging opportunities to scale or enter markets.49 If intentional and equitable investments are made into Durham’s food entrepreneurship ecosystem, there is significant potential to cultivate thriving, healthy, and diverse communities.
Data Sources and Methodology

Data Sources

The analysis was conducted using a mixed-methods design. The primary data source was short interviews with Durham restaurant owners of color that asked about their process of starting and growing their businesses. The process was be analyzed in both a quantitative and qualitative manner. The secondary data source was the U.S. Census Data about business patterns in Durham to analyze any trends in business ownership by race/ethnicity. IRB approval was not necessary for this project due to its client-facing nature.

Census Data

Data from the American Community Survey and the USDA Economic Research Service depicts the state of entrepreneurship and business ownership in Durham, in comparison to its current population’s demographics. The 2012 Survey of Business Owners dataset provides breakdowns of business ownership in Durham (and specifically the food industry) by race and ethnicity.

Informational Interviews

While business owner interviews were the main focus, interviews with representatives from a few of the Durham business resources outlined above were included to gain broader context on the issue. Informational interviews were conducted with representatives from the Piedmont Food Processing Center, WEPower, Resilient Ventures, Self-Help, Orange County Economic Development Office, and Durham Mayor Steve Schewel’s office.

Business Owner Interviewees

An extensive list of Durham minority restaurant owners was first sourced and compiled with the help of the Duke World Food Policy Center and online articles. It continued to expand as interviews took place. The original goal was to reach 20 interviews and then decide if saturation and a fairly representative sample had been reached. However, due to time constraints and difficult scheduling, interviews with busy food truck and restaurant owners, there were ultimately 11 interviews. Business owners were contacted by phone and email for 20-60 minute interviews.

Using a semi-structured interview form, all the business owners were asked the same questions about the resources they used to start their businesses, but many responses in the interview led to follow up questions that helped clarify and expand upon their answers. While the first half was set up for more specific answers, the second half aimed for more open-ended answers that help shape an understanding of the process the business owner went through: what resources they used, what barriers they faced, and what support they wished they’d had. See Appendix 1 for the full list of interview questions. The majority of the interviews took place over the phone between December 2018 and February 2019. They were recorded with permission and transcribed afterwards.

Methodology

Qualitative methods helped analyze the research questions more comprehensively. The semi-structured interview guide allowed for inductive analysis on barriers to accessing capital for food entrepreneurs in Durham using descriptive coding. Questions 4, 6, and 7 were either binary or multiple choice, so could be analyzed and communicated numerically (See “Interview Codes” below). Questions 5 and 8-12 could also be coded based on frequency of certain responses but were also beneficial for individual quotes. For example, question 5 asks, “What initial resources did you use to start your business?” Possible responses could include family support, bank loans, technical assistance, online resources, entrepreneurship workshops, or legal support, among many others. Trends emerged in order to report the most common initial resources used by the minority entrepreneurs interviewed. The 11 interviewees are not a representative sample size, so the trends can be understood as important observations, but not a holistic or statistically verified result.

The qualitative aspect focused on depicting the stories of each entrepreneur. Questions 7-12 were answered with parts that could be coded and others that could not. The parts that did not fit neatly into the other coded responses were sorted into similar responses and synthesized to best articulate to the Duke World Food Policy Center what is lacking in Durham’s support of food entrepreneurs and what the business owners suggest for improvement. The interview analysis helped answer the research question by identifying a gap between current resources and needs. It highlights demonstrated barriers to accessing capital for minority food entrepreneurs. More importantly, the interviews helped outline resources that these entrepreneurs needed while they were starting and expanding their businesses. By comparing the various existing resources in Durham to the actual experiences of entrepreneurs using them, the analysis demonstrates certain aspects of the process that are lacking support. Synthesizing the interview responses through a content analysis led to recommendations on where the Duke World Food Policy Center and Self-Help can intervene to increase equity in the Durham food ecosystem.

One limitation of the methods is the lack of comparison group. It would be helpful to compare the experiences of this group of minority business owners to the experience of white food entrepreneurs in Durham to demonstrate that access to capital is a challenge faced disproportionately by minority entrepreneurs. However, the goal of the interviews and subsequent report was not to prove this difference. Rather, the intended purpose is to analyze the barriers faced by minority entrepreneurs and then to develop a model for access to capital that addresses these key issues and encompasses resources that can most contribute to future success.
Results

What barriers do minority food entrepreneurs face in accessing capital in Durham?

Categories and themes in the data emerged quickly using descriptive content analysis. The codes in the 11 interviews narrowed into a few key categories, surrounding the inability to access capital from a traditional bank, a heavy reliance on personal finance, and the use of small business resources for counseling. These categories could then be shaped into broader themes. Many of the food entrepreneurs either did not bother interacting with a traditional bank or had negative results if they tried. See Appendix 3 for descriptive statistics of the interviewees. Each interview was reviewed under the following categories and codes:

**Interview Codes**

**Loans**

- (n=1) Accessed capital from a traditional bank
- (n=10) Did not access capital from a traditional bank
- (n=4) Tried to access a loan and was denied
- (n=6) Never tried to access a loan
- (n=5) Felt discouraged from lending experience
- (n=3) Accessed working capital through alternative lending source
- (n=3) Considered Self-Help

**Self-Finance**

- (n=10) Used all of their own capital to start their business
- (n=5) Worked a separate full time/part time job while starting business
- (n=4) Received loans/grants/gifts from family members to start business

**Grants**

- (n=3) Received a small business grant
- (n=8) Has not received a small business grant
- (n=1) Tried to access a grant and was denied
- (n=7) Never tried to access a grant
- (n=2) Used a Kickstarter campaign while starting business

**Resource Needs & Advice**

- (n=8) Used a Durham small business class or counseling service
- (n=6) Found value in local commissary and food truck community
- (n=3) Need for a food business resource packet
- (n=8) Advised future food entrepreneurs to ensure fiscal security before anything else

**Themes - Barriers**

1. Minority food entrepreneurs are discouraged by interactions with lending institutions.

While there were a few entrepreneurs who purposefully did not seek out a loan in the process of starting or expanding their businesses, many tried over and over again and ultimately became too frustrated with lending institutions. They had to adapt their business plans to accommodate a lack of access to capital and at least five maintain a very negative view of lending institutions in Durham. While many pointed to the risky nature of the restaurant industry, three entrepreneurs in particular were frustrated with the lack of intergenerational wealth that was barring their ability to build credit and successfully receive a loan.

**Barrier 1: Discouraged by Lending Process**

- **Challenge:** Restaurant / food industry
  - “I did [apply for a loan] a few times [during the 7 year restaurant process] to the point where I got discouraged from applying to loans. I was denied based on the risk factor of a restaurant’s success. A lot of the lending institutions, as they are now I’m sure, were very wary of lending towards a restaurant. The success rate for it is ridiculous. At that time it was 90%+ chance of a restaurant failing within the first year.”
  - “They didn’t give me a loan. I don’t know the reason why, I guess I didn’t ask because I was so frustrated. Maybe it was because restaurants are notorious, folks don’t want to give restaurants loans because they know the shelf life of restaurants. Maybe they had one in their portfolio and the loan defaulted, I don’t know. But I got denied and that was it. I think maybe one of the reasons, I don’t know, I don’t want to say anything, but that was it.”

- **Challenge:** Race
  - “In black and brown communities, money doesn’t flow down, money flows laterally. So that money that we make goes to support not only yourself but also you know, other family members. And understanding that the burdens that black and brown folks are facing and in supporting other folks isn’t the same as, you know, in a majority of the white community because we haven’t had this intergenerational wealth.”
  - “Unfortunately, what you find in the black community, is that a majority of us don’t have stellar credit, we don’t have equity in anything. It’s based on economic struggles that they’ve had to deal with growing up. We don’t typically have things passed down.”
2. Loans become an option after the food entrepreneurs need it; by the time they have reached that profit level, they are not seeking more capital.

Frustrations with the timing of loans was another common theme, for both initial capital and working capital. When asked if she thought she could have taken out a loan in the beginning of the process, one catering and food truck owner responded: “Not at a traditional bank. Of course, we’re lucky to have Self-Help and I’ve heard people have had, you know, great success with them. But yeah, not from a traditional bank.” She had never actually interacted with Self-Help but assumed they would give her a loan if she needed it as an alternative to a traditional bank that definitely would not have. Another women was told from Self-Help that she would need to wait two years because she was self-employed. When food entrepreneurs need money the most, it is not available to them. Only when they are making significant revenue every year and are less likely to need it can they have a stronger chance at receiving a loan. Furthermore, there are not many grants available to fill in this gap made by lending institutions.

Barrier 2: Poor Timing of Loans

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<tr>
<th>Challenge:</th>
<th>Initial capital</th>
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<tr>
<td>“I couldn’t get any loans for the first two years anyway because I’m self-employed. You need to have been self-employed for 2 years before they’ll consider a loan and they also require you to be making $100k in a year. At that point—I’m not there yet— but when I do get there, I’m already going to know what I’m doing so I don’t think I’ll need that equity.”</td>
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<tr>
<td>“We applied for several loans and were denied from all of them.”</td>
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<td>“Durham doesn’t currently offer economic development grants, which is frustrating because Orange County does”</td>
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<tr>
<th>Challenge:</th>
<th>Working capital</th>
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<td>“When you get working capital or when you get approved for a loan, it’s very important that you coordinate the timing of your loan with when you want your space to be built out and ready to go, at the same time as you’re approved. I got approved and was going to take my time in getting my place built out, but no. Those approvals expire. I didn’t know that. That was something that was really hardcore that I had to go through over and over again to get re-approved, because builders were taking too long or other things. Then had to keep reapplying. I know next time I do it, I’m going to make sure my timing’s on.”</td>
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3. Various regulations around food trucks, restaurants, and catering businesses are difficult to manage; there is a need for a more consolidated checklist just for food entrepreneurs.

About four entrepreneurs emphasized the need for some sort of resource packet to consolidate all the information about starting a business. One was particularly passionate about this packet for more ideas on accessing capital, specifically surrounding the availability of grants in different counties. Another had an incident where a sheriff showed up at her door because she had not been paying property tax on her baking pans, a tax she did not realize she needed to be paying. If there was a more in-depth checklist with links and phone numbers to the relevant organizations, departments, or specific people, food entrepreneurs would have more time to focus on their actual business operations instead of keeping track of various regulations.

Barrier 3: Lack of Information All in One Place

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<th>Challenge:</th>
<th>Resources aren’t being advertised</th>
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<td>“I just think that there needs to be a continuing of focus on trying to provide avenues for all minorities, racial minorities and women, whether it’s through lending practices or grants. And the thing about it is that quite often, there may very well be those things out there, but they don’t know where they are or how to get to them. Maybe there’s a need for getting the word out.”</td>
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<td>“We’re working with a group in Hillsborough right now on making a resource guide for women entrepreneurs. They have been really great in pointing us into the direction of these grants and things that folks are not telling us about that we could be taking advantage of.”</td>
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<th>Challenge:</th>
<th>Need a checklist for regulations</th>
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<td>“I was getting it and I was like, well, but this doesn’t apply to me because I’m not that size of a business or you know, whatever to own a building or whatever. And I was ignoring it for the longest time until like the sheriff called me and I’m like, ‘what?’ Like I said, it was very minimal when I had to go back and file for like five years, you know? But at the same time, I was like, ‘I had no clue.’”</td>
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Themes – Alternative Resources

1. Minority food entrepreneurs are relying on their own capital and full time or part time jobs on the side to support their businesses.

Every entrepreneur interviewed noted a large use of their own personal funds to start their business as an alternative to outside capital. While this may be expected for starting a small business, there was a notable lack of other options for each entrepreneur. Many relied on the support of family and personal savings to make it through the first year or two. Furthermore, over half continued working in a full time or part time jobs in order to make ends meet. This extreme day to day stress on finance can make it difficult to focus on essential business management.

Resource 1: Personal Finance as Key Funding Source

**Challenge:** Self-finance

- “The first restaurant—we had to really scrape together from our personal finance. It was with the help of my mother, my own personal funds, and some funds from my father as well. We basically started with the bare minimum.”

- “I’d say I’ve put in about $20,000 of my own money into the business from my other jobs and also from my personal credit.”

- “It was just an everyday drive, just doing as much as I could on my own. Just saving money every day.”

- “Because I couldn’t get a loan anywhere, we used the $30-40,000 in my teacher retirement fund to hire a plumber and electrician and get the building ready.”

- “I started with $100 in my bank account and borrowed $250 from my mom for a vendor fee to showcase my product.”

**Challenge:** Working a separate job

- “We were both sustaining the business and sustaining ourselves with our full-time jobs. So it wasn’t until this year that we were able to leave our jobs.”

- “When we first started, the first two years, I was still working offshore half the year. So in a sense, my other job was supporting the business. Especially in the beginning, the food truck was nowhere near making enough money to support our family.”

- “I still had my full-time job and still had the food truck and the obligations became too much.”

- “So I graduated in 2016 and started working the food truck full time, but was also working two other jobs. Even now I’m still working a part-time job somewhere else to make sure I can make it while I’m getting the food truck up and running.”

Resource 2: Access to Working Capital

**Challenge:** Alternative capital sources—i.e Square, Kabbage, Kiva

- “it was easy and convenient. They deposit the loan the next day and to pay them back they take a percentage of the daily sales, which they already have the information.”

- “There’s really no loan application or true approval process because they’re just kind of looking at your sales over time. [...] So then it pops up and it’s pretty simple once that’s offered. Very, very simple. That’s just nice to have, you know, like in case you’re waiting on invoices to be paid. [...] They’re pretty much all fair as far as any type of fee or pricing.”

- “Since I finished the Helius Foundation program, I’m eligible for a Kiva loan for up to $10,000. They don’t do credit checks. It’s all community references, which is great. Once you pay back your first loan, you can apply for more the next time.”

**Challenge:** Community Bank

- “For [the second restaurant] I had to go to BB&T. They had been courting me for 2 years before. I wasn’t interested, because I wasn’t planning to expand. But then when the time came, I said ‘ok man I’m ready to expand.’ So they helped me, gave me a loan to finance the building. I’m the tenant and the landlord. They were customers and had watched the growth. They are a community focused bank, particularly in Durham, and had watched the growth.”

There was only one small business owner of the 11 who had been able to take out a loan through a community bank. His restaurant was one of the most established of those interviewed and he remarked on his stellar credit, yet he also faced tremendous difficulty in securing a loan. It ended up being one of his customers who had watched his growth with a first restaurant and wanted to help him expand to a second restaurant after so much success. Otherwise, there was a very common theme that working capital was not available when it was needed the most. For two entrepreneurs who were able to find working capital through alternative sources, they were very grateful for the ease of use and the comfort in knowing they had a source of capital to rely on when they needed it.
3. Small business resources offered in Durham can provide another path to success for entrepreneurs without access to lending institutions through mentors and grants. Almost every food entrepreneur received some sort of business assistance in the process of starting or expanding. Common places included the Small Business Center, UDI, Downtown Durham, Inc., the Helius Foundation, and the Piedmont Food Processing Center. The people running these organizations are very interconnected and passionate about making capital more accessible to under-resourced entrepreneurs. Self-Help or any other lending or grant institution require some sort of business management plan, so these resources are essential to make sure entrepreneurs are prepared for those processes.

Resource 3: Small Business Training Programs and Classes

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<th>Challenge: Resource 3</th>
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<tr>
<td>Mentoring</td>
<td>“I came to PFPC through the WEPower group. Sue and Eric have been great mentors. Sue has gone out of her way to teach me about the industry, learn about labeling, make sure I was meeting inspections. I was awarded a scholarship for 6 months, 4 hours/month production. For me, that’s all the time I need.”</td>
</tr>
<tr>
<td>Business Plan</td>
<td>“And then I also did Launch Durham, through the Helius Foundation, a 12-week program, more incubation, more acceleration, to think critically about my business plan.”</td>
</tr>
<tr>
<td>Value of small business community</td>
<td>“I would speak to a lot of business owners in Durham. I was doing that when I was doing it out of my house, just seeing how they were doing it. I’d go to different food trucks and talk to the owners and really just see everything that they were doing. Just trying to get as much free knowledge as possible. A lot of people had open arms, which was nice, but at the same time, people weren’t going to spoon feed me.”</td>
</tr>
</tbody>
</table>

Case Study

“I didn’t even think about [applying for a loan], because I can’t. I couldn’t even get a local business bank account at first. It wasn’t even a consideration. I don’t have bad credit; my credit is actually considered good. But I don’t have collateral. So even spaces that say they’re for low-income people and high-risk, won’t actually lend to those people. Broke people don’t have collateral.”

When this food entrepreneur realized early on that she would not have access to capital through a bank, she remained committed to finding an alternative path to starting her business. The following timeline demonstrates how she navigated Durham entrepreneurial resources to go from showcasing her product at a local market to opening up a downtown storefront location in just one year:

June 2018
- Showcase product at NC Juneteenth Celebration in Downtown Durham, leads to:
  - Approached by City Councilwoman Freeman → Downtown Durham, Inc. and Small Business and Technical Development Center (SBTDC) → Kharmika Alston, Duke World Food Policy Center and Self-Help → WEPower → Piedmont Food Processing Center (PFPC)
  - Eventually awarded a scholarship to work out of PFPC for 4 hours/month, just the amount of time they need

September 2018
- 3-day pop up at the Pinhook, leads to:
  - Secured a spot at the Pinhook from Thursdays to Saturdays 8am4pm from November-December 2018

October 2018
- Sold at Vega Art Market for multiple Saturdays to get customer feedback

December 2018
- 3-week pop up at the Bullpen American Tobacco Campus

January 2019
- Product sold at East Durham Bake Shop, Durham Co-op Market, Bench Warmers Bagels, People’s Coffee, and The Zen Succulent
  - Officially announced move to downtown Durham in June

February 2019
- Offered to have product sold at Joe Van Gogh; after struggling to achieve working capital, an order is pending.
  - Upon completion of the Helius Foundation 12-week program, applied for a $10,000 loan through Kiva

April 2019
- 3-week pop up at the American Tobacco Campus

June 2019
- Opening brick and mortar store in downtown Durham’s Self-Help building
Recommendations

What services can the Duke World Food Policy Center and Self-Help offer to address the challenges minority food business owners in Durham face in accessing capital?

1. Encourage working capital through Square / Kabbage / Shopify and other alternatives

The food entrepreneurs who had taken out a loan with Square commented on the ease of use and the comfort in knowing they had a source of working capital if they needed it. For those who had not had access to working capital through Square or another platform, they worried about making it week to week. Such constant financial stress can take away from everyday business management and the overall success of the business. The Duke World Food Policy Center and Durham business resources could help food entrepreneurs set up accounts with one of these services to start building eligibility for a small loan.

PayPal Working Capital offers a similar working capital solution, but for business owners that use PayPal for their customer transactions. This is typically a better option for online businesses. Fundbox has also been highlighted as a viable alternative to Square Capital loans, offering a small business credit line that is based on outstanding invoices. They do not require a minimum credit score and also offer options up to $100,000, with a 10-minute application process, 3-minute decision time, and funding within 24 hours. Fundbox is more short term than Square, requiring weekly payments and payback within 12 to 24 weeks. With a 12-week repayment option, the total fee is 4.66% of the principal, while borrowers pay 8.99% of the principal for a 24-week plan.

Square Capital, Kabbage, and Shopify were three services that were highlighted by two entrepreneurs and the offerings are broken down in Figure 1 below.

<table>
<thead>
<tr>
<th>Comparison of Working Capital Options</th>
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<tbody>
<tr>
<td><strong>Square Capital</strong></td>
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<tr>
<td><strong>Eligibility</strong></td>
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<tr>
<td><strong>Loan amounts offered</strong></td>
</tr>
<tr>
<td><strong>Application process</strong></td>
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<tr>
<td><strong>Feed / Interest Rate</strong></td>
</tr>
<tr>
<td><strong>Payback process</strong></td>
</tr>
</tbody>
</table>
2. Provide a small business resource map for business plans and information packets.

When asked what advice they would give to an aspiring food entrepreneur in Durham, many respondents emphasized the need for a business plan and financial security before starting anything. There are a variety of helpful resources in Durham that can address these needs and assess feasibility before embarking on such a costly and risky venture. A few highlights include the Piedmont Food Processing Center, the Durham Tech Small Business Center and the Helius Foundation. These organizations provide business plan training and realistic assessments and alternatives for accessing capital.

**Piedmont Food Processing Center: WEPOWER**
The Duke World Food Policy Center and Self-Help should direct rising food entrepreneurs towards the online resources of WEPOWER through the Piedmont Food Processing Center, a shared kitchen space in Hillsborough. The group has compiled a readily available roadmap that addresses many of the questions that food entrepreneurs may have during the process, with plentiful links for resources to use and people to speak with. They are also compiling a working document filled with resources where food entrepreneurs can submit entries when they have a positive experience with a certain organization or strategy.

**Food Entrepreneur Road Map**
Provided by WE Power

They can also direct female entrepreneurs to WEPOWER’s monthly meetings, where female business owners get together to share experiences and offer advice: “Women empower and support women in food businesses through strong networks and the sharing of resources.” The group partners with service providers, local governments, and community supporters to create an alliance that ensures the women in the group get access to the resources they need.

**Helius Foundation**
Two of the interviewed entrepreneurs participated in the Helius Foundation and the opportunity led to funding options and key networking introductions. The Helius Foundation offers coaching and training for necessity-driven entrepreneurs. They provide a 12-week program for qualified entrepreneurs that is followed by a year of business coaching. Entrepreneurs who have successfully completed the 12-week program can apply for the organization’s Kiva microloan program that offers up to $10,000 as a short-term, low interest loan. Their LaunchDURHAM training program works with ReCity, the City of Durham, and LaunchRALEIGH to teach entrepreneurs product refinement, customer analysis, marketing, financial tools, and funding resources over ten three-hour classes.

**Durham Tech Small Business Center**
Many of the interviewed entrepreneurs described interacting with the Small Business Center at some point during their startup process, whether for a class or individual business mentoring. The Small Business Center is a program out of Durham Tech, helping startups and existing entrepreneurs to “become viable, sustainable, profitable, and successful.” They offer a range of technical assistance, business skills seminars and courses, and one-on-one counseling over a range of areas such as business planning, marketing, legal, accounting, and financial management. The counseling is free and confidential, with easily bookable appointments online. Entrepreneurs can also find and register for courses and seminars online. They recently started an initiative with the Piedmont Food Processing Center to offer specific entrepreneurial training for the agriculture and food processing industry. This specialized service will be especially useful to food entrepreneurs in Durham.

3. Strengthen lending institutions’ role in Durham’s food ecosystem.

It became clear from the entrepreneur interviews and informational interviews that traditional lending institutions are not a viable option for many minority food entrepreneurs, especially in the starting stages of their businesses. Furthermore, there seems to be a lack of understanding about when to approach Self-Help that could be ameliorated by community relationship management. Community banks and CDFIs could play a larger role in supporting Durham’s minority food entrepreneurs, but the system may be lacking incentives for these institutions to support economic development for the under resourced. The current two most compelling options for under resourced entrepreneurs are Self-Help and Carolina Small Business Development Fund. However, interviewees perceived that an early stage entrepreneur without any collateral is not able to engage with these opportunities. If these perceptions are accurate, the banking institutions may need to reevaluate their risk tolerance in order to serve the underresourced.
In any case, there should be very clear communication about where these institutions are on the continuum of financial support in order to avoid confusion or wasted application time. For example, the Self-Help website could have a more informative and transparent pre-screening process that would discourage applicants from spending time on the full application if there is no possibility for a loan to happen. Right now, the pre-application questions online may make some businesses feel more hopeful:

“I have not had a bankruptcy in the last three years,
I do not have any open tax liens, and
I do not have any unpaid judgments.”

Furthermore, if entrepreneurs are viewing lending institutions as their access point to starting a business, then this interaction should be as positive as possible to encourage perseverance without a loan. Even when a loan is not possible, it is crucial for these institutions to engage with the community, sending interested applicants towards the Small Business Center or other resources to build their business plan and strategy with alternative sources of capital. The Duke World Food Policy Center can also help businesses identify their stage of readiness and help refer them to technical assistance or financial resources, depending on their unique situation. This may help mitigate confusing or disheartening relationships with lending institutions.

4. Introduce an Economic Development Grant in Durham.

A common theme among the entrepreneurs interviewed was that Durham does not have any grants available to support businesses in their early stages. Mayor Schewel is dedicated to equitable economic development in Durham and a grant program based off the model of Orange County would be a way for city government to play a role in strengthening support for minority food entrepreneurs. The city is working on including a CDFI in the next round of city budgeting and a capital fund in the following year, managed by the Office of Workforce and Economic Development (OWED). Both will be dedicated towards supporting minority-owned small businesses in Durham, with the capital fund providing both debt and equity. The OWED should take the example of Orange County into consideration in order to develop a system that works best for Durham entrepreneurs’ needs.

Orange County has an Economic Development fund that includes a Small Business Loan Program, Business Investment Grant Program, and Agriculture Economic Development Grant Program. This funding began after Orange County voters approved a special referendum, Article 46, in November 2011. Article 46 details the collection of a special ¼ cent retail sales tax in order to “help strengthen and diversify the County’s local economy, to include the attraction, growth and retention of our many valued small businesses and agriculturally based operations.”

The Small Business Loan Program is a revolving loan fund meant for local companies with gross annual revenues under $3 million. The fund is administered by a volunteer board of directors, offering loans of $5,000-$100,000 with a maximum term of ten years. The Business Investment Grant Program offers small grants up to $1,500 or larger grants from $1500.01-$10,000.

There are four application deadlines throughout the year, requesting the following from the business: basic business information, financial information (sales, checking account balances, and existing business debts), financial statements for the past 3 years, detailed written business plan (5-10 pages), and a detailed list of how funds will be used (1-2 pages). In FY2017/18, the Business Investment Grant Program received 50 applications and awarded 28 grants for a total of $143,000. The Agriculture Economic Development Grant Program offers the same grant options for local farmers, with a more in-depth application. In FY2017/18, the grant program offered 9 grants out of 10 received for a total of $60,000.

Orange County Economic Development also has a Food Council with 15 members and a soon-to-be Local Food Systems Coordinator. This full-time employee will be the liaison between the council and the county. The Food Council is dedicated towards the intersection of funding and business support, jump-started by a racial equity coach. They are constantly assessing the grant and loan processes to ensure they are removing any barriers entrepreneurs might face in applying. They are a crucial support for the local food system in Orange County, and Durham would benefit from a similar group dedicated to an equitable food ecosystem.
Appendix 1. Interview Questions

1. Owner’s name:

2. Business name:

3. How long have you been in business?

4. Do you work full-time at your business, or do you have another job?

5. What initial resources did you use to start your business?

6. Where did you get capital?
   - Family
   - Friends
   - Traditional Bank
   - Payday lender
   - Other: ________
   - None

7. Did you apply for a loan at a traditional bank? Tell me about your experience.

8. What resources did you use to expand your business?

9. What were the most helpful resources?

10. What resources did you wish you had in the process of starting and expanding your business? What was the most frustrating aspect of the process?

11. Did you feel like you had access to the financial resources you needed? What was your own assessment of preparedness for starting your own business?

12. What advice would you give to an aspiring restaurant owner in Durham? What would you have done differently?

Appendix 2. Map of Opportunity Zones in Durham

Source: Durham Opportunity Zones - https://www.arcgis.com/home/item.html?id=52361cc12e5a-475ca716af253ca50572
Appendix 3. Interview Demographics Statistics

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<thead>
<tr>
<th>Gender</th>
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<tr>
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<tr>
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<table>
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<th>Type of Business</th>
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<td>Food Truck</td>
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</tr>
<tr>
<td>Restaurant</td>
<td>2</td>
</tr>
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<td>Restaurant &amp; Food Truck</td>
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</tr>
<tr>
<td>Total</td>
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</tbody>
</table>

Citations


7. Ibid, 2.

8. Ibid, 8.


15. Ibid.


27. Ibid, 9.


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