

Testimony

***Small Business Participation  
in the  
Federal Procurement Marketplace***

Senate Committee on Small Business and Entrepreneurship

Chair Mary L. Landrieu

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10:00 a.m.

Russell Senate Office Building

Room 428A

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Testifying on Behalf of  
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Madam Chair:

It is an honor to testify before the House Senate Committee on Small Business and Entrepreneurship today on the issues of “Closing the Gap: Exploring Minority Access to Capital and Contracting Opportunities”.

My name is Martha Montoya. I'm the President of several enterprises including, A) Los Kitos Produce, in the business of getting fruit from the farm to the store shelf, B) Los Kitos Entertainment a syndicated cartoon strip and content provider, and C) El Mundo Newspaper, the largest and oldest Hispanic newspaper in Washington State. Throughout the years, I have served on the Board of several local, state and national organizations in the capacity of Procurement Chair, Access to Capital Chair, and Regional Chair, while also being active in other posts including the State of California Governor's Conference on Small Business and Entrepreneurship Steering Committee, the Executive Committee of the United States Hispanic Chambers of Commerce and most proudly I am a product of our Hispanic Chambers of commerce.

Currently 95% of Hispanic businesses do not fit the lending profile of banks. We are too small for private equity funds, receive minimal attention from venture capital firms, yet we are the fastest growing segment of the entire country.

The current situation reminds me of the statement made by Charles Darwin, “It is not the strongest of the species that survives, nor the most intelligent that survives, it is the one that is the most adaptable to change.”

I am here to give a solution without burdening you all with new requests or more work, but hopefully to shed some light on how I believe we can unlock capital for growing businesses.

Given the landscape and alarming lack of capital available for Hispanic entrepreneurs, I strongly encourage you to ask economic policy agencies and regulators such as the Federal Reserve and the Treasurer to focus their effort on supporting minority small business entrepreneurs through their Community Reinvestment Act obligations so they in turn will request the banks to deploy those funds into the communities, and particularly into rural areas.

Access to contracts and access to capital have a symbiotic relationship. You need both simultaneously in order to survive and grow a business. However they seldom arrive at the same time, and because of this only those companies that become completely creative and adapt in this business environment will make it.

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Here is why:

- 1) A business is required to demonstrate financial stability and growth in order to become a supplier, yet a bank will not talk with you unless you already have a significant track record. This leaves most small businesses in an unfavorable position. To make things worse, minority business owners, in particular Hispanics whom I represent, lack elements needed to stop this “ping-pong” syndrome as I call it. Those elements include Financial higher education across the industries. Please note I did not say Financial literacy which reduces the conversation to simple financial transactions, but a more rigorous understanding of Balance sheets, income statements, and grounded financial projections. In my own case I have been fortunate to be a recipient of a scholarship to Dartmouth’s Tuck School of Business program entitled “Building a High-Performing Minority Business” along with 35 other small businesses owners. This program had a positive impact on all of us because of its emphasis on financial tools and understanding.
- 2) Banking and personal relationships are crucial for the growth of a business, yet without the tools for the banker to deploy he/she is obsolete in the communities they serve. As a business owner I was a recipient of funding through a State of California bank guarantee program with a local bank some 12 years ago. Though it was a small credit line of \$50,000.-, it was the spark that jumpstarted my company. It was done on the basis of flexibility and taking a calculated risk that allowed the banker to begin establishing the business relationship with our company which has lasted over a decade. By the way, that line of credit built my confidence, boosted my team’s energy and made it possible for me to be here today.
- 3) There is a need for other tools such as funding the funders that provide liquidity to small businesses and do understand us. Contracting is a “scalable” business game and the only tools available are outside of the banking industry such as factoring and a few equity funds. Having funds headed by people of our own communities is crucial as they understand the nuances of the business environment we work within. Hispanics manage less than 0.2% of this funding though we represent the fastest growing segment of the population. Research by Altura Capital, which is a manager of emerging money managers, has shown that the performance of smaller funds is superior than larger peers due to flexibility and commitment to high growth markets.
- 4) Bankers from our communities need to be deployed yet be encouraged and nurtured to educate themselves on financial and business elements. It was definitely clear during this last period of financial difficulties that we had very limited personnel on the ground to assist our Hispanic business owners. Very few banks have addressed this lack of

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qualified personnel to help our businesses and to bring them new clients. For one of my companies, while seeing how capital was closing on Hispanic farm growers here among mainstream banks, we approached a European owned bank with a highly educated Hispanic team that understands the financial tools, (CRA), the business model (Agriculture), and was able to turn fast and deploy funding for not only our growers but many others by placing effective programs and mechanisms directly in the community.

So here we go back to my Darwin statement, evolution, evolution and evolution, and also Dr. Einstein's transformation of Energy without burdening the system.

The Biggest solution should be CRA funding into our communities.

- a) Community Reinvestment Bank funding could serve as a vehicle for the following reasons and actions:
  - Equity funds for local banks, investment funds and others with more flexibility to deploy funds and with a higher level of patience for their returns.
  - Large scale banks to deploy the CRA funding themselves and work the ground while training the next generation of bankers.
  - Request minimum 25% of the CRA funding to go to rural areas. It will motivate and unlock creativity in our rural areas and growth.
  - Match CRA funding with local financial tools from SBA and others to take away the burden of infrastructure capital yet create sustainable jobs for the next 2-5 years.
  - Inform, inform and inform through our publications and media outlets. Bill HR2727 known as the "Financial Transparency Restoration Act". Requiring banks and financial institutions to publish a statement of financial condition at the end of each fiscal quarter in a newspaper of general paid circulation published in a city or county within each market area in which the financial institution is located.
  
- b) Training – smaller banks and financial institutions need to implement Workforce training to better serve our communities. However if the proposed H.R. 1 passes, for the Fiscal Year 2011 Continuing Resolution (CR), it will eliminate all funding, over \$3.6 billion, for the Workforce Investment Act (WIA) in Program Year 2011 and a \$175 million rescission of Prior Year funds. Beginning in July 1 of this year, these cuts would zero out all new funding for state and local programs under WIA – programs that have made a substantial positive impact to employers, job seekers, their families and my community. The CR being proposed by House will cut off a valuable lifeline that is providing critical workforce training programs and business support.

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To conclude I have traveled the world on my international agricultural role over the past 20 years and I am still puzzled to see more funding and opportunities provided by our government in other countries and their businesses than for our own Hispanic/minority businesses here in the USA. Clearly we are in a country that is far more stable financially and politically, and therefore I believe those funds would be better used here at home.

Thank you very much for your time and I trust and hope that my personal community and business experience will allow you a glimpse of what I see in terms of actions that need to be taken to foster growth in our small businesses.