



National
Urban League

*Empowering Communities.
Changing Lives.*

TESTIMONY OF
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BEFORE FOR THE
US SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
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"CLOSING THE GAP: EXPLORING MINORITY ACCESS TO CAPITAL AND
CONTRACTING OPPORTUNITES"

Madame Chair, Ranking Member Snowe, members of the Committee, thank you for the opportunity to testify today on the challenges facing minority-owned small business in America. I am Marc Morial, President and CEO of the National Urban League. Established in 1910, the National Urban League is the nation's oldest and largest civil rights and direct services organization serving 2.1 million people each year in over 100 urban communities.

The guiding mission of the National Urban League throughout its one hundred year history has been the economic empowerment of our nation's economically disadvantaged. Every day our affiliate CEOs and their staff members assist our constituents in the pursuit of economic self-sufficiency. One of the most fundamental elements of any such economic self-sufficiency is the role of the entrepreneur. It is increasingly the case in modern America that the person most-likely to sign your paycheck is the person living at the end of your street, in line next to you at the grocery, or in the pew next to you at your house of worship. Nowhere is this more-true than in the black community.

Small businesses have always played a critical role in the economic well-being of communities of color. The Great Recession of recent years has made this fact of life an even greater reality. Recent statistics published by the US Census Bureau show that the black-owned business grew by 60% in the 5-year period between 2002 and 2007¹. While these

¹ "US Census Bureau Survey of Business Owners: Black Owned Business" Census Bureau Economic Data Released February 8, 2011.

numbers might seem on their face as evidence of widening economic prosperity, they in actuality, evidence of a new class of entrepreneurs of circumstance, borne of the increasingly dismal job market confronting African American and Hispanic workers alike. Within these numbers lie evidence of the role entrepreneurship plays in communities where big-business hiring has slowed to a trickle, or even frozen to a complete halt. Of the 1.9 million American small businesses identified by the US Census Bureau as being African-American owned, over 1.8 billion are sole proprietorships – that is to say, single worker enterprises where the owner is usually the only employee of the company. Yet, in the larger economic picture, black-owned business is one of the greatest untapped resources in America's economic arsenal. African-American owned firms have proven to be an engine of job creation, with paid employment growing by 22% from 2002 through 2007, compared to less than 1% such growth for non-minority owned firms.² Nowhere else is the commonly-acknowledged phenomena of the small business sector as a staging ground for economic recovery more factual than in communities of color.

Consequently, were African-American owned small businesses to reach representative parity with the African-American portion of the adult US population in 2007, there would have been 3.3 million firms (instead of 1.9 million) generating \$1.4 trillion in gross receipts (instead of \$138 billion), and creating 7.1 million jobs (instead of 921,000).

So what's holding us back? Unfortunately Madame Chair, as I'm sure you might have guessed, there is much more to the story. Minority Business Enterprises (MBEs) face major systemic challenges that make their success an uphill battle against the odds from the moment of their inception, and at every step of the way to success. We see these challenges as falling into four primary categories:

1. Clear communication of programs that are intended to assist MBEs. Many MBEs are either unaware of programs geared toward MBE development or the information is not clearly communicated which leads to missed opportunities and frustration on the part of the business owner.
2. Access to reasonable priced capital through private-sector commercial sources. Most MBEs have to settle for either high priced alternative capital sources or the use of personal resources such as

² "African-American-Owned Firms Outpace Growth of Non-Minority-Owned Firms," by Iyonne Cunnaro, Chief Knowledge Management Officer, US Department of Commerce Minority Business Development Agency, February 8, 2011.

their own credit cards to have the capital necessary to start or grow their business concerns

3. Access to federal contracts, either prime or subcontract opportunities. Many MBEs do not where contract opportunities are posted or how to access the federal on-line system. Also given that many prime contractors need MBE participation, MBEs need to know how to access and identify these opportunities.
4. Technical assistance that is provided for the many different levels of MBEs. Currently many technical assistance programs are not well publicized, and very often are not suitably geared toward the target market of MBEs that are at different levels in their business development

1) The Problem of Communication:

While the Small Business Administration (SBA) and the Minority Business Development Agency (MBDA) have done a remarkable job advocating for, and introducing new programs intended to help MBEs gain increased levels of access to government-sponsored capital, many such programs go undersubscribed due to a lack of awareness among the target audience. While the SBA often touts the number of Business Development Centers it sponsors throughout the country, those MBE owners who routinely enter our NUL Entrepreneurship Centers for management training and technical assistance have no idea of our SBA-sponsored counterpart's existence, or what avenues to capital these SBA centers might offer. MBEs are largely unaware of the currently outdated modes of SBA outreach, including traditional press releases, or jargon-heavy government announcements buried in the bowels of a cumbersome, non-user friendly website. While NUL certainly does not have the outreach budget of the SBA, or the Department of Commerce, our Entrepreneurship Centers are in the community, and our target service audience knows exactly where we are. The same must be made true of SBA and MDDBA.

2) The Problem of Access to Reasonably-Priced Capital:

Given the hearty brand of survivalist entrepreneurship within the mindset of many MBE owners, their next course of action is typically that of self reliance. MBEs without access to traditional sources of private sector

capital are often forced to 'go-it-alone' delving in to already limited means of personal capital, or even financing their enterprises by way of personally-secured high-interest rate debt – the only form readily available to the MBE – with disastrous results.

It's a commonly-accepted fact that firms with higher levels of start-up capital are less likely to close, more likely to have higher profits and revenues, and much more likely to hire employees than those without. The median level of wealth for African-Americans is \$6,166, compared with \$67,000 for whites. As a result, African American-owned small businesses often start with substantially lower levels of financial capital than white owned firms, making the presence of reasonably priced capital extraordinarily crucial to success of MBEs during their early incubation.³

3) The Problem of Access to Federal Contracting Opportunities:

Perhaps one of the most ineffective means of opportunity made available to MBEs is that of the competitive federal contract. Much to their credit, the federal government, and in particular the Senate Small Business and Entrepreneurship Committee and the Obama Administration, understand the vital role federal contracting opportunities can play in the success of any small business. Last year alone, the federal government purchased over a half trillion dollars in goods by way of contracts with private vendors. Now, undoubtedly, this entire amount was not contracted to small businesses, but a significant portion of the whole is contracted to small enterprises each year. Why then is it so difficult for MBEs to procure a larger share of such contracts? There is quite literally a host of systemic reasons.

- Cumbersome and desperately complicated means of gaining announcement information and applying for contracts (i.e., Fedbizopps.gov, the government's primary website for public access to contract information.)
- Ineffective and poorly enforced policies designed to heighten access for MBEs.
- Skeleton staffing in the area of federal procurement that breeds shortcuts and awards to the 'known quantity', or the same fortunate few MBEs that have won awards in the past

³ *"Race and Entrepreneurial Success: Black, Asian, and White-Owned Businesses in the United States"*, by Robert W. Fairlie and Alicia M. Robb, September, 2008.

- A lack of outreach and technical assistance. Literally scores of qualified potential MBE contractor applications are disqualified outright given minor procedural flaws.

4) The Problem of Appropriately Designed Remedies:

The term minority-owned small business is by no means a 'one-size-fits-all' proposition. A recent US Census Bureau survey of black-owned business in 2007 highlights the sheer numerical differences between the top and the bottom of the black-owned small business spectrum. Of the 1.9 black-owned small businesses recorded in 2007, only 14,000 had revenues over \$1 million, while 87% of the 1.9 million had revenues below \$50,000 annually. While the capital access and technical assistance needs of these two separate classes within MBEs are obviously different, it should be acknowledged and understood that a small business lending initiative targeted for those enterprises with \$1 - \$4 million in annual revenues⁴, such as the Startup America initiative recently announced by the White House, misses at least 87% of black-owned small business, and could potentially serve only 14,000 out of 1.9 million – or less than 0.1% at best. Whether capital access or technical assistance, when it comes to MBEs, all too often the proposed cure is not properly prescribed in a dosage suited to help the patient.

The National Urban League has a long-established record of successfully serving MBEs at all levels through our network of Entrepreneurship Development Centers and other community affiliates

The National Urban League's Entrepreneurship Center Program (ECP) enables minority entrepreneurs to take advantage of new business opportunities and qualify for financing that will lead to high-level business growth through the provision of proper management skills. Entrepreneurs who qualify for the program receive individualized management assistance and group training services designed to increase their business acumen and ability to operate their businesses on a profitable basis, increase their market share and offer living wage employment opportunities to residents in their market area.

The Entrepreneurship Center program is in its 6th year of operation. Currently there are nine centers, which operate in Atlanta, GA, Chicago,

⁴ "Obama Administration Commitments: Expanding Access to Capital for Entrepreneurs" Startup America online fact sheet, <http://www.whitehouse.gov/startup-america-fact-sheet#administration>.

IL, Cincinnati, OH, Cleveland, OH, Jacksonville, FL, Kansas City, MO, Los Angeles, CA, New Orleans, LA and Philadelphia, PA.

In 2010, the centers provided 10,911 hours of counseling and 11,242 hours of training services to 5,938 entrepreneurs. These services assisted entrepreneurs in receiving \$20.19 million in new bonding, new contracts and financing during the year.

National Urban League Recommendations for Promoting the Growth of MBEs

Madame Chair, the numbers show that the development of the economic power within MBEs and their respective communities is not a black problem, or an issue relegated to any one class or grouping of individuals – it is a distinctly American problem, or perhaps stated more accurately, a matter of American potential. Our country cannot reasonably hope to outpace the growing economic and productive momentum of our international competitors with such a large swath of our productive capability willfully left to idle. MBEs have already demonstrated their propensity for survival and growth by expanding in the face of economic headwinds that have stalled the progress of even the most resilient sectors of our economy. It is time that our country set about a course of dramatic and sustained steps in support of black-owned, as well as all other minority and women owned small business enterprises.

- **Raising the Cap for Set-Aside Small Business Contracts** – We suggest that the cap for set-aside small business contracts be increased from \$100,000 to \$500,000. This will allow the increasing number of small- and minority-owned businesses to participate in set-aside contract opportunities, thus providing more growth opportunities for businesses that have the capacity to perform on contracts up to \$500,000.
- **“Bundled Contracts”** – We suggest that “unbundling contracts” will be helpful in allowing more small- and minority-owned businesses to have the opportunity to bid on federal contracts. This should define the contract amounts at which unbundling will take place, and define what a small business concern is to clarify size standards. To this end we would recommend language stating that, the small

business size standards shall be those that have been set by the US Small Business Administration and should be published on their web site for public viewing.

- **Increasing Federal Procurement Goals and Subcontracting Plan** – We suggest increasing the federal procurement goals for small- and minority-owned businesses and the requirement of a subcontracting plan would need to include a non-federal monitoring system which ensures that each agency is working toward these goals. We recommend that monitoring should be performed by an *independent* non- profit or for- profit firm that has experience in the oversight of public procurement programs for small and minority business owners. This will provide an impartial overview of the program activities and can provide recommendations on how to make the program more effective if necessary. A good example of an independent monitor would be the Greater Baltimore Urban League which has been successful in monitoring and increasing small and minority business participation in public procurement in Baltimore over the past few years.
- **Technical Assistance Fund** – We suggest the creation of a fund for technical and contracting assistance through the Minority Business Development Agency (MBDA). We recommend that this should be open to service providers in and outside the MBDA network as more minority business owners can be identified and participate in the program.
- **Elimination of SBA Guarantee Fees**- We suggest the elimination of the guarantee fee on the SBA's new Advantage loan initiatives as a way to stimulate loan activity for small and minority businesses. The guarantee fee which can run from 2- 3.8% of the loan amount make the cost of borrowing expensive for small and minority business owners. The elimination of these fees would borrowing more affordable and was successful as part of the stimulus efforts last year.

Thank you for the opportunity to testify and I will be pleased to answer any questions.