

TESTIMONY

Hearing entitled: *Closing the Gap:
Exploring Minority Access to Capital
and Contracting Opportunities*

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Thank you Madame Chair Landrieu, Ranking Member Snowe and the Committee members for the opportunity to testify today.

I am Susan Au Allen, National President & CEO of the US Pan Asian American Chamber of Commerce Education Foundation (USPAACC). Founded as a 501 (c) (3) nonprofit organization in 1984 in the nation's capital, we have been serving and will continue to serve as the gateway to large corporate and government contracts, top-caliber Asian American and small/minority suppliers, key information about Asian American and small/minority businesses, and contract opportunities in the dynamic Asia-Pacific market.

As the only national, nonprofit, non-partisan organization representing all Asian American and Asian American-related groups in a wide array of disciplines, USPAACC promotes and propels economic growth by opening doors to business and professional opportunities for small and medium enterprises (SMEs), Asian American-owned businesses and their partners in government at the federal, state, and local levels, corporate America, and the small and minority communities.

Our main goal is to work with each of our constituents to achieve successful contracting relationships and business growth in the mainstream marketplace. We also leverages the combined economic strength of Asian Americans and their partners to propel growth.

In 25 years, USPAACC has established a strong and proven record of helping our constituents plan, research, develop, implement, and promote their businesses. A broad spectrum of people — from business owners to federal and state agencies, corporations, the media, academic and research institutions — call upon us because of our nationwide outreach ability and expertise in bringing people together, and the quality and substance of our business development programs.

We work in key markets across the country, reaching over 15,000 Asian American-owned and other SMEs through our Regional Chapters in the West Coast, Southeast, Southwest, Midwest, Northeast, and Washington, DC-Maryland-Virginia in the National Capital Area.

My testimony today is based upon my knowledge on the salient issues that our 8(a) business members face today:

1) *Access to Capital*

While we see signs of an economic rebound, small business owners have yet to see recovery, especially one that translates into actual sales.

The turmoil created by the recent financial crisis in the credit market has led to the inability or unwillingness of many financial institutions to extend credit. Those who bear the brunt of this debacle are the small businesses who could not move forward with opportunities that could generate jobs that would also grow the economy.

This has become a “catch-22.” To grow a business, you need money – capital to expand, to take it to the next level, to hire staff, or invest in marketing and R&D. In some cases, higher sales can cost more cash and so more cash is needed to run the business. For others, when sales slow dramatically because of the recession, they need cash to make up the shortfall, maintain payroll and wait.

While some 8(a) companies may find small business loans attractive, many banks continue to be reluctant to lend because there is still a lot of risk. Unlike the manufacturing sector that have collaterals for a loan, small businesses in the service sector do not. So securing a loan is a difficult proposition.

Even though the U.S. Small Business Administration (SBA) guarantees 90% of the loan, a major portion of it must be guaranteed through collateral. There appears to be a trend – banks want to avoid potential exposure when a business would default, then the government may take the bank out of the preferred lenders list. In addition, they now look at business performance through a more stringent financial model of ratios and quotas (e.g., profit, assets versus liabilities, net worth versus debt, etc.) because they view small businesses as “risks.”

2) *Contract Bundling*

We are pleased that the Small Business Jobs Act, which contains language from S.2989 (The Small Business Contracting Revitalization Act of 2010), a bill introduced by Senator Landrieu and Senator Snowe, has addressed the issue of contract bundling. However, there must be strong Congressional oversight to ensure accountability and give teeth to this regulation in order to carry out the intent of the law.

Corollary to contract bundling is the mindset of some Federal key contract evaluators, “If I select a prominent company like IBM, I can’t be blamed if the project fails; but if I pick some unknown company and the project fails, I could lose my job.”

So these Federal contract evaluators will select the large and recognizable companies with a well-known reputation over mid-sized businesses. This mentality is so prevalent that even if the procuring entity knows that the large company they intend to select is failing in certain areas within their organization, they would still select them over the unknown companies. This is the very harsh reality that mid-sized federal contractors have to contend with.

This mindset stops federal contractors who have grown from small to mid-sized companies, can and are ready to compete with large businesses, if given the chance. However, they are not allowed to enter the ring.

The remedy is to give incentives to the agencies, their contracting team, or to the Primes for giving opportunities to new businesses. This will also reduce or avoid complacency because of doing business with the same entities without having to meet new challengers.

Moreover, changing this way of doing business with their suppliers will mean more scrutiny and accountability, and transparency on all levels throughout the contracting process. It also means re-training staff. This way, some of the hurdles small and medium-sized companies are going through may be removed and replaced with more access and opportunities.

3) *Business Development*

The fact that the SBA has increased the 8(a) roster from 3,000 to 8,000 in the last 10 to 15 years is commendable. While the SBA has been providing basic services to start-ups, we believe there should be a program to provide the next-level of training, that actually links mid-tier companies to potential opportunities, and helps to transition soon-to-graduate 8(a) companies into the open marketplace when they are no longer eligible for set-asides.

The apparent imbalance in the business development specialist-to-small business ratio makes it very difficult for the small company to receive the business development assistance the 8(a) program is created to do. For example, a typical specialist manages 15-20 companies over the life of its 9-year 8(a) status. In the West Coast, this appears to be the norm. However, in the East Coast, particularly in the Washington, DC area, there are reportedly 1,800 8(a) firms assigned to 8 to 9 specialists. On top of these cases, the specialists must also perform compliance duties. The result is multi-tasking at the expense of quality service for the small businesses.

Because the funding issue will not go away, I strongly recommend that the SBA focus more on compliance and leverage community resources with organizations like us — USPAACC.

For over 25 years, USPAACC has been providing business development services to the Asian American and other small businesses nationwide. We have built an effective platform conducive to teaming arrangements between small and mid-tier businesses. We are on the ground everyday reaching out to small businesses, making new connections, educating a wider public on available business opportunities.

4) *Standardized RFP*

The quality of the Request for Proposals should be addressed. Oftentimes, they are not clear, contain inconsistencies, had to be pulled back and reissued. When this happens, it wastes time and resources – the RFP-issuing agency, the business preparing the bid, and organizations associated with this process.

5) *Past Performance*

A small business' past performance is crucial to the bidding process. However, more often than not, a smaller firm is less likely to have previously worked on a project which is virtually identical to what is being sought, and to have also done it for the federal government. If experience on the commercial or private side were to be equally valued and taken into consideration, then it would help level the playing field for small businesses to enter the federal marketplace.

6) *Insourcing*

Insourcing decisions have gained momentum within the last year and are likely to continue. Is this the quick-fix answer to cost control? The preponderance of evidence says no.

Meanwhile, insourcing limits new opportunities for small businesses and takes existing contracts away from them. To complicate matters, there is a lack of transparency in the government's process for deciding which jobs will be insourced. Worse, many small federal contractors find that their employees are hired away by government agencies when they move jobs in-house. This is a lose-lose scenario for small businesses.

7) *Mentor-Protégé*

There is one SBA program that we feel, when expanded, can help both small businesses and mid-sized companies. The 8(a) Mentor-Protégé Program (MPP) allows 8(a) Protégé companies to form Joint Ventures with their Mentors. It enables the JV to bid for contracts as an 8(a) small business, with the qualifications and the past performances of both the Mentor and the Protégé companies.

It gives the mentor company a chance to be a small business once again, to teach the other small businesses how to create a great proposal to win jobs and grow and to become a fully independent company.

The hurdle now is that this MPP is limited to small businesses in the 8(a) program and the Mentors are the large, well-known companies who continue to benefit from this program. The immediate implementation of the parity language on the Jobs Bill (S. 1489) that Senator Snowe introduced will help. It provides for an MPP for every small business designation (i.e., have one for SDVOSB, 8(m), Hubzone, SDB, etc.) and will create more winning partnerships. To enlarge the pool of Mentors, we could have a program that puts mid-sized companies and small businesses together to foster, grow and stay alive for the long haul. It will stimulate the right kinds of competition to boost the economy.

Graduated 8(a) firms would be a good source of Mentors. This would allow the new 8(a) company to learn from the experiences of the former certified company.

In closing, the responsibility of resolving these issues also lies on the small business community to do its part. Many small businesses assume that by having 8(a) designation, they are immediately entitled to business opportunities. This expectation is incorrect. Small businesses must realize that being an 8(a) company only gets them a ticket through the door into the room where they can compete with their peers. It is important for small businesses to be proactive, do their homework, pursue due diligence, deliver good products or services, and after-sales service. Then, they could thrive and compete effectively in the marketplace.

Thank you for the opportunity to appear before the Committee. I would be happy to answer your questions.