U.S. DEPARTMENT OF COMMERCE
MBDA™
MINORITY BUSINESS DEVELOPMENT AGENCY

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Before the U.S. House Committee on Oversight and Government Reform

Subcommittee on Government Management, Organization, and Procurement

September 22nd, 2010

Chairwoman Watson, Ranking Member Bilbray, and Members of the Subcommittee:

Thank you for inviting the Minority Business Development Agency (MBDA) to appear before the Subcommittee to discuss the important issues surrounding minority contracting opportunities in the federal marketplace. I request that my entire written statement, including the attachments, be entered into the official hearing record.

I. Overview

MBDA has been in existence for over forty years, originally established as the Office of Minority Business Enterprise by President Nixon on March 5, 1969, pursuant to Executive Order 11458. On October 13, 1971, President Nixon issued Executive Order 11625, as amended, which clarified the Agency's authority and expanded the scope of its operations. MBDA is the sole federal agency dedicated exclusively to promoting equal economic opportunities for the nation's minority business enterprises (MBEs) and accomplishes its mission through programs and activities designed to foster MBE growth and global competitiveness. Today, MBDA continues as the sole federal agency dedicated to fostering minority business growth and global competitiveness.

By establishing a federal agency dedicated exclusively to promoting equal economic opportunities for MBEs, President Nixon recognized the crucial impact of minority businesses on the nation's economy. In 1969, there were approximately 322,000 minority businesses generating $10.6 billion in annual gross receipts.[1] More recently, according to the preliminary findings of the *2007 Survey of Business Owners,* there were about 5.8 million minority-owned firms.[2] These firms employed approximately 5.9 million persons and generated approximately $1 trillion in total gross receipts for the national economy.[3]

It is this potential for continued growth that mandates a positive regulatory and political climate in which MBEs can flourish. Based on U.S. Census Bureau data, minorities represented approximately 35 percent of the total U.S. population in 2009.[4] It is estimated that by 2050 minorities will represent approximately 54 percent of the total U.S. population.[5] With those estimates, ensuring that minority-owned firms are given equal economic opportunities to participate in the domestic and global marketplaces is an imperative. I would also like to point out that if minority-owned firms were to able to

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[1] U.S. Department of Commerce, U.S. Census Bureau, *Minority-Owned Businesses: 1969* (Washington, DC: US Government Printing Office, 1971).

[2] U.S. Department of Commerce, U.S. Census Bureau, 2007 Survey of Business Owners, Preliminary Estimates of Business Ownership by Gender, Ethnicity, Race and Veteran Status, 2010 (accessed July 20, 2010); available from http://www.census.gov/econ/sbo/.)

[3] Ibid

[4] U.S. Department of Commerce, U.S. Census Bureau, Table 3. Annual Estimates of the Resident Population by Sex, Race, and Hispanic Origin for the United States: April 1, 2000 to July 1, 2009 (NC-EST2009-03), 2010 (accessed June 23, 2010); available from www.census.gov.

[5] U.S. Department of Commerce, U.S. Census Bureau, *An Older and More Diverse Nation by Midcentury* (Press Release), 2008; available from www.census.gov

generate total gross receipts in relation to the adult minority population in 2007, which represented 13 percent that year, such firms would have enjoyed an estimated additional $2.4 trillion in annual gross receipts.[6] MBDA defines entrepreneurial parity as reaching proportionality between the adult minority population and business development measures such as numbers of firms, gross receipts and employees of Classifiable firms (excludes publicly held).

Moreover, MBEs have the potential to have a major impact in the global marketplace as they are twice as likely to generate sales through exports as non-minority firms.[7] More than 70 percent of the world's purchasing power and 95 percent of its population is beyond US borders.[8] With their ability to break down cultural and linguistic barriers, minority-owned firms can lead the way to tapping global markets and aid in reducing the U.S. trade deficit.

However, while the recent Census numbers show overall growth and expansion for minority firms, there is still work left to be done. The average gross receipts of minority-owned firms increased to just over $178,000 in 2007 from $167,000 in 2002, but still well below the gross receipts for non-minority-owned firms which had average gross receipts of $490,000 in 2007[9] and $439,000 in 2002.[10]

Furthermore, discriminatory barriers continue to persist, which impede the ability of MBEs to access the marketplace on fair and equal footing with non-minority-owned businesses; thus, preventing MBEs from realizing their full economic potential. I am submitting for the record, as Attachment A to my testimony, a document entitled *The Compelling Interest for Race- and Gender Conscious Federal Contracting Programs: An Update to the May 23, 1996 Review of Barriers for Minority and Women-Owned Businesses*, along with a disk that contains all of the disparity and academic studies referenced in that document. The *Compelling Interest* document was compiled by the Department of Justice with input from SBA, the Department of Commerce, the Department of Transportation, the Department of Defense, and other federal agencies, and was previously submitted to the Senate Small Business and Entrepreneurship Committee by SBA on June 2, 2010. The study and appendix

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[6] U.S. Department of Commerce, Minority Business Development Agency (MBDA) analysis of data from the 2007 Survey of Business Owners and Population Estimates, both from the U.S. Census Bureau. (Accessed September 20, 2010; available from http://www.mbda.gov/sites/default/files/MinorityBusinessGrowthandGlobalReach.pdf)

[7] U.S. Department of Commerce, Minority Business Development Agency, *Characteristics of Minority Businesses and Entrepreneurs* (2008), available from http://www.mbda.gov/index.php?section_id=6&bucket_id=16#bucket_120

[8] U.S. Department of Commerce, MBDA, Characteristics of Minority Businesses and Entrepreneurs, An Analysis of the 2002 Survey of Business Owners (March 2008)

[9] U.S. Department of Commerce, Minority Business Development Agency (MBDA), *Minority-Owned Businesses Growing at Twice the National Average* (Press release), 2010, available from www.mbda.gov

[10] U.S. Department of Commerce, U.S. Census Bureau, 2002 Survey of Business Owners, 2007 (Accessed July 20, 2010); available from http://www.census.gov/econ/sbo/.)

reference 75 recent disparity studies from 33 states and regions detailing the local effects of discrimination on minority and female contractors. Nearly all of these disparity studies and reports have already been submitted to Congress over the last several years. The *Compelling Interest* document also refers to quite a few congressional hearings held over the past several years that explore the existing barriers to the ability of disadvantaged businesses to compete equally for federal contracts. It also reviewed nearly 40 academic articles investigating and detailing the various sources and effects of the discrimination. This document, which is a thorough discussion of some of the extensive body of evidence generated in the last decade which has already been placed before the Congress, clearly shows that discriminatory barriers continue to impede the ability of minority and women-owned businesses to compete with other firms on a fair and equal footing in government contracting markets. Indeed, significant discrimination, in arenas such as access to capital and employment, limits the formation of these businesses in the first instance.

Though MBDA is not a regulatory or enforcement agency, the Agency plays an active role in the federal marketplace. We are working to eliminate these barriers acting as both an advocate and facilitator for minority-owned firms seeking to gain greater access to the marketplace, including but not limited to procurement, grant and other opportunities with the Federal Government.

II. MBDA and the Federal Marketplace

A great deal of our work on behalf of MBEs takes place in the 46 MBDA minority business centers located across the country and in Puerto Rico. Each center provides MBEs with a wide range of business consulting services to assist in the growth and competitiveness of MBE firms. On the contracting front, our centers provide technical assistance to improve MBE competitiveness at securing both public and private contracts in addition to promoting joint ventures and teaming arrangements as we recognize some contracts are simply too large for one firm to compete for alone. The professional business consultants who staff MBDA centers work to keep MBEs abreast of state and federal contracting opportunities in the pipeline. We currently have two centers in the Los Angeles area that service a number of the Chairwoman's constituents. In calendar year 2009, these two centers assisted in the generation of over $116 million in contracts for MBEs and the creation of 292 new jobs. As a whole, in FY 2009, MBDA helped generate $2.2 billion in contracts and helped create 3,858 new jobs. MBDA's performance far and away exceeds The Agency's FY 2009 goals of $900 million in contracts and 3,000 new jobs created.

MBDA works to match MBEs with contracting opportunities that fit each firm's profile and capabilities. This is accomplished through a number of ways but two of the more prominent are our Business-to-Business (B2B) Linkage Forums and our online Phoenix-Opportunity Database. MBDA hosts B2Bs throughout the year and across the country aimed at matching MBEs with both public and private contracts ready to be let. During the B2Bs, MBEs have an opportunity to meet one-on-one with interested contract officers from all levels of government and the private sector across industry sectors to examine the possibility of doing business together. For example, at this year's National Minority Enterprise Development Week Conference held last month

here in Washington, DC, MBDA presented more than $30 billion in public and private sector forecasted contract opportunities. Our B2B sessions also seek to match MBEs with prime contractors holding federal contracts looking for potential subcontractors.

The online Phoenix-Opportunity Database, which is linked to FedBizOpps, helps to match MBEs registered with MBDA to available public and private sector contracting opportunities. Using this system, MBEs input their profiles into the system accessible on the MBDA website (www.mbda.gov). Contracting officers throughout the Federal, state, and local Government as well private sector procurement officers can use this system to upload notices of their contract opportunities into the MBDA Opportunity database. The system then matches each contract opportunity with MBEs meeting the requirements of the solicitation. After a match is made, the system generates an e-mail notification to each of the matched minority companies. This notice will provide the MBEs with all of the relevant information including: name and contact information for the contracting officer, a brief description of the project, and the open/close dates. Another e-mail containing a list of the matched MBEs is sent to the contracting officer. Presently, MBDA has over 77,000 registered users of the system with over 14,000 opportunity companies including private sector, state, and federal organizations.

MBDA also works with MBEs to secure critical financing needed to grow and perform on awarded contracts. The lack of access to capital has long plagued MBEs and often inhibited their ability to compete for federal contracts. In January of 2010, MBDA released a report, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: the Troubling Reality of Capital Limitations Faced by MBEs.* This report accompanies my testimony as Attachment B. Some of the key findings of the report include:

1. Minority-owned firms are less likely to receive loans than non-minority owned firms regardless of firm size. According to an analysis of data from the Survey of Small Business Finances, for firms with gross receipts over $500,000, 52 percent of non-minority-owned firms received loans compared to 41 percent of minority-owned firms. [11]
2. When minority-owned firms do receive financing, it is for less money and at a higher interest rate than non-minority-owned firms regardless of the size of the firm. Minority-owned firms paid an average of 7.8 percent in interest rates for loans compared to 6.4 percent for non-minority-owned firms. Among firms with gross receipts under $500,000, minority-owned firms paid an average of 9.1 percent in interest rates compared to 6.9 percent for non-minority-owned firms. [12]
3. Minority-owned firms receive smaller equity investments than non-minority owned firms even when controlling for firm size, yet venture capital funds focused on investing in the minority business community are highly competitive. The average amount of new equity investments

[11] U.S. Department of Commerce, Minority Business Development Agency, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs* (2010)
[12] Ibid

in minority-owned firms receiving equity is 43 percent of the average of new equity investments in non-minority-owned firms. [13]

Federal construction contracts are a major source of revenue for many construction firms -- minority and non-minority alike. Capital in the form of surety bonds is required for federal construction contracts. However as credit markets tighten and minority-owned firms continue to face the barriers outlined above, obtaining the necessary bonding has become even more difficult for most and impossible for some. If an MBE cannot secure the requisite bonding, they lose contracts otherwise awarded on merit. MBDA has taken an aggressive approach on this issue. Last year MBDA was able to help MBEs access approximately $800 million in working capital, equity investments, and bonding. This year, MBDA is working on a Surety Bonding Initiative with a goal of identifying over $100 million in private capital through a public/private partnership and to eventually grow that capacity to over $1 billion over time.

On April 26th of this year, President Obama issued a memorandum establishing the Interagency Task Force on Federal Contracting Opportunities for Small Businesses[14] which MBDA, along with my colleagues on this panel, is a part of. The Task Force is charged with providing proposals and recommendations to the President to help ensure that small businesses, including businesses owned by minorities, women socially and economically disadvantaged individuals and service-disabled veterans, have fair access to federal contracting dollars. These recommendations included addressing the issues of contract bundling, strengthening small business subcontracting plans, and identifying ways to increase small business utilization in prime contracting. MBDA was honored to serve on this task force and we will continue to work with our federal colleagues to implement the recommendations put forth.

III. ARRA-related Activities

On February 17, 2009, the American Recovery and Reinvestment Act of 2009, Public Law 111-5 (ARRA), was signed into law by President Obama. This bill provided $787 billion in spending and tax cuts to stimulate the economy. Though MBDA did not receive any ARRA funds, the Agency continues to play an active role in facilitating ARRA procurement and grant opportunities for MBEs.

President Obama, Vice President Biden, and Commerce Secretary Gary Locke have all taken an intense interest in ARRA contracting opportunities. The President and the Vice President tasked the Department of Commerce (DOC), along with the Small Business Administration (SBA) with leading the government's effort to ensure minority-owned and small businesses have equal opportunities to participate in ARRA funding both at the federal and state levels. For its part, MBDA used its network of 46 centers to guide MBEs into the arena. We continue to provide our usual range of services in addition to now conducting numerous networking and educational outreach events across the country to bring together MBEs and agencies that have received ARRA funds on all levels of government. MBDA centers have conducted and/or participated in over 115 events reaching approximately 28,000 people with a majority being

[13] Ibid
[14] *See* 75 FR 22499 (April 29, 2010).

minority businesses and minority business stakeholders. Recognizing that a great deal of ARRA funding has gone to projects on state and local levels, MBDA regional offices and local centers have been working diligently to build relationships with relevant contracting officials on those levels in every state.

The efforts of MBDA centers to increase minority participation have yielded significant results. I would like to share an ARRA success story from one of our centers located in South Carolina. Brix Stone, LLC, an African-American-owned development firm based in Columbia, SC, sought and received matchmaking assistance from our South Carolina minority business center. With this assistance, Brix Stone was able to successfully enter into a mentor-protégé agreement with the City of Columbia and ultimately received a contract award worth $10 million in ARRA funds via the Columbia Housing Authority. As a result of this award 30 new jobs were created.

To expand our outreach efforts in support of ARRA, last year MBDA redirected $900K of its FY 2009 appropriation to fund augmentation grants to seven minority business centers. These included our centers in Philadelphia, Detroit, New Orleans, Mesa, Bismarck, Raleigh-Durham, and San Jose. The grants were generally used to hire expert consultants to provide advocacy, partnership development, networking, and other services to minority-owned firms specifically on ARRA opportunities.

In an effort to address concerns voiced over the lack of transparency in the procurement process, MBDA developed a customized suite of technology products to track federal prime and sub- recipient contract and grant data with emphasis on ARRA transactions. This unprecedented proprietary system, titled the MBDA National Tracking System (NTS), is the first Federal system of its type. It allows MBDA to track government contracts and grants obtained by MBEs at Federal, state and local levels. The MBDA NTS heeds the President's call for greater transparency and efficiency throughout government and DOC leadership's call for greater innovation.

IV. Conclusion

Looking ahead, I can assure this Subcommittee that MBDA will continue to take an active role in eliminating discriminatory and other barriers faced by MBEs and in facilitating equal economic opportunities for MBEs in the domestic and global marketplaces, including but not limited to federal procurements. MBDA to this end is creating a Government Contracting Unit under its Office of Business Development. This new unit will be comprised of experts in government contracting specifically focused on assisting minority-owned firms access federal, state and local contracting opportunities. We anticipate having this unit fully operational in the very near future.

In addition, on August 10, 2010, MBDA launched the Global Construction Program for Minority Contractors (GCP), together with the Tutor-Perini Corporation, the Department of Commerce's International Trade Administration (ITA), the University of Southern California, Ralph Moore & Associates and Next Level Diversity Consulting LLC. This historic public-private partnership is designed to assist MBEs navigate the international marketplace as it relates to competing for construction contracts. Through the GCP, three classes of 50 participants each will receive training tailored

specifically to contracting on international federal projects, thereby positioning them to successfully compete for construction contracts, including an estimated $1 billion (or more) in contract opportunities from the Tutor-Perini Corporation over the next four years.

As I mentioned at the onset of my testimony, MBDA has a mission of fostering the growth and global competitiveness of the nation's MBEs. Unlike the SBA, we work with MBEs of all sizes and not just MBEs that are deemed "small" under the applicable SBA size standards. Our goal is help create a new generation of MBEs capable of doing $100 million in revenue per year. If this goal is obtained, more MBEs would be capable of seeking federal dollars not as subcontractors, as so many are now, but as primes. However, even if there is only a ten percent increase in both the number of MBEs and the average number of employees per firm, we will have assisted in the creation of one million new jobs.[15]

MBEs are a critical part of this country's economic infrastructure and it is in federal contracting dollars that many will find avenues for growth and continued existence and future growth. MBDA looks forward to working with Congress to help create more entry points into the federal marketplace for MBEs. I would like to again thank Chairwoman Watson, Ranking Member Bilbray, and the entire subcommittee for allowing MBDA to appear before you today and look forward to answering any questions you may have.

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[15] Fairle, Robert, *Race and Entrepreneurial Success: Black-, Asian-, and White-Owned Businesses in the United States* (Cambridge, MA: MIT Press, 2008) at page 176.

List of Attachments

Attachment A: *The Compelling Interest for Race- and Gender Conscious Federal Contracting Programs: An Update to the May 23, 1996 Review of Barriers for Minority and Women-Owned Businesses*, along with a disk that contains all of the disparity and academic studies referenced in that document.

Attachment B: U.S. Department of Commerce, Minority Business Development Agency, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs* (2010).