BUILDING OPPORTUNITY: ADDRESSING THE FINANCIAL BARRIERS TO MINORITY- AND WOMEN-OWNED BUSINESSES' INVOLVEMENT IN INFRASTRUCTURE PROJECTS

VIRTUAL HEARING

BEFORE THE

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

SECOND SESSION

FEBRUARY 3, 2022

Printed for the use of the Committee on Financial Services

Serial No. 117–67

U.S. GOVERNMENT PUBLISHING OFFICE

47–105 PDF WASHINGTON : 2022

HOUSE COMMITTEE ON FINANCIAL SERVICES

MAXINE WATERS, California, *Chairwoman*

CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
ED PERLMUTTER, Colorado
JIM A. HIMES, Connecticut
BILL FOSTER, Illinois
JOYCE BEATTY, Ohio
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
AL LAWSON, Florida
MICHAEL SAN NICOLAS, Guam
CINDY AXNE, Iowa
SEAN CASTEN, Illinois
AYANNA PRESSLEY, Massachusetts
RITCHIE TORRES, New York
STEPHEN F. LYNCH, Massachusetts
ALMA ADAMS, North Carolina
RASHIDA TLAIB, Michigan
MADELEINE DEAN, Pennsylvania
ALEXANDRIA OCASIO-CORTEZ, New York
JESÚS "CHUY" GARCIA, Illinois
SYLVIA GARCIA, Texas
NIKEMA WILLIAMS, Georgia
JAKE AUCHINCLOSS, Massachusetts

PATRICK McHENRY, North Carolina, *Ranking Member*
FRANK D. LUCAS, Oklahoma
BILL POSEY, Florida
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
ANN WAGNER, Missouri
ANDY BARR, Kentucky
ROGER WILLIAMS, Texas
FRENCH HILL, Arkansas
TOM EMMER, Minnesota
LEE M. ZELDIN, New York
BARRY LOUDERMILK, Georgia
ALEXANDER X. MOONEY, West Virginia
WARREN DAVIDSON, Ohio
TED BUDD, North Carolina
DAVID KUSTOFF, Tennessee
TREY HOLLINGSWORTH, Indiana
ANTHONY GONZALEZ, Ohio
JOHN ROSE, Tennessee
BRYAN STEIL, Wisconsin
LANCE GOODEN, Texas
WILLIAM TIMMONS, South Carolina
VAN TAYLOR, Texas
PETE SESSIONS, Texas

CHARLA OUERTATANI, *Staff Director*

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

JOYCE BEATTY, Ohio, *Chairwoman*

AYANNA PRESSLEY, Massachusetts
STEPHEN F. LYNCH, Massachusetts
RASHIDA TLAIB, Michigan
MADELEINE DEAN, Pennsylvania
SYLVIA GARCIA, Texas, *Vice Chair*
NIKEMA WILLIAMS, Georgia
JAKE AUCHINCLOSS, Massachusetts

ANN WAGNER, Missouri, *Ranking Member*
FRANK D. LUCAS, Oklahoma
TED BUDD, North Carolina
ANTHONY GONZALEZ, Ohio, *Vice Ranking Member*
JOHN ROSE, Tennessee
LANCE GOODEN, Texas
WILLIAM TIMMONS, South Carolina

CONTENTS

BUILDING OPPORTUNITY: ADDRESSING THE FINANCIAL BARRIERS TO MINORITY- AND WOMEN-OWNED BUSINESSES' INVOLVEMENT IN INFRASTRUCTURE PROJECTS

Thursday, February 3, 2022

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DIVERSITY
AND INCLUSION,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC

The subcommittee met, pursuant to notice, at 10 a.m., via Webex, Hon. Joyce Beatty [chairwoman of the subcommittee] presiding.

Members present: Representatives Beatty, Pressley, Lynch, Tlaib, Dean, Garcia of Texas, Auchincloss; Wagner, Budd, Gonzalez of Ohio, Rose, and Timmons.

Ex officio present: Representative Waters.

Chairwoman BEATTY. The Subcommittee on Diversity and Inclusion will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Members are reminded to keep their video function on at all times, even when they are not being recognized by the Chair. Members are also reminded that they are responsible for muting and unmuting themselves, and to mute themselves after they finish speaking. The staff has been instructed to only mute Members and witnesses as appropriate, when not being recognized by the Chair, to avoid inadvertent background noise.

Members are reminded that all House rules relating to order and decorum apply to this remote hearing.

Today's hearing is entitled, "Building Opportunity: Addressing the Financial Barriers to Minority- and Women-Owned Businesses' Involvement in Infrastructure Projects."

I now recognize myself for 4 minutes to give an opening statement.

Today's hearing will highlight the key challenges and barriers faced by minority- and women-owned businesses of all sizes, including obtaining the capital and opportunity necessary to participate in large-scale Federal infrastructure projects, and what is needed to ensure that the mistakes of the past are not repeated and do not become the missed opportunities of the future.

After several years of celebrating fruitless Infrastructure Weeks during the previous Administration, I am now proud to say that the Biden Administration and Congress, led by Democrats in the House and Senate, passed historic investments in our nation's infrastructure last November. The bipartisan Infrastructure Investment and Jobs Act includes an additional $550 billion to rebuild our roads, bridges, and ports, and to ensure clean drinking water, expand access to high-speed Internet, improve our public transit systems, and address the climate crisis. And, yes, that is a lot that we have done.

According to the Economic Policy Institute, this law will create roughly—I want you to hear this—772,000 jobs per year, in addition to strengthening our supply chains, improving productivity, and reducing long-term inflation. We do say long-term inflation. That is why infrastructure spending has typically been a bipartisan issue, with widespread support from both sides of the aisle.

But for whatever reasons, that was not necessarily the case this time around. We are already witnessing announcements of infrastructure projects across this country as a direct result of passing this bill, even announcements by Members of Congress claiming credit for investments that they voted against.

The benefit of this historic law will be felt for generations to come, and numerous studies have shown that infrastructure yields up to 17 percent return on investment, on average, which is why we need to ensure that all Americans have the opportunity to share in this economic activity.

While Federal infrastructure projects of the past have increased economic growth, historically, they have come to cost Black and Brown communities their wealth. Fortunately, under the leadership of Chairwoman Waters, the Financial Services Committee Democrats worked to include several provisions in the infrastructure bill and the American Rescue Plan that will undeniably assist minority- and women-owned businesses' access to the capital necessary to complete these projects, including investments in State Small Business Credit Initiatives (SSBCIs) and the Minority Business Development Agency (MBDA), amongst others.

Even with these investments, the challenges associated with minority- and women-owned businesses accessing the capital required to be in on these infrastructure projects will not be solved overnight. Thus, the reason for this hearing, so we can hear from our experts.

Lastly, according to the Small Business Administration, just 1.7 percent of Federal contracts went to Black-owned small businesses, and 1.8 percent to Hispanic-owned small businesses. Historic lack of access to capital, delayed payments from contractors, and the lack of credit and insurance are all contributing factors to these dismal numbers.

Thus, thank you, Chairwoman Waters, for your leadership, and for also establishing the first-ever Diversity and Inclusion Subcommittee.

With that said, I am excited to hear from our experts in this hearing.

The Chair now recognizes the ranking member of the subcommittee, my friend from Missouri, Congresswoman Ann Wagner, for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman, for holding this hearing today, and I want to welcome and thank our witnesses for testifying about the obstacles that women- and minority-owned businesses face when it comes to accessing capital and financial services.

Small businesses make up 99 percent of all employers in the United States, employing some 61 million Americans, or almost half of our workforce. As our economy continues to recover from the pandemic, it is critical that Congress focus on policies that enable all businesses, regardless of race or gender, to open, grow, and thrive.

While not every business goes public, all businesses need access to capital, and private market exemptions provide a useful option for raising capital for many companies.

Fintech is also proving to be a new avenue to accessing capital that can be more efficient and less costly. This includes access to microfinance, which can be especially beneficial to small business owners and entrepreneurs who might have difficulty obtaining the funding from more traditional financial institutions to start or scale up their business. Fintechs have filled this gap, and according to Opportunity International, a nonprofit that offers microloans, microfinance offers the chance to, "focus more on marginalized people, people who are left behind, and we ensure that the excluded have access to responsible financial services."

Congress should continue to focus on finding ways to reduce the regulatory burdens to starting and growing a business, highlighting innovative solutions like those offered by fintech and microfinance, and encouraging startups that are working toward understanding the needs of underserved communities.

While this hearing is about access to capital and financial services, this subcommittee must also focus on permanent regulatory reforms to lift and strengthen minority- and women-owned businesses. These businesses benefit when we cut unnecessary costs and expand opportunities for investors to put their money to work.

Thank you, Madam Chairwoman, and I yield back the remainder of my time.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the Chair of the full Financial Services Committee, the gentlewoman from California, Chairwoman Maxine Waters, for 1 minute.

Chairwoman WATERS. Thank you so very much, Chairwoman Beatty. I am so pleased that you are holding this hearing. It is so timely, it is so important, and I thank you for your leadership.

President Biden's $1.2-trillion Infrastructure Investment and Jobs Act not only will repair our nation's crumbling roads and bridges but also presents an opportunity for minority- and women-owned small businesses. As we celebrate Black History Month, we must keep in mind that diversity and inclusion require intentionality. We saw with the initial rollout of the Paycheck Protection Program (PPP) that the big banks provided concierge access to their larger, majority-owned clients instead of providing fair access to all small businesses, and it required the members of this committee to end that practice.

I am interested in hearing from our witnesses on what needs to be done to ensure the Federal Government and the financial sector make available the resources necessary for minority- and women-owned firms to access the many Federal contracts in the infrastructure legislation.

I thank the witnesses for their testimony, and I yield back.

Chairwoman BEATTY. Thank you so much, Madam Chairwoman.

Today, we welcome the testimony of our distinguished witnesses: Mr. Farad Ali, President and CEO of Asociar; Ms. Tawanna Black, Founder and CEO of the Center for Economic Inclusion; Mr. Philip Gaskin, Vice President of Entrepreneurship at the Ewing Marion Kauffman Foundation; Ms. Ying McGuire, President and CEO of the National Minority Supplier Development Council; and Ms. Jeanette Quick, Head of Compliance and Public Policy at Gusto.

Witnesses are reminded that their oral testimony will be limited to 5 minutes. You should be able to see a timer on your screen that will indicate how much time you have left, and a chime will go off at the end of your time. I would ask that you be mindful of the timer, and quickly wrap up your testimony if you hear the chime, so that we can be respectful of both the witnesses' and the subcommittee members' time.

And without objection, your written statements will be made a part of the record.

Mr. Ali, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF FARAD ALI, PRESIDENT AND CEO, ASOCIAR LLC

Mr. ALI. Good morning, Chairwoman Beatty, Ranking Member Wagner, and members of the Diversity and Inclusion Subcommittee. My name is Farad Ali, and I am the President and CEO of Asociar.

Additionally, I represent the U.S. Black Chambers President's Circle and the Airport Minority Advisory Council on behalf of my group.

On behalf of Asociar and all of the Black businesses everywhere, I am honored to share my testimony with members of the subcommittee today on the myriad of issues that Black-, women-, and minority-owned businesses face when accessing capital contracts in infrastructure projects. Thank you for giving me the opportunity to participate in the hearing today.

Asociar was founded in 2012 and established as a valued partner working to provide technology solutions for various companies in IT services. For the past 10 years, we have been able to implement growth strategies for service delivery and supply chain solutions as a value-added supplier.

As a certified minority-owned business by the National Minority Supplier Development Council, and a certified Black-owned business by the U.S. Black Chambers, and a certified Historically Underutilized Business in Texas and North Carolina, we still face challenges in accessing opportunities for growth in the public and private marketplace.

Federal procurement has provided many Americans with opportunities to grow a business, hire employees, build wealth, and strengthen the economy in the communities where we live and work and serve. The Infrastructure Investment and Jobs Act is a once-in-a-generation opportunity to invest in critical projects throughout the nation. However, if we are to realize the long-term return on those investments, we must also understand that we must hire to do these projects in a way that is very intentional. This will require coordination and making sure that we are able to be transparent from Congress to address two key factors: access to capital; and access to contracts.

First, whether it is pouring concrete, replacing outdated pipes, or installing next-gen broadband and electric charging stations, many minority-owned firms will be blocked from bidding on these contracts because of a lack of capital, not a lack of capability. To address the barrier of capital access, financial institutions should be incentivized to create lending products that align with Federal procurement contract terms. This will improve cash flow management and alleviate credit risk.

Additionally, Congress should expand and increase funding to the Emergency Capital Investment Program through the U.S. Department of the Treasury. That is to help the Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to invest in these underserved communities, helping to build and investing in the funding and the programs which will be direct and create the effectiveness for these financial institutions that participate.

Second, to ensure that the Federal and State agencies awarding the contracts are able to identify qualified, capable firms of various sizes, there needs to be a formal alignment between agencies that serve minority- and woman-owned businesses, like the U.S Black Chambers, the National Minority Supplier Development Council, the Airport Minority Advisory Council, and the Conference of Minority Transportation Officials. As you know, much of this infrastructure bill is going towards DOT and FAA, and those are the organizations that can support their work. For decades, these organizations have facilitated increasing the capacity of thousands of diverse firms. They provide support for shovel-ready projects at the Federal, State, and municipal levels.

Third, to build marketplace capacity, Congress must strengthen policies that facilitate, measure, and report mentoring partnerships between larger government contractors and minority and women contractors. Historically, underutilized businesses risk falling into a cycle of underutilization. For example, to get contracts, you must show past performance. But if you have a chance as a buyer to choose between a vendor who has less performance or more performance, you are going to choose the one that has more performance. So, I think it is going to be critically important that we begin to work on strengthening mentor-protegee partnerships.

You have my written testimony before you, and in the interest of time, I would just like to follow up with the last three points.

Making racial disparity and racial wealth gap reductions is an economic imperative which benefits everyone, not just a social benefit directed at a select population. It is critical that we highlight business solutions that ensure utilization of women- and minority-owned firms, and I think there are three ways we can do this: promote lending products in line with Federal procurement contracts; incentivize coordination between agencies and minority-serving institutions; and incentivize measurement and subcontracting mentorship and lending with financial institutions.

Businesses build communities, and policies set the foundation for the growth and sustainability of business and community prosperity for everyone. If executed correctly, the Infrastructure Investment and Jobs Act can help transform minority businesses and communities and accelerate the nation towards long-term success.

Thank you for the opportunity to testify, and I look forward to answering any questions you may have. Thank you, Madam Chairwoman, and Madam Ranking Member.

[The prepared statement of Mr. Ali can be found on page 34 of the appendix.]

Chairwoman BEATTY. Thank you so much, Mr. Ali, for your testimony.

Ms. Black, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF TAWANNA BLACK, FOUNDER AND CEO, CENTER FOR ECONOMIC INCLUSION

Ms. BLACK. Thank you, Chairwoman Beatty, Chairwoman Waters, and members of the subcommittee. I appreciate and am honored for this opportunity to provide testimony today. I am Tawanna Black, the founder and CEO of the Center for Economic Inclusion. The Center is committed to closing racial employment, income, and wealth gaps by building racially inclusive and equitable regional economies. Founded in 2017, the Center is the nation's first organization dedicated exclusively to closing racial wealth gaps by partnering with employers and regional government agencies in order to build civic infrastructure and build the capacity of employers, both in the public and private sectors, in order to close racial wealth gaps and build racially equitable and inclusive workplaces.

In addition to working with the public sector and the private sector, the Center supports the work of employers throughout the Minneapolis-St. Paul region and the seven-county metropolitan area, as well as regions across the State of Minnesota and across the country.

Our economy right now requires diverse talent in high-demand, resilient industries with family-sustaining jobs. The economy of the future needs businesses that are resilient, businesses that can meet the growing supply chain needs, which will require that Black, Indigenous, Latinx, and Asian businesses and communities have improved access to capital, land, and homeownership opportunities.

Our organization is deeply committed to growing Black- and Brown-owned businesses, and I want to lift up both the challenges that our businesses face and the opportunities that our businesses provide toward creating jobs and wealth in our economy. The Center imagines an economic shift that can occur as we continue to invest in generational opportunities to address our country's infrastructure needs. However, this can only be accomplished if we address systemic barriers in contracting and the undercapitalization of minority- and women-owned businesses, particularly those faced by our Black- and Latina-owned businesses.

Black, Indigenous, Latinx, and Asian-owned businesses and communities carry the historical burdens of structural inequities that have been combined and added to throughout the COVID-19 pandemic to create powerful obstacles facing our businesses.

Nationally, more than 41 percent of Black-owned businesses, totaling 440,000 enterprises, have closed, compared to just 17 percent of White-owned businesses.

Minority-owned businesses grow at 3.5 times the rate of all Minnesota businesses, yet our inequitable access to capital is keeping our businesses from continuing to grow.

More than 8 in 10 Black employees and 7 in 10 Indigenous employees have filed for unemployment in our State; and we see that between 2000 and 2020, the wage gap between Black and White workers has continued to increase at a rate that our economy can no longer afford.

In Minnesota, we have a saying that we all do better when we all do better. This comes from former and late United States Senator Paul Wellstone. Today, we are not all doing better. At the Center, we believe that now is the time for us to invest in creating an inclusive economy that benefits all people. We project that achieving racial equity and inclusive growth leads to better economic participation and would generate close to $6,000 to $8,500 in annual per capita income. This economic activity would lead to greater opportunities for intergenerational wealth that benefits our entire economy and demonstrates the need and opportunity for both assessing and prioritizing inclusive policies and investments that accelerate economic growth and competitiveness.

I thank you, Chairwoman Beatty, Chairwoman Waters, and members of the subcommittee, for both your leadership and your time today. Together, we believe we can write a new story in our country's history, developing processes and investments for informing our infrastructure policies and investments possible to fuel our country's economic growth through the power of inclusion, equity, and belonging.

Thank you, and I yield back.

[The prepared statement of Ms. Black can be found on page 38 of the appendix.]

Chairwoman BEATTY. Thank you so much, Ms. Black, for your testimony.

Mr. Gaskin, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF PHILIP GASKIN, VICE PRESIDENT OF ENTREPRENEURSHIP, EWING MARION KAUFFMAN FOUNDATION

Mr. GASKIN. Thank you, Chairwoman Beatty, Ranking Member Wagner, and members of the subcommittee, for the opportunity to testify today.

Kauffman is a private, nonpartisan foundation based in Kansas City, Missouri, where I lead our work on entrepreneurship. While most of our work happens outside the Beltway, we are engaging Washington to bring half of our nation's potential entrepreneurs off the sidelines. This work is deeply personal. My family lived one block away from a ZIP Code with a better reputation. My dad would pick me up after school, and we would regularly go to a bank. One day I asked dad, “Why do we go to so many banks?” It turns out he was trying to get that first loan to open a chain of convenience stores. My dad’s barrier to entry was simple: He didn’t live in the right ZIP Code.

He had good credit, but he didn’t have credit experience. Four years later, a Black-owned bank gave him that loan which he used to open a successful convenience store in South Central Los Angeles. His success led to another loan and a second store. But even with that success, my dad continued to face barriers because of the color of his skin. His experience resembles the reality that many Americans still face.

Today, Black-owned businesses are twice as likely to be rejected for loans, start with 3 times less in overall capital, and 4 in 10 entrepreneurs of color are too discouraged to even try for a loan for fear that they won’t get it.

Even more alarming, of the $69 trillion in global assets under the 4 major asset classes, less than 1.3 percent is invested in firms owned by women, Black Americans, and other people of color.

America cannot afford to waste the energy and ideas of even one entrepreneur. Women and minorities represent the last great untapped asset class in America today, and we have no better opportunity to bring these entrepreneurs out of hiding than ensuring equal participation in rebuilding our infrastructure. Untapping this great American resource, our people, is something for which I see strong bipartisan support, but it will require that we address the capital access gap for underserved businesses who stand ready to meet the moment.

At Kauffman, we know the four keys to success: equitable access to opportunity; funding; knowledge; and support. These are the pillars of our America’s New Business Plan, a research-vetted policy platform this committee should consider. If our plan is the, “what,” we must not forget the, “who.” We all must champion the help of the locally trusted organizations, smaller, non-traditional lending partners, and institutions grounded in the historical and cultural implications of a community, including Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs).

In our own work, innovative capital solutions like AltCap and the Kansas City COVID-19 Relief and Recovery Loan Fund, and our Capital Access Lab, are proven models the committee should examine for replication for the entrepreneurs ready, willing, and able to rebuild America.

But capital alone is not enough. The knowledge gap needs to be addressed as well, ensuring that all can find these lending solutions or even the contracting opportunities rolling out across the country. In the who-do-you-know world of contracts, our research shows that new business owners simply do not know as many people. These challenges are also discussed in America’s New Business Plan.

The role of the Federal Government is critical in assisting these entrepreneurs. A thriving entrepreneurial landscape will require a robust public-private commitment towards change.

In closing, the Kauffman Foundation is not only an incubator or grantor, but we also conduct real-world research into what succeeds and what fails in entrepreneurship and capital access. Because of this, we would like to remain a resource to policymakers and members of the committee as a go-to partner for premier research, policy recommendations through America's New Business Plan, industry knowledge, and case studies on successful models of expanding opportunity to America's greatest untapped asset class.

Thank you, and I yield back.

[The prepared statement of Mr. Gaskin can be found on page 40 of the appendix.]

Chairwoman BEATTY. Thank you so much, Mr. Gaskin. And let me also thank you for sharing your family's story. It is very much appreciated.

Ms. McGuire, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF YING MCGUIRE, PRESIDENT AND CEO, NATIONAL MINORITY SUPPLIER DEVELOPMENT COUNCIL (NMSDC)

Ms. MCGUIRE. Thank you, Chairwoman Beatty, Ranking Member Wagner, Chairwoman Waters, and distinguished members of the Subcommittee on Diversity and Inclusion. Thank you so much for the opportunity to testify today.

My name is Ying McGuire, and I am the President and CEO of the National Minority Supplier Development Council (NMSDC). We believe every business deserves an unbiased chance. Our organization serves as a growth engine for minority-owned businesses, while enabling our 1,500 corporate members to advance economic equity. NMSDC-certified, minority-owned businesses have created $400 billion in economic output annually while generating $48 billion in tax revenue and 2.2 million jobs across the country.

Today's hearing comes as America is experiencing a widespread and long-overdue reckoning with systemic racial and gender injustices and inequalities.

Since taking office last year, the Biden-Harris Administration has made several important commitments to minorities to decrease the racial wealth gap. These include requiring 15 percent of all Federal contracts to go to small and disadvantaged businesses by 2025, releasing the SBA disaggregated racial and ethnic data on small business contractors, and making improvements to the category management system. These efforts are welcome, especially as we learn that the racial wealth gap continues to be a driver for change and a policy priority among business owners.

While there have been significant efforts made to address the racial wealth gap, more opportunities exist within contracting and procurement through the Federal Government. The bipartisan Infrastructure Investment and Jobs Act serves as a catalyst to meet this moment. With the passage of the infrastructure bill, Congress and the Biden Administration pledged that minority-owned businesses would be prioritized for Federal contracting opportunities and would not be left behind as infrastructure projects unfold across the country.

At a time when many minority-owned businesses find themselves in a long recovery period from the pandemic, it is absolutely critical that they are in the pipeline for procurement. Not only do Federal contracts help businesses, but they also create jobs and contribute to the recovery and stability of our communities.

In order to meet the moment, besides access to contracts, there are two other areas in which I believe this committee and the Administration can take action towards ensuring equitable recovery: one, continued emphasis and action towards ensuring that minorities have access to important financial and increased capital to start and grow their businesses; and two, the creation of a Minority Business Enterprise designation to equalize access to contract opportunities.

As members of this committee are well aware, access to capital remains one of the most significant issues for minority business owners. Small Business Administration (SBA) loans have been great instruments to assist small businesses with fiscal challenges during these difficult economic times. However, as a business owner, one never wants to take on more debt. A shift towards new access-to-capital models that do not add additional debt burden is needed in order for Minority Business Enterprises (MBEs) to be economic growth engines in underserved communities.

My recommendation for the creation of a Federal designation for Minority Business Enterprises is based on evidence that while there are existing designations for small and disadvantaged businesses, it is our experience that these historical designations have not addressed the wide institutional disparity of Federal contracts awarded to MBEs.

I have 28 seconds left. I applaud the work of the subcommittee, and I am committed, and our communities are committed to working with you on these issues. A friend once said, "Access to capital is a bridge; access to contracts is sustainability." Thank you, and I look forward to answering your questions.

[The prepared statement of Ms. McGuire can be found on page 55 of the appendix.]

Chairwoman BEATTY. Thank you so much for your testimony, Ms. McGuire, and you used your last 48 seconds well, so thank you so much.

And let me also say, thank you for what you are doing. Your predecessor, Adrian Crumble, also sat in that seat several years ago. So, thank you so much.

And now, Ms. Quick, you are recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF JEANETTE QUICK, HEAD OF COMPLIANCE AND PUBLIC POLICY, GUSTO

Ms. QUICK. Thank you.

First, I would like to thank Chairwoman Beatty, Ranking Member Wagner, and the distinguished members of the subcommittee, for holding this important hearing.

We have the shared goal of ensuring that women- and minority-owned businesses have equal access to capital and opportunities for growth.

My name is Jeanette Quick, and I am Head of Compliance and Public Policy at Gusto, a people platform that empowers small businesses nationwide.

On a personal note, small businesses are near and dear to my heart. My mother is a Vietnamese immigrant who owned an ice cream shop when I was growing up. I know firsthand how hard the work is of small business owners and how important capital can be to their success. And as a former staffer, I am thrilled to be on this side of the dais to be able to speak for the more than 200,000 small businesses and the millions of their employees that Gusto serves.

Gusto provides payroll, human resources, health benefits, and financial tools to small businesses across the country. Our work uniquely positions us to understand the needs of small businesses and how best to serve them during this challenging time.

Throughout the pandemic, Gusto has focused on ensuring that small businesses have access to capital. Gusto facilitated billions of dollars in Paycheck Protection Program (PPP) loans for our small businesses, and we are connected to more than 80 financial institutions, including CDFIs, to ensure that our customers have access to fair and responsible capital.

Gusto is also the Founder and Chair of the Small Business Relief Council, a cross-industry coalition of over 80 companies representing millions of small businesses. We are well-positioned to provide insight into small business financing challenges.

Gusto believes that a healthy small business ecosystem is one that is fair and inclusive for all businesses, including those owned by women and people of color. We support proposals that ensure equal access to the financial system and include access to Federal procurement and infrastructure projects.

My written remarks today include a longer discussion on obstacles that women- and minority-owned businesses face in starting and expanding their businesses, and policies that can help address these disparities.

According to Gusto data, action is needed now to help small businesses. Our data show that small business payroll reserves in hard-hit industries are tighter now than they were during the height of the early pandemic. Since the start of 2022, 26 percent of businesses, primarily in the personal services sector, have less than one month of payroll in reserves. That is up from 10 percent, when PPP funds first started to impact small businesses in 2020. Without any new Federal aid, small businesses have fewer resources and capacity to absorb future shocks.

Minority-owned businesses have historically experienced unequal access to capital. For example, White-owned startups began with more than 3 times the capital of Black-owned startups. Women- and minority-owned businesses persistently report having lower levels of access to financial institutions and, as was demonstrated during the pandemic, lack of relationships with traditional lenders led to lower access to PPP loans for these groups.

Our data show that the government can and should do a better job of outreach to these communities to ensure they have access to financial products and services that can meet the needs of their businesses. Gusto is encouraged that the subcommittee is considering legislation focused on providing equity funding to minority business owners through the Minority Business Development Agency (MBDA). These targeted funds, coupled with technical assistance and training from MBDA, will have an amplified impact on businesses and the communities they serve.

Gusto supports reforming the Small Business Administration (SBA) to better serve women- and minority-owned businesses. We urge the subcommittee to consider mechanisms to incentivize private lenders to enter the small business lending market, including by reducing barriers for SBA lender eligibility and reevaluating whether the SBA's lending programs are fair and inclusive, including whether the SBA or other lenders should continue to use criteria such as background checks, personal credit scores, collateral, or other information that has historically disfavored women and minority business owners.

This is an incredibly challenging time for our country and we can't lose sight of the fact that small businesses are the job creators and economic engine of our country. Despite the massive upheaval caused by the pandemic, we are seeing an increase in new business starts since 2020. Women, and particularly women of color, are jump-starting the recovery. Nearly half of businesses started by women in the past year are minority-owned. Our goal at Gusto is to create a world where work empowers better lives, and we owe it to all entrepreneurs to ensure that policies are in place to allow them not just to survive but also to thrive.

I thank you again for the opportunity to testify, and I welcome any questions you may have.

[The prepared statement of Ms. Quick can be found on page 58 of the appendix.]

Chairwoman BEATTY. Thank you so much, Ms. Quick, for your testimony. And let me also thank you for sharing your family's story, as well.

I now recognize myself for 5 minutes for questions. I am going to try to get through several questions, so if you could use brevity in your answers, I would appreciate it.

The first question is for you, Mr. Gaskin. I stress the importance of ensuring geographical diversity of venture capital investments in an effort to attract more investment and talented diverse opportunities across the country. In my first hearing, someone on the other side asked me if I would look at rural areas, and the answer is yes.

Can you speak to the impact of venture capital investment in places where it is not typical, as it is in Silicon Valley?

Mr. GASKIN. Thank you, yes. If we look at research showing that over 75 percent of all venture capital goes to fortified geographic areas, highly populated, what happens if you are an entrepreneur and you are in the middle of a State or you are in the middle of the country? Too many entrepreneurs are on the sidelines.

And I would say, of that funding, only just over 2 percent goes to African-American women-led firms, and just over 1 percent to African Americans, and it is lower for all of the others, which is unacceptable.

The role of CDFIs and MDIs is really important here, because they understand community and they understand the businesses that are in those communities and how to better support them and get money to them. So, I highly recommend that the role of CDFIs and MDIs is something that the committee can consider as they move forward. Thank you.

Chairwoman BEATTY. Thank you.

Mr. Ali, last Congress in the House, we passed bipartisan legislation that I introduced to codify a mentor/protege program at the Treasury Department, a new voluntary program that seeks to partner large financial institutions with small community and minority-owned banks.

In your testimony, you actually mentioned such a program. My question is, would you, as an expert, be willing to write a letter and to work with the Department of Transportation, since we know these dollars go through the U.S. Department of Transportation, and also work with the Department of Commerce? Because when you look at their Minority Business Development Agency (MBDA), which is there, they are responsible for a large number of dollars and programs. Tell us what you think about that and what impact it could have?

Mr. ALI. Yes, thank you so much. I like to think it is very important to understanding the capital, and the capacity building is important. So, having the capital be there with the Emergency Capital Improvement Plan is critical. As you had banks, for example, with the MDIs—JPMorgan partnering with Mechanics and Farmers Bank to build—and because, as we have heard from testimony from Mr. Gaskin, that provides some community awareness, allowing the capital to be deployed quicker.

MBDA having these centers where we are building capacity is also critically important. It allows for there to be connectivity between capital and capacity. I would love to work with that. I appreciate the MBDA. I have worked with them for 20 years, understanding their ability to build the capacity of minority businesses. But aligning those businesses with capital so they can get access to contracts is critical, because the contracts have requirements, and without capital you can't access those.

So, I would be honored to be a part of that. Thank you very much. I appreciate it.

Chairwoman BEATTY. Thank you.

And lastly, as we know, prior to the passage of the Infrastructure Investment and Jobs Act, Congress passed the American Rescue Plan, which authorized some $500 million for technical assistance and outreach to minority-owned small businesses through the State Small Business Credit Initiative.

Ms. Black, and Mr. Gaskin, do you believe it would be wise for States to leverage the State Small Business Credit Initiative to enable minority-, women-, and even rural-owned small businesses to compete with this flood of dollars that we have? And I am going to give you 20 seconds each.

Ms. BLACK. It is a simple answer: absolutely. It is critical that we leverage those networks and leverage those businesses in order to stimulate economic growth in the communities.

Chairwoman BEATTY. Well, we heard that from an expert. Okay.

Mr. Gaskin?

Mr. GASKIN. Absolutely. When you have 83 percent of entrepreneurs who can't get a bank loan or venture capital at the time of starting a business, we have to get money to them and find them in communities, especially in rural America.

Chairwoman BEATTY. Ms. McGuire?

Ms. MCGUIRE. Absolutely. The government agencies like MBDA need to partner with private sector and community partners.

Chairwoman BEATTY. I have 1 second, for the last witness.

I'm sorry, my time is up, so I yield back.

And I now recognize the gentlewoman from Missouri, our ranking member, Mrs. Wagner, for 5 minutes.

Mrs. WAGNER. I thank my friend, the chairwoman of this subcommittee.

Small businesses are responsible for employing almost half of the workforce in America today. Ms. Quick, could you please provide insight on why companies like Gusto and other fintechs offer crucial resources to companies that lack the capital to hire in-house legal or finance or HR services that most large businesses can afford? Ms. Quick?

Ms. QUICK. Thank you for the question. Gusto helps small business owners bridge the gap to transition to a comprehensive company. Our comprehensive services, which span payroll, human resources, health benefits, and financial health benefits, help small businesses scale and manage their growing business.

Gusto offers a suite of financial products called Gusto Wallet, which is available to employees and employers who use Gusto Payroll. These products include cash accounts where employees can put savings, and another product called Gusto Cashout. These products help promote financial health and wellness by putting the user in control of their paycheck and avoiding high-cost, often predatory small-dollar lending products.

We believe that fintechs and other non-bank lenders have the ability to expand access to credit for small businesses in underserved communities. Businesses disproportionately obtained PPP loans from business lenders who often use automated underwriting systems to approve loans. These automated underwriting systems improved approval rates for Black borrowers who sought loans at both fintechs and traditional banks.

Through our platform and products, Gusto has deep expertise in understanding the financial help of small businesses and the challenges they face in accessing capital and financial services. This understanding became stronger as we assisted our small business customers through PPP and other COVID assistance programs.

Fintechs are able to respond faster and enter underserved markets more efficiently than some traditional financial institutions. We view fintechs as a value-added in the financial ecosystem. Both fintechs and traditional players are important, but we know fintechs are a great addition, based on our customer experience.

Mrs. WAGNER. Okay. Ms. Quick, do you believe that the services you provide to these small and micro businesses have helped new firms, for instance, survive?

Ms. QUICK. Yes, we do.

Mrs. WAGNER. Ms. Quick, the Consumer Price Index increased 7 percent over the last 12 months, a record increase that is hurting both businesses and consumers alike. Could you please expand on the importance of artificial intelligence (AI) and other fintech software that can quickly respond to market conditions and provide capital to small businesses and startups?

Ms. QUICK. Great question. As I mentioned, fintech software providers are able to respond quickly and more efficiently to changes in the marketplace, often through automated underwriting and taking into account market conditions in real time.

Mrs. WAGNER. Also, Ms. Quick, Gusto advertises their ability to help small companies and businesses with everything from payroll runs to filing your taxes at the local and State and Federal levels, as well as day-to-day employee management. Have you seen the positive impact of crowdfunding on small businesses?

Ms. QUICK. We support equal and fair access to capital for small businesses, whether it is needed for start-up funds or growth. Gusto doesn't have specific data on whether our customers use crowdfunding as a source of financing. We have focused on lending partnerships, but we certainly support any means of accessing capital and growing businesses.

Mrs. WAGNER. Do you believe crowdfunding is a reliable and essential part of raising capital at all stages of small businesses or startups?

Ms. QUICK. Yes. We believe crowdfunding can be helpful to starting businesses.

Mrs. WAGNER. Great, thank you.

I will yield back my time, Madam Chairwoman.

Chairwoman BEATTY. Thank you so much, Ranking Member Wagner.

I now recognize the Chair of the full Financial Services Committee, the gentlewoman from California, Chairwoman Maxine Waters, for 5 minutes.

Chairwoman WATERS. Thank you so much again, Chairwoman Beatty.

I would like to direct my first question to Mr. Gaskin. I did not know that you were in California and the Los Angeles area. But I want to know whether or not you are aware of the $12 billion that Senator Warner and I put together for CDFIs and MDIs, and that $1.25 billion has been allocated already. Mr. Gaskin, are you aware of that?

Mr. GASKIN. Yes, we are aware of that, and also doing our CDFI work here in Kansas City, so I appreciate greatly what you are doing. Thank you.

Chairwoman WATERS. Okay. Thank you very much, because one of the things that I believe in is that we have to do more to help our small businesses know about CDFIs, MDIs, and the resources that we are allocating to them so that they can have access to these funds.

Mr. GASKIN. Yes.

Chairwoman WATERS. Also, I would like to know whether or not you understand the work that Chairwoman Beatty and all of us did on this Financial Services Committee with PPP? When the big banks basically took care of their concierge clients, we quickly put another $60 billion in and gave a timeframe to get it out. And, of course, MDIs did very well, and CDFIs, in getting that money out. So, it is a new day in this committee. This committee understands the value of CDFIs and MDIs and access to capital, and we work very hard.

Now, I would like to know more about incubators. I believe that we need a lot of incubators. Chairwoman Beatty and I would like to work on funding incubators so that we can have the resources for small businesses to learn a lot that they need to know in order to be successful, the insurance and paying the taxes and the projections and all of that.

What do you think about an effort to multiply incubators in this country?

Mr. GASKIN. Thank you, and I agree. As I mentioned in our testimony, in our America's New Business Plan, we lay out the pillars of funding: knowledge; support; and opportunity. And in those are opportunities and suggestions that relate to those types of supports. A lot of our grant-making has been to what we call entrepreneurial support organizations, which have included incubators that help entrepreneurs overcome these barriers of startup, ranging from knowledge to connections to tools to—

Chairwoman WATERS. Do you think that Chairwoman Beatty and I should try and put together direct funding of some kind to develop more incubators?

Mr. GASKIN. Yes. In communities, especially in rural communities where entrepreneurs may not have access to a larger city, I think that would be helpful.

Chairwoman WATERS. Okay. Now, what Chairwoman Beatty is focused on today with infrastructure, we know that the money is going out to the cities and the counties and the States and all of that, and what I have discovered is we don't have enough—many of our small businesses that are involved in pre-bid conferences to understand what the opportunities are for contracting. What can we do about getting that information out? You have to be in the pre-bid conference.

Mr. GASKIN. Exactly. Contracts, as I mentioned in my comments, are very, very important. One of the things, whether it is incubators or accelerators, can do is communicate those out. Starting in the communities and asking the questions and looking at, what do the communities need, what do the people need, and getting an understanding of the ecosystem of communities and really listening block by block to what the entrepreneurs and business owners need will help in that area.

Chairwoman WATERS. I want to thank you very much. I have taken up most of your time. But I do want you to talk with Chairwoman Beatty further, and all of you, about what we can do to empower our small businesses and get them in the pre-bid conferences, get the incubators spread out so that they can help these small businesses, and we are working on the big banks, and we are seeing some progress there.

Thank you, Chairwoman Beatty, for allowing me this time. Thank you.

Chairwoman BEATTY. Thank you so much, Madam Chairwoman, and thank you for directing us in our future direction.

The gentleman from the great State of Ohio, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. It's a great State, indeed. Thank you, Madam Chairwoman.

Chairwoman BEATTY. I just have to add, "Go Bengals," to that.

Mr. GONZALEZ OF OHIO. I struggle with that as a Clevelander, but I am going to pull for them for Joe Burrow's sake.

But in any event, this is a great hearing. As many of you know, for the last 3 years I have been focused on, how do we extend more affordable credit and capital to all Americans, but knowing in particular that it is oftentimes our minority- and women-owned businesses that struggle the most with this. So, I think this is timely, especially in the context of the broader contracting issues that we are talking about.

Ms. Quick, I want to start with you. You have, obviously, the payroll product and a wallet product that is for employees, and I am curious why, from what I can tell, you don't have an actual loan product? I wonder why, because it strikes me that with payroll data and wallet-level data, your company is uniquely positioned to extend credit, or maybe go in that direction.

I would love to just hear your thoughts as to why that is not a place where you all have gone to this point.

Ms. QUICK. Thank you for your question. We do have Gusto Cashout, which is a lending product that is based on estimated earned wages. It enables consumers who are on the platform to be able to access credit for no or low cost and—

Mr. GONZALEZ OF OHIO. Can I interrupt you quickly on that? Does that product help them build credit or their credit scores? Does that data ultimately filter back to the rating agencies, or is that just siloed inside of Gusto?

Ms. QUICK. We are currently not reporting it to the credit system, but we are thinking about ways to continue to expand our product mix to help individuals build credit.

Mr. GONZALEZ OF OHIO. Anything beyond the earned wage access products, like personal loans or anything like that? Or have you all just specifically avoided that, for any particular reason?

Ms. QUICK. Yes. We have partnered with institutions that offer small business loans. As I mentioned in my testimony, we are connected to more than 80 financial institutions that offer small business financing products, including a number of CDFIs. We have partnered with Opportunity Fund and Pacific Community Ventures in our home State of California, and we are continuing to look at other ways to partner with CDFIs as well.

Mr. GONZALEZ OF OHIO. Thank you. It is my understanding of these products—I don't have the specific data around yours, but I believe it is a pretty strong way to help folks build credit who maybe are outside of the credit system today. I would encourage you to continue looking at that, because obviously, we want as many people to have access to affordable credit as humanly possible.

Mr. Ali, I am going to shift to you for a second. I think your suggestion around mentorship programs and subcontracting to give MWBEs more opportunities and then to help them navigate the sometimes difficult bidding process makes a ton of sense. When I talk to some of these firms back home, they feel like they, for one reason or another, cannot or are excluded from being able to bid appropriately.

You mentioned providing incentives for larger, more experienced firms to offer these mentorships. What sort of incentives did you have in mind? Maybe just drill down, if you could be very specific about what you are thinking? I think that would be helpful.

Mr. ALI. Thank you for the question, Representative Gonzalez. I think it is important to understand that the connectedness is really how people get business done. People do business with people they know, people they like, and people they trust. And to have the ability to do that in an environment where we face difficulties has not been easy.

I think specifically to have the larger businesses recognize connectedness through some of these minority business organizations, like the U.S. Black Chamber or the NMSDC or AMAT, to say we are looking for clients that we can help mentor and grow and develop, because we understand that would also build community. And by providing incentives in the scoring as they are gaining contracts to make sure they are utilizing these diverse businesses, and then measuring the impact of those minority businesses on what they are doing in their community by hiring and giving back.

Mr. GONZALEZ OF OHIO. I only have 30 seconds, but I really think this is an area that we should explore because your point around connectedness is absolutely right. For those people who come from either a connected family or have the right pedigree and background, accessing capital, accessing opportunities, and getting bids, is easy. It is one of the easiest things they can do. It is one of the best advantages they have. For those who are outside of that system, it can be an enormous challenge, and it feels impossible in many respects.

So, I think that is a great idea, and I look forward to exploring it more with you.

Chairwoman BEATTY. Thank you.

The gentleman from Massachusetts, Mr. Lynch, is now recognized for 5 minutes.

Mr. LYNCH. Thank you, Madam Chairwoman. Thanks for holding this hearing.

I have a background in construction management; that is what my Bachelor's degree is in. I spent 20 years as an ironworker, and I am the former president of the Ironworkers Union in Boston. And I have to tell you that in a lot of this work, the contracting process and the bidding process is really—it comes down to a secret handshake. Oftentimes, there is a preferred bid list and there is a process that is very difficult for a small firm or a new firm to break through. We did have some success on the Defense bill a few years ago. We ran into the same problem that we are talking about with the infrastructure bill, which is that firms that were known, that were reliable, that had good safety records, and that had been through the process were readily recognized and successful in the bidding process, but newer firms and smaller firms were shut out of the process.

What Raytheon did—that is the big firm in my area on the Defense side—is they did a workshop. They brought in all of these small, women- and minority-owned businesses and did a workshop on how to bid in this process, and I think that would be enormously helpful. Because of the size, the dollar numbers on some of these big contracts coming out on infrastructure, you really have to try at the subcontractor level and bring people into the process. It really is complicated, it is difficult, and unless we make affirmative steps to educate people and help them become part of the process, they are going to stay on the outside, and we are just going to have this small number of contractors enjoying the benefits of this progress, and it is going to be less competitive.

Those smaller firms—we saw this on the Defense side. The smaller firms bring the innovation and they bring the price down. Mr. Gaskin, or Mr. Ali, are we doing any of that, doing any workshops for women- and minority-owned businesses to educate them on how this process works?

Mr. GASKIN. Thank you, and I support your comments. This goes back to the connection and the understanding of community and the entrepreneurs and business owners in communities and local institutions like CDFIs, MDIs or others. They have access. They have the pulse of the community. They have been doing loans or microloans or other transactions with folks in the community. So, convening is very important because this is about equal access to opportunity and support and knowledge that we mention in America's New Business Plan, absolutely.

You start at the community level and hold forums or have local folks invite local folks and come in. Because otherwise, as I said in my comments, people are hiding in plain sight.

Mr. ALI. And I would just edify those comments. If you are not intentionally inclusive, you become intentionally exclusive. The work needs to be clear.

And also, it is not only around providing education; it is that connectedness of really not being a mentor but a sponsor. So, when you have a corporation or a company that is bigger than a minority-owned business that says, I am going to sponsor you, that means they are investing in you, they want you to be successful. So, they become not just mentors but coaches, and coaches want to win. If they win with the right team members, they continue to provide them the success that they need, which means that they give them their connectedness, they help them with their capital, and they help them with their capacity-building.

I think you can't just be teaching, because that becomes really apathetic because you are doing it out of whatever galvanized guilt you have. But when you say, I am going to take you in and build you, that is a different kind of conversation. Thank you.

Mr. LYNCH. I appreciate that, and it is building that relationship and that familiarity with the process that will lead to our success. There are examples of that happening, but unfortunately they are more rare than we would like. I am just trying to figure out a way to plug these smaller, minority- and women-owned businesses into the process so that they build those relationships and they have that opportunity.

But I thank you, and, Madam Chairwoman, I thank you for holding this hearing, and I yield back. Thank you.

Chairwoman BEATTY. Thank you so much, Mr. Lynch.

The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairwoman Beatty, and thanks to Ranking Member Wagner for holding this hearing.

I also wanted to thank our witnesses for being with us this morning.

One of the successes of our pandemic response was no doubt the Paycheck Protection Program (PPP), which had significantly less fraud, as we have learned, or appears to have had significantly less fraud than the Economic Injury Disaster Loan (EIDL) program. According to the Small Business Administration's Office of Inspector General, the PPP had approximately $4.6 billion in potentially fraudulent activity, compared to $80-plus billion in the EIDL program, although the PPP distributed exponentially more money.

The PPP sent funds through the banking system, as we all know, while the EIDL program relied on the SBA as a direct lender. To quote from a statement by the Tennessee Bankers Association, "The highlight for the SBA has been the PPP, which would have been an abject failure without the banking industry successfully executing the program. SBA has tried direct lending before and failed time and time again."

Ms. Quick, in your testimony you recommend streamlining the SBA loan application process to encourage more banks to participate in the SBA's lending programs. Could you also speak about the benefits of having SBA loans go through the banking system rather than relying on the SBA as a direct lender?

Ms. QUICK. Yes. Thank you for this question. As you mentioned, the banking system was successful in getting billions and billions of dollars out for PPP. We believe that the PPP loans were successful in helping thousands of small businesses to continue to pay their employees, and we are supportive of any kind of initiatives for both access to capital through the SBA or through additional private lenders in the system.

As I mentioned, we believe that fintechs and other non-bank lenders do have the ability to extend access to credit for small businesses in underserved communities. We also believe that traditional financial institutions have the ability to help better serve small businesses, as well. Some of the feedback that we have gotten from our Small Business Relief Council that we run has mentioned to us that small business lending is currently very difficult, either through the SBA or as a private company, and there are a lot of barriers to providing services to small businesses.

We recommend that both the private and public sectors consider looking at alternative data to underwrite small business lending and be able to open that credit box for all small businesses.

Mr. ROSE. Thinking about the experience we have just had with PPP and the financial institutions, what can we do now to ensure that financial institutions remain an essential part of providing loans and liquidity to support businesses and communities, and particularly in times of economic stress?

Ms. QUICK. I think we can encourage both lenders, the private lenders as well as the Small Business Administration, to look at alternative data, as I mentioned. I touched on the fact that many small businesses need to present personal credit scores, collateral, a track record of length of time in business, and that can be a challenge, particularly for women- and minority-owned businesses.

We also think there is more we can do to provide financial education for small businesses. As we know, there are currently multiple avenues for small business resources through MBDA and SBA, but many businesses don't know about them. So, I think there is really an opportunity to make sure that these resources are more visible to small businesses and that education is increased to let businesses know what kinds of things they can access in the financial system.

Mr. ROSE. Thank you.

In the few moments that I have left, you are no doubt aware of CFPB's Section 1071 proposed rulemaking, and I am wondering, without laying the predicate for that, could you talk about what the negative impacts are of increasing costs of credit for small businesses that would likely accompany that rule being implemented?

Ms. QUICK. Gusto is committed to transparency, and we support policies that can bring greater understanding of the small business credit market. We know from research that women- and minority-owned business credit applications are worse than White-owned businesses, resulting in lower access to capital for those groups.

We do think it is essential to understand what is occurring in the market and to try to discern the reasons why underserved businesses face barriers when trying to obtain credit, and that the overall goal is to bring greater equity and fairness to small business lending and create a better ecosystem for small businesses.

Mr. ROSE. Thank you.

I see my time has expired, Chairwoman Beatty, so I yield back.

Chairwoman BEATTY. Thank you so much.

I now recognize the gentlewoman from Massachusetts, Ms. Pressley, for 5 minutes. Oh, and before you start, happy birthday to you.

Ms. PRESSLEY. Oh, thank you so much, Madam Chairwoman. This is a wonderful way to start my day off. Thank you so much for your leadership, and thank you to our State panelists for helping us tackle this critically important issue.

As has been stated and we know, but it bears repeating, for too long, our traditional infrastructure investments and policies have really exacerbated inequities and disparities in our communities. In fact, the 1956 Interstate Highway Act, which created the cross-country system of freeways that we rely on every day, resulted in the displacement of more than 1 million people and more than 475,000 families in just 2 decades. These highways cut through our neighborhoods, they darkened pedestrian routes, they worsened air quality, and they massively diminished property values. Predominantly Black, Brown, Indigenous and low-income communities lost churches, we lost green space, and entire swaths of homes. Our communities lost access to jobs and other critical resources, divestment that to this very day contributes to the racial wealth gap in our nation.

Ms. McGuire, what role does taking on debt play in serving as a barrier for minority-owned businesses in this space?

Ms. MCGUIRE. Thank you for the great question. As I shared earlier, as a business owner, we don't want to take on more loan debt.

The critical key to success is to allow and give access to equity capital and government capital, enable them to grow.

Ms. PRESSLEY. Very good. And can you just expound upon that a little bit more as to what are some alternatives to loans that will help minority-owned businesses acquire the capital in order to be competitive for these contracts that we have been historically locked out of?

Ms. MCGUIRE. Absolutely. One thing is we can partner with some of the large financial institutions, and many of them are corporate members. Their vital critical stakeholders can really extend funding opportunities and really a lifeline to these minority-owned small businesses. All of them made a commitment to racial equity. We talk about the racial wealth gap, and all of them made a racial equity commitment to provide funding for infrastructure contracts, and this can be accomplished by using the racial equity commitment and associated funding to guarantee loans for MBE required to secure the contract.

One example, a very actionable example, is to create a Letter of Intent or Memorandum of Understanding (MOU) which states that if an MBE wins a contract, we will guarantee a loan to cover 100 days of payroll. That is one example.

The other thing is not just about access. It is the burden of getting the capital. The underwriting criteria should be evaluated, and many small MWBE just don't have the financial acumen to receive the loans, equity, and capital from different sources. So, helping MWBE understand the requirement and create a path to success would be ideal.

The other thing that Mr. Ali and other people have talked about is the connection. People don't have a relationship or the knowledge to gain access to capital, so how do we, the government and a community organization like us, become a matchmaker to connect our underserved communities with sources of capital out there?

One of the ways to do it is through technology enablement.

Ms. PRESSLEY. Thank you, Ms. McGuire. I will let you go on. Go on, please.

Ms. MCGUIRE. What if we have a pool that has all sources of capital out there and intelligently match with the small, minority- and woman-owned businesses who otherwise never had the access or relationship? That can be easily created with AI, with today's technology advancement. Thank you for the question.

Ms. PRESSLEY. No, absolutely. And I think it just goes to show that this is about intention, and the will, and the solutions are available to us.

And on the technical assistance side, as you talk about the barriers in terms of relationships and access and acumen and why mentorship is so important and that we are intentional in our laws to support that, many of the folks that I hear from back in my district in Massachusetts, in my congressional district, just don't have extra revenue lying around to hire expensive consultants and accountants to prepare applications, so many are worried that they simply won't be ready.

But again, thank you so much. At the end of the day, infrastructure, in its development and implementation, has the potential to divide or to bridge, to enforce oppression or to dismantle it, and we have to learn the lessons of the past and chart a better course. Thank you.

Chairwoman BEATTY. Thank you so very much.

The Chair now recognizes the gentleman from South Carolina, Mr. Timmons, for 5 minutes.

Mr. TIMMONS. Thank you, Madam Chairwoman.

Ms. Quick, I want to follow up on Congresswoman Wagner's question about crowdfunding. I think there is a lot of potential in this space for women and minority startups to access capital. We have all seen the statistics about why these demographic groups have a harder time accessing institutional investors, be it pattern matching or whatever else. Crowdfunding seems to me to have a lot of potential in our efforts to create a more inclusive economy.

In that same vein, I introduced legislation last year which would allow small businesses to more easily access venture capital. My bill, the Improving Capital Allocation for Newcomers (ICAN) Act, would codify the recommendations from the SEC's Small Business Capital Formation Advisory Committee by increasing the cap on the aggregate amount of capital contributions and uncalled commitment capital from $10 million to $150 million, and also by increasing the allowable number of investors or beneficial owners from 250 to 600 for qualifying venture capital funds.

Chair Gensler has yet to act on these recommendations made to him, so we introduced this bill. He seems to be more interested in making life difficult for investors with more bureaucratic hurdles than anything else. He does not seem to have any capital formation agenda at all. I hope my colleagues will support this bill. I know it would certainly be a huge help to women- and minority-owned startups and small businesses.

Ms. Quick, could you speak to this proposal and how it could help entrepreneurs access additional capital?

Ms. QUICK. Yes. We are supportive of proposals to help expand all options for small businesses to grow. We think capital is important. We don't have particular data on crowdfunding, per se, but we would love to work with your office to further understand the proposal and to help think about additional small business capital options.

We also support education and mentorship programs to help inform business owners of different financing options and making sure that there are sufficient protections and risks and benefits considered in thinking about other forms of capital for small businesses.

Mr. TIMMONS. Sure, thank you for that.

One in six women have experienced domestic abuse, and 99 percent of women who have experienced domestic violence have also encountered financial abuse. This often includes the abuser taking out loans under the survivor's name to ruin their credit score. This was something I saw as a domestic violence prosecutor before I served in Congress.

Ms. Quick, again, is there a way fintech could support these women and their desire to become entrepreneurs and overcome challenges with their credit scores?

Ms. QUICK. Yes. I believe that fintech has the possibility and opportunity to help these women who may be experiencing issues with credit scores. As I mentioned in my testimony, credit scores have been problematic for many different groups, including the women that you mentioned, as well as minorities, and we do think there are opportunities for fintechs to use alternative data in their underwriting to help provide better financial services to women and to all individuals.

Mr. TIMMONS. Sure, thank you for that as well.

Another problem facing employers and entrepreneurs of all shapes and sizes is the current labor shortage we are experiencing, but the problem is felt much more sharply for small businesses where the loss of even a single employee can truly handicap an operation.

What type of resources can your company and other fintechs offer to folks who may not have the abilities or tools that come with a larger business?

Ms. QUICK. Gusto provides a number of services to the smallest businesses and to larger businesses. We help all of them manage their payroll, human resources, taxes, health insurance, and financial health benefits, and help them grow and scale their businesses. We really consider ourselves to be a partner to these businesses in their day-to-day business experience. We believe in creating a world where work empowers a better life, and we think that both ourselves and other fintechs and other companies have the ability to help small businesses scale and grow, and it is very important for the economy.

Mr. TIMMONS. Sure, thank you for that.

Just for your awareness, I own Swamp Rabbit CrossFit, and Soul Yoga, in Greenville, South Carolina, and we are actually a customer of yours, so I appreciate all the good work you are doing. Thank you.

Madam Chairwoman, I yield back.

Chairwoman BEATTY. Thank you so much.

The Chair recognizes the gentlewoman from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you, Madam Chairwoman. I appreciate so much that we continue to be so laser-focused on making sure that we have a seat at the table and that implementation is really the heart of how to make sure that we all have access. Thank you so much.

According to research conducted by our own Federal Reserve, business owners of color report having reduced access to traditional capital from banks and credit unions. In addition, their analysis also found that creditworthy Black-owned businesses experienced greater challenges raising capital than other counterparts.

We know that this lack of access—we have heard it over and over again as Members of Congress—to traditional capital has made it incredibly difficult for women and minority entrepreneurs to stand up and grow their business, and the Federal Reserve has found that in almost every financing category, be it loans, credit cards, outside investors, or grants, people of color entrepreneurs were the least likely to receive full funding.

So, I am incredibly concerned with how these barriers to capital are affecting the implementation of many of our Federal programs and the distribution of Federal dollars, whether it be the emergency Paycheck Protection Program funding or access to Federal contracting opportunities, and the bipartisan infrastructure law.

Ms. Black, Mr. Ali, would public banking help the administration of programs like the Paycheck Protection Program be faster and more effective, as well as accessible, to minority-owned businesses?

Ms. BLACK. Thank you so much for that question. I would echo the comments that you offered. I would also offer another statistic coming from the Federal Reserve Bank's Small Business Credit Survey, which noted that Black-owned business application rates for new funding are higher than that of their White counterparts, yet approval in terms of the amounts that are approved for them continues to be lower. And while I do think that public banking is a tool that we have, we also have the opportunity to continue to invest in community resources like key revenue-based financing, forgivable loans, to help address some of the opportunities that have been elevated by you and by your peers earlier in the questioning, and opportunities for equity investments.

The more that we continue to see those dollars come directly into communities that are trusted sources by our Black and Brown business owners, the more we are going to accelerate regional inclusive economic job growth.

Ms. TLAIB. Mr. Ali?

Mr. ALI. Yes, thank you very much for the question. I think it is important to recognize the impact that we have seen that minority institutions have done because of their ability to understand what is going on, on each block, as Mr. Gaskin indicated. I think it is important to do both. If public financing is going to support, it should probably be more around the equity space of investing in businesses, much like we do with Small Business Innovation Research (SBIR) and other groups, to share in the prosperity of businesses, because ultimately, when businesses prosper, they end up paying taxes anyway.

How do we make sure that we can invest in these businesses in a way that will help them to grow? First, understanding that minority- and women-owned firms are not all small businesses. We do have businesses that exceed $10 million, $50 million, $100 million, that are still suffering, not having the opportunity to access enough capital for them to grow and to make the impact that they are making. And remembering that a lot of these businesses also are hiring people who act and look more like them, or are gender-specific, so, we see that women-owned businesses hire more women employees, and we also see that diverse businesses, Black businesses hire more Black people, more Asian, more Hispanic.

Ms. TLAIB. I have seen it in my own community. I do want you, Ms. Black, and Mr. Ali, to know that public banking for me is really going to be one of those things in the toolbox. I know we will combat some of the things that traditional banks are just not going to do. It is overwhelming how much we educate, tell people about various opportunities, but they continue to get denied. I know it is going to be effective in increasing access to Federal contracting opportunities for minority-owned businesses and expand access to credit for so many folks.

I think everyone on the panel knows that the PPP was specifically designed to assist businesses that were hit the hardest. Yet, according to the National Bureau of Economic Research, minority businesses were less likely to receive those loans. Many of the members of the Congressional Black Caucus tried to address it in the second round, but I know that the Federal Reserve Bank of New York found that counties, including Wayne County, Michigan, which I represent, with a higher concentration of Black businesses, saw the lowest rates of PPP allocation.

The inequities, as you all know, aren't new. I am worried that if we are not deliberate in empowering MWBEs in the implementation of the bipartisan infrastructure law, we risk making that racial wealth divide worse. Again, I want to reiterate a push to come up with an alternative to traditional banks.

Thank you, Madam Chairwoman, and I yield back.

Chairwoman BEATTY. Thank you so much, Ms. Tlaib.

The gentlewoman from Pennsylvania, Ms. Dean, is now recognized for 5 minutes.

Ms. DEAN. Thank you, Chairwoman Beatty, and thank you to all of our witnesses for your testimony today.

As has been discussed at length here today, we cannot improve minority- and women-owned businesses' access to Federal contracts without addressing the fundamental issue of access to capital.

When I talk to minority- and women-owned businesses in my own district, in suburban Philadelphia, one of the most common things I hear is how difficult it is to access capital, and as you all know, especially adequate startup capital. A sad statistic in Philadelphia, which is adjacent to my district—I am struck by an analysis that shows we have the lowest number of Black-owned businesses per capita compared to other big cities. We clearly have a lot of work to do to ensure that these businesses can access the capital that they need.

Mr. Gaskin, in your testimony you speak about the Kauffman Capital Access Lab, an innovative pilot program to develop investment managers and provide new capital to underserved entrepreneurs. Can you tell us a little bit more about the lessons learned from this program? Do you think this model could or should be adopted at the Federal level?

Mr. GASKIN. Thank you for the question. Absolutely, we do. We started with our research showing that 83 percent of entrepreneurs do not access a bank loan or venture capital at the time of startup. We looked at how could we test a new way, a new system of getting access, improving capital access to entrepreneurs. And through a mechanism, we invested in six funds, and those funds are doing innovative types of financing, revenue-based financing and other types of things that take the pressure off the entrepreneur at the beginning. With revenue-based financing, you are paying back the loan as you make revenue. And we are seeing that, of our initial $3 million investment through the Capital Access Initiative, those funds have now raised over $177 million in additional funding, funding 40 entrepreneur companies that are having returns.

And it shows two things. It shows that alternative means of capital are very, very important, and that these entrepreneurs that may be perceived as being risky are not risky. Our work with CDFIs is showing that as well.

But I highly recommend that alternative and innovative ways of financing are embraced more by traditional institutions.

Ms. DEAN. That is exciting, that innovation and that expansion by way of the innovation is really exciting. Thank you for that answer.

Ms. Quick, and I apologize if you have spoken of this, but in your testimony you talked about the challenges of delayed payments for Federal contracts for businesses with the least access to capital, which unfortunately includes many minority- and women-owned businesses. Can you speak more about the consequences of delayed payments to cash flow and to the growth of a business? What can we in Congress do to address the issue?

Ms. QUICK. Yes, thank you for the question, Congresswoman. We have found that delayed payments have impacted small businesses. On average, small businesses are owed around $900 billion by both companies that they work with, as well as by State, Federal, and local government agencies. And we are advocating for government payments to be made more quickly to small businesses. When they are not able to access the capital that they are owed, this leads to a mismatch in capital access between when that small business incurs expenses and when they receive the payments back from the government.

We support a return of the QuickPay Initiative, an initiative under the Obama Administration which guaranteed payment from the Federal Government within 15 days. That kind of requirement for States that are distributing infrastructure dollars will ensure that businesses are rightfully paid on time without needing to incur new debt.

Ms. DEAN. Thank you. That is powerful.

Ms. Black, what actions can the private, public, and social sector organizations take so that the ecosystem of financial assistance and minority-owned businesses' access to capital is able to expand sustainably?

Ms. BLACK. Thank you so much for that question. There is a real opportunity for us here to begin to marry solutions across sectors. The private sector has an opportunity to not only be investing in both the CDFIs and MDIs and other community-based solutions, but also to be leveraging their supply chain opportunities in the same way that government does here. It is not only about policies but also continuing to increase the purchasing that takes place from Black and Brown businesses, from women-owned businesses, in order to increase job growth in our communities, and they have to be married in those investments that are coming from the social sector in order to accelerate job growth and economic growth, recognizing again that there is not the risk that is inherently portrayed in our communities.

Ms. DEAN. Thank you very much for that answer, and so quickly delivered.

Thank you, Madam Chairwoman. My times has expired, so I yield back.

Chairwoman BEATTY. Thank you so much for your questions.

Madam Ranking Member, we are going to go to our next witness, who is a Democrat, unless you have any other witnesses.

Mrs. WAGNER. We're still waiting for Mr. Lucas, but I will see if he is able to join.

Chairwoman BEATTY. Okay. We will come back to you afterwards. Thank you.

The gentlewoman from Texas, Ms. Garcia, who is also the Vice Chair of this subcommittee, is now recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you so much for bringing these witnesses forward. It has been very enlightening.

I was a founding member of the Houston Hispanic Chamber of Commerce a couple of decades ago, it seems like, and I am feeling like I am in a movie sequel of, "Back to the Future," because we seem to be talking about some of the very same issues that we talked about back in the 1980s.

While we have made some improvements, there is still so much more to do in this area to help our small businesses throughout the country.

It is widely known that small businesses face greater barriers in accessing critical resources and new opportunities than bigger corporations. We saw that during the economic recovery that we have been going through. These barriers are compounded by factors such as race, ethnicity, gender, and language, making it more difficult for minority- and women-owned businesses to get ahead. Even if firms are not engaging in outwardly discriminatory behavior, subconscious bias and cultural distance have made it more difficult for lenders and entrepreneurs to connect, so we must do everything we can to get that connection.

I want to start with Ms. Black. Ms. Black, first let me thank you for being, regrettably, the only member of the panel who mentioned Latinos and the impact of some of these programs on Latinos, so I thank you for that. I want to specifically ask you, can you describe some of the language and cultural barriers that you see small business owners face, and how does this impact their willingness to pursue new business opportunities that they can be competitive in?

Ms. BLACK. Yes. Thank you so much for that, Representative Garcia. I think it is important to think about language barriers. We recognize that it is not only a barrier of translation which so often programs are designed in, but it is important for us to think about designing strategies from beginning to end in order to serve both consumers and also business owners in order to serve them in their own language.

Our organization just today is announcing a new program, a set of both customized tools and solutions in order to grow programs and businesses specifically serving Black women and Latino women in Minnesota in order to grow businesses in growth sectors, in order to serve so many large corporations in our communities, and that means from the beginning to the end.

So, having programs that represent those communities, making sure that they are able to serve their consumers, whether those are in growth sectors, restauranteurs being able to go the distance, and understanding those communities. But that means we have to have staff who come from those communities, inside government agencies like your own, making sure that we have those inside our corporations, and that we have them in every department and not simply concentrated on the front lines.

Ms. GARCIA OF TEXAS. Thank you. As you know, the growth rate in the number of Latino-owned businesses was higher than the U.S. national average growth rate for all businesses in 41 States. This is one of the conclusions of a study that Stanford did in 2020.

Madam Chairwoman, I ask unanimous consent to submit this for the record.

Chairwoman BEATTY. Without objection, it is so ordered.

Ms. GARCIA OF TEXAS. Thank you.

I think it is critical that we look at the whole picture when we talk about diversity and inclusion.

I have a question for Ms. McGuire. I was struck that one of your recommendations for the Congress was establishing a designation of Minority Business Enterprise. What do you mean by that? I know we go through the MWBE certification, so is this something different, and how would this be different?

Ms. MCGUIRE. Thank you, Congresswoman Garcia, my fellow Texan. I actually live in Austin, Texas.

Ms. GARCIA OF TEXAS. Well, Austin is not Houston.

[laughter]

Ms. MCGUIRE. The Minority Business Enterprise (MBE) designation is different because today, MBE is buried under small disadvantaged business. So, if you look at the SBA designations in the Federal procurement system, you have, "woman," you have, "veteran, and disabled veteran," you actually have an, "Alaskan," and a, "Native American" designation, but you do not have a designation for the minority-owned businesses.

Ms. GARCIA OF TEXAS. Would it be a standalone designation?

Ms. MCGUIRE. Exactly, and that is the only way that we can clearly connect the 15 percent spend to that designation, because today there is not a Federal designation. The Federal procurement system says, "minority-owned businesses." In the private sector, we certify Asian, Hispanic, Black, and Native American as MBE designation, and many State and local governments have MBE designation. The only place that doesn't have MBE designation is the Federal Government, and that is what I am suggesting.

Ms. GARCIA OF TEXAS. Thank you for that clarification.

And, Madam Chairwoman, I think that is something that certainly we can work on that shouldn't be insurmountable, and I would be willing to work with you and the rest of the committee on that.

With that, I yield back. Thank you.

Chairwoman BEATTY. Thank you so much, Vice Chair Garcia.

Now, I recognize the gentleman from Massachusetts, Mr. Auchincloss, for 5 minutes.

Mr. AUCHINCLOSS. Thank you, Madam Chairwoman.

Mr. Gaskin, in your written testimony you shared the story of your father's struggles to receive a small business loan to open a convenience store in his community, and after 4 years, he was finally able to receive a bank loan from a Black-owned bank.

I introduced the Promoting New and Diverse Depository Institutions Act because banks and credit unions are a highly sought-after funding pool for small businesses, but bank closures and consolidations have limited the options for potential minority-owned small business owners who are constantly hearing, "No."

In short, the Promoting New and Diverse Depository Institutions Act would require that prudential regulators create a strategic plan to help de novo financial institutions, including MDIs and CDFIs, start and restore competition on a level playing field to small business lending.

Mr. Gaskin, I will start with you, but I would welcome any of our witnesses to weigh in here. Can you share the importance of how sustaining a competitive financial services market will help entrepreneurs, and particularly entrepreneurs of color, with affordable capital options?

Mr. GASKIN. Thank you for the question. Looking back, I wish my dad had had more access and more competition in the banking and CDFI market.

I will share a story here from Kansas City and the importance of CDFIs that we have proven out. During PPP, there was the creation of the Kansas City COVID-19 Recovery Loan Fund, and we invested in AltCap. AltCap is a leading CDFI here in Kansas City. And we helped them raise a larger fund, and over 153 microloans were made, with a zero default rate.

It proves that there are entrepreneurs and small business owners right here in communities, and CDFIs and MDIs know the communities, they know the entrepreneurs. A lot of entrepreneurs, especially in smaller businesses, are just starting out, so, of course, they don't have relationships with banks.

So when the PPP program happened, some of them just couldn't connect with banks because there was not a longstanding relationship there. I believe that more community banking and access to the entrepreneurs and small business owners in those markets is highly important.

Mr. AUCHINCLOSS. Another question for you, Mr. Gaskin, or any of our other witnesses. Could you elucidate how these smaller institutions and how organizations like yours and others that are working to provide access to entrepreneurs of color can work with the really big players in the financial services system? Bank of America, Goldman Sachs, and JPMorgan have all made quite tangible commitments to funding small business formation, and particularly for underserved communities. Where are the ligaments of connection there to make sure that capital is going to the highest and best use?

Mr. GASKIN. Thank you. I believe there is a connection opportunity there because I think there can be complementary funding initiatives. In America's New Business Plan, we lay out some funding suggestions that we hope that the committee takes a look at and considers, because I think there is some public-private financial investment that institutions could really find ways to close some of these gaps and connect the dots so that the money flow to communities is much more fluent and reaches the end users, who sometimes don't know the programs are available.

Mr. AUCHINCLOSS. Right, because it sort of combines the best of both worlds. You have the capital of some of these big institutions, but then the community knowledge and relationships of the smaller credit unions and banks.

Mr. GASKIN. Yes, exactly.

Mr. AUCHINCLOSS. Ms. Quick, I was struck in your written testimony, and I didn't hear you say it but you may have, about the problem with receivables with small businesses and the Federal Government's delayed payment of those receivables. I think you calculated more than $800 billion outstanding, and the challenges that poses to working capital for small businesses. I wanted to give you a chance to expound upon that in the hearing.

Ms. QUICK. Sure. In 2020, Gusto was part of the Equal Pay Today Coalition that brought awareness to this issue. We partnered with Fundbox on this and found that small businesses are owed around $900 billion and take, on average, 28 days to get paid. This includes payments from both governments and larger companies that they may be owed money from on receivables, and government payments can take even longer. Sometimes, it will take months at a time to get paid money that is rightfully owed to the small businesses.

Mr. AUCHINCLOSS. Ms. Quick, I am going to apologize. My time has expired. I am going to give you 10 seconds. What is the most important thing Congress can do to help that problem?

Ms. QUICK. Congress can require the Federal Government to pay small businesses faster, within 15 days.

Mr. AUCHINCLOSS. Thank you.

Madam Chairwoman, I yield back.

Chairwoman BEATTY. Thank you so much.

Mrs. Wagner, if we have no more witnesses from your side, we have exhausted the witnesses from our side as well.

Mrs. WAGNER. It was a great hearing. Thank you.

Chairwoman BEATTY. Thank you.

The Chair would now like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 11:44 a.m., the hearing was adjourned.]

A P P E N D I X

February 3, 2022

Testimony of
Farad Ali
President and Chief Executive Officer, Asociar LLC
Before the
House Financial Services Diversity and Inclusion Subcommittee
Hearing on
Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects
February 3, 2022

Good morning Chairwoman Beatty, Ranking Member Wagner, and Members of the Diversity and Inclusion Subcommittee. My name is Farad Ali, President and Chief Executive Officer of Asociar. Additionally, I serve as the Co-Chair of the U.S. Black Chambers President's Circle and the Chairman of the Government Affairs Committee for the Airport Minority Advisory Council (AMAC). On behalf of Asociar, and Black businesses everywhere, I am honored to share my testimony with members of the Subcommittee today on the myriad of barriers that Black, women, and minority-owned businesses face when accessing government contracts in infrastructure projects. Thank you for providing me with the opportunity to participate in the Committee's hearing today.

Asociar was founded in 2012 and established valued strategic partnerships to provide business and technology solutions through the delivery of integrated technology solutions, services and IT equipment. For the past 10 years, we have implemented growth strategies in our service delivery to provide supply chain solutions as a value-added reseller, channel partnerships, digital workplace, cyber defense, and deploying and managing technology solutions.

As a certified minority owned business by National Minority Supplier Development Council, a certified black owned business by the U.S. Black Chambers, and a certified Historically Underutilized Business in Texas and North Carolina, we still face challenges to access to opportunities for growth in the public and private marketplace.

Federal procurement has provided many Americans with opportunities to grow a business, hire employees, building wealth and strengthen the economy in their communities. The Infrastructure Investment and Jobs Act (IIJA) is a once in a generation opportunity to invest in critical projects throughout the nation. However, if we are to realize the long-term return on those investments, we must also understand that who is hired to do these projects is just as important as where these projects are performed and delivered. This will require coordination between the business community, financial services industry, and strong, transparent oversight from Congress to address two key financial barriers: access to capital and access to contracts.

First, whether its pouring concrete, replacing outdated pipes, or installing next-gen broadband and electric charging stations, many minority-owned firms will be blocked from bidding on these contracts because of a lack of capital, not lack of capability. To address the barrier of capital access, financial institutions should be incentivized to create lending products that align with federal procurement contract terms. This will improve cash flow management and alleviate credit risk. Additionally, Congress should expand and increase funding to the Emergency Capital Investment Program (ECIP) through the U.S. Department of Treasury. The ECIP currently sends approximately $9B to Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to invest in underserved communities. While the significant return on investment that these programs provide cannot be denied, neither can the disproportionate size of the need. Increasing funding to these programs will direct capital where it is needed the most and can leverage the efficiency and effectiveness of the financial institutions that participate.

Second, to ensure that the Federal and State agencies awarding the contracts are able to identify qualified, capable firms of various sizes, there needs to be a formal alignment between those agencies and minority business organizations like the U.S Black Chambers, National Minority Supplier Development Council, Airport Minority Advisory Council and Conference of Minority Transportation Officials. For decades, these organizations have served as facilitators for increasing the capacity of thousands of diverse firms. They can also serve as a clearinghouse of qualified companies that can meet the immediate and long-term needs of “shovel ready” projects at the Federal, State, and municipal levels.

Third, to build marketplace capacity, Congress must strengthen policies that facilitate, measure, and report mentoring partnerships between larger government contractors and minority and women owned business that execute IIJA funded projects. Historically underutilized businesses risk falling into a cycle of underutilization. For example, to get contracts you must show past performance, but why would a buyer choose a vendor with less experience than one of its competitors? If the IIJA is going to meet its economic growth objectives, larger minority businesses must be able to compete for prime contracts and the smaller ones be given access and treated fairly as subcontractors – affording that valuable past performance. Building alliances through strengthened mentor/protégé and subcontracting plans, connecting contract awards to capital access and business partnerships, and expanding incentives for mentorships and sponsorships would drive better outcomes for all those delivering on IIJA projects.

While all businesses, in theory, could attempt to access opportunities within IIJA, majority businesses who may have more significant access to capital and strong business relationships are well-positioned to win contracts when compared to smaller (even relatively) minority-owned firms. The current landscape does not address the inequities of connectedness in business relationships:

- What is the opportunity?
- Where is the opportunity?
- How big is the opportunity?
- What is your access to the opportunity?

These are all questions that “smaller” minority firms are at a disadvantage. Many white-owned firms are on the 20-yard line from scoring an opportunity. Being placed in the proverbial football term “red-zone”, due to more connectedness and more access to capital. This is an advantage and provides an easy solution due to privilege. While many minority businesses are not even at the 50 yard-line.

When it comes to utilization of minority, woman, and economically disadvantage business, this strategy will eliminate post-IIJA questions of:

- What happened?
- Why did it happen?
- What will happen; and
- What should we have done?

In this historic moment, you have the opportunity to capitalize on strengthening America’s physical and human infrastructure leveraging partnership in procurement and assuring shared prosperity. Policies influence resource utilization, definitions of issues, priority in addressing these issues and oversight procedures to ensure desired results are obtained. Most importantly, history has shown simply creating a program or initiative goes nowhere without the continued application of resources and persistent oversight to imbue them into the culture of the environment.

The objectives of the IIJA went beyond simple infrastructure to include investing in underserved communities and stimulating job growth. This can be best accomplished by utilizing minority and women owned firms to the maximum extent practicable. According to research conducted by McKinsey & Company, "the racial wealth gap … constrains the US economy as a whole. It is estimated that its dampening effect on consumption and investment will cost the U.S. economy between $1 trillion and $1.5 trillion between 2019 and 2028." Madam Chair, this is an issue for all of America, because disparity effects our WHOLE economy and nation, not just minority communities. By closing the racial wealth gap, the McKinsey research shows the U.S. GDP would automatically increase 4-6 percent. That makes racial disparity and racial wealth gap reduction an economic imperative which benefits everyone, not just a social benefit directed to a select population.

It is critical to highlight business solutions that can assure utilization of minority and women-owned business involvement in the execution on the Infrastructure Investment and Jobs Act:

- promote lending products that align with federal procurement contract terms and expand the programs that directly reduce barriers to capital such as the Emergency Capital Investment Program;
- incentivize coordination between IJAA executing agencies and national minority business organizations that can serve as facilitators for diverse business participation; and
- incentivize, measure and report subcontracting and mentoring partnerships between large contractors and minority and women owned business executing on IIJA funded projects.

Businesses build communities, and policies set the foundation for the growth and sustainability of business and community prosperity for everyone. If executed correctly, the Infrastructure Investment and Jobs Act can help transform minority businesses and communities and accelerate the nation towards long-term success. Thank you for the opportunity to testify and I look forward to answering any questions you may have.

CENTER FOR ECONOMIC INCLUSION

TO: Chairwomen Maxine Waters and members of the U.S. House of Representatives Financial Services Committee
RE: Written Testimony
DATE: February 2, 2022

To Chairwomen Maxine Waters and members of the U.S. House Financial Services Committee:

Thank you for the opportunity to provide testimony today. I am Tawanna Black, founder and CEO, of the Center for Economic Inclusion. The Center for Economic Inclusion (the Center) is committed to closing racial employment, income, and wealth gaps by building racially inclusive and equitable regional economies. Founded in 2017, the Center is the nation's first organization dedicated exclusively to closing racial wealth gaps and stimulating racially inclusive and equitable regional economies. We believe by strengthening regional civic infrastructure and building the capacity of public- and private-sector employers to build racially inclusive and equitable workplaces. In addition to working within the public and private sector, the Center supports the work of employers throughout the Minneapolis-St. Paul region and seven county metropolitan area as well as regions across the state of Minnesota.

Our economy requires diverse talent in high-demand, resilient industries with family-sustaining employment. The economy of the future needs businesses that can meet growing supply chain needs, which will require that Black, Indigenous, Latinx, and Asian businesses and communities have improved access to capital, land, and homeownership opportunities.

As an organization deeply committed to growing Black and Brown owned businesses, I want to lift up both the challenges that these business owners face, and the opportunity that these businesses provide for creating jobs and wealth. The Center imagines an economic shift where our nation spurs innovation and accelerates economic growth through this once in a generation opportunity to address our country's infrastructure needs. However, this can only be accomplished if we address systemic barriers in contracting and the undercapitalization of minority and women-owned businesses, particularly Black and Latina-owned businesses.

Black, Indigenous, Latinx, and Asian businesses and communities carry the historical burden of structural inequities that have combined into the COVID-19 pandemic to create powerful obstacles for these businesses:

- Nationally, 41 percent of Black-owned businesses (440,000 enterprises) have closed compared to just 17 percent of white businesses.
- Minority-owned businesses grow at 3.5 times the rate of all Minnesota businesses, yet inequitable access to capital (white entrepreneurs attract 17 times more equity capital than Black entrepreneurs) hinders this.
- More than 8 in 10 Black employees and 7 in 10 American Indian employees have filed for unemployment compared to 4 in 10 non-Hispanic white employees.
- Between 2000 and 2020, the wage gap between Black and white workers has increased by more than 20 percent, with Black families earning less than half of the median income of white families.

In Minnesota, we have a saying attributed to the late United States Senator Paul Wellstone; "we all do better when we all do better." We all are not doing better. We at the Center believe now is the time to invest in a more inclusive economy that will benefit all people. We project that achieving racial equity and inclusive growth leads to greater economic participation and would generate an additional $6,000-$8,500 in annual per capita income. This economic activity would lead to greater opportunities for inter-generational wealth, demonstrating the need and opportunity for both assessing and prioritizing those inclusive policies and investments that accelerate economic growth and competitiveness.

Thank you Chairwoman Waters and members of the for your time Chair and members of the U.S. House of Representatives Financial Services Committee.

Together, we can write a new page in our country's history, developing a process for designing the most informed infrastructure policies and investments possible to fuel our country's economic growth through the power of inclusion, equity and belonging.

Thank you.

In solidarity,

Tawanna A. Black
Founder & Chief Executive Officer, Center for Economic Inclusion

cc: Justin Thornton, Clerk- Committee on Financial Services

EWING MARION
KAUFFMAN
FOUNDATION

Testimony of

Philip Gaskin
Vice President of Entrepreneurship

On behalf of the Ewing Marion Kauffman Foundation to the

U.S. House of Representatives
Committee on Financial Services, Subcommittee on Diversity and Inclusion:

"Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects"

February 3, 2022

4801 ROCKHILL ROAD KANSAS CITY, MISSOURI 64110-2046 816.932.1000 KAUFFMAN.ORG @KAUFFMANFDN

Good morning, Chair Beatty, Ranking Member Wagner, and Members of the Subcommittee. My name is Philip Gaskin, Vice President of Entrepreneurship at the Ewing Marion Kauffman Foundation. It is an honor to testify on behalf of the Kauffman Foundation to discuss ways to reduce barriers for women and minority-owned businesses in contributing to advancing the state of American infrastructure.

The Ewing Marion Kauffman Foundation is a private, nonpartisan foundation based in Kansas City, Mo., that focuses on a prepared workforce and entrepreneur-focused economic development. The Foundation uses its $3 billion in assets to change conditions, address root causes, and break down barriers so that all people – regardless of race, gender, or geography – can achieve economic stability, mobility, and prosperity.

Our founder, Ewing Marion Kauffman, saw himself as a common man who was able to achieve uncommon things in his life – from growing a business that started in his basement to a multi-billion-dollar enterprise, or bringing a Major League Baseball team to Kansas City. He was an entrepreneur and humanitarian whose innovative and long-lasting contributions have benefited millions of people in his hometown of Kansas City and beyond.

Ewing Kauffman established the Foundation with the same sense of opportunity he brought to his business endeavors, and, with the same convictions. He believed, as does the Foundation that, “All the money in the world cannot solve problems unless we work together. And, if we work together, there is no problem in the world that can stop us, as we seek to develop people to their highest and best potential.”

In that spirit of Mr. Kauffman, we seek to create equitable, comprehensive, and sustainable change. And to do that we first must listen to the communities in which we work, develop shared learning and knowledge, and bring people together. Through these collaborations, we champion ideas and support solutions designed to improve education, boost entrepreneurship, and help communities and individuals thrive.

The Kauffman Foundation empowers a network of grantees, partnerships, and organizations who seek to enact systemic positive change towards creating an economy that works for more people across America. While our reach and impact are national, we pride ourselves in a local, incubator approach by innovating, testing, and deploying programs designed to empower the next generation of entrepreneurs and workforce with the tools they need to succeed right in the heart of Kansas City.

To the Kauffman Foundation, entrepreneurship is not only about business ownership, rather, we believe entrepreneurship embodies the potential towards creating a ripple effect of opportunity in an entrepreneur's community. We know that newer firms create the most net new jobs year after year. The connection with a prepared workforce is clear. New firms are also the engine of innovation and continued reinvention of our economy, opening new sectors and job opportunities.

However, we sometimes forget the impact that entrepreneurs have on the communities in which they start their venture. Like Mr. Kauffman's endeavors, the businesses that start and grow in communities shape those communities. Drive around a community and look at the names on the community institutions. Those names reflect the entrepreneurs who gave back to the community that helped them. What can America become if we tap into more of that innovation, expand the opportunities for more people with a great idea, and open access to communities that have faced historic barriers and disinvestment?

To fully build America's competitiveness, we must empower and engage the entire entrepreneur class. Half of our nation's potential entrepreneurs are sitting on the sidelines. In a competitive global economy, at the heart of our opportunity to rebuild American infrastructure in an inclusive way, America cannot afford to waste the energy and ideas of even one entrepreneur, let alone half of its population. Especially if those entrepreneurs possess the skillsets, market knowledge, industry expertise, and grit and determination required of them. Right now, it is just too hard for too many to start a business and access the supports they need to let it grow.

Black Americans and other people of color, and those in rural communities represent the last, great untapped asset class in America today. And if we can find ways to support them, especially through equal participation in rebuilding American infrastructure, I guarantee our country will be more profitable, more competitive, and more equitable.

Now, let me share a personal story about my father's experience as a Black entrepreneur when I was growing up. My family lived near a long street in Los Angeles that crossed many kinds of neighborhoods. For us, it was more than a boulevard. It was more of a Berlin Wall.

If you lived on the north side of the boulevard, you were in a zip code that had a very good reputation. But I grew up on the south side of the boulevard, just one block away, in a different zip code. It was the edge of where “those other people” lived.

My dad and I had a ritual starting in the fifth grade. Three or four times a month, he’d pick me up after school and we’d go to a bank. One day I asked, “Dad, why do we go to so many banks?” He said, “I’ll tell you when you get older.” Turns out, he was trying to get that first loan, to open a chain of convenience stores. And he kept striking out.

At these banks, my dad’s barrier to entry was simple: he lived one zip code away from what they considered worthy. He had good credit, but he didn’t have credit experience. Somehow, his score was always seven or ten points too low. He was always the other. This went on for four years. Finally, after hearing “no” dozens of times, he finally heard “yes.” A Black-owned bank saw him as worthy and gave him a loan. I remember how elated he was. He said, “someone finally trusted me.”

He opened a convenience store in South Central Los Angeles, and it did well. He went back to that bank and got another loan and opened a second store just south of the Los Angeles Coliseum. Those investments paid off. My dad wasn’t just a good entrepreneur, he was a good asset for the community. For 20 years, he created jobs while giving back to the neighborhood.

Even after securing the capital needed to open two successful stores, my dad continued to face barriers that kept his business from expanding further, unlike other entrepreneurs who did not look like him. He always said, “I don’t want to be told that I’m not worthy ever again.” Because of this, my dad lost faith in the system that was supposed to help him and never went back for another loan for fear of rejection, because he lived just one block away. In America too many of these assets live that one block away, or that one rural county away. Too many are seen as the “other.” Too many face the same barriers my dad faced years ago.

My father’s experience resembles the experiences that many American entrepreneurs continue to face today. According to our research, 83 percent of entrepreneurs cannot access bank loans or venture capital at the time of startup.[1] Black-owned businesses are still twice as likely to be rejected for loans, start with three times less in overall capital, and four in ten entrepreneurs of color are "too discouraged" to even try for a loan for fear that they won't get it, according to the Federal Reserve.[2] In a country where 55 percent of the population is female, women are 60 percent less likely to secure funding than men when pitching the same business.[3] Alarmingly, of the $69.1 trillion in global assets under the four major asset classes, including mutual funds, hedge funds, real estate, and private equity, less than 1.3 percent is invested in firms owned by women, Black Americans, and other people of color.[4]

While the landscape is fraught with inequality and uneven access to opportunity and funding, today, we face a unique opportunity to address these issues head on. The endeavor to advance our nation's infrastructure through the *Infrastructure Investment and Jobs Act* presents a prime opportunity to work together to identify and start to bridge the capital access gap for underserved businesses and firms who stand ready to meet the moment. The problem is plain and clear, when it comes to federal contracting and investing, firms owned by people of color have been left behind.[5] How can we bring them back into the ecosystem in a way that puts them at parity with their, too oftentimes, white male counterparts who seemingly have no issue accessing those same contracts?

The solution to these problems lies at the heart of access, our core principle which drove us to create the America's New Business Plan (ANBP), discussed in greater depth below. In our view, successful entrepreneurs have gotten where they are today because they gained access to opportunity, capital and funding, knowledge, and the support needed to help small businesses thrive. In the same way the policies inside the ANBP empower burgeoning entrepreneurs with the

---

[1] Ewing Marion Kauffman Foundation. *Access to Capital for Entrepreneurs: Removing Barriers*. Apr. 2019, pp. 1–48, https://www.kauffman.org/wp-content/uploads/2019/12/CapitalReport_042519.pdf.
[2] "The Fed - Availability of Credit to Small Businesses - September 2017." Board of Governors of the Federal Reserve System, https://www.federalreserve.gov/publications/2017-september-availability-of-credit-to-small-businesses.htm.
[3]For the Economy to Restart, Everyone Must Have the Opportunity to Participate. https://www.kauffman.org/currents/rebuild-better-inclusive-economy/
[4] Ewing Marion Kauffman Foundation. *Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry*. Jan. 2019, pp. 1–21, https://kf-site-production.s3.amazonaws.com/media_elements/files/000/000/281/original/2019_KF_DIVERSITY_REPORT-FINAL.pdf.
[5] "SBA Releases FY 2020 Disaggregated Contracting Data." *SBA Releases FY 2020 Disaggregated Contracting Data*, https://www.sba.gov/blog/sba-releases-fy-2020-disaggregated-contracting-data.

tools to succeed, we must empower women and minority-owned firms with equitable access to resources, opportunities, and lenders that look like them, live in their communities, and understand the local ecosystem in which they operate. We cannot do that through government relief alone, or, without the help of locally trusted organizations, smaller, non-traditional lending partners, and institutions grounded in the historical and cultural implications of a community.

Our passion at the Kauffman Foundation is to change conditions for entrepreneurs by changing the systems in which they operate. Funds within the infrastructure package provide a unique, generational opportunity to funnel capital to underserved communities that need it the most especially as they begin to recover from the economic impacts of COVID-19. For example, as the Kansas City metro area continues to navigate the COVID-19 pandemic, our approximately 153,741 non-employer firms and approximately 50,000 "main street" small businesses (though these categories are not mutually exclusive) remain at extreme risk of economic injury or failure.[6] In fact, most U.S. small businesses operate on a very tight margin: 29 percent are unprofitable, and 47 percent have two weeks or fewer of cash liquidity.[7]

These businesses still have substantial need for liquidity to make payroll, avoid furloughing employees, and covering other ordinary expenses. In addition, this population of businesses are least likely to be able to access low-interest Small Business Association (SBA) loans given their strict underwriting and eligibility requirements that includes personal credit history, payment history, and collateral. These dynamics mean that businesses owned by women and people of color, often with lower credit scores and needing less capital, are not served through traditional and federal lending institutions and instead must turn to local minority depository institutions (MDIs) (like my father) or community development financial institutions (CDFIs) to meet their debt financing and microlending needs.

We have seen that even massive injections of capital from the federal government had an inequitable impact on access to capital for small businesses. For example, a Kauffman funded study on the variation in PPP lending by race

[6] *Census Business Builder: Regional Analyst Edition - 4.0.* https://cbb.census.gov/rae/#view=map&industries=00&clusterName=All+Sectors&geoType=metro&dataVariable=37&dashboardVars=62-17-64-34&centerX=-10531021&centerY=4713496&level=7&geoId=28140&dynHeader=My+Region&dynGeo_metro=28140.
[7] *Place Matters: Small Business Financial Health in Urban Communities.* https://www.jpmorganchase.com/institute/research/small-business/place-matters-small-business-financial-health-in-urban-communities.

found that Black-owned businesses were more likely to obtain a PPP loan from a fintech lender than a traditional bank. While ultimately, more than 32,000 small businesses in the Kansas City metro area received PPP loans, that funding was much more accessible to entrepreneurs living in affluent areas.[8] Meanwhile, traditionally redlined neighborhoods received 17 percent fewer PPP loans than their proportionate share of small business ownership. PPP lending was just a small example of the reality we continue to face today: existing capital pools support only a fraction of the need.

Whether the issue is accessing startup capital, disaster relief funding, or preparing smaller, disadvantaged businesses to fully seize the opportunities within the *Infrastructure Investment and Jobs Act,* the gap in capital markets between businesses of color and white-owned businesses is incredibly clear. For women and borrowers of color especially, CDFIs and MDIs play an increasingly important role in bridging the current lending gap as it exists in the marketplace. CDFIs not only service underserved and disinvested communities and areas, but they work to facilitate trust between financial systems and traditionally underbanked populations as well.

CDFIs understand that Black, women, and minority-owned firms face undue burdens and barriers when trying to compete against their counterparts and are more likely to provide pathways to access and opportunities than traditional, redlined, banking systems. For example, Black- and Hispanic-owned firms are more likely to apply for capital with CDFIs than similar white-owned firms.[9] Similarly, the Federal Reserve's Small Business Credit Survey found that Black-owned firms were more likely than white-owned firms to use CDFIs as financial services providers.[10] One study found that 58 percent of CDFI business loans went to targeted borrower types (including minority, low-income individuals, and women). The survey also found that CDFIs are far more likely to concentrate their lending activity in distressed census tracts than "mainstream" lenders[11] This

[8] *MySidewalk*. https://reports.mysidewalk.com/0f064324cc.
[9] "Understanding Community Development Financial Institutions and Their Impact in Low- and Moderate-Income Neighborhoods." *Federal Reserve Bank of San Francisco*, https://www.frbsf.org/community-development/publications/community-development-investment-review/2021/may/community-development-financial-institutions-impact-low-moderate-income-neighborhoods/.
[10] Federal Reserve Bank. *Small Business Credit Survey: 2021 Report on Firms Owned by People of Color*. The Federal Reserve, 2021, pp. 21, https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/sbcs-report-on-firms-owned-by-people-of-color.
[11] Swack, Micheal, et al. *CDFIs Stepping into the Breach: An Impact Evaluation—Summary Report*. The Carsey School of Public Policy University of New Hampshire, Aug. 2014, pp. 4–57, https://scholars.unh.edu/cgi/viewcontent.cgi?referer=https://scholar.google.com/&httpsredir=1&article=1235&context=carsey.

is because CDFIs are currently bridging a market gap between white-owned businesses and minority-owned businesses; a gap that arose from years of compounded systemic inequities. This is not because white business owners do not need capital, but because white business owners are far more likely to be able to obtain that capital from a traditional bank, the way our system was initially established.

Today, there are many local contractors who are well-positioned to rebuild infrastructure in their own community who have the capability and the drive, but oftentimes lack the ability to access those contracts because they lack the tools to identify the opportunity, or like my father, lack a lending institution who will lend to them. Those same entrepreneurs might also lack the support they need, including access to organizations, including CDFIs, whose mission is built around the prospects of their success. Those entrepreneurs may also lack the knowledge to go after contracts, projects, or opportunities that have been laid out for them in the *Infrastructure Investment and Jobs Act* necessary to benefit from the newly authorized funding for rebuilding infrastructure. At the Kauffman Foundation, we have identified several models worthy of replication at the federal level that can connect entrepreneurs and struggling businesses, including contractors, with the access to capital, knowledge, opportunity, and support that they need.

Kauffman Capital Access Lab

Our work through the Capital Access Lab has shown that entrepreneurs like my father are investable, they are not a risk, and they show immense potential for growth both individually and in their immediate communities. The Capital Access Lab is a national pilot initiative that aims to find, promote, and scale innovative investment managers, providing new kinds of capital to underserved entrepreneurs and communities in the United States. For this pilot, the Kauffman Foundation worked in conjunction with ImpactAssets to create a new vehicle for Foundations and donors to aggregate and deploy charitable funding.[12] To date, Kauffman's investment of $3M into six funds has catalyzed other investments totaling $177M that has been raised by the funds. The funds have to date deployed more than $25M in funding to entrepreneurs across 40 companies.

Across all six Capital Access Lab funds, we saw approximately 40 entrepreneur founders invested in entrepreneurs from diverse backgrounds including 97

[12] https://impactassets.org/

percent underrepresented founders, 86 percent founders of color, 61 percent female founders in 75 percent cities outside major venture capital hubs such as New York City, Boston, and California. The results from our efforts only continue to underscore the systemic inequity faced by business owners and entrepreneurs of color or those owned by women. With proper capital, managed and distributed by people who look and live like them, entrepreneurs face higher chance for success when they have access to institutions who understand their needs most intimately.

We believe that the results from our Capital Access Lab point towards a greater need in the American marketplace. While there are various programs across government which provide much-needed support for entrepreneurship and capital access, more must be done. We urge Congress to consider new and innovative models of equitable financing proven through our Capital Access Lab that can be made accessible to entrepreneurs eager to rebuild American infrastructure but who may lack the supports necessary to go after prime contracts.

Kansas City CDFI Capitalization

Another key initiative worthy of mention is our partnership with AltCap in our hometown of Kansas City. AltCap is a community development financial institution (CDFI) that invests in underestimated communities throughout the Kansas City metro area. AltCap deploys capital through innovative financing products, targeted small business and economic development programming, and partnerships that help build an inclusive ecosystem of entrepreneurship. Since 2005, AltCap has delivered nearly $200 million in New Markets Tax Credits and $7 million in small business financing to community-driven real estate development projects and to entrepreneurs who have been left out of the financial mainstream. AltCap believes that aligning financial, social, environmental, and human capital creates stronger communities and a thriving, inclusive economy. Since 2016, AltCap has made more than $9 million in microloans to disadvantaged businesses, including those of color or owned by women and minorities, with an average loan size of $27K.

Understanding the market need, in 2020, Kauffman provided an initial, catalytic investment to AltCap for the establishment of the Kansas City COVID-19 Relief and Recovery Loan Fund. AltCap in turn made more than 150 microloans in 8 months and they maintained a 0 percent default rate on the portfolio.[13] We believe these results prove not only the effectiveness of CDFIs and their relationships with the community, but also prove that investing in entrepreneurs from underrepresented populations is less risky than perceived.

One entrepreneur who benefitted from a Kansas City COVID-19 Relief and Recovery loan from AltCap is Chris Evans. Mr. Evans grew up in Kansas City, working part-time in his family's T-shirt printing business, T-Shirt King. He moved away to attend Morehouse College, build a career in consulting, and later earned his MBA at the University of Michigan. After graduating, Chris took over the family business. Then, COVID-19 came and negatively impacted his business. The community and sports team events that drove his business ceased entirely.

T-Shirt King received a Kansas City COVID-19 Relief and Recovery Fund loan from Kauffman grantee AltCap. The loan allowed Mr. Evans to retain employees and keep his doors open through the pandemic. Today, he has maintained his employee count and his business. As Mr. Evans put in his own words "Knowing that somebody, like AltCap, is really looking out for your business and knows that you are on the map, is the huge, huge part."[14]

Now building off the success of this fund and wanting to build more CDFI capacity in Kansas City, Kauffman beginning this year will grant an additional $13.9M into three CDFIs in Kansas City (including an additional $5.3M to AltCap) to help capitalize their loan funds, build internal capacity, increase the overall pool of funding available for entrepreneurs in the region, and help more entrepreneurs start and grow business and create jobs. The funds will provide microloan and alternative financing for businesses operating within the Kansas City metropolitan area's low-income and distressed census tracts. Alternative forms of lending may include revenue-based investment and character lending as appropriate to meet entrepreneur needs.

Kauffman is not only an incubator or grantor, but we also conduct real world research into what succeeds and what fails. Because of this, Kauffman should be viewed by the Committee as an unbiased source of information for them to make better decisions in increasing access to capital and opportunity necessary for entrepreneurs to benefit from legislation such as the infrastructure package.

[13] https://www.alt-cap.org/covid-relief-fund
[14] https://www.alt-cap.org/covid-relief-fund

Much like we empower grantees in their communities to drive impact, we liken our model to how CDFIs and MDIs work to bridge gaps in access to capital in their own communities. However, to do so, they require additional support from Congress.

The America's New Business Plan: A Model for Improving Access

At the Kauffman Foundation, we think of our work in four pillars through our flagship entrepreneurial development toolkit, the America's New Business Plan, a research-vetted policy platform that is updated annually, providing recommendations and the current landscape characteristics of American small businesses.

The first pillar is equitable access to opportunity. We need to provide access to networks, mentors, and support organizations who can help overcome barriers and cut through red tape to turn good ideas into reality. Unfortunately, market concentration and the outsized influence of established businesses too often block entrepreneurs from seeking federal, state, and local procurement contracts. In addition, many entrepreneurs encounter a confusing web of outdated regulations, ordinances, and permits. Unlike big, established corporations, entrepreneurs lack the means to hire teams of consultants, attorneys, and available resources to shape and navigate these complicated systems. Especially in procurement and government contracting spaces, larger firms and corporations who can afford the supports necessary will have long identified how to navigate the regulations and licensing and permit requirements necessary to win contracts easily, thus reinforcing a cycle that consistently crowds out those who are not as well resourced.

The second pillar is equitable access to funding. That means closing the credit gap for entrepreneurs like my father and making sure early-stage entrepreneurs have access to the right kind of capital at the right time to start and grow a business. Unfortunately, capital seldom flows to all deserving entrepreneurs. At least 83 percent of entrepreneurs do not access bank loans or venture capital when launching a business, tilting the scales in favor of those who have the wealth to create new enterprises.[15] Women, Black, and Latino entrepreneurs must overcome additional bias and barriers to raise the funds their businesses need. While 45 percent of men say that getting the money to start a new

[15] Victor Hwang, Sameeksha Desai, and Ross Baird, "Access to Capital for Entrepreneurs: Removing Barriers," Ewing Marion Kauffman Foundation: Kansas City, 2019.

business is difficult, 63 percent of women report the same.[16] On average, Black entrepreneurs start with much less capital, have less family wealth to rely on, and are much less likely to get bank loans or other forms of investment than equivalent applicants who are white or of other racial identities.[17]

The third pillar is equitable access to support. When entrepreneurs strike out on their own, they leave behind the salary and benefits an employer provides. Assuming the full risk of failure, they are responsible for health care, retirement savings, and other necessities they, their families, and their employees depend on. In addition, entrepreneurs, especially those who are women or of minority groups need access to childcare, transportation, and high-speed broadband internet – critical infrastructural barriers to entry that are crying out for transformational change. The balance that entrepreneurs must strike each day to keep their families and businesses afloat can be likened to a high-wire act: they need a safety net to rely on when the going gets tough. The simple truth is that this issue does not exist in a vacuum and affects every American citizen. The challenges posed by the COVID-19 pandemic has only worsened and uncovered the inequities that women and minorities face when it comes to accessing support.

Lastly, we focus on equitable access to knowledge, the know-how to start and grow a business, including gaining real world learning experiences and credentials in high school. Aspiring entrepreneurs have fewer connections to relevant resources than existing business owners do. More than half (55 percent) of established business owners reported knowing more than five other business owners, but only 39 percent of entrepreneurs who had started a business in the past year reported the same.[18] New business owners are more likely to have challenges finding networks, connections, and mentors than owners of mature businesses.[19] To succeed, new businesses also need access to high-quality workers. Fifty-two percent of businesses less than a year old reported difficulty

---

[16] "America's Voice on Small Business: Generational Views of Entrepreneurship and Small Business," America's Small Business Development Centers and the Center for Generational Kinetics, May 2017

[17] Sterling A. Bone, Glenn L. Christensen, Jerome D. Williams, Stella Adams, Anneliese Lederer, and Paul C. Lubin. "Detecting Discrimination in Small Business Lending," Jon M. Huntsman School of Business at Utah State University, 2017. And Joyce A. Klein, "Bridging the Divide: How Business Ownership Can Help Close the Racial Wealth Gap," FIELD at the Aspen Institute, January 2017.

[18] "Breaking Barriers: The Voice of Entrepreneurs," Kauffman Foundation, Global Strategy Group, and Public Opinion Strategies, February 2018.

[19] Jessica Looze and Sameeksha Desai, "How has COVID-19 Changed Challenges for Entrepreneurs? Implications for Entrepreneurship Support," Ewing Marion Kauffman Foundation: Kansas City, November 2020.

finding skilled employees during the COVID-19 pandemic.[20] This is particularly a challenge in rural areas that have suffered "brain drains" as their labor pools have migrated to urban centers. In a 2019 Small Business Majority study, all 21 focus groups of rural business owners stressed that good employees were difficult to find.[21]

We believe the ANBP provides solutions to remedy the lack of access to capital, opportunity, knowledge, and support needed for minority firms to benefit from the dollars available to them in the infrastructure bill. We also believe entrepreneurs should be able to rely on local, community development financial institutions, minority depository institutions, and fintech providers to empower their business with a competitive advantage tailored to their community needs. While tackling systemic inequity in government procurement is a long-term goal, CDFIs, MDIs, and non-traditional lenders will play a critical role in bridging the capital access, knowledge, and support gaps in the short-and long-term.

Our model of empowering our grantees, local organizations, and associations on the ground with existing cultural expertise to enact systemic change across the nation is exactly what Congress should seek to do by integrating the use of institutions that already exist to serve disadvantaged entrepreneurs who are long overdue their shot at the American Dream.

For women and minority-owned businesses to succeed in obtaining prime contracts for infrastructure improvement projects, our ecosystem must support the following requirements:

Community banks, community development financial institutions (CDFIs), and minority depository institutions (MDIs) are important sources of capital for new and small businesses. Yet consolidation in the banking industry has exacerbated gaps in capital access for new and small businesses, especially those owned by entrepreneurs of color. The number of community banks declined by more than 2,000 from 2008 to 2018; the number of MDIs went from 164 at the end of 2001 to 143 at the end of the third quarter of 2020. The number of Black-owned banks declined by more than half between 2001 and the third quarter of 2020, from 48 to 20. To improve access to capital, policymakers should:

---

[20] Jessica Looze and Sameeksha Desai, "How has COVID-19 Changed Challenges for Entrepreneurs? Implications for Entrepreneurship Support," Ewing Marion Kauffman Foundation: Kansas City, November 2020.
[21] "Examining the Unique Opportunities and Challenges Facing Rural Small Businesses," Small Business Majority, February 12, 2019.

- Expand the U.S. Treasury Department's CDFI Fund to help CDFIs scale and lend to more new and small businesses in their communities.
- Encourage the capitalization of local financial institutions by backstopping "equity-like" investment in CDFIs and MDIs and strengthening investor tax credits.
- Provide technical assistance and funding to help CDFIs expand operations.
- Work with philanthropic organizations to create funding pools that reduce risk and interest of CDFIs' short-term lending to businesses not eligible for SBA loans.
- Establish community deposit programs or expand existing community deposit programs to facilitate greater lending to new and small businesses.[22]

While we understand that CDFIs, MDIs do not exist soley to service entrepreneurs in procurement spaces, we understand that a majority of women and minority-owned firms who struggle to gain access to opportunities have and will continue to rely on these insitutions for support. For that reason, they must be supported to the fullest extent possible neccsssary to prepare the next generation of contractors to fully benefit from opportunities like the *Infrastructure Investment and Jobs Act.*

In closing, we once again thank for your time and consideration in receiving our perspective, recommendations, and market-ready solutions towards addressing the barriers that women, Black, and minority-owned firms face when accessing capital, opportunities, supports, and knowledge needed to benefit from the *Infrastructure Investment and Jobs Act.*

While the *Infrastructure Investment and Jobs Act* certainly provides a myriad of opportunities for American contracting firms, not all firms have an equal chance of accessing the award funding, and therefore, will miss out on an incredible opportunity to develop, grow, and scale their businesses as a result. While remedying these gaps for all business owners will require a long-term dedicated effort towards reducing barriers to access, much like the Kauffman Foundation's approach, it is important to gain a clear understanding of the task at hand. We

---

[22] Start Us Up Coalition. America's New Business Plan. Ewing Marion Kauffman Foundation, Mar. 2021, https://www.startusupnow.org/wp-content/uploads/sites/12/2021/03/AmericasNewBusinessPlan.pdf.

hope that our testimony has provided just that. Even if firms cannot access the opportunities in this infrastructure package, policymakers must take these barriers into account and work towards addressing them so that in the long-term, all groups will have the same opporutnity and chances to thrive in the federal contracting marketplace with any new infrastructure reauthorization package.

Although the role for private industry including organizations like ours is clear, entrepreneurship is a team sport. While private philanthropy possesses some of the tools to break down these barriers to access and provide solutions towards remedying them, the role of the federal government cannot be understated. Private philanthropy, industry, and like-minded corporations that share our values still need the federal government to do its part to help those on the ground doing the work to enable a greater and more inclusive environment. In essence, a thriving entrepreneurial landscape will require a robust public-private commitment towards change.

The Kauffman Foundation would like to remain a resource to policymakers and members of the Committee as a go-to partner for premier research, industry knowledge, and case studies on what works what fails when expanding access to economic opportunity to America's greatest untapped asset through entrepreneurship. We once again thank you for your time and would appreciate any opportunity to follow-up with Members on the Committee to share more of our research, progress, and endeavors in this space.

Testimony of Ying McGuire CEO and President
National Minority Supplier Development Council
Before the Committee on House Financial Services Diversity and Inclusion Subcommittee
"Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects"
Thursday, February 3, 2022

Chairwoman Beatty, Ranking Member Wagner, Chairwoman Waters, Ranking Member McHenry, and distinguished members of the Subcommittee on Diversity and Inclusion, thank you for the opportunity to testify today as we address the financial barriers to Minorities and Women-Owned Businesses Involvement in infrastructure projects.

My name is Ying McGuire, and I am the CEO and President of the National Minority Supplier Development Council (NMSDC). Our organization serves as a growth engine for minority owned businesses (MBEs) while enabling our corporate members to advance economic equity. NMSDC certified minority owned businesses have created over $400 billion in economic output annually while generating $48 billion in tax revenue, and 2.2 million jobs across the country.

Today's hearing comes as America is experiencing a widespread and long-overdue reckoning with systemic racial and gender injustices and inequalities.

Since taking office last year, the Biden-Harris Administration has made several essential commitments to minorities to decrease the racial wealth gap. These include requiring15% of all federal contracts to go to small and disadvantaged businesses (SDBs) by 2025, releasing the Small Business Administration (SBA) disaggregated racial and ethnic data on small business contractors, and making improvements to the category management system. These efforts are welcomed, especially as we learn that the racial wealth gap continues to be a driver for change and a policy priority among business owners.[1]

While there have been significant efforts made to address the racial wealth gap, more opportunities exist within contracting and procurement through the federal government. The bipartisan *Infrastructure Investment and Jobs Act (IIJA)* that was signed into law late last year serves as a catalyst to meet this moment. With the passage of the infrastructure bill, Congress and the Biden Administration pledged that minority-owned businesses would be prioritized for federal contracting opportunities and would not be left behind as infrastructure projects unfold across the country.

At a time when many minority small businesses find themselves in a long recovery period from the pandemic, it is absolutely critical that they are in the pipeline for procurement. Not only do federal contracts help businesses, but they also create jobs and contribute to the recovery and stability of communities.

[1] A 2021 Reimagine Main Street Survey Found that the racial wealth gap was a driver and policy prioritization among business owners.

In order to meet this moment, besides access to contracts, there are two other areas in which I believe this committee and the Administration can take action towards ensuring equitable recovery. One, continued emphasis and action towards ensuring minorities have access to important financial and increased capital to start and grow their businesses, and two, the creation of a Minority Business Enterprise (MBE) designation to equalize access to contract opportunities.[2]

As members of this committee are well aware, access to capital remains one of the most significant issues for minority business owners regardless of size. We saw the difficulty of many of our minority businesses during the early stages of the Paycheck Protection Program (PPP). Many did not have the ability, network, proper paperwork, technical assistance, or met the standard eligibility requirements to obtain assistance during dire times of the pandemic. SBA loans have been great instruments to assist small businesses with fiscal challenges during turbulent economic times. However, as a business owner, one never wants to take on more debt. A shift towards new Access to Capital models that do not add additional debt burden is needed in order for MBEs to be economic growth engines in underserved communities.

My recommendation for the creation of a federal designation for Minority Business Enterprises is based on evidence that while there are existing designations for small and disadvantaged businesses, it is NMSDC's experience that these historical designations have not addressed the wide institutional disparity of federal contracts awarded to MBEs. The need for a federal MBE designation is necessary more than ever to ensure an equalized economic recovery of MBEs in a post-pandemic economy.

Again, I commend the work of this subcommittee and am committed to working with you on these issues. Thank you, and I look forward to taking your questions.

[2] https://archive.mbda.gov/news/news-and-announcements/2017/01/contracting-barriers-and-factors-affect

Testimony of Jeanette Quick
Head of Compliance and Public Policy, Gusto
Presented to the Subcommittee on Diversity and Inclusion
Committee on Financial Services
United States House of Representatives

"Building Opportunity: Addressing the Financial Barriers to Minority- and Women-Owned Businesses' Involvement in Infrastructure Projects"

February 3, 2022

First, I would like to thank the Chairwoman, Ranking Member, and distinguished members of this Subcommittee for holding this hearing on this important topic. My name is Jeanette Quick and I am Head of Compliance and Public Policy at Gusto, a people platform that empowers small businesses nationwide. We are proud to serve more than 200,000 small businesses and millions of their employees, and we know firsthand how important access to capital is to the success of small businesses.

Gusto is a people platform that is creating a world where work empowers a better life.[1] Our company enables small business owners to easily pay employees and contractors, remit taxes, stay compliant with legal obligations, and keep accurate records. We provide payroll, human resources, health benefits, and financial health benefits to small businesses across the country.

Our work and client base uniquely positions us to understand the needs and pain points of small businesses, and to provide our — and our customers'— perspective on how best to serve them during this challenging time of surging COVID cases, labor shortages, supply chain constraints, and inflationary pressures.[2]

Throughout the pandemic, Gusto has focused on ensuring that small businesses have access to capital to fund their operations. Gusto facilitated billions in Paycheck Protection Program loans for our small businesses, and has developed multiple partnerships with financial technology companies and community development financial institutions (CDFIs), such as Opportunity Fund and Pacific Community Ventures, to ensure that our customers have access to fair and responsible capital and advisory services. Gusto is connected to more than 80 financial institutions that offer loan products to meet small business needs, including start-up funds, Small Business Administration (SBA) loans, credit cards, and lines of credit. Because of these relationships, we are well-positioned to provide insight into small business financing challenges.

Gusto is also the founder and chair of the Small Business Relief Council, a cross-industry coalition of over 80 companies representing millions of small businesses that developed to enable small businesses to survive and thrive during the pandemic. Gusto leads the consortium, bringing lenders, fintech, payroll providers and accountants together to collaborate on regulatory,

[1] https://gusto.com/

[2] https://gusto.com/company-news/how-protecting-workers-health-and-wealth-can-help-business-owners-combat-the-great-resignation

operational, and risk issues. SBRC spans different components of the small business financial ecosystem, and includes the largest financial services companies, payroll companies, community development financial institutions (CDFIs) accounting firms, fintechs, and software companies.[3] Gusto's experience leading SBRC has given us a holistic perspective of challenges that minority- and women-owned businesses have faced during the pandemic.

Inequities exacerbated by the pandemic reinforced the need for meaningful action to elevate accountability, meaningful action, and tangible results around representation, inclusion, social impact, and equity (RISE). RISE principles are critical to Gusto's mission of building a world where work empowers a better life, and we are committed to making business, product, and advocacy decisions with equity at the core.[4] Gusto believes that a healthy small business ecosystem is one that is fair and inclusive for all businesses, including women- and minority-owned businesses, and we support proposals that ensure equal access to the financial system and inclusive access to federal procurement and infrastructure projects.

My testimony today will focus on obstacles women- and minority-owned businesses face in starting and expanding their businesses, and highlight policies that can help address the disparities and aid in the recovery of all small businesses, especially those from underserved communities.

State of Capital Access for Minority- and Women-Owned Small Businesses

According to Gusto data, action is needed now to help small businesses across the country. Our data shows small business payroll reserves in hard-hit industries are tighter now than they were during the height of early pandemic lockdowns. Since the start of 2022, 26% of businesses—primarily in the personal services sector—have less than one month of payroll in reserves. That's up from 21% this time last year and 23% in March 2020. That number dropped to around 10% as companies started to receive PPP and other funds. Without the aid that helped those businesses weather the early disruption of the pandemic, small businesses have fewer resources and capacity to absorb future shocks.

Minority-owned businesses have historically experienced unequal access to capital and collateral. For example, white-owned startups begin with more than three times the capital of Black-owned startups,[5] and white-owned startups are seven times more likely to obtain loans than Black-owned startups during their founding year.[6] Throughout the pandemic, businesses owned by people of color did not receive equitable access to federal aid, despite being hit harder economically.[7] Women- and minority-owned businesses persistently report having lower levels of access to banks and financial institutions, and as was demonstrated during the pandemic, lack of relationships with traditional lenders led to lower access to PPP loans for these groups.[8]

[3] https://gusto.com/company-news/gusto-announces-small-business-relief-council
[4] https://gusto.com/company-news/2021-RISE-Report.
[5] https://www.nber.org/system/files/working_papers/w28154/w28154.pdf
[6] https://thehill.com/opinion/finance/571824-minority-owned-businesses-face-an-unequal-recovery-an-underfunded-federal?rl=1
[7] https://thehill.com/opinion/finance/571824-minority-owned-businesses-face-an-unequal-recovery-an-underfunded-federal?rl=1
[8] https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/sbcs-report-on-firms-owned-by-people-of-color; https://www.cbsnews.com/news/women-minority-business-owners-paycheck-protection-program-loans/; https://gusto.com/company-news/whats-holding-back-ppp-2-0-a-survey-of-small-businesses;

Gusto has partnered with the National Association of Women Business Owners (NAWBO) to better understand the experience of women business owners' capital access. When asked about sources of funding, nearly 70% of women business owners said they relied on personal savings while just 15% of women business owners used an SBA-backed loan.[9] Notably, nearly half of the minority business owners in the study responded that they were interested in SBA loans but had not received one due to challenges in the application process – which was more than double the rate of white business owners.[10]

Our research also found that nearly half of all businesses started by women in the past year are minority-owned, who largely started these businesses out of economic need.[11] The COVID pandemic exacerbated the adversity that women entrepreneurs face, and women, in turn, responded by transforming challenge into opportunity. This is further illustrated by the 31% of women business owners that have school-aged children at home, who simultaneously face the demands of keeping their business afloat while providing childcare and education to their children in the midst of unreliable Delta and Omicron spikes.[12] These points illustrate the vital role that women owned businesses play in helping the economy to recover and we should prioritize Federal policies that help them thrive.

Our data shows that the government can and should do a better job of outreach to these communities to ensure they have access to financial products and services that can meet the needs of their businesses. Existing resources – such as the Minority Business Development Agency, Women's Business Centers, and Small Business Development Centers – should be better resourced to facilitate education and connections between banks, CDFIs, and other financial institutions.

Gusto supports additional resources for underserved communities, and is encouraged that legislation is being discussed that would require the Securities and Exchange Commission to expand the scope of its Advocate for Small Business Capital Formation to conduct targeted outreach to women- and minority-owned businesses. This Federal financial education and outreach program could help expand access to capital.

Speed Up Government Payments to Small Businesses

Another challenge that we identified for small businesses that work on federal contracts is the slowness of getting paid by the government for work already completed. In 2020, Gusto was a leader of the PayToday coalition, a group of small business technology companies, which focused on amplifying awareness of outstanding receivables owed to small businesses from governments and businesses.[13] According to coalition data, small businesses are owed around $900 billion and take on average 28 days to get paid, and even longer for government

https://gusto.com/company-news/how-the-pandemics-childcare-crisis-impacted-women-owned-businesses-and-altered-their-future.

[9] https://gusto.com/company-news/re-opening-for-business-the-tools-tech-and-policies-women-need-to-succeed

[10] https://gusto.com/company-news/re-opening-for-business-the-tools-tech-and-policies-women-need-to-succeed

[11] https://gusto.com/company-news/providing-for-those-who-provide-a-report-on-breadwinning-women-business-owners-their-critical-role-in-the-economic-recovery

[12] https://gusto.com/company-news/how-the-pandemics-childcare-crisis-impacted-women-owned-businesses-and-altered-their-future

[13] https://fundbox.com/blog/coalition-launches-paytoday/

payments.[14] This leads to a mismatch in capital access between when a small business incurs expenses and receives payments – which can lead to businesses needing bridge loans while waiting to be paid by the government.

A meaningful action the Subcommittee can consider to benefit women- and minority-owned businesses is to require prompt payment to all small businesses that have contracted (or subcontracted) with the government. For example, under the Obama administration, the QuickPay Initiative guaranteed payment in 15 days. That kind of requirement for states distributing infrastructure dollars will ensure businesses are rightfully paid on time without needing to incur new debt.

Delaying payment is most damaging to the businesses with the least access to capital. As we have noted, women- and minority-owned small businesses are often those that have the least access to traditional financial services, startup capital, or personal resources, which makes it even more important that government payments are made on time.

Federal Women- and Minority-Owned Business Contracting

Gusto supports the administration's goal of ensuring that 15% of all Federal contracts go to small and disadvantaged businesses by 2025. Currently, only 10 percent of federal agencies' total contracting dollars go to minority-owned businesses.[15] This initiative can help entrepreneurs of color overcome long-standing barriers to entry and boost our economy at a time when recovery remains uncertain.

State Small Business Credit Initiative (SSBCI)

Gusto was encouraged that the American Rescue Plan included $10 Billion to reauthorize the State Small Business Credit Initiative (SSBCI), and we urged the Treasury Department to ensure that these funds reach small businesses owned by women and minorities.[16] These businesses were disproportionately left out of the PPP program, which makes the expansion of SSBCI all the more important to aid in recovery.[17] Additionally, Federal data shows that minority business owner credit applications fare worse than white-owned businesses and are more reliant on personal funds to meet business needs; SSBCI can help address these disparities by focusing funds on business owners that are the most left out of the financial system.[18]

Gusto supports the proposed bill that would require annual reporting by States on the entities that receive SSBCI contracts, which will bring transparency to the program to evaluate equal access. Additionally, these reporting requirements will ensure that states distribute consistent assistance.

[14] https://fundbox.com/blog/coalition-launches-paytoday/
[15] https://www.sba.gov/blog/sba-releases-fy-2020-disaggregated-contracting-data
[16] https://gusto.com/company-news/small-business-relief-council-sbrc-letter-to-the-treasury-department-urging-that-the-small-business-credit-initiative-ssbci-prioritize-underserved-businesses
[17] https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/
[18] https://www.fedsmallbusiness.org/survey/2019/report-on-minority-owned-firms

Minority Business Development Agency (MBDA)

The MBDA is essential to the recovery of minority-owned businesses, and Gusto advocated for its codification and expanded budget in the Infrastructure Investment and Jobs Act. Since 1969, the MBDA has been the only agency exclusively focused on expanding opportunities for businesses of color. The agency has long enjoyed bipartisan support and will be crucial to assisting entrepreneurs in underserved communities start and expand their businesses through technical training and assistance, import/export counseling and development services.

Gusto is encouraged that the Committee is considering legislation focused on providing equity funding through the MBDA to low-wealth minority business owners. These targeted funds coupled with technical assistance and training from the MBDA will have an amplified impact on businesses and the communities they serve. It is important that there is also consistency in government definitions around “low wealth communities” under the MBDA.

Small Business Administration Modernization

Gusto supports reforming the SBA to better target women- and minority-owned businesses to ensure that they have better access to credit by reducing barriers for SBA lenders and changing program requirements to increase eligibility.

Gusto has recommended[19]:

- SBA should incentivize private lenders to reenter the small business lending market, which will expand access to loans with better terms for underserved borrowers.
- Reduce barriers to SBA lender approval and requirements: Many banks and fintechs have expressed concern that lenders are not writing small 7(a) loans because of the lack of cost benefit, time and paperwork requirement. Streamlining the application process and alleviating the difficulties would encourage more banks to participate in 7(a) lending.
- Use of alternate data and technology to better price a business’s credit risk: Additional data points of reference are useful when determining a company’s credit risk. There is a role for payroll companies, like Gusto, in evaluating a small business’s propensity to be late in meeting payroll and its employee turnover – both measurable indicators.

Many small businesses are prohibited from SBA funding due to requirements for collateral, no previous criminal convictions, strong personal credit, significant documentation, and two verifications of being unable to obtain credit elsewhere. Typically, underrepresented communities and newer entrepreneurs do not have many of these criteria established, making them ineligible to participate. Gusto has suggested the SBA evaluate whether its programs are accessible to all populations on an equal basis and adjust accordingly, and encourage the private market to evaluate its fair lending practices.

Broadband Infrastructure

[19] https://www.discoursemagazine.com/economics/2020/11/09/surviving-the-winter/

The pandemic has fundamentally altered the need for high-speed internet and has become an increasingly crucial tool businesses have relied on as they turn to online platforms to continue their operations since March 2020. A study conducted by Gusto and NAWBO found that 72% of women business owners reported increasing reliance on broadband during the pandemic – and nearly half of business owners noted that better internet would help them expand their businesses.

Unfortunately, there are disparities in accessing reliable, affordable internet for business owners of different races, which has had negative consequences as businesses have shifted online during the pandemic. White, Black and Hispanic business owners report similar rates of lacking access to broadband of 16%, 17%, and 15%, respectively. In comparison, 22% of Asian American or Pacific Islander business owners and 33% of Native American or American Indian owners lack internet. Having access to high speed internet has been essential for small businesses, and we encourage the Subcommittee to consider mechanisms to ensure that broadband access is implemented in the communities that most need it.

Employee Retention Tax Credit

Gusto supports an extension of the Employee Retention Tax Credit (ERTC) into 2022. The ERTC provided a refundable tax credit to help small businesses keep their staff employed during the pandemic. Unfortunately, this program ended as part of the Infrastructure Investment and Jobs Act, and the ERTC only applied to wages paid before October 2021.

Gusto's data suggests that complex rule changes and slow release of guidance related to ERTC requirements resulted in delayed requests for the credit, contributing to a perception that this program was underutilized and not needed by small businesses during the ongoing pandemic.[20] The early elimination of the ERTC further exacerbated the condition of small businesses, and we believe that Congress should extend the credit to provide much-needed stability for small businesses.

Please consider Gusto as a resource in the development of any of future proposals dedicated to helping minority and women entrepreneurs reach their full potential.

We look forward to working with Congress to bolster opportunities for women and minority-owned businesses. Thank you for the opportunity to testify today and I look forward to answering any questions you may have.

[20] https://gusto.com/company-news/sbrc-employee-retention-credit-letter

Credit Union National Association
CUNA

Jim Nussle
President & CEO

Phone: 202-508-6745
jnussle@cuna.coop

99 M Street SE
Suite 300
Washington, DC 20003-3799

February 3, 2022

The Honorable Joyce Beatty
Chairwoman
Subcommittee on Diversity and Inclusion
House Financial Services Committee
Washington, DC 20510

The Honorable Ann Wagner
Ranking Member
Subcommittee on Diversity and Inclusion
House Financial Services Committee
Washington, DC 20510

Dear Chairwoman Beatty and Ranking Member Wagner,

On behalf of America's credit unions, I am writing regarding the hearing entitled, "Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects." The Credit Union National Association (CUNA) represents America's credit unions and their 130 million members.

Women- and minority-owned businesses (MWBEs) often face barriers when it comes to access to credit and financial services, more generally. As a result, MWBEs typically turn to friends and family for financing, impeding their ability to successfully compete in the private market and for government contracts.

Weak banking relationships and lack of access to capital make MWBEs more vulnerable during normal times and even more so during periods of financial disruption. The COVID-19 pandemic reinforces the urgency of addressing financial well-being by ensuring access to financial services are inclusive, especially for women- and minority-owned businesses.

Credit Unions are Mission-Driven and Well-positioned to Address Inequity and Advance Financial Inclusion in the Financial Services Sector

As not-for-profit, consumer-owned financial cooperatives credit unions are laser-focused on our mission of financial inclusion and serving our members. To that end, credit unions recognize that access to capital is critical to ensuring the survival of many of our nation's most vulnerable small businesses, including minority and women-owned businesses, which together represent approximately 66% of U.S. small businesses.[1]

While credit unions are relatively small players in the depository arena (40% operate with 5 or fewer full-time-equivalent employees), we serve 130 million members – many in vulnerable communities that have been bearing an especially heavy burden throughout the pandemic.[2] According to the U.S. Chamber of Commerce 85% of small businesses are concerned about the impact on their operations and Moody's Analytics, projects roughly one million micro businesses are at high risk of failing as a result of the pandemic. Minority and women-owned businesses are disproportionately represented in these numbers. Indeed, the Federal Reserve Banks find that minority-owned small businesses were twice as likely to be "at risk" or "distressed" than other small businesses.[3]

[1] U.S. Small Business Administration (SBA), "2018 Small Business Profile," available at https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf and American Express, "The 2018 State of Women-Owned Businesses Report," available at: https://about.americanexpress.com/files/doc_library/file/2018-state-of-women-owned-businesses-report.pdf

[2] NCUA and CUNA.

[3] Federal Reserve Bank of New York, "Can Small Firms Weather the Economic Effects of COVID-19?" April 2020. Federal Reserve Bank of Atlanta, "Small Business Credit Survey: 2019 Report on minority-owned firms." December 2019.

Despite field of membership restrictions, credit unions advance financial inclusion and access by locating roughly 70% of credit union branches in racially/ethnically diverse areas compared to roughly 60% of bank branches.

The way that credit unions execute their mission puts them in a good position to address financial inclusion in the financial services sector affecting MWBEs. In their own way and based on the needs of their membership, all credit unions work toward this. However, given the vulnerabilities of MWBEs, Minority Depository Institution (MDI) and Community Development Financial Institution (CDFI) credit unions are often on the front lines of this critical work.

As of September 30, 2021, there are 292 CDFI credit unions (more than two times the number of CDFI banks), representing nearly 26% of all CDFIs and serving nearly 12.4 million members. Minority Depository Institution credit unions represent approximately 10% of all credit unions and serve approximately 4.7 million memberships (representing nearly 4% of all credit union memberships).[4] As of September 30, 2021, there were over three and a half times as many MDI credit unions (525) as MDI banks (146). Both MDI and CDFI credit unions form an integral part of the credit union movement and enhance our ability to serve MWBEs and other underserved groups. We are pulling together as movement to support our members and make a difference in their lives, but we know that we could do more.

How Congress can Help Credit Unions Do More
For the foreseeable future, access to capital will continue to be a major issue for all small businesses, and particularly women- and minority-owned businesses. However, we know that credit union lending is more inclusive; SBA research specifically shows that roughly 80% of credit union business loans are loans that banks would not make.[5] Unfortunately, federal law restricts credit unions' ability to fully deploy credit to small businesses, capping the amount any individual credit union can lend to small businesses at 12.25% of the credit union's assets. The Expanding Financial Access for Underserved Communities Act exempts business loans made by credit unions to businesses in underserved areas from the credit union member business lending cap and would make it easier for consumers in areas without sufficient financial services providers to access credit unions. We strongly support this legislation and believe it represents a solid step forward toward financial inclusion.

On behalf of America's credit unions and their 130 million members, thank you for holding this important hearing.
Sincerely,

Jim Nussle
President & CEO

[4] National Credit Union Administration (NCUA), Credit Union Call Report, Third Quarter 2021, CUNA calculations and FDIC. Following the NCUA's definition, we use the term "Minority Depository Institution" for credit unions that have reported that over 50% of their current membership, potential membership, and board members are Hispanic American, Black American, Asian American, Native American, or a combination of multiple groups. We include both federally chartered and state-chartered credit unions.
[5] James Wilcox, UC Berkeley for SBA, Office of Advocacy, "The Increasing Importance of Credit Unions in Small Business Lending," 2011.

Innovative Lending Platform Association

February 3, 2022

The Honorable Joyce Beatty
Chairwoman
Subcommittee on Diversity and Inclusion
Committee on House Financial Services
U.S. House of Representatives

The Honorable Ann Wagner
Ranking Member
Subcommittee on Diversity and Inclusion
Committee on House Financial Services
U.S. House of Representatives

Dear Chairwoman Beatty and Ranking Member Wagner:

On behalf of the Innovative Lending Platform Association (ILPA), we appreciate the opportunity to comment in relation to the hearing held by the Diversity and Inclusion Subcommittee entitled "Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects."

ILPA is the leading trade organization representing a diverse group of online lending and service companies serving small businesses. United by a shared commitment to the health and success of small businesses in America, ILPA is dedicated to advancing best practices and standards that support responsible innovation and access to capital for small businesses. ILPA, in partnership with the Association for Enterprise Opportunity, launched a model small business pricing disclosure called the SMART (Straightforward Metrics around Rate and Total cost) Box. The SMART Box™ is a first-of-its-kind model pricing disclosure and comparison tool focused on empowering small businesses to better assess and compare finance options.

As the committee investigates opportunities for minority owned businesses to share in the economic recovery, ILPA believes that the critical role our members played in providing access to pandemic era programs, particularly the Paycheck Protection Program (PPP), cannot be overlooked or understated.

Recent studies by Professor Sabrina Howell at NYU Stern and the Federal Reserve show that fintechs reached minority owned businesses left behind by traditional financial institutions.

In particular we highlight the following from these two studies:

- Overall, fintech lenders were responsible for 53.6% of PPP loans to Black-owned businesses, while only accounting for 17.4% of all PPP loans in the analysis sample.
- Black-owned businesses are 12.1 percentage points more likely to obtain their PPP loans from a fintech firm than from traditional lenders.
- About one in four Black-owned firms applied to fintech lenders, more than twice the rate of white-, Asian-, and Hispanic-owned firms.
- Although fintech lenders had a small share of PPP loan volumes, they likely served borrowers who would not have received loans otherwise. Applicants who approached fintech lenders for

> PPP loans were more likely to lack banking relationships, be minority owned, and have fewer employees.

In short, without fintech participation in the PPP, many minority owned businesses would not have been able to access the program. Thank you for accepting these comments.

Sincerely,

Scott Stewart

CEO, Innovative Lending Platform Association

WOMEN IMPACTING PUBLIC POLICY

Statement for the Record

Submitted to the House Financial Services Committee
Subcommittee on Diversity & Inclusion

Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects

February 3, 2022

Women Impacting Public Policy (WIPP) respectfully submits the following statement for the record in response to the committee hearing held on February 3, 2022 titled *Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects.*

Women Impacting Public Policy is a national, nonpartisan organization which advocates and educates on behalf of women-owned businesses. Since its inception, WIPP has been a strong advocate for women owned businesses, particularly within the federal contracting and procurement space. Access to capital and to federal markets have consistently been pressure points for the women-owned small business community and the pressure has only increased since the start of the pandemic in March 2020. Of course, when the data is disaggregated by race and ethnicity, we find that women of color and minority business owners in general struggle to access federal contracts.

WIPP, like many organizations that work on behalf of minority owned businesses, were encouraged by the Biden-Harris Administration's recent commitment to increase the percentage of federal contracts going to minority and women owned businesses to 15% by 2025. This comes at a historic moment after a bipartisan infrastructure package was signed into law, and the Minority Business Development Agency (MBDA) received permanent status and is due for additional funding. The *Infrastructure Investment and Jobs Act,* in tandem with the administration's recent commitment to minority owned businesses will no doubt create more opportunities to access federal contracting, however, we have been here before. In the past, there have been countless policies and pledges to increase contracting dollars to women and minorities, though a 2017 study by the MBDA found that the needle has hardly moved on boosting minority participation in contracts. In fact, it revealed that Minority Business Enterprises (MBEs) obtain a lower number and dollar value of contracts in proportion to the number of MBEs available[i]. Women owned businesses in particular have had a history of being left behind in federal contracting. The federal government has established contracting and procurement goals to allocate 5 percent of all contracting dollars to women owned businesses though it has only met this benchmark twice (2) since 1996 - in 2015 and in 2019[ii]. With that being said, WIPP urges Congress and the administration to work together to ensure the women-owned small businesses have equal access to federal contracts that arise from the infrastructure package. Too often, procurement officials hire contractors they are familiar with, making it far more difficult for women who lack the network and resources to access contracts. Greater access to federal contracts has great potential to shrink the wage disparities between women owned businesses and those owned by men, as well as the disparities between minority owned businesses and those owned by white business owners.

Part of the challenge arises from the Small Business Administration's (SBA) ability to reach women owned businesses. With that in mind, organizations such as WIPP can be partners to the SBA in increasing awareness around contracts and providing educational resources for women business owners who are ready to start or are navigating the certification process. As it relates to infrastructure, access to reliable broadband will likely be a make or break factor for minority and women owned businesses. In the wake of the pandemic and as we shift into recovery, there is still a strong demand for digital or remote services. Unsurprisingly, 77% of SMB's indicated that they started using, or increased their use of digital tools throughout the pandemic[iii]. With that in mind, and the fact that it is increasingly becoming more difficult to run a small business without digital tools it is concerning that as of 2020, only 46% of small businesses had a digital footprint[iv]. This demonstrates an issue of access, more than anything else, and the investments made towards broadband in the infrastructure package must close the gap. At the same time, it is imperative that Congress, and actors in the private sector (such as digital platforms) act to ensure that SBEs can continue to access digital tools that are necessary for success. Additionally, it is critical that the SBA and Congress conduct meaningful oversight into where federal contracts that result from the infrastructure package flow to best gauge if the 15% benchmark is being met, or if there is reasonable expectation that it will be met by 2025. Data collected must be disaggregated by race, gender and ethnicity in order for us to have a full picture of the federal contracting landscape following the administrations commitments and as the infrastructure package is implemented.

It is well established that access to capital is a key priority for women owned businesses, and access to federal contracts is one element of that priority. Women Impacting Public Policy will continue to advocate on behalf of women owned businesses and we stand ready to work with Congress to ensure that they have equal access to federal contracts that will help grow their businesses.

[i]The Minority Business Development Agency. "*Contracting Barriers and Factors Affecting Minority Enterprises: A Review of Existing Disparities*". December 2016.

Accessed on February 2, 2022 https://archive.mbda.gov/sites/mbda.gov/files/migrated/files-attachments/ContractingBarriers_AReviewofExistingDisparityStudies.pdf

[ii] Congressional Research Service. "*SBA Women-Owned Small Business Federal Contracting Program*". November 2021. Accessed on February 2, 2022. https://sgp.fas.org/crs/misc/R46322.pdf

[iii] Meta. *"New Insights On Small Business and Consumer Use of Digital Tools."* September 2020. Accessed on February 2, 2022. https://about.fb.com/news/2020/09/global-state-of-small-business-report-3/

[iv]Ibid

STANFORD BUSINESS GRADUATE SCHOOL OF | Latino Entrepreneurship Initiative

PUBLICATION OF STANFORD GRADUATE SCHOOL OF BUSINESS | IN COLLABORATION WITH THE LATINO BUSINESS ACTION NETWORK

Contributors

PRINCIPAL INVESTIGATORS

MARLENE OROZCO Lead Research Analyst
Stanford Latino Entrepreneurship Initiative

INARA SUNAN TAREQUE Research Analyst
Stanford Latino Entrepreneurship Initiative

FACULTY

PAUL OYER
The Mary and Rankine Van Anda Entrepreneurial Professor, Professor of Economics, and Senior Associate Dean for Academic Affairs, Stanford Graduate School of Business; Senior Fellow, Stanford Institute for Economic Policy Research; and SLEI Faculty Advisor

JERRY I. PORRAS
Lane Professor of Organizational Behavior and Change, Emeritus, Stanford Graduate School of Business; SLEI Faculty Advisor; and Cofounder, Latino Business Action Network (LBAN)

PHOTOGRAPHY

3 LOPEZ (cover, p. 4)
JESUS SANTOS (p. 3)
ANDREA SÁNCHEZ (p. 6)
NATHAN BIETZ (p. 10)
CAMILED PHOTOGRAPHY (p. 17)
MEDIA DIGITAL SOURCE, LLC (p. 24)
GLOBAL CONTAINERS & CUSTOM PACKAGING INC. (p. 27)

Table of Contents

ABOUT THIS REPORT

This is the sixth annual State of Latino Entrepreneurship report where we have collected robust survey data from Latino-owned businesses across the country to provide a timely account on the fastest growing segment of the U.S. business population. This year, we administered our national survey amid a global pandemic and vast social unrest, and the unique disruptions businesses faced over the past year are clearly visible in the survey responses.

This report highlights the impact of Latino-owned employer businesses in the U.S. economy and compares their experiences to those of White-owned employer firms in the United States. This year, we not only surveyed U.S. Latino business owners but also a comparison group of White business owners to identify similarities and differences in their experiences. We collected a sample of 3,500 White-owned businesses and 3,500+ Latino-owned businesses. Additionally, we captured time-series data from a smaller cohort of Latino-owned firms over the months of March, June, and September 2020, to capture the progressive impact of the pandemic on Latino-owned businesses. Additional methodological information related to sampling and measures can be found in **Appendix A**.

Our current research focuses on employer firms, those with at least one paid employee other than the owner, as these businesses are poised to have the greatest impact on the economy and job creation (for a list of terms used in this report, refer to **Appendix B**). This focus on employer firms aligns with the approach taken by the U.S. Census Bureau in their Annual Business Survey, which we rely on for statistical purposes to make our sample as nationally representative as possible.

The 2020 State of Latino Entrepreneurship report provides organizations focused on supporting businesses (e.g., chambers of commerce, trade associations, economic development associations, etc.), think tanks, policymakers, and corporations with insights into the business outcomes of Latino-owned businesses to inform data-driven policy and programs. Additionally, we hope Latino business owners leverage these data to inform their business decision-making and operations. We acknowledge that business owners are operating in largely uncertain and unprecedented times, and we would like to thank those who contributed their data to ensure that the stakeholders listed above can work together to reshape and rebuild the U.S. economy.

SECTION I
EXECUTIVE SUMMARY

JAVIER R. LUCATERO
President, Accurate Firestop, Inc

Latino-owned businesses play an important role in the U.S. economy. As the fastest growing segment of the U.S. small business ecosystem, the number of Latino-owned businesses has grown 34% over the last 10 years compared to just 1% for all other small businesses.[1] Were it not for the growth in the number of Latino-owned firms, the total number of small businesses in the U.S. would actually have declined between 2007 and 2012.[2] We highlight below key findings from this report that depict pre-pandemic trends among Latino-owned businesses and areas of additional focus heightened by the pandemic. ***All data reported henceforth are for Latino-owned employer businesses (LOBs) and White-owned employer businesses (WOBs), unless stated otherwise.***

Latinos are starting businesses at a faster rate than the national average across almost all industries.

The number of employer LOBs has grown by 14% between 2012 to 2017, over twice the U.S. average of 6%.[3] Additionally, the number of employer LOBs grew across 44 out of 50 U.S. states, and grew at a faster rate than the national industry average across 13 of the 15 industry sectors that include a substantial number (over 1,000) of employer LOBs. Among these industries, the growth rate is highest in the following industries: 1) Construction, 2) Finance and Insurance, 3) Transportation and Warehousing, 4) Real Estate.

Latino-owned employer businesses are growing revenues at a faster rate than White-owned employer businesses.

Over the past two years, Latino-owned firms grew revenues an average of 25% per year while WOB revenue grew at 19%.

Latino-owned employer businesses are significantly less likely than White-owned employer businesses to have loan applications approved by national banks, despite reporting strong metrics on a variety of key lending criteria.

Only 20% of LOBs that applied for national bank loans over $100,000 obtained funding, compared to 50% of WOBs. Considering only scaled firms (annual revenues greater than $1 million) requesting a similar size loan, only 29% of Latino-owned businesses were approved, compared to 76% for WOBs. If loans of all sizes are considered, 51% of LOBs were approved for all or most of their loans requested from national banks, compared to 77% of WOBs. Importantly, after controlling for business performance measures, the odds of loan approval from national banks are 60% lower for Latinos. We explore business performance measures below:

- **Credit:** Latinos who own employer businesses are no more likely to have high credit risk than their White counterparts. Additionally, when considering credit performance, among the most credit vulnerable business owners (e.g., undocumented and microbusiness owners) the default rates are no higher than those among non-Latinos.[4]

- **Profitability:** While WOBs are more likely to operate profitably than LOBs, three quarters of all LOBs report breaking even or generating profit in the last 12 months — a similar rate relative to WOBs. This is despite the impact of the coronavirus generating greater losses than in previous years.
- **Liquidity:** LOBs and WOBs report comparable liquidity with 52% of LOBs and 55% of WOBs reporting they have ample liquidity to operate without the need for credit.
- **Business age:** Given the recent booming growth in the number of Latino-owned businesses, it follows that LOBs are younger than WOBs. On average, LOBs are 10 years old while WOBs are 14 years old. The median age for both is 12 years.

Scaled Latino-owned employer businesses are more likely to seek and receive funding from sources that expose them to more personal financial risk compared to White-owned employer businesses.

After accounting for application rates, our survey data show that the top sources of funding (over $100,000) with the highest approval rates for scaled LOBs include: 1) Personal or business lines of credit (51%),[i] 2) Personal/family savings (43%), 3) Business credit card(s) (40%), 4) Personal/family home equity loan (37%). On the other hand, the top sources for scaled WOBs include: 1) Business loans from national banks (76%), 2) Business loans from local or community banks (45%), 3) Private equity (36%), 4) Personal/family home equity loan (34%).

Latino-owned employer businesses that participate in formal business organizations (e.g., chambers of commerce and trade associations) are more likely to experience funding success.

LOBs that leverage formal business organizational networks are more than twice as likely to experience funding success as those that did not engage in any networking activities (63% versus 28%). Our data show that businesses that leverage organizational and personal networks are more likely to come in contact with capital providers, which may provide opportunities to build the relationships needed to facilitate funding requests.

For both Latino and White-owned businesses, those led by women are most negatively impacted by the pandemic.

Twice as many Latina-led companies experienced closure compared to Latino-led businesses (30% versus 16%). Layoffs were also higher for Latina-led companies (17% versus 12%). This gender gap holds among WOBs as well. The difference in industry distribution by gender does not fully explain the gap in business closure by industry. We see some differences in having cash on hand. Only about 1 in 10 Latina-owned businesses have enough cash on hand to survive beyond 6 months compared to 2 in 10 Latino-owned businesses. This gap is less pronounced for WOBs. In addition, working from home is also more challenging for Latina-led businesses. Only 20% report that the majority of their employees can work remotely, compared to 34% of Latino-led and 48% of White-male-led companies.

i This means that of all scaled employer LOBs that applied for funding from personal or business lines of credit, 51% were approved for amounts of over $100,000.

SECTION II
INTRODUCTION

EDWIN SANCHEZ
CEO, Echez Group

The number of Latino business owners has grown 34% over the last 10 years compared to just 1% for all others, making LOBs the fastest growing segment of the small business ecosystem.[5] Additionally, the number of Latino-owned employer businesses, or those that have at least one employee on payroll other than the owner, has grown by 14% between 2012 to 2017, over twice the U.S. average of 6%.[6] In pre-pandemic times, the roughly 400,000 Latino-owned employer businesses generated nearly $500 billion in annual revenue and employed 3.4 million people.[7] In this report, we focus on Latino-owned employer businesses (LOBs) as both job creators and as an important path forward in economic recovery.[ii]

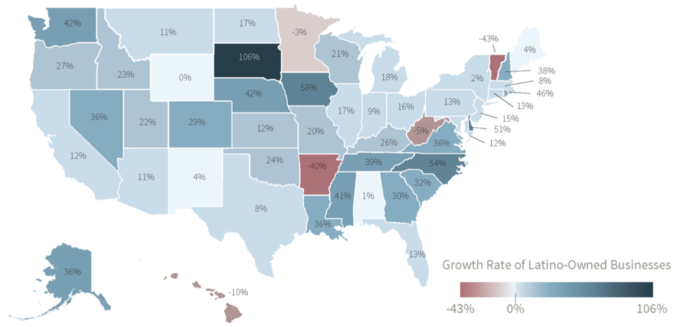
THE NEW LATINO ENTREPRENEUR

Our data over the years have expanded the narrative on the average profile of all Latino business owners: they are more highly educated than the general U.S. Latino population, have higher homeownership rates relative to their wage-working counterparts, and in general, generate greater personal income, representing a path to upward mobility and community wealth.[8] LOBs are located across all 50 states including in new gateways outside of historical Latino enclaves.[9] As shown in **Figure 1**, the number of LOBs grew in 45 out of 50 U.S. states (and the District of Columbia).[10] The growth rate in the number of Latino-owned businesses was higher than the U.S. national average growth rate for all employer businesses in 41 states. Latinos are increasingly starting and growing businesses to be employer businesses. Crossing this "employment threshold" is a significant barrier on the path toward scaling,[11] or generating more than $1 million in annual revenue, and Latinos are making important gains in a positive direction.

The growth rate in the number of Latino-owned employer businesses was higher than the U.S. national average growth rate for all employer businesses in 41 states.

ii All data reported in this report are for Latino-owned employer businesses (LOBs) and White-owned employer businesses (WOBs), unless specified otherwise.

Figure 1
Growth Rate in Number of Latino-Owned Employer Businesses by State (2012 to 2017)



SOURCE: U.S. Census Bureau's 2018 Annual Business Survey and 2012 Survey of Business Owners

FAST GROWTH IN NUMBER OF LATINO-OWNED BUSINESSES ACROSS VIRTUALLY ALL INDUSTRIES

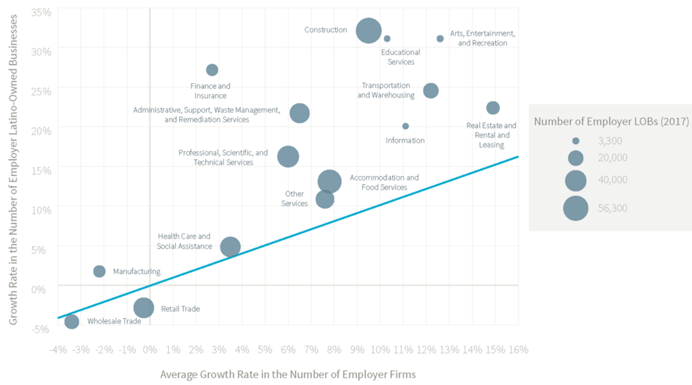
Latinos are starting businesses across all industries. While there remain significant clusters in the service industry among non-employer businesses, employer businesses are seeing the highest growth in non-service sectors. The number of LOBs grew most rapidly in the following industries between 2012 and 2017:[12]

1.	Construction	32% ↑
2.	Finance and Insurance	27% ↑
3.	Transportation and Warehousing	25% ↑
4.	Real Estate	22% ↑
5.	Administrative Support and Waste Management Service	22% ↑

Virtually all industries have seen growth in the number of LOBs, and most have seen the number of LOBs grow faster than the average, as highlighted by the number of industries above the blue line in **Figure 2**.

Figure 2

Growth in the Number of Latino-Owned Employer Businesses by Industry, Compared to the Average Industry Growth Rate (2012 to 2017)



SOURCE: U.S. Census Bureau's 2018 Annual Business Survey and 2012 Survey of Business Owners

OPPORTUNITY GAPS AND BUSINESS OUTCOMES

By many measures, LOBs were moving in a positive direction before the pandemic. However, an important reality persisted: Latino-owned businesses overall tend to start small and remain small. If we consider all Latino-owned businesses, employer and non-employer alike, there is at least a $1.5 trillion opportunity gap if Latino-owned businesses generated, on average, the same annual revenues that their non-Latino counterparts generate.[iii][13] This gap in revenue can be attributed to a variety of factors, including business location. However, with the creation of opportunity zones in 2017, we have found that Latino-owned businesses overall have a higher average annual revenue growth compared to those not in opportunity zones, 24% and 13% respectively.[14] Other important factors likely contributing to this revenue gap include the fact that Latinos have only one-eighth the wealth of White households,[15] and personal savings and that of family and friends are the primary ways that most start businesses. Additionally, accessing capital has been an important barrier to growth (**see Section III**).

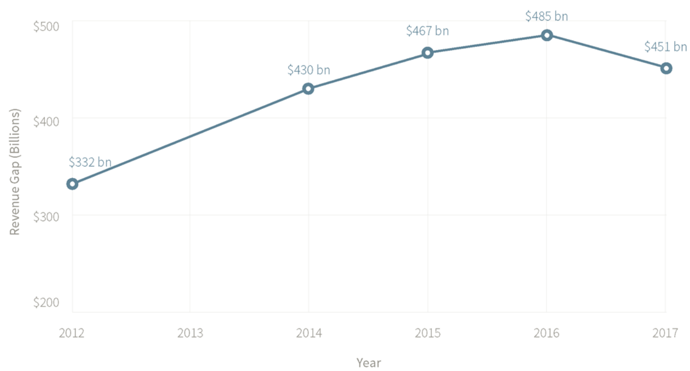
---

iii This estimate was calculated using U.S. Census Bureau's 2012 Survey of Business Owners data, adjusted for inflation. However, we estimate that since 2012, the number of all Latino-owned businesses has increased by nearly 1.5 million. As such, the current opportunity gap might be much larger than this conservative estimate of $1.5 trillion when we account for the growth in the number of all Latino-owned businesses.

If we consider all Latino-owned businesses, employer and non-employer alike, there is at least a $1.5 trillion opportunity gap if Latino-owned businesses generated, on average, the same annual revenues that their non-Latino counterparts generate.

Figure 3 shows the opportunity gap in revenue over time among employer businesses only. While the gap in the average revenue generated by LOBs relative to WOBs had been steadily growing since 2012, in 2017 we saw a reversal with an opportunity gap of $451 billion as the average revenue of LOBs grew from $1.2 to $1.3 million.[16]

Figure 3
Revenue Gap Among Latino-Owned Employer Businesses Relative to White-Owned Employer Businesses



SOURCE: U.S. Census Bureau's 2018 Annual Business Survey, 2014-2016 Annual Survey of Entrepreneurs, and 2012 Survey of Business Owners

SECTION III
FINANCING

Previous SLEI Research studies have shown the importance of securing external capital to ensure continual growth.[17] In this section, we explore the business characteristics that are commonly leveraged by capital providers to inform their decisions on funding, including revenue growth, profitability, and credit history. After accounting for application rates, we show that while LOBs are comparable to WOBs on many key business performance metrics, Latinos are accessing funding from high-interest, high-risk sources. In particular, we find significant challenges for LOBs when they try to access funding from national banks even after accounting for business characteristics. As this section will show, Latinos are outpacing their White counterparts in revenue growth, and have comparable credit risk, and yet have financing challenges still persist.

NATIONAL BANKS STATISTICALLY LESS LIKELY TO FINANCE LATINOS

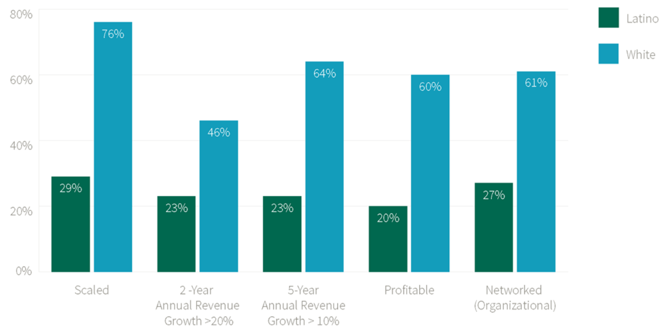
When we consider the different financing sources requested by LOBs and WOBs, the largest gaps in financing come from loans disbursed by national banks. We find that White-owned employer businesses are more likely than Latino-owned businesses to get their funding needs met from national banks across all categories correlated to positive funding outcomes such as revenue size (i.e., scaled), revenue growth, and profitability (**Figure 4**). That is, even if we limit our analysis to scaled, high-growth, profitable, and networked businesses, WOBs are significantly more likely to have their funding requests of over $100,000 approved. Additionally, our logistic regression analysis shows that even after controlling for the revenue size of the company, profitability, and credit scores, Latinos are statistically significantly less likely to get their funding approved by national banks.[iv] The odds of loan approval from national banks are 60% lower for LOBs, when controlling for business performance.

The odds of loan approval from national banks are 60% lower for LOBs, when controlling for business performance.

iv Being Latino decreases the log-odds of being approved for a national bank loan. This relationship holds even after controlling for revenue size, profitability, credit scores, loan size, gender, and revenue growth in different models.. Region and industry are folded into the analysis through weighting methodology. See methodology for more details.

Figure 4

Percent of Employer Businesses Whose Large Funding (Over $100,000) Needs Were Met by National Banks



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

LATINO-OWNED BUSINESSES OUTPACING WHITE-OWNED BUSINESSES IN RECENT REVENUE GROWTH

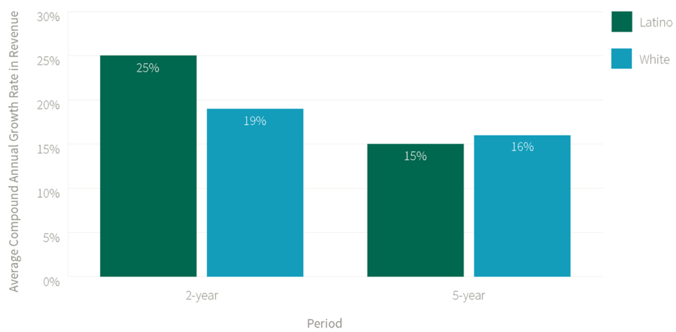
According to the latest census data, the average annual revenue of LOBs is $1.3 million while the average for WOBs is $2.5 million.[18] However, LOBs are catching up. Revenue growth year after year is one sign of a loan-worthy business. Indeed, lenders often ask for business financials that include revenue trajectory. As shown in **Figure 5**, over the past two years, LOBs have grown their revenue at a compound annual growth rate (CAGR) of 25% compared to 19% for WOBs, a statistically significant difference between the two groups.[v] When we consider revenue growth over a 5-year span, we see no difference between the two groups. As such, their revenue growth in the next couple of years will be important to track to measure recovery and return to pre-COVID-19 trends. We note here that LOBs are younger than WOBs, on average, 10 years compared to 14 years old respectively, thus a recency effect may be contributing to revenue growth.

v See methodology for more details.

Over the past two years, Latino-owned employer businesses have grown their revenue at a compound growth rate of 25% compared to 19% for WOBs, a statistically significant difference between the two groups.

Figure 5

Compound Annual Revenue Growth Rate of Latino- and White-Owned Employer Businesses



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

THREE-QUARTERS OF LATINO-OWNED BUSINESSES REPORT BREAKING EVEN OR GENERATING PROFIT

Although Latino-owned firms are less likely to generate a profit relative to WOBs, three-quarters of LOBs operated profitably or broke even over the past year, despite the challenges of the early months of the COVID-19 pandemic. While many capital providers use detailed metrics such as EBITDA (earnings before interest, taxes, depreciation, and amortization) to evaluate profitability, our survey captures a simplified measure asking businesses to report if they earned profits, broke even, or incurred losses. Obtaining more nuanced financial information has been a barrier to survey completion in the past. As a result, we proxy profitability through the three measures captured in **Figure 6** — profits, break even, losses. Our survey data show similar proportions of Latino- and White-owned businesses operating at a loss (15% and 23%, respectively, not being statistically significantly different). Although LOBs are less likely to operate profitable businesses, we find lower rates of funding approval for LOBs versus WOBs even when holding constant the profitability or loss status of the firm.

Three quarters of LOBs operated profitably or broke even over the last year.

Figure 6

Latino- and White-Owned Employer Business Profitability in the Past Year

SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

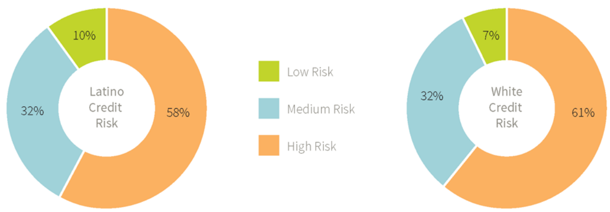
COMPARABLE CREDIT PERFORMANCE AND RISK

For many small business owners, leveraging their own personal credit and collateral is often the direct path toward accessing capital. However, businesses can obtain credit scores, too. Just like personal credit scores provide information about credit performance, business scores indicate the credit risk of a business. External research has shown that three out of four small business owners do not know their business credit scores, but building business credit and understanding how to use it leads to a greater likelihood of being approved for a business loan.[19] Our research finds that only one-third of Latino-owned employer and scaled firms use a business score to access capital, which means that even firms with proven track records and growth continue to rely on the owner's personal credit score when seeking funding.[20]

In this study, we created a measure of credit risk using the self-reported personal credit score ranges from the Latino and White business owners in the sample. We ranked personal credit scores from low credit risk (scores above 720) to high credit risk (scores below 620). Latino owners of employer businesses are no more likely to have high credit risk than their White counterparts, as shown in **Figure 7** where data for LOBs and WOBs have no statistically significant differences.

Latino owners of employer businesses are no more likely to have high credit risk than their White counterparts.

Figure 7
Credit Risk among Latino and White Employer Business Owners



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

Credit can be a challenge for immigrants who might lack long-standing credit history in the United States or are unable to obtain credit as a result of being undocumented.[vi] In our study, 35% of LOBs are immigrant-owned and on the whole, immigrants are more likely to start their own businesses, regardless of race or ethnicity.[21] Camino Financial, a private lender that largely services undocumented and microbusiness owners, finds that even among the most credit vulnerable business owners, the default rates are comparable to those among non-Latinos.[22]

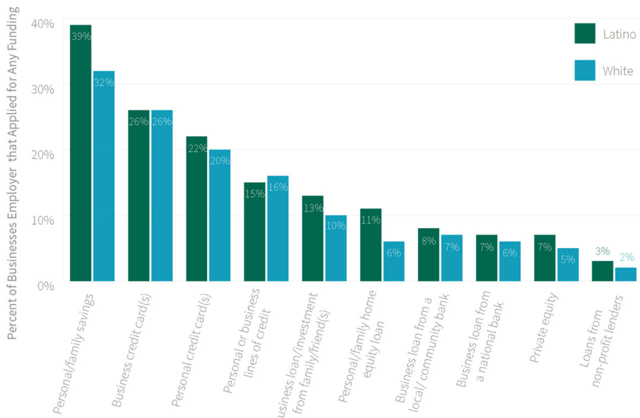
LARGE DIFFERENCES IN FUNDING APPROVAL RATES DESPITE COMPARABLE BUSINESS PERFORMANCE

Latino and White-owned employer businesses apply for various types of funding at comparable rates (**Figure 8**).

However, despite having greater revenue growth and comparable credit performance, large gaps emerge when we look at approval rates for amounts of over $100,000 in funding. Through mystery shopper or audit studies, researchers have found that minority entrepreneurs experience unequal treatment and differences in the loan products they are shown.[23] Most recently, these studies have confirmed lending discrimination within the Paycheck Protection Program, with statistically significant disparities between Black and White applicants in terms of encouragement to apply, products offered, and information provided by the bank.[24] Historically, banks have been the primary capital provider for small businesses. While redlining practices among mortgage lenders have been regulated, there are limited financial regulations and protections for small business lending.[25]

vi There are organizations that support the building of credit for undocumented businesses owners, like Mission Asset Fund. Learn more: https://missionassetfund.org

Figure 8
Funding Sources Applied to by Latino and White-Owned Employer Businesses



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

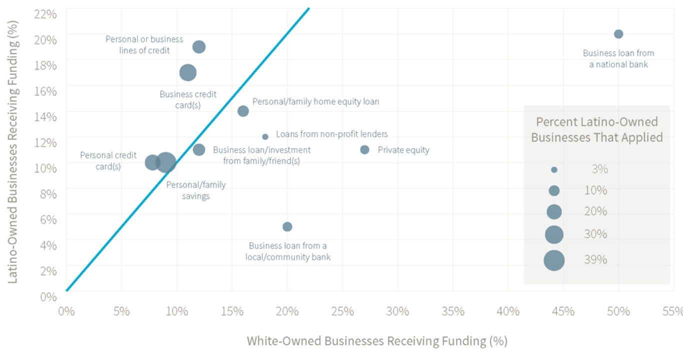
After accounting for application rates, our survey data show large differences in types of funding and approval rates between LOBs and WOBs.[vii] **Figure 9** shows the distribution for the types of funding requested and secured for amounts larger than $100,000. The size of the circle corresponds to the percent of LOBs that applied for any given type of funding. The funding types above the blue 45-degree line indicates that Latinos are more likely to secure this type of funding, whereas White business owners are more successful with the funding types shown below the blue line. For instance, **Figure 9** shows that of the LOBs and WOBs that applied for funding from national banks, only 20% of LOBs (x-axis) received over $100,000 in funding compared to 50% of WOBs (y-axis).

Of the businesses that applied for funding from national banks, only 20% of LOBs received over $100,000 in funding compared to 50% of WOBs.

vii For each source of funding, we consider only the businesses that applied for that particular type of funding to calculate approval rates.

Figure 9

Sources of Funding Received for Latino- and White-Owned Employer Businesses (Over $100,000)



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

HIGHER PERSONAL RISK FINANCING SOURCES FOR SCALED LATINO-OWNED EMPLOYER BUSINESS

Even scaled LOBs are less likely than scaled WOBs to be approved for national bank loans, and they have a greater reliance on higher personal risk funding sources. Scaled LOBs experience the highest approval rates securing large funding amounts (>$100,000) from the following sources:

1. Personal or business lines of credit [viii] (51%);
2. Personal/family savings (43%);
3. Business credit card(s) (40%);
4. Personal/family home equity loan (37%).

The top sources of funding of over $100,000 for scaled WOBs include:

1. Business loans from national banks (76%);
2. Business loans from local or community banks (45%);
3. Private equity (36%);
4. Personal/family home equity loan (34%).

Latino business owners are taking on more personal financial risk to operate and grow their firms relative to White business owners, who rely more on financing options that do not entail the use of personal assets for collateral.

viii This means that of all scaled LOBs that applied for funding from personal or business lines of credit, 51% were approved for amounts of over $100,000.

SECTION IV
ONGOING IMPACT OF COVID-19

MARIA FERNANDA REYES
Founder and President, Adoptahero

On March 19, 2020, California Governor Newsom issued a statewide stay-at-home order, the first statewide mandatory restriction in the United States, to help combat the coronavirus outbreak. As the nation's most populated state, California is also home to roughly one-fourth of all Latino-owned businesses in the country. COVID-related restrictions had a significant impact on the 83,613 LOBs in California and those across the country.[26] As the course of the pandemic heightened, New York soon had more coronavirus cases than any country in the month of April.[27] New York is home to the fourth largest share of LOBs in the country after California, Florida, and Texas.[28] We administered our first of three brief surveys at the end of March, tracking the national impact of COVID-19 on all Latino-owned businesses as the pandemic surged.

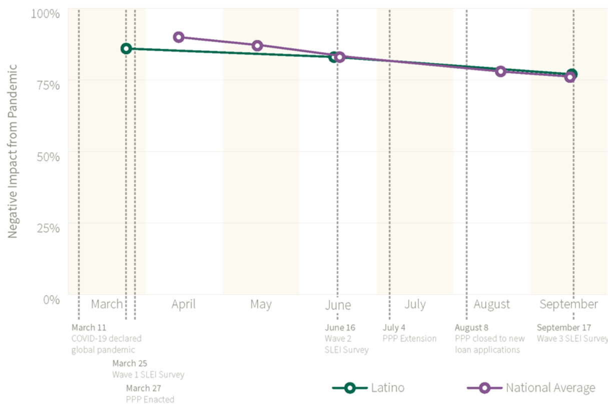
Our timely surveys have gauged the large and immediately negative impact of the pandemic before any relief aid was administered by Congress,[29] the statistically significant disparities between White and Latino business owners obtaining funding from the Paycheck Protection Program (PPP),[30] and the waiting period on federal guidance for reopening and additional relief aid. In this section, we highlight the impact of the pandemic over time (March, June, and September 2020) for LOBs and specific areas of focus for the ongoing recovery efforts.

IMPACT OF THE PANDEMIC LARGELY NEGATIVE AND ENDURING FOR LATINO-OWNED BUSINESSES

The initial impact of the pandemic as a result of stay-at-home ordinances and other local measures had both a large and immediately negative impact on all Latino-owned businesses. At the end of March, 86% of all Latino-owned businesses reported large negative effects.[31] A month later, the U.S. Census Bureau began collecting weekly data tracking changes during the coronavirus pandemic through the Small Business Pulse Survey.[32] **Figure 10** displays the impact of COVID-19 on both LOBs and the national average among employer businesses as captured by the U.S. Census.

Figure 10

Reported Impact of COVID-19 on Employer Businesses Over Time [ix]



SOURCE: U.S. Census Pulse Survey and March, June, and September SLEI Pulse Surveys

The trend line among Latinos and the national average shows a similar pattern of high negative impact in March and April, and only slightly diminishing over time. Importantly, the negative effects of the pandemic appear to be enduring over a 6-month span, despite the multi-billion-dollar federal program to provide relief aid to small businesses. It should be noted that the PPP was meant to keep employees on payroll to avoid massive unemployment, but it was not a loss-of-revenue loan. While the negative impacts between Latino and White employer businesses were universally experienced through September 2020, LOBs may face greater challenges in weathering the pandemic due to less access to relief loans[33] and a higher proportion of businesses in industries particularly affected by the pandemic (e.g., accommodation and food services and other services - see **Figure 11**).[34]

LATINOS WELL REPRESENTED IN RESTAURANT INDUSTRY, WHICH HAS BEEN HARD HIT

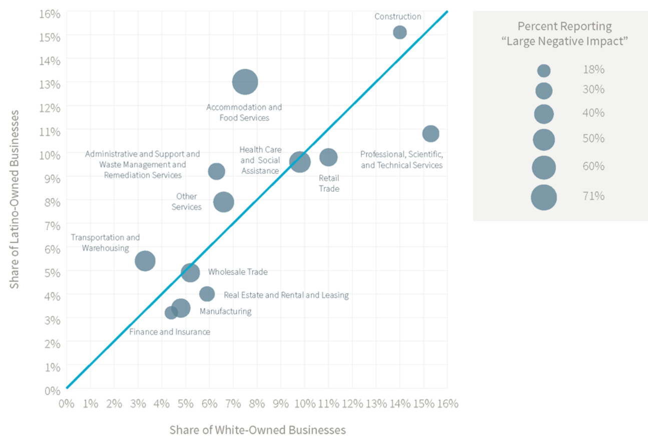
With social distancing protocols in place and a limit on indoor gatherings, the restaurant industry has been among the hardest hit by the pandemic. At the height of the pandemic, 71% of restaurants were reporting large negative impacts,[35] and as shown in **Figure 11**, this industry indexes high in Latino business ownership. Many had to close altogether and, according to Yelp's Local Economic Report, temporary closures become permanent closures particularly within the restaurant industry.[36] In April, the number of active Latino business owners across all industries fell by 32%[37] and by June, one in four LOBs experienced closure.[38]

ix "Negative" impacts include respondents that have indicated "moderate negative effects" and "large negative effects."

The negative effects of the pandemic appear to be enduring over a 6-month span, despite the multi-billion-dollar federal program to provide relief aid to small businesses.

Figure 11

Negative Industry Impacts Across Share of White- and Latino-Owned Employer Businesses



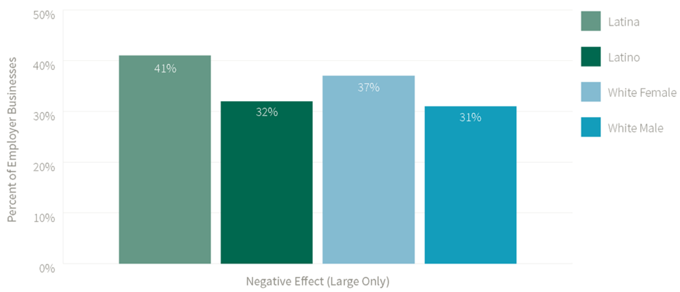
SOURCE: U.S. Census Pulse Survey (June 20-27) and 2018 Annual Business Survey

PANDEMIC DISPROPORTIONATELY IMPACTING WOMEN, AND LATINAS MORE SPECIFICALLY

Much of the growth in the number of new businesses among Latinos has been driven by women. Latinas represent 40% of all Latino business owners and the number of Latina-led employer firms has grown 20% within the last five-year period of data available.[39] As part of the gender wage gap, Latinas earn 54 cents on the dollar relative to White non-Latino men, trailing women of all other racial and ethnic backgrounds,[40] which might be one of the driving factors leading to Latinas exiting the formal labor market to start their own businesses.

For women entrepreneurs, the pandemic has also disproportionately impacted their businesses. **Figure 12** shows the distribution of men and women reporting "large negative impacts" as a result of the pandemic with 41% of Latinas reporting being impacted to this degree. Latinas running employer businesses are the most negatively impacted group followed by White women.

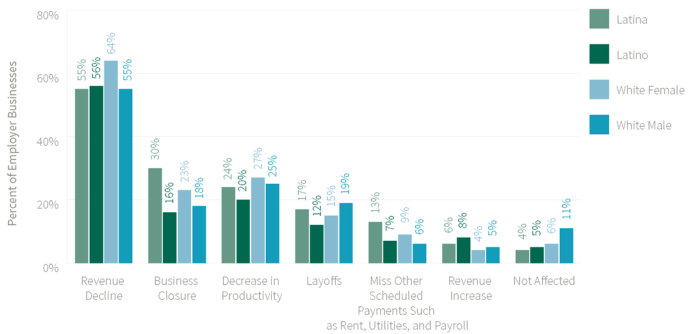
Figure 12
"Large" Negative Reported Impact of Pandemic by Gender and Race/Ethnicity



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

Additionally, the negative operational impacts have hit Latina-led businesses hard. As shown in **Figure 13**, twice as many Latina-led companies experienced closure compared to Latino-led businesses (30% versus 16%). Latinas also missed scheduled payments such as rent, utilities, and payroll at twice the rate (13% versus 7%). Taken together, this might take Latinas longer to recover.

Figure 13
Operational Impacts of Pandemic Across Gender and Race/Ethnicity



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

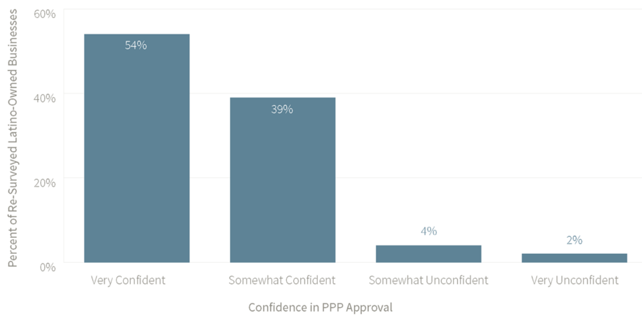
ACCESS TO RELIEF AID AND DEBT FORGIVENESS

By the end of July, the Paycheck Protection Program had dispersed over 5 million loans totaling $521 billion.[41] There were many shortcomings related to the administration of the program that negatively impacted Latinos and other minority business owners; for example, in the initial wave, only national banks were approved to disperse funds.[42] Our research has shown that Latinos are not as successful in obtaining funding from national banks (**See Section III**) as they are with Community Development Financial Institutions (CDFIs) and local banks. Fortunately for Latino businesses, in the second wave, this list of approved lenders did include CDFIs where Latinos experienced greater success in receiving PPP loans.

Our research has shown that White business owners were twice as likely to have their PPP funding approved relative to Latinos,[43] consistent with previous studies that have shown that minority entrepreneurs experienced disparities in levels of encouragement to apply, types of products offered, and information provided by the bank representatives about the PPP.[44,45]

Among the employer businesses that were able to successfully navigate and access PPP funding, loan forgiveness and subsequent grant money are likely to have significant impact on their business prospects in the next few years. Many entrepreneurs feel that in order to keep their businesses afloat, they need to incur significant debt through the PPP and will find it challenging to repay it in the future. At the time of this report, there is no guarantee of loan forgiveness or streamlining of the process. When asked about the likelihood of PPP forgiveness in September, roughly half of LOBs were very confident that they will be forgiven (**Figure 14**).

Figure 14
Likelihood of PPP Forgiveness



SOURCE: SLEI September Pulse Survey N = 132

One survey respondent lamented on the possibility of not being forgiven:

> "If we have to repay the PPP loan, we will have to spend at least two decades repaying it. There would be no way to continue to do business with that debt hanging over us, as we are a small family business. We'd have to shut down our business, declare bankruptcy, and take full-time jobs elsewhere. Everyone who works for us, and every vendor we use, would be impacted, and many will be out of business in a chain reaction caused by that."

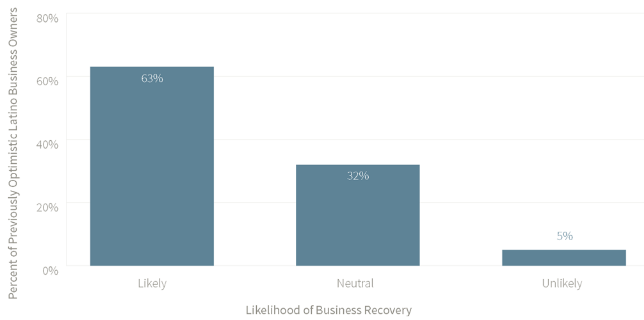
Thus, in addition to accessing relief aid, the subsequent management of loan forgiveness will be a key feature of recovery.

OPTIMISM WANING AMONG WEARY LATINO ENTREPRENEURS

Despite the challenges to accessing relief aid, at three months into the pandemic, Latinos showed comparable optimism relative to their White counterparts. In June, an overwhelming 80% indicated they would likely recover from the effects of the pandemic. In September, at six months into the pandemic, among the businesses that initially reported being optimistic in June, 63% still believe that their business will likely recover (**Figure 15**). Among those whose optimism has waned, rather than feeling entirely pessimistic, 32% now feel neutral about recovery. The remaining 5% think recovery is unlikely.

In September, among the businesses that initially reported being optimistic in June, 63% still believe that their business will likely recover.

Figure 15
Optimism Changes Among Previously Optimistic Businesses



SOURCE: SLEI June and September Pulse Surveys N = 109, overlapping respondents only

LARRY OLIVAREZ, JR. & PRISCILLA A. OLIVAREZ
Cofounders, NCrowd

SECTION V
BUSINESS ECOSYSTEM

As we have shown in this report, Latinos are making great strides in starting businesses and growing their revenue. Despite these tendencies, securing financing and scaling to be a million-dollar company remain a challenge. One way to mediate these two factors is through the development of a supportive business ecosystem. We define a business ecosystem as a network of individuals and organizations that work together towards shared goals, facilitate joint learning, and engineer effective ways to capture profit.[46] While some business ecosystems evolve through happenstance, others are created through intentionality and the organized work of a lead firm.[47] In the case of our work at the Stanford Latino Entrepreneurship Initiative, our 501(c)(3) collaborator, the Latino Business Action Network (LBAN), is an exemplar of a lead firm. In this section, we highlight the role that formal business organizations, like Hispanic chambers of commerce, play in providing information to meet the needs of the entrepreneurs that they serve. Importantly, we find that being connected to organizational or personal networks is related to success (higher revenue growth and positive funding outcomes) and Latinos are more likely to participate in formal business organizations compared to their White counterparts.

ORGANIZATIONAL NETWORKS CORRELATED TO REVENUE GROWTH

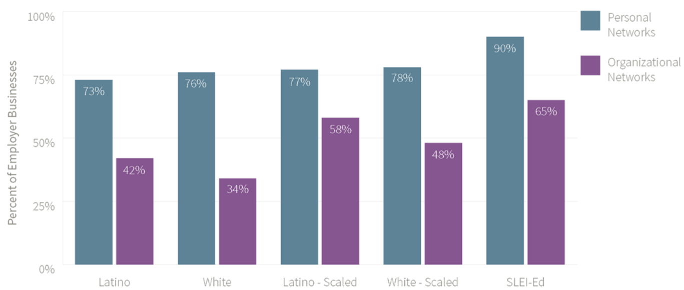
Latino owners of employer businesses have comparable family histories of entrepreneurship relative to their White counterparts, with 41% and 48% respectively reporting either parent as currently or previously owning a business. Regardless of one's family background, mentors and networks play an important role in supporting business owners. As part of the business ecosystem, we measured personal and organizational networks of the employer businesses in our sample. For personal networks, we capture the role of business mentors, other business owners, and professional colleagues who may provide advice for business related challenges or access to a crucial resource. We do the same for organizational networks which consist of chambers of commerce, trade associations, economic development organizations, and government-supported technical assistance programs.

As shown in **Figure 16**, both Latino and White business owners leverage personal networks at a higher rate than organizational networks. Interestingly, Latinos are more connected to organizational networks than White business owners, 42% compared to 34%. Alumni of Stanford's SLEI-Ed program stand out in that 90% of those in the group leverage organizational networks. We previously reported that this subset of Latino businesses owners had a significantly higher rate of approval for PPP loans compared to other scaled LOBs (82% versus 18%).[48] This strong correlation might speak to the role of organizations in distilling and synthesizing fast-changing information.

Latinos are more connected to organizational networks than White business owners, 42% compared to 34%.

Figure 16

Distribution of Connectivity in Personal and Organizational Networks Across Business Groups



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

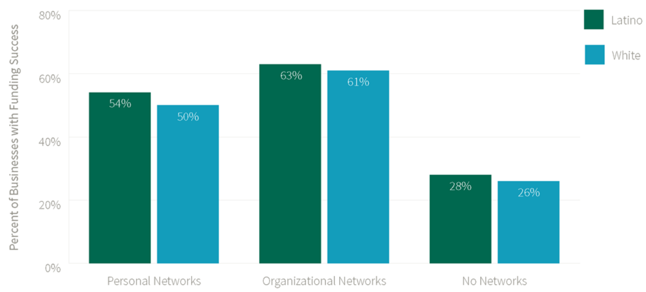
We find that networked LOBs have higher revenue growth on average than those that are not tapped into a network. This relationship does not hold among scaled LOBs. It might be that scaled businesses are already fast growing and less likely to experience significant additional benefits from organizational participation. We also find little growth among WOBs that participate in organizational networks. This might suggest that business organizations for scaled White businesses serve a different purpose, especially if they are not fast growing. Among the reported motivations for networking, WOBs are more likely to cite cost reduction. The top three reasons why Latinos engage in networking are:

1. Establishing a relationship with an experienced entrepreneur
2. Acquiring talent
3. Increasing sales

ORGANIZATIONAL NETWORKS CORRELATED TO FUNDING SUCCESS

We find that businesses that leverage organizational and personal networks are more likely to come in contact with capital providers. Additionally, as shown in **Figure 17**, LOBs that leverage organizational networks are more than twice as likely to experience funding success than those that did not engage in any networking activities (63% versus 28%). In fact, the former are also more likely to come in contact with capital providers at least once a month (45% versus 15%).

Figure 17
Networks and Funding Success



SOURCE: SLEI Survey of U.S. Business Owners, 2020. N = 7,000

Limited networks and social capital are often cited reasons for the inability of entrepreneurs to access capital and other critical resources. The data show that Latino owners of employer businesses are more involved with organizational networks than their White counterparts, pointing to the need for coordinated efforts and the intentional creation of a business ecosystem. In our previous research, we have shown the importance of other organizational stakeholders, such as corporations and government for contracting and procurement opportunities, that are also correlated to growth.[49]

SECTION VI
CONCLUSION

JOSÉ OCHOA
CEO and President, Global Containers & Custom Packaging Inc.

IMPLICATIONS FOR POLICYMAKERS, LENDERS, AND LATINO ENTREPRENEURS

While the 2020 SLEI Survey of U.S. Business Owners was administered during a time of unprecedented change, the findings are nonetheless informative in capturing pre-pandemic trends and foreseeable challenges. Through the direct comparison of a benchmark group, White business owners, we quantify the business performance of Latino-owned businesses and their experiences in accessing capital as the need for financing continues to grow.

In particular, we highlight that among multiple measures and criteria considered for funding, Latino-owned and White-owned businesses display comparable performance. We find that Latino-owned employer businesses are outpacing their White counterparts in revenue growth. On other measures, we find comparable credit risk among employer businesses. Mystery shopping studies in the business lending process have found that at the initial point of engagement, minority entrepreneurs are provided different information and shown different products.[50] Collectively, this research speaks to the opportunity for lending institutions to assess their practices at initial intake and their overall lending outcomes among small business owners. The Consumer Financial Protection Bureau is tasked with understanding the small business lending market and may support in implementing federal guidelines. Importantly, gathering data about the borrower's racial and ethnic background is an important first step. SLEI research will continue to track these critical metrics over time.

From the demand side, these findings also speak to the active role that Latino entrepreneurs may take with their lending providers, including establishing relationships before the need for capital arises, inquiring about the reasons why their request for funding was not approved, and locating lending institutions amenable to their needs. We find that CDFIs are increasingly filling this need.[51] We also find that formal business organizations are playing an important role in the business ecosystem for Latino entrepreneurs, especially as it relates to providing information and contacts around financing. As we home in on the experiences of Latinos through a comparative lens, we may better understand how to expand access to capital for those historically underserved by financial institutions but consistently contributing to the entrepreneurial dynamism of the United States.

APPENDIX

A. METHODOLOGY

OVERVIEW OF THE SLEI SURVEY OF BUSINESS OWNERS

Since 2015, the Stanford Latino Entrepreneurship Initiative has collected national survey data on Latino-owned businesses across the country and Puerto Rico on a yearly basis and revealed the findings about six months later in the State of Latino Entrepreneurship report. This year, we have expanded our sample to include White business owners for comparative purposes. To be considered for the Latino business owner sample, respondents must answer these questions affirmatively: Are you a business owner with 50% or more ownership and are you of Latino or Hispanic origin. (If yes to the second, they simultaneously specify country/ancestry.) Latino business owners are of any race and for the White business owner sample, respondents must indicate they are not Latino. Additionally, this year, we focus on employer businesses for the reasons outlined in the "About this Report" section. We also only include businesses earning over $10,000 in revenue to parallel census survey parameters. The survey instrument is an online questionnaire administered through the Qualtrics platform that typically takes 10 to 15 minutes to complete. Respondents for the comparison sample were obtained through proprietary Qualtrics business panels. All comparison group calculations are conducted on this same panel sample.

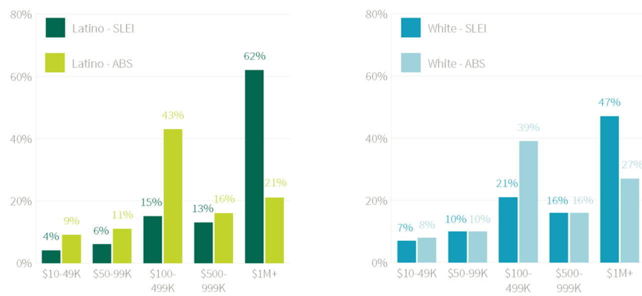
To augment our Latino business owner sample, we work with trusted partners to disseminate our surveys through their membership groups. This year, the California Hispanic Chambers of Commerce was one such collaborator that obtained a sample of over 200 Latino business owners. We leverage these and other data collected through our networks for regional and organizational reporting.

WEIGHTING THE SAMPLE FOR REPRESENTATIVENESS

We supplement our data throughout this report with known counts of employer businesses from the 2018 U.S. Census Annual Business Survey (ABS). Our sample of employer businesses are generally representative of employer businesses at large in terms of industry, geography, and age of business. **Figure 18** compares the business revenue between the unweighted 2020 SLEI survey and the 2018 ABS.

Figure 18

2020 Unweighted SLEI Survey Compared to 2018 ABS (Business Revenue)



SOURCE: SLEI Survey of U.S. Business Owners, 2020 and U.S. Census Bureau's 2018 Annual Business Survey

To more closely match the population of Latino- and White-owned firms in the United States, we adjust for sample differences by weighting to estimates from 2018 U.S. census data by revenue, number of employees, industry, and region. We use a statistical technique known as "raking," which uses iterative post-stratification weights to match the marginal distributions of each survey sample to known population margins. We stratify based upon industry, region, and firm size (in terms of both employees and revenue). We then compare the group of businesses in each stratum to the comparable population of businesses in the nation. We report findings based on statistically significant differences in means when comparing two groups and note places where there are no differences from a statistical vantage point.

LOGISTIC REGRESSION RESULTS

In the financing section of the report, we predict the likelihood of getting a loan approved from national banks. We ask about a variety of funding types as follows: "In the past 12 months up until now, what funding have you requested for your business. Select all that apply." A total of 792 business owners indicated that they requested a business loan from a national bank. The dependent variable is then generated based on a collapsed version of the outcomes of loan approval (1= all or most funding received; 0=none or some funding received). We then fit a logistic regression as a generalized linear model as it predicts variables with various types of probability distributions by fitting a linear predictor function to the expected value of the variable. The logit model is expressed as:

$$\log\left(\frac{\pi}{1-\pi}\right) = X_i \cdot \beta$$

where β is a vector of parameter estimates and X is a matrix of independent variables. In log odds, we calculate $\log\left(\frac{\pi}{1-\pi}\right)$ where π represents the probability of the dependent variable and $\left(\frac{\pi}{1-\pi}\right)$ represents the odds of the dependent variable.

OVERVIEW OF TIME-SERIES DATA ON IMPACT OF COVID-19

SLEI has two concurrent research panels we are building out: a nationally representative panel of Latino business owners with over 1,200 members and the SLEI-Ed alumni group with over 650 members. Two weeks after COVID-19 was declared a pandemic in March, we leveraged this panel to administer a survey to 224 mostly scaled ($1 million+ revenue) Latino-owned businesses in the United States to understand the immediate and potential long-term business impacts of the pandemic. We followed up with this same group of business owners again in June, and September. Of the 224 that responded to the initial pulse in March, 146 responded again in June, followed 131 in September. A total of 109 business owners responded to all three surveys.

Table 1
COVID-19 Pulse Survey Sample Size

SURVEY PERIOD	SAMPLE SIZE (N)
March	224
June	146
September	132
March, June, and September overlap	109

2-YEAR COMPOUND ANNUAL GROWTH RATE

A simple growth rate formula captures revenue growth between 2 years:

$$\textbf{2-YEAR CAGR} = \left(\frac{\text{Revenue in the past 12 months}}{\text{Revenue 3 years ago}}\right)^{(1/2)} - 1$$

5-YEAR COMPOUND ANNUAL GROWTH RATE

A simple growth rate formula captures revenue growth from one year to the next year. Because CAGR considers average growth rates over a specific time period, this more accurately captures the growth we seek to measure for a 5-year period. We calculate the 5-year CAGR as follows:

$$\textbf{5-YEAR CAGR} = \left(\frac{\text{Revenue in the past 12 months}}{\text{Revenue 5 years ago}}\right)^{(1/4)} - 1$$

Note that despite referring to the figure above as “5-year” CAGR in our analyses, we consider the number of years (i.e., periods) to be four since the revenue figures that we asked for in our survey (“Revenue in the past 12 months” and “Revenue 5 years ago”) were four years apart. We still call it “5-year” CAGR since we are comparing revenue from five years ago to revenue over the past 12 months.

B. GLOSSARY OF TERMS

BUSINESS ECOSYSTEM

A network of individuals and organizations that work together toward shared goals, facilitate joint learning, and engineer effective ways to capture profit. While some business ecosystems evolve through happenstance, others are created through intentionality and the organized work of a lead firm.

CREDIT RISK

A measure derived from self-reported personal credit scores ranked from low credit risk (scores above 720) to high credit risk (scores below 620).

EMPLOYER FIRM

A firm that has employee(s) on payroll. These firms are poised to have the greatest impact on the economy and job creation compared to non-employer firms.

ENTREPRENEUR

Someone who starts or owns a business, regardless of industry or business idea. Used interchangeably with business owner.

NON-EMPLOYER FIRM

Firms with no paid employees, annual business receipts of $1,000 or more ($1 or more in construction industry), and subject to federal income taxes. These firms make up three-quarters of all U.S. businesses but account for only about 3% of business receipts, according to the SBA.

ORGANIZATIONAL NETWORKS

A measure that includes whether a business owner participates in formal business organizations such as chambers of commerce, trade associations, and/or economic development organizations among others.

PERSONAL NETWORKS

A measure that includes whether a business owner leverages business mentors, other business owners, and/or professional colleagues.

SCALED FIRM

A firm that is generating at least $1 million in annual gross revenue.

UNSCALED FIRM

A firm that is not yet generating at least $1 million in annual revenue.

C. REFERENCES

[1] Sarah Flood, Miriam King, Renae Rodgers, Steven Ruggles, and J. Robert Warren. Integrated Public Use Microdata Series, Current Population Survey: Version 6.0 [dataset]. Minneapolis, MN: IPUMS, 2018. https://doi.org/10.18128/D030.V6.0

[2] Rodriguez, N. (2017). 8 Facts about Latino-Owned Businesses. Stanford Latino Entrepreneurship Initiative, Stanford University. https://www.gsb.stanford.edu/sites/default/files/publication-pdf/academic-publication-slei-8-facts-latino-businesses.pdf

[3] U.S. Census Bureau. (2020). 2018 Annual Business Survey and 2012 Survey of Business Owners.

[4] Camino Financial.

[5] Orozco, M., Tareque, I., Oyer, P., & Porras, J. (2019). State of Latino Entrepreneurship. Stanford Latino Entrepreneurship Initiative, Stanford University. https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2019

[6] Ibid (3).

[7] U.S. Census Bureau. (2020). 2018 Annual Business Survey.

[8] Ibid (5).

[9] Orozco, M. (2020). "Reconceptualizing the Enclave: Measuring Success Among Latino-Owned Businesses." Social Science Quarterly. https://doi.org/10.1111/ssqu.12821

[10] Ibid (7).

[11] Morelix, A., Tareque, I., Orozco, M., Perez, I., Oyer, P., & Porras, J. (2018). The U.S. Latino Entrepreneurship Gap: A Comparative Measure of Latino Entrepreneurship Activity. https://www.gsb.stanford.edu/faculty-research/publications/2018-latino-entrepreneurship-gap-report

[12] Ibid (3).

[13] Orozco, M., Perez, I., Oyer, P., & Porras, J. (2018). State of Latino Entrepreneurship. Stanford Latino Entrepreneurship Initiative, Stanford University. https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2018

[14] Ibid (5).

[15] Joint Economic Committee. (2020). The Economic State of the Hispanic Community in America: Keys to Building a Better Economy after COVID-19. https://www.jec.senate.gov/public/_cache/files/23062796-f531-43cf-bbc1-d68a0e7c3244/hhm2020-economicstateofthehispaniccommunityinamerica-final1.pdf

[16] Ibid (3).

[17] Ibid (13).

[18] Ibid (7).

[19] Rotter, K. (2018). "The Basics of Business Credit Scores." U.S. News and World Report. https://creditcards.usnews.com/articles/the-basics-of-business-credit-scores

[20] Ibid (13).

[21] Pekkala Kerr, S., & Kerr, W. R. (2018). Immigrant Entrepreneurship in America: Evidence from the Survey of Business Owners 2007 & 2012. Harvard Business School. https://www.hbs.edu/faculty/Publication%20Files/18-098_2d797478-6174-4cd0-9b3d-a807d3c1dfaf.pdf

[22] Camino Financial.

[23] Bone, S. A., Christensen, G. L., Williams, J. D., Adams, S., Lederer, A., Lubin, P. C., & Research, L. (2018). Shaping Small Business Lending Policy Through Matched-Paired Mystery Shopping.

[24] Lederer, A., Oros, S., Bone, S., Christensen, G., & Williams, J. (2020). Lending Discrimination within the Paycheck Protection Program. https://www.ncrc.org/lending-discrimination-within-the-paycheck-protection-program

[25] Bone, S. A., Christensen, G. L., Williams, J. D., Adams, S., Lederer, A., Lubin, P. C., & Research, L. (2018). Shaping Small Business Lending Policy Through Matched-Paired Mystery Shopping.

[26] Ibid (7).

[27] Haltiwanger, J. (2020). "New York state now has more confirmed coronavirus cases than any country in the world." Business Insider. https://www.businessinsider.com/new-york-state-more-coronavirus-cases-than-any-country-worldwide-2020-4

[28] Ibid (3).

[29] Orozco, M., Tareque, I. S., Oyer, P., & Porras, J. I. (2020a). The Impact of COVID-19 on Latino-owned Businesses. Stanford Latino Entrepreneurship Initiative, Stanford University. https://www.gsb.stanford.edu/faculty-research/publications/impact-covid-19-latino-owned-businesses

[30] Orozco, M., Tareque, I. S., Oyer, P., & Porras, J. I. (2020b). The Ongoing Impact of COVID-19 on Latino-owned Businesses. Stanford Latino Entrepreneurship Initiative, Stanford University.https://www.gsb.stanford.edu/faculty-research/publications/ongoing-impact-covid-19-latino-owned-businesses

[31] Ibid (29).

[32] U.S. Census Bureau. (2020). “Small Business Pulse Survey: Tracking Changes During the Coronavirus Pandemic.” https://www.census.gov/data/experimental-data-products/small-business-pulse-survey.html

[33] Ibid (30).

[34] Ibid (30).

[35] U.S. Census Bureau. (2020). “Small Business Pulse Survey: Tracking Changes During the Coronavirus Pandemic.” https://www.census.gov/data/experimental-data-products/small-business-pulse-survey.html

[36] Yelp Local Business Economic Report. (2020). https://www.yelpeconomicaverage.com/yelp-coronavirus-economic-impact-report.html

[37] Fairlie, R. (2020). “The impact of COVID-19 on small business owners: Evidence from the first 3 months after widespread social-distancing restrictions.” Journal of Economics and Management Strategy, June. https://doi.org/10.1111/jems.12400

[38] Ibid (30).

[39] Ibid (3).

[40] Rossini, D. (2020). “The Wage Gap for Latina Workers is Still 54 Cents.” Leadership Conference Education Fund. https://civilrights.org/edfund/resource/wage-gap-latina-workers-still-54-cents-thats-troubling

[41] U.S. Small Business Administration. (2020). Paycheck Protection Program (PPP) Report. https://www.sba.gov/sites/default/files/2020-08/PPP_Report%20-%202020-08-10-508.pdf

[42] Liu, S. and Parilla, J. (2020). “ New data shows small businesses in communities of color hand unequal access to federal COVID-19 relief.” Brookings. https://www.brookings.edu/research/new-data-shows-small-businesses-in-communities-of-color-had-unequal-access-to-federal-covid-19-relief/

[43] Ibid (30).

[44] Lederer, A., Oros, S., Bone, S., Christensen, G., & Williams, J. (2020). Lending Discrimination within the Paycheck Protection Program. https://www.ncrc.org/lending-discrimination-within-the-paycheck-protection-program/

[45] Bone, S. et al. (2018). “Shaping Small Business Lending Policy Through Matched-Paired Mystery Shopping.” Jon M. Huntsman School of Business.

[46] Moore, J. F. (1993). Predators and Prey: A New Ecology of Competition. Harvard Business Review, 71(3), 75–86. https://hbr.org/1993/05/predators-and-prey-a-new-ecology-of-competition

[47] Williamson, P. J., & De Meyer, A. (2012). Ecosystem advantage: How to successfully harness the power of partners.California Management Review, 55(1), 24–46. https://doi.org/10.1525/cmr.2012.55.1.24

[48] Ibid (30).

[49] Orozco, M., Perez, I., Oyer, P., & Porras, J. (2018). State of Latino Entrepreneurship. Stanford Latino Entrepreneurship Initiative, Stanford University. https://www.gsb.stanford.edu/faculty-research/publications/state-latino-entrepreneurship-2018

[50] Ibid (25).

[51] Ibid (5).

SECTION VI
ABOUT US

STANFORD LATINO ENTREPRENEURSHIP INITIATIVE (SLEI) RESEARCH PROGRAM

SLEI operates a research program (SLEI-Research) that explores and expands our knowledge of the Latino entrepreneurial segment of the U.S. economy through research, knowledge dissemination, and facilitated collaboration. The program, jointly supported by LBAN and Stanford GSB Center for Entrepreneurial Studies, conducts an annual national survey to assess the current state of U.S. Latino entrepreneurship and is curating a significant panel of Latino entrepreneurs to enable longitudinal research to understand trends over time.

SLEI EDUCATION SCALING PROGRAM

SLEI also operates an education program (SLEI-Ed) as a collaboration between Stanford GSB Executive Education and LBAN. It is an opportunity designed for U.S. Latino business owners who generate more than $1 million in annual gross revenues or have raised at least $500,000 of external funding. This seven-week immersive program provides business owners with education, enhanced networks, personal mentorship, and a better understanding of how to access and manage capital to scale their businesses. The program has more than 720 alumni from 31 states and Puerto Rico who collectively generate over $4.0 billion in annual revenue.

LATINO BUSINESS ACTION NETWORK (LBAN)

This survey was made possible in part through the investment and support for LBAN from principal partners Wells Fargo, Fox Corporation, John Arrillaga, Bank of America, Chavez Family Foundation, Surdna Foundation, Pitch Johnson, and the Latino Donor Collaborative.

LBAN works to make America stronger by empowering Latino entrepreneurs to grow large businesses through entrepreneurship research, education, and networks. LBAN's goal is to double the number of $10+ million, $100 million, and $1+ billion Latino-owned businesses by 2025.

Learn more: www.lban.us

STANFORD GRADUATE SCHOOL OF BUSINESS

Stanford Graduate School of Business has established itself as a global leader in management education through educational programs designed to develop insightful, principled, global leaders. Stanford GSB supports faculty research, curriculum development, and interaction among academic disciplines.

Learn more: www.gsb.stanford.edu

Responses of Farad Ali to Representative Nikema Williams' Questions

1. How can we leverage the business centers of the agency to provide technical assistance and support to minority/women-owned business enterprises to ensure they are well positioned to compete for infrastructure projects across the country?

Congresswoman Williams, I believe codifying the authorization of the MBDA into statute, versus its previous status under the 1969 Executive Order, will be one of the most significant and impactful actions for long term growth of economically impactful minority businesses in this nation. With this permanence, Agency leadership at the Undersecretary level, and increased grantmaking capacity, MBDA is uniquely positioned to provide direct technical assistance and support to the minority-owned businesses with the size, scalability, and capacity to get the bonding, hire the workforce, and successfully deliver on nationwide infrastructure projects.

As I mentioned during my testimony, success will require coordination between the business community, financial services industry, and strong, transparent oversight from Congress to address two key financial barriers: access to capital and access to contracts. MBDA has a strong record of serving as that facilitator, with a $247 economic return for every $1 appropriated to the agency. Most of this growth comes from facilitating private sector business relationships which makes up approximately 72% of the contracts awarded and capital raised.

Through its expanded network of Minority Business Centers, MBDA can leverage its formal alignment with minority business organizations like the U.S Black Chambers, National Minority Supplier Development Council, Airport Minority Advisory Council and Conference of Minority Transportation Officials – that have already begun the process of identifying qualified, capable firms of various sizes. MBDA can also leverage its increased grantmaking authority to provide funding for regional and targeted technical assistance programs to meet the local business needs for bonding, capital assistance, and compliance.

2. Mr. Ali, given this disparity, what legislative solutions should we be considering to level the playing field for minority/women-owned businesses in accessing capital?

Thank you for this question, Congresswoman. There are two legislative actions Congress can take to level the playing field for capital access and have a direct impact on the successful implementation of the IIJA: increase funding for the Emergency Capital Investment Programs (ECIP) and provide Community Development Financial Institutions (CDFI) additional flexibility to leverage private sector investments towards underserved communities.

Through these programs, the Department of Treasury is authorized make investments in eligible institutions (Minority Depository Institutions, Community Development Financial Institutions, Community Development Entities, etc.) to support their efforts to "provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities."

This is an avenue to directly inject capital into underserved communities, leveraging commercial best practices and utilizing commercial banking infrastructures. However, currently investments cannot exceed $9B despite the ability for programs like the CDFI to leverage $12 in private capital for every $1 in government-appropriated grant dollars. Congress should increase the overall Treasury investment to $10B by adding an additional $1B to the CDFI Fund. This will result in $12B in direct private investment in underserved communities and organizations.

The second legislative action Congress can take is to authorize greater flexibility for these organization to serve the minority businesses by extending the CDFI Bond Guarantee program at the authorized level of $500 million. Access to bonding has been a longstanding barrier to minority companies to participate in larger, at-scale infrastructure projects. Increasing this guarantee would help release some of the pressure on these very capable firms that would otherwise be left out.

In addition to the legislative actions Congress can take, there are some non-legislative administrative actions the Federal government can take which would have an immediate benefit to the success of the IIJA's inclusion objectives. The Department of Transportation should do an immediate review of the personal net-worth thresholds for SDB/MBE companies in specifically targeted NAICS codes. Increasing these thresholds for the business owners will increase the potential for these firms to get the necessary bonding for construction and infrastructure projects, which has been a significant barrier to their participation in at-scale projects in the past.

The codification language in the IIJA gave the MBDA Undersecretary authority to coordinate federal MBE programs and created a council was authorized to advise in these efforts. This council, in partnership with representatives from the Department of Transportation, can identify specific NAICS codes where a narrowly tailored and targeted increase in net worth will serve to increase minority business participation, diversify the supplier base, and increase competition for these projects.

3. Ms. McGuire, what steps can larger banks and lenders take to expand funding opportunities to minority/women-owned business enterprises looking to participate in infrastructure projects?

Congresswoman, as an MBE company, I would like to weigh in on this very important issue. Black-owned businesses cannot equitably compete for infrastructure projects if they do not have the access to capital that they need. Right now, 53% of Black entrepreneurs are denied or given lower bank loans compared to only 25% of white entrepreneurs. Congress must perform an active oversight role to promote lending products that align with federal procurement contract terms and expand the programs that directly reduce barriers to capital such as the Emergency Capital Investment Program (ECIP).

An April 2019 report from the Kauffman Foundation found that minority-owned firms are disproportionately denied when they need and apply for additional credit. One study compared sources of finance and found that new black-owned businesses start with almost three times less in terms of overall capital than new white-owned businesses, and that this gap does not close as firms mature. Further, minority firm owners have been found to be charged higher interest rates on bank loans than similar white borrowers.

While they are not the solution to ending racial discrimination in commercial lending, which is the driving force in these disparities, increasing funding to ECIP programs can put additional resources to compensate for the “additional risk” many large banks and institutional investors seem to apply to minority businesses and borrowers. These funds go to organizations that already have social-impact investing as a part if their Charter and have an inherent interest in lending to minority businesses and organizations. Again, an additional $1B in the CDFI Fund could result in an additional $12B of private investment in minority businesses and underserved communities. This will provide the essential borrowing and bonding capacity to participate in the $1.5T in infrastructure projects projected to be implemented over the next 10 years through the IIJA.

I look forward to continue to work with the subcommittee on this important issue.