



Minority-Owned Businesses Face Critical Challenge Accessing Capital

There are four million minority-owned firms in the United States.

They employ approximately 4.7 million people.

These firms generate more than \$661 billion in annual sales.

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More than 70% of domestic banks were charging higher interest for loans since July 2008.

Issue

The current economic crisis presents a challenge to many of the 4 million minority-owned businesses throughout the United States. While the number of minority-owned firms continues to grow, more than 80 percent have gross receipts totaling less than \$100,000. Many of these entrepreneurs rely on short-term debt – such as revolving lines of credit and credit cards – to finance their businesses. Tightened credit will halt the growth and expansion of minority-owned firms in neighborhoods and communities impacting job and wealth creation.

Background

Minority business enterprises (MBEs) play a critical role in generating jobs, creating wealth and introducing innovative products and services in neighborhoods across America, as well as throughout the world. While MBEs are growing more quickly than other firms, their average gross sales are lagging behind. One key challenge to building size, scale and capacity of MBEs is raising capital. As stated before, many entrepreneurs rely on short-term debt to finance their business. In the current economic environment, not only is it difficult to receive loans and services from financial institutions, but the price of borrowing is often too high.

Prior to the current crisis, access to capital for MBEs was already cited as a proverbial challenge – now it's severely impacting the growth and potential survivability of minority-owned firms even more. The Federal Reserve recently reported that 65 percent of domestic banks have tightened lending standards since July 2008. More than 70 percent

said they were charging more interest for loans. This impacts cash flow and stunts the growth of minority businesses resulting in fewer MBEs competing for public and private sector contracts and projects.

Additional impact may also include increased bankruptcies, fewer new jobs, less innovation and a shrinking tax base for the municipality and the state in which the minority business operates affecting the overall economy.

Stakeholders

The minority business development community (e.g. chambers of commerce, trade associations, federal and state agencies) is concerned that minority-owned businesses will not be able to access financial services products regardless of credit and ability to pay back loans. Other stakeholders impacted by the tightening of credit to viable MBEs include the corporations who rely on minority business enterprises for goods and services worth billions of dollars throughout supply chains. In addition, federal, state and local governments procure billions more in goods and services from minority firms. With an inability for MBEs to access credit for cash flow, expansion or growth, these firms may no longer be able to fulfill contract obligations or remain in the supply chain.

MBDA's Access to Capital Initiative

MBDA continues to advocate for and promote MBEs as a solid investment opportunity with lending, bonding institutions and private equity firms. MBDA, through its network of centers nationwide, analyzes, matches and sources minority-owned businesses with the appropriate sources of capital. The Agency has enhanced its approach to providing tangible client outcomes by leveraging staff expertise, implementing programs and using alliances that:

- Focus on capital issues, initiatives and activities to support minority firms needs on a national and regional basis.
- Provide financing support and resources to MBDA's nationwide network of Centers and Regions working strategically to facilitate finance or investment transactions for MBDA clients.

- Develop strategic partners comprised of capital providers (debt, equity or alternative sources) to make referrals for funding sources to minority owned firms.
- Serve as an advocate and develop relationships with stakeholders who are promoting capital inflow into underserved marketplaces dominated by minority owned firms.
- Develop relationships with trade organizations such as the National Association of Securities Professionals, Marathon Club, NAIC firms, New America Alliance and Surety & Fidelity Association of America which provide education, funding or bonding sources to minority-owned firms.

MBDA's preliminary performance results for Fiscal Year 2008 indicate its programs and services reached more than 25,000 minority businesses producing \$972.4 million in contracts and over \$1.1 billion in financial packages. As a result of these new contracts and financing vehicles, more than 5,300 new jobs were created for its clients.

MBDA's ***Access to Capital Initiative*** is focused on collaborating, identifying and promoting effective and innovation solutions with public and private entities to increase the flow of capital to minority business enterprises. In FY 2009, MBDA will:

- Conduct two stakeholder meetings that will focus on solutions, innovative concepts and partnerships that increase the flow of capital to minority businesses. The dialogue will serve as a framework for MBDA's upcoming Access to Capital Forum in May 2009 and the development of an issue paper.
- Conduct one Capital Access Forum that will be based on the dialogue and framework established in the stakeholder meetings.
- Develop an MBDA Capital Access Issue Paper that will be shared with the minority business community.

These efforts will culminate in an MBDA report on Access to Capital that will provide recommendations for solutions, innovative concepts and strategic partnerships to increase the flow of capital to minority businesses.