



**WRITTEN STATEMENT FOR THE RECORD BEFORE THE U.S. SENATE
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
PROMOTING OPPORTUNITY: THE NEED FOR TARGETED FEDERAL BUSINESS
PROGRAMS TO ADDRESS ONGOING RACIAL DISCRIMINATION**

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Dear Chair Shaheen, Ranking Member Ernst, and members of the Committee on Small Business and Entrepreneurship:

As a leading representative of America's 33 million small businesses, Small Business Majority is pleased to provide written testimony to the U.S. Senate Committee on Small Business and Entrepreneurship regarding efforts to preserve, protect, and expand programs targeting minority entrepreneurs.

Small Business Majority is a national small business organization that empowers America's diverse entrepreneurs to build a thriving and equitable economy. From our nine offices across the country, we engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth. Our work is bolstered by extensive research and deep connections with the small business community that enables us to educate stakeholders about key issues impacting America's entrepreneurs, with a special focus on the smallest businesses and those facing systemic inequities.

Minority entrepreneurs face disproportionate barriers when it comes to achieving the American Dream, despite their presence and contributions to our economy. According to recent data from the U.S. Census Bureau, there are approximately 12 million minority-owned businesses in the U.S., both employer and non-employer firms, which contribute over \$2 trillion to the economy annually.^{1 2} However, the barriers these entrepreneurs face due to centuries of systemic challenges have historically stood in the way of their success. Whether through efforts to obtain and utilize sustainable, responsible, and transparent capital products, or through efforts to win contracts with the federal government, minority business enterprises (MBEs) oftentimes are forced to rely on the help of programs curated to meet their unique needs to drive their business forward.

As an organization that represents a network consisting of over two-thirds of MBEs, Small Business Majority continues to see these challenges play out in real time. When it comes to accessing capital, according to a nationwide report from 2021, small business owners of color have encountered more setbacks when obtaining capital than their white counterparts.³ While 1 in 5 (19%) of small business owners overall obtained less financing than they sought, this number was higher among Asian Americans

¹ "Census Bureau releases new data on minority-owned, veteran-owned and women-owned businesses." U.S. Census Bureau. October 26, 2023. <https://www.census.gov/newsroom/press-releases/2023/annual-business-survey-employer-business-characteristics.html>.

² "Census Bureau releases nonemployer business data by demographic characteristics of owners." U.S. Census Bureau. February 8, 2024. <https://www.census.gov/newsroom/press-releases/2024/nonemployer-business-data.html>.

³ "Small businesses struggling to access capital, harming their financial recovery." Small Business Majority. February 17, 2021. <https://smallbusinessmajority.org/our-research/access-capital/small-businesses-struggling-access-capital-harming-their-financial-recovery>.

and Pacific Islanders (AAPI) (36%), Black (31%), and Latino (26%) small business owners.⁴ Similarly, while 18% of small businesses, overall, were denied a loan, the rates of loan denials were higher among people of color: 32% of Black, 23% of Latino, and 22% of AAPI business owners were denied funding. This data points towards the larger-than-imaginable capital and opportunity gaps faced by so many members of our communities. Therefore, underscoring a need for targeted, meaningful investment to MBE communities will help bring them closer to parity with their counterparts in other demographic groups.

MBEs also face significant challenges when seeking to compete for federal contracts. For example, the U.S. Small Business Administration's (SBA) FY22 data estimated that small, minority-owned firms only received 9.62% of all contract awards, compared to 16% of contracts that went to white-owned firms (larger firms received over 74% of all contract awards), compounding this disparity further. This is concerning as the U.S. government is the largest purchaser of goods and services in the world. In fact, the government is projected to spend over \$750 billion in contracts this year alone.⁵ The federal government is also increasing its spending thanks to the Bipartisan Infrastructure Law, which directs even more funding and creates opportunities for contractors to work with the government. For these dollars to truly make an impact, it is critical that the government continues to invest in and strengthen its small business set-aside programs, setting up small and minority-owned contractors for future success.

The examples we share today, including barriers to capital and contract opportunities, are only two small instances that demonstrate the disparities MBEs continue to face, and in today's political climate, their challenges are worsening. In the wake of the 2023 Supreme Court's affirmative action ruling, programs across the country that have historically served marginalized communities continue to face setbacks. By way of legal or philosophical challenges, some of these programs are no longer able to support the communities that need them most. Some recent examples of action taken against these programs include attacks on private funds designed to support minority groups, such as the lawsuit filed against Fearless Fund, blocking the venture fund from supporting grants to Black women-owned businesses.⁶ Another challenge against government sponsored programs include the SBA 8(a) business development program, a program geared at providing access to procurement opportunities for small and disadvantaged businesses.⁷

In another recent attack, the Minority Business Development Agency (MBDA) was challenged by a U.S. District Court Judge that ruled the MBDA's prioritization and focus on Black, Hispanic, Asian, and other minority groups is unconstitutional.⁸ The MBDA is the only federal agency solely dedicated to supporting the development and expansion of MBEs, which are essential to building a thriving and equitable economy. As business formation has surged over the past three years, the agency has been a proven lifeline for many entrepreneurs seeking to start and grow their businesses in our nation's most under-resourced communities. Their mission is critical to addressing the historic barriers that these businesses face. The ruling was representative of yet another striking blow to the integrity of a framework of programs that are uplifting underserved and minority communities everywhere. If the MBDA is unable to continue serving the communities it was created to serve, the consequences of removing that support would be detrimental to the fabric of our economy.

In the corporate sector, attacks on Diversity, Equity, and Inclusion (DEI) initiatives continues to grow. Companies that once stood in support of racially targeted programs in the wake of the murder of George Floyd have walked back their commitments in double-time. For example, recent data by Revelio Labs

⁴ Ibid.

⁵ "Contract spending is set to grow across the board in 2024." Federal News Network. November 7, 2023.

<https://federalnewsnetwork.com/contracting/2023/11/contract-spending-is-set-to-grow-across-the-board-in-2024/>.

⁶ "Grant program for Black women comes under tough questioning in key anti-DEI lawsuit." Associated Press. January 31, 2024.

<https://apnews.com/article/fearless-fund-dei-corporate-diversity-backlash-lawsuit-2196b5086012b427393c77a3897d4d64>.

⁷ In the 8(a) decision, a court ordered that SBA's presumption of social disadvantage was unfair for other businesses (largely, white-owned firms) trying to compete for the very limited set-aside dollars to support small, underserved firms. This ruling is representative of a broader attack on programs that are designed to lift marginalized communities from the depths of systemic racial barriers to success. <https://www.sba.gov/document/policy-guidance-impact-recent-court-decision-ultima-servs-corp-v-dept-ag-ed-tenn-use-8a-program>

⁸ "MBDA ruling is a disappointing setback for underserved small businesses." Small Business Majority. March 6, 2024.

<https://smallbusinessmajority.org/press-release/mbda-ruling-disappointing-setback-underserved-small-businesses>.

shows that companies like Zoom, Meta, Tesla, DoorDash and others, made cuts to their DEI programs in the wake of affirmative action lawsuits.⁹

Even more concerning, the U.S. House of Representatives dissolved its Office of Diversity and Inclusion this year.¹⁰ The provision to halt DEI initiatives rode quietly on legislation that provided last-minute, buzzer-beater funding to the government preventing a shutdown for the remainder of FY24. The clear trickle-down effect of the dismantling of systems that protect and serve minority communities across the country following last year's affirmative action case are only the beginning. Therefore, it's imperative for our federal government to act now and play a key role in reversing this damage. Now is the time to double-down on our efforts to protect, expand, and invest in programs serving minority-owned businesses and minority entrepreneurs.

As an advocate for America's small business community and a fervent supporter of programs designed to provide equitable opportunities for entrepreneurs, Small Business Majority stands in unwavering support of programs that specifically target minority-owned businesses. Due to centuries of historic injustices, some communities need extra support, guidance, and access to resources to start and operate their businesses. Equity initiatives are key to leveling the playing field for underserved and disadvantaged entrepreneurs, and we cannot afford to keep losing support infrastructures for these communities. To that end, our nation is made up of many different communities, cultures, and backgrounds, and we must meet entrepreneurs where they are rather than provide them with a one-size-fits-all approach when it comes to government support and programming.

Below, we detail some ways in which the government can uphold its commitment to equity by continuing to invest in programs that are critical to the success of all entrepreneurial ecosystems.

1. **Commit to provide the funding support and capacity needed for proven programs such as the MBDA and SBA so they can continue reaching entrepreneurs of all backgrounds.** While the MBDA and SBA programs are only two examples of government-led initiatives, we urge the government to do more by way of direct funding to agencies, and through the intentional act of protecting and bolstering programs that target underserved communities to ensure all may compete on a level playing field. As the data shows, disparities remain despite the available opportunities. It is the federal government's duty to provide the services and support needed for disadvantaged communities to thrive.
2. **Ensure that federal procurement opportunities are available and accessible to all by expanding and evaluating set-aside programs for MBEs.** Each agency is tasked with the responsibility of serving disadvantaged and underutilized small businesses through their Offices of Small and Disadvantaged Business Utilization (OSDBU) or similar departments. These divisions are tasked with the goal of increasing the utilization of small contractors and assisting small and disadvantaged business enterprises in the pursuit of opportunity to work with the federal government. We believe these programs must be strengthened and held accountable on their equity initiatives to bridge opportunity gaps between communities. Similarly, we urge Congress to re-evaluate set-aside programs by ensuring that all MBEs gain access to the same opportunities as their counterparts. To ensure MBEs have a fair shot at tapping into historic opportunities to work with the government through recent landmark legislative investments, we encourage Congress to hold agencies accountable to increasing the small business spend across all MBE groups through targeted outreach, technical assistance, and resources tailored to meet the needs of specific communities.
3. **Ensure accountability across federal programs that serve minority business communities.** Ensuring that programs that are designed to help our small business

⁹ "As DEI gets more divisive, companies are ditching their teams." The Washington Post. February 18, 2024.

<https://www.washingtonpost.com/business/2024/02/20/corporate-diversity-job-cuts/>.

¹⁰ "U.S. House Office of Diversity and Inclusion to be disbanded as part of government spending bill." U.S. House Office of Diversity and Inclusion. March 25, 2024. <https://diversity.house.gov/2024/03/25/us-house-office-of-diversity-and-inclusion-to-be-disbanded-as-part-of-government-spending-bill/>.

communities are held accountable on their goals will increase their effectiveness and dollar for dollar value. A good example of accountability in government programs can be seen in recent SBA efforts to disaggregate its contracting data by racial group. Shedding light on the disparities faced by certain communities is critical to developing public policy solutions that prevent these disparities from growing further. We urge Congress to ensure that agencies are taking a closer look at their spending and contracting habits, measuring the economic impact of the invested dollars in small, MBEs across the nation.

4. **Develop strong reporting requirements for programs to demonstrate impact and sustain public support.** Recognizing that each member of Congress represents the needs of their constituents, more must be done to show taxpayers the value of supporting minority programs, and this starts with strong data collection. We must ensure that programs supporting minority communities are measurable, impactful, and continue to shape a feedback dialogue between public and private entities to inform their success moving forward. Demonstrating a clear link between targeted investment and increasing success rates in MBE communities will be paramount to ensuring that these programs can continue to operate and provide services to those who need them.
5. **Push forward with efforts to shed light on racially motivated disparities and barriers across the small business ecosystem.** For the government to be a leader in this space, agencies and leaders in Congress should remain at the forefront of encouraging more transparency in our economy. Unfortunately, data collection efforts to help our nation's decisionmakers understand the current landscape are under attack, as demonstrated by legal pushback on the Consumer Financial Protection Bureau (CFPB)'s move to implement section 1071 of the Dodd-Frank act in its small business lending data collection initiative.¹¹ While this example is just one instance of how legal barriers are hindering a more transparent economy, it represents the tip of the iceberg concerning attacks on equity across the country and the world. We believe that without access to comprehensive data on how MBEs fare in today's economy, attacks on key programs designed to address discrimination will persist, ultimately hindering the effectiveness of programs both public and private.

Small Business Majority recognizes that the federal government plays a critical role in understanding and addressing the disparities and inequities faced by minority communities. While we outline a few programs that work to bridge some of these inequities in this testimony, we know that there are many other programs—both public and private—that remain at risk of failing to achieve their full economic potential. When it comes to business ownership, a cornerstone of the American Dream, it is critical that the government continues to invest in communities that historically face barriers to success. We thank you for the opportunity to comment on these critical issues and welcome the Committee's efforts to ensure that our federal programs are meeting the needs of America's diverse small businesses. For any questions or additional information, please contact Government Affairs Director, Alexis D'Amato at adamato@smallbusinessmajority.org.

Sincerely,

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Small Business Majority

¹¹ "Court issues nationwide stay of CFPB's Section 1071 Small Business Lending Rule." Greenberg Traurig, October 30, 2023. <https://www.gtlaw.com/en/insights/2023/10/court-issues-nationwide-stay-of-cfpbs-section-1071-small-business-lending-rule>.