

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

January 31, 2022

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: February 3, 2022, Diversity and Inclusion Subcommittee Hearing entitled, “Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses’ Involvement in Infrastructure Projects”

The Subcommittee on Diversity and Inclusion will hold a virtual hearing entitled, “Building Opportunity: Addressing the Financial Barriers to Minority- and Women-Owned Businesses’ Involvement in Infrastructure Projects” on Thursday, February 3, 2022, at 10:00 am on Cisco Webex. There will be one panel with the following witnesses:

- **Farad Ali**, President & CEO, Asociar
- **Tawanna Black**, President and CEO, Center for Economic Inclusion
- **Philip Gaskin**, Vice President of Entrepreneurship, Kauffman Foundation
- **Ying McGuire**, President & CEO, National Minority Supplier Development Council (NMSDC)
- **Jeanette Quick**, Head of Compliance and Public Policy, Gusto

Purpose

This hearing will explore challenges faced by minority-owned businesses, women-owned businesses, and small businesses in obtaining the capital necessary to participate equally in federal contracting opportunities. The hearing will explore possible solutions to encourage the creation and growth of diverse entrepreneurs’ businesses. This hearing will also consider legislative proposals to ameliorate challenges faced by minority- and women-owned small businesses.

Background

In November 2021, the Infrastructure Investment and Jobs Act (IIJA) was signed into law.¹ This significant and bipartisan investment in America’s infrastructure provides an opportunity to not only overhaul America’s crumbling bridges and roads but also build and expand minority- and women-owned businesses (MWBs). The Act invests nearly \$1.2 trillion total, with \$550 billion earmarked for federal, state, and local infrastructure projects over the next five years. These large-scale projects offer minority- and women-owned firms an opportunity to expand; however, to do so, they will need access to affordable and timely capital.

In 2021, President Biden announced the White House’s plan to increase racial equity and support underserved communities by promoting the equitable delivery of government benefits and contract opportunities for federal government projects.² Biden set a “bold new goal: increasing the share of contracts going to small disadvantaged businesses by 50 percent by 2025 – an unprecedented target projected to translate to an additional \$100 billion to SDBs [small disadvantaged businesses] over five

¹ Infrastructure and Investment Act, [Pub. L. No. 117-58](#).

² The White House, [Executive Order Advancing Racial Equity and Support for Underserved Communities through the Federal Government](#) (Jan 2021).

years.”³ The passing of the IIJA presents an opportunity for MWBEs to receive substantial work opportunities through government contracts.

Barriers in the Government Contracting Process

As a result of inequities in capital access, MWBEs often do not have the financial capacity necessary to successfully compete for medium to large government projects. Prospective businesses seeking to engage in government contracts must undergo a bidding process that requires a set amount of cash reserves, insurances, or specific equipment related to the project.⁴ According to recently released data from the SBA, just 1.7% of federal contracts went to Black-owned small businesses in FY 2020, and 1.8% went to Hispanic-owned small businesses.⁵

In order to bid on projects, businesses must secure performance bonds, which guarantee that a contractor will fully perform the contract and offer protections against breach. Minority businesses in particular have identified discrimination from bonding companies and a lack of experience as key barriers in securing bonds.⁶ Though non-minority businesses also face barriers in the bonding process, a lack of access to capital exacerbates the issue for minority businesses that cannot produce sufficient capital to cover their own bonding. In acknowledgment of this gap, New York State used its 2011 State Small Business Credit Initiative (SSBCI) allocation to provide a bond guarantee assistance program.⁷ Through this program, New York added bond surety for contractors allowing them to scale up and, along with other interventions, increased MWBE representation in state contracts from 9.2 to 21 percent.⁸ Congress reauthorized the SSBCI program with a \$10 billion appropriation in 2021, and funds are expected to be leveraged and support up to \$100 billion in small business loans and investments.⁹ In addition, \$2.5 billion is reserved to support socially and economically disadvantaged businesses.¹⁰

Majority-owned businesses often join projects as prime contractors, which allows them to receive starter funds from municipal agencies and begin work immediately.¹¹ MWBEs serving as sub-contractors do not receive money at the start of the project and must rely on alternative funding to begin work on government-funded projects. MWBE owners often resort to “pledging their own personal credit or obtaining additional mortgages on their homes or businesses.”¹²

For the small number of MWBEs who can secure government contracts, irregularities in payments for work pose additional barriers. For example, research from the Pennsylvania Advisory Committee to the U.S. Commission on Civil Rights noted that “contractors intentionally delay payment for work they have completed, often waiting 60 days or more before compensating MWBEs. When delays occur,

³ The White House, [Fact Sheet: Biden-Harris Administration Announces Reforms to Increase Equity and Level the Playing Field for Underserved Small Business Owners](#) (Dec. 2, 2021).

⁴ Minority Business Development Agency, [Contracting Barriers and Factors Affecting Minority Business Enterprises: A Review of Existing Disparity Studies](#) (Dec. 2016).

⁵ U.S. Small Business Administration, [SBA Releases FY 2020 Disaggregated Contracting Data](#) (Dec. 2021).

⁶ *Ibid.*

⁷ Ian O’Grady, Colin Higgins and Bruce Katz, [Localizing the State Small Business Credit Initiative](#), Drexel University Nowak Metro Finance Lab (July 2021).

⁸ *Ibid.*

⁹ Section 3301 of H.R. 1319, the American Rescue Plan Act ([P.L. 117-2](#)).

¹⁰ Socially and economically disadvantaged businesses are defined as businesses owned and controlled by a socially and economically disadvantaged individuals. A socially or economically disadvantaged individuals have been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities and the social disadvantage must stem from circumstances beyond their control; and whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same or similar line of business who are not socially disadvantaged.

¹¹ Minority Business Development Agency.

¹² *Ibid.*

MWBEs are placed at financial risk, as they must find other funds to pay their subcontractors while at the same time maintaining resources to complete the original contract and other ongoing projects.”¹³ The inability to pay employees subsequently affects work quality, which may decrease the likelihood of future contracts.

Historical Barriers to Accessing Capital

According to the Board of Governors of the Federal Reserve System (Federal Reserve), business owners of color report having reduced access to traditional capital from banks and credit unions.¹⁴ Analysis from the Federal Reserve shows that creditworthy Black-owned businesses experience greater challenges raising capital than creditworthy White-owned businesses.¹⁵ Additionally, the Federal Reserve’s 2017 congressional report on the availability of credit for small businesses showed that in almost every financing category—loans, credit cards, outside investors, and grants—women and people of color, especially African Americans and Latinos, experienced the highest denial rates and were the least likely to receive full funding.¹⁶ For example, a 2020 study by Bain & Company shows that Latino businesses received less than 1% of the \$487 billion invested across a sample of the top 500 largest venture capital and private equity deals in 2020.¹⁷ As a result of this lack of access to traditional capital, women and minority entrepreneurs are more likely to tap into their home equity as startup capital.¹⁸ Unfortunately, low homeownership rates among women and people of color lead to additional business hurdles for MWBE formation.¹⁹

COVID-19 and Barriers to Accessing Federal Emergency Funding

In addition to difficulties accessing capital, MWBEs also face difficulties accessing and navigating federal funding. The Covid-19 pandemic further exacerbated the financial decline and ultimate closure of several MWBEs. According to a February 2020 study, the initial drop in minority business owners was the largest on record. Specifically, Black-owned businesses experienced a 41 percent drop, while Latinx- and Asian-owned businesses fell by 32 percent and 26 percent, respectively, from February to April 2020.²⁰ Women-owned businesses have faced similar pandemic challenges. According to a recent survey of Black and Latinx women business owners, 70 percent reported that Covid-19 has caused a decrease or loss of revenue, and 90 percent reported that they are currently unable to pay themselves a sustainable income.”²¹

The imperfect rollout of an unprecedented amount of financial assistance to small businesses following the onset of the pandemic highlighted the difficulties that MWBEs face in accessing funds.²² The Paycheck Protection Program (PPP) was specifically designed to assist the most negatively impacted

¹³ The Pennsylvania Advisory Committee to the U.S. Commission on Civil Rights, [Barriers Facing Minority- and Women-Owned Businesses in Pennsylvania](#) (Aug 2002).

¹⁴ Board of Governors of the Federal Reserve System, [Access to Financial Services Matters to Small Businesses](#) (Nov 2019).

¹⁵ *Ibid.*

¹⁶ Board of Governors of the Federal Reserve System, [Report to the Congress on the Availability of Credit to Small Businesses](#) (Sept. 2017).

¹⁷ Hernan Saenz, Tevia Segovia, Alex Noether, & Brenen Blair, [Closing the Capital Gap: Fueling the Promise of Latino-owned Businesses](#) Bain & Company (2021).

¹⁸ Whetzel, Benjamin. [Home Equity Used to Start Seven Percent of U.S. Businesses](#), National Association of Home Builders Discusses Economics and Housing Policy (Aug. 2017).

¹⁹ *Ibid.*

²⁰ National Bureau of Economic Research, [The Impact of Covid-19 on Small Business Owners: Evidence of Early-Stage Losses from the April 2020 Current Population Survey](#) (June 2020).

²¹ Derbigny, Dominique. [On the Margins: Economic Security for Women of Color through the Coronavirus Crisis and Beyond. Closing the Women’s Wealth Gap](#) (Apr. 2020).

²² National Bureau of Economic Research, COVID-19, [Small Business Owners, and Racial Inequality](#) (Dec. 2020).

businesses, such as those in underserved markets and disadvantaged business owners.²³ A National Bureau of Economic Research report revealed that minority businesses were less likely to receive PPP loans.²⁴ For example, in Detroit, counties with higher concentrations of Black businesses were among those to see the lowest rates of PPP allocation.²⁵ Similarly, an analysis from the Federal Reserve Bank of San Francisco found that majority-white ZIP codes in various metropolitan areas had higher PPP loan coverage compared to ZIP codes with heavily minority populations.²⁶

Financial institutions' disbursement of federal pandemic relief funds further exposed and exacerbated the longstanding systemic inequities in MWBEs' access to banking services. A research study from the National Community Reinvestment Coalition examining PPP loan applications found that Black business owners were more likely to be told they did not meet the qualifications needed for the loan, despite having similar financial profiles as White business owners.²⁷ Many banks communicated the availability of the PPP loans to business owners who had established relationships with the bank, giving them early access to a limited amount of PPP funding.²⁸ Later, additional funds were allocated to the PPP with funds set aside for community financial institutions, including minority depository institutions (MDIs) and community development financial intuitions (CDFIs), to provide to small businesses, which helped MWBEs gain access to much-needed funds through the program.²⁹ For example, CDFIs made 1.3 million PPP loans with an average loan size of \$21,653, with nearly 40% of their loans reaching low- and moderate-income communities.³⁰

The Role of Financial Institutions in Increasing MWBEs' Access to Capital

Extensive research confirms that MDIs and CDFIs play a vital role in addressing ongoing discrimination that MWBEs face in banking and lending, being far more likely to serve communities of color and LMI communities compared to large banks and non-minority community banks. MDIs, in particular, are far more likely to be located in LMI communities with high representation of households of color, and loan data confirms that MDIs lend to minorities at dramatically higher rates.³¹ The number of MDIs has consistently declined over the past two decades, with a notable near-disappearance of Black banks. Today, MDIs represent 2.8% of FDIC-insured banking charters, 1.3% of assets, and 1.7% of banking offices.³² As of the September 30, 2021, there are 146 MDI banks.³³

²³ *Ibid.*

²⁴ *Ibid.*

²⁵ Federal Reserve Bank of New York, [Double Jeopardy: Covid-19's Concentrated Health and Wealth Effects in Black Communities](#) (Aug. 2020).

²⁶ Federal Reserve Bank of San Francisco, [Paycheck Protection Program Lending in the Twelfth Federal Reserve District](#) (Mar. 2021).

²⁷ National Community Reinvestment Coalition, [Despite Gaping Holes In Government Data, Tests Show PPP Borrowers Faced Discrimination](#) (Jul. 15, 2020).

²⁸ New York Times, [Minority Entrepreneurs Struggled to Get Small-Business Relief Loans A year after the Paycheck Protection Program](#) (Apr. 2021); and Select Subcommittee on the Coronavirus Crisis, [New PPP Report Shows Trump Administration And Big Banks Left Behind Struggling Small Businesses](#) (Oct. 16, 2020)

²⁹ House Financial Services Committee (FSC), [Waters Statement on Bipartisan Deal to Fund Paycheck Protection Program, Assist Small Businesses, and Ensure Full Participation by CDFIs and MDIs](#) (Apr. 11, 2020); FSC, [Chairwoman Waters, Top Democrats Call on Treasury, Small Business Administration to Expand Paycheck Protection Program Opportunities for CDFIs and MDIs](#) (Apr. 26, 2020).

³⁰ [Testimony](#) of Mr. John Holdsclaw IV, President, CDFI Coalition, [before](#) the Senate Committee on Banking, Housing, and Urban Affairs (Jan. 5, 2022).

³¹ NCUA, [2018 Minority Depository Institutions Annual Report to Congress](#) (2018)

³² FDIC, [2019 Minority Depository Institutions: Structure, Performance, and Social Impact](#) (2019).

³³ FDIC, [MDI Lists – Third Quarter 2021](#) (Sep. 30, 2021).

Additionally, there are 518 MDI credit unions.³⁴ According to the most recent data, there are 1,333 CDFIs compared to 4,990 credit unions and 4,914 banks,³⁵ and in terms of assets, as of 2019, CDFIs only had \$173.9 billion in assets compared to the combined \$2.73 trillion in assets of the credit unions and small community banks.³⁶ Both MDIs and CDFIs provide technical assistance, training, and educational programs for the MWBEs and the broader communities they serve.³⁷

Although other financing options exist for businesses, including MWBEs, banks play an integral role in disbursing federal funds to small businesses.³⁸ Banks can provide MWBEs with critical financial resources and education. Unfortunately, many financial institutions that have made racial equity pledges in 2020 have not followed through on their commitments. According to one study, “American companies pledged \$50 billion toward racial equity following Floyd’s murder,” but to date, “only \$250 million has actually been spent or committed to a specific initiative.”³⁹

Increasing MWBEs’ Access to Federal Funding Opportunities

Centralizing the various federal funding opportunities could increase the participation of MWBEs in government contracting. A vast array of Federal funding opportunities exist online, via grant and contract funding websites as well as listings provided by the Small Business Administration (SBA) and the Minority Business Development Agency (MBDA). Many MWBEs may require one-on-one coaching, like the Minority Business Development Agency provided, which was also codified in the IJA. Websites like Grants.gov connect businesses with information regarding government-funded opportunities, in addition to application assistance.⁴⁰ Recently, the government-run website, SAM.gov, consolidated multiple Federal contract-related websites to ease the process of navigating the Federal award lifecycle for businesses.⁴¹

For MWBEs competing for funding opportunities for the first time, extra research and guidance are often needed to establish eligibility for a specific grant or contract. The use of private procurement specialists and consultants to assist with the Federal procurement process can be costly.⁴² MWBEs have access to Federal programs like Small Business Development Center (SBDC), Minority Business Development Agency (MBDA), and Procurement Technical Assistance Center (PTAC) that provide information and services, including one on one consulting, for small businesses and contractors looking for funding opportunities. The SBA also provides classes and webinars on topics related to searching for Federal funding and other small business-related topics essential for business owners seeking capital.⁴³

³⁴ NCUA, [Minority Depository Institution Preservation](#) (Dec. 20, 2021).

³⁵ CDFI Fund, [CDFI Certification](#) (Jan. 14, 2022); NCUA, [Quarterly Credit Union Data Summary](#) (2021 Q3); and FDIC, [Quarterly Banking Profile](#) (2021 Q3).

³⁶ Congressional Research Service, [Community Development Financial Institutions \(CDFIs\): Overview and Current Issues](#)

³⁷ Lenwood V. Long, [CDFIs Led By People of Color Face Financial Disparities Too](#), Shelterforce (Aug. 2017).

³⁸ National Community Reinvestment Coalition

³⁹ Marco Quiroz Gutierrez, "[American companies pledged \\$50 billion to Black communities. Most of it hasn't materialized.](#)" *Fortune* (May 6, 2021).

⁴⁰ [Convenience Comes to Federal Grants](#) (last visited Jan. 26, 2022).

⁴¹ [About SAM.gov](#) (last visited Jan. 26, 2022).

⁴² Minority Business Development Agency [Contracting Barriers and Factors Affecting Minority Business Enterprises: A Review of Existing Disparity Studies](#), (Dec. 2016).

⁴³ [SBA Find Events](#) (last visited Jan. 26, 2022).

Appendix: Legislation

- **H.R. _____, Promoting Opportunities for Non-Traditional Capital Formation Act**, this bill would amend the Securities Exchange Act to require the Advocate for Small Business Capital Formation to provide educational resources and host events to promote capital raising options for traditionally underserved small businesses.
- **H.R. _____, Reporting for Equity and Advancing Lending Act (REAL Act)**, this bill would amend the Equal Credit Opportunity Act to require the Bureau of Consumer Financial Protection to conduct an annual analysis on lending to minority-owned businesses and women-owned businesses by financial institutions, and for other purposes.
- **H.R. _____, Advancing Technologies to Support Inclusion Act**, this bill would require the Secretary of the Treasury to conduct a study on certain technology challenges that minority depository institutions and community development financial institutions face in serving current and prospective customers, and would require Treasury to carry out a grant program to address such challenges.
- **H.R. _____**, this bill would instruct the Undersecretary of the Minority Business Development Agency to provide equity investments for low-wealth business owners, and for other purposes.
- **H.R. _____**, this bill would require States participating in the State Small Business Credit Initiative (SSBCI) to annually report information about the contracts entered by such State, with women, minority, veteran, and other business entities.