

Statement for the House Committee on Small Business Committee Hearing

Mr. Chairman, Rep. Sam Graves, and Rep. Nydia Velázquez, Ranking Member, and Members of the House Committee on Small Business,

On behalf of the Institute for Entrepreneurial Leadership, the Workshop In Business Opportunities and the thousands of people who pursue entrepreneurship and small business ownership as their path to the American dream, I thank you for the opportunity to address this Committee today.

I am here to share our view of the challenges that exist for the women, minority and low income entrepreneurs that we serve and to offer potential solutions to help them contribute to economic recovery and stability that never seems to make it to America's most distressed neighborhoods.

Our entrepreneurs are mostly people who see starting a business as an avenue to a better life. They have an idea, a vision and a lot of passion. The resilience of small business owners and aspiring entrepreneurs never ceases to amaze me, particularly those whom we support. On a daily basis, they continue to push forward and succeed against considerable odds.

IFEL is focused not on the entrepreneurs who start businesses with loans from their parents or SBA, corporate buyout packages or by raising money on Wall Street. Our focus is not on the high tech, high growth businesses that grab the attention of wealthy angel investors. Our clients are regular people who aspire to live a better life, people for whom the American Dream is a concept worthy of pursuit.

For over ten years from our base in Newark, NJ, the Institute for Entrepreneurial Leadership has provided one-on-one mentoring to women, minority and inner city businesses with revenues less than \$250,000. While these types of enterprises are often demeaned as "mom and pop" businesses not worthy of government or private sector investment, we celebrate these entrepreneurs as the agents of change in communities where change is most needed. If we can help these businesses grow, we can make a difference for the people they employ, the customers that they serve and the communities in which they exist.

In 2011, we joined forces with Workshop In Business Opportunities (WIBO), an amazing organization that has trained over 15,000 entrepreneurs over 47 years in the areas of New York City where the angel investment dollars do not flow -- communities like Harlem, South Bronx, Washington Heights, and Bedford Stuyvesant. Since joining forces, we have created an end-to-end training, mentoring and a support continuum for the entrepreneurs that are all too often left

out of the mainstream small business ecosystem. Last year we served close to 1800 existing and aspiring entrepreneurs through our trainings, one-on-one business mentoring, clinics, webinars and other resources. I come before you today to speak on their behalf. Our clients are 73% women, 70% with household income below \$60K (36% below \$20K), and 74% black and Hispanic. The challenges that our clients face in starting and growing businesses revolve around two primary issues: the Capital Gap and the Talent Gap. I would like to take a few minutes to discuss each and then propose some solutions for consideration.

The Capital Gap

A study released by The Urban Institute in April 2013, details the increasing gap in the wealth between white Americans and nonwhite Americans. The study discussed that with the 2-to-1 earnings differential has remained relatively constant for the last 30 years, the gap in wealth has increased substantially from pre- to post-recession. The study, summarizing Federal Reserve data, indicates that before the recession, non-Hispanic white families, on average, were about four times as wealthy as nonwhite families and by 2010, were about six times as wealthy. In dollars and cents, this translates to the average white family having about \$632,000 in wealth, versus \$110,000 for Hispanic families and \$98,000 for black families.

The Minority Business Challenge, a report published by the Milken Institute and the Minority Business Development Agency in 2000, revealed that capital gaps exist at every level for financing the capital structure of minority businesses: equity, mezzanine and senior debt. It went on to say that the fact that minority-owned businesses tend to be more prevalent in industries with lower entry costs may – at least in part—reflect more binding liquidity constraints and generally less access to startup capital among prospective minority business owners.¹

While capital access is often viewed as best addressed through the private sector, private sector solutions are generally not interested in low return, non-scalable ventures. Initiatives like the highly touted Startup America Partnership and the resources available in Silicon Valley and Silicon Alley and other high tech regions do a great job at supporting the development of the entrepreneurial ecosystem for high tech, high growth businesses – there is not, however, a place at the table for those businesses that do not fit this mold. And while the SBA does what it can through the limited resources that it has, the truth is that the SBA as its capital resources as currently structured cannot replace the type of business startup and growth capital offered through personal wealth and “friends and family” investment. Black businesses are particularly affected due to the lack of intergenerational wealth transfer that has occurred historically due to the fact that blacks in America were for so long denied the opportunity to own and build. In a

¹ *Minorities in Business, 2001*, Published by the SBA Office of Advocacy, p. 22

community of “have nots”, financial support from friends and family is not an option. To date, there have been few options to address lack of access to capital, which is inextricably linked to lack of collateral which can be linked to the lack of familial wealth and poor personal credit which often stems from trying to start or run a business without capital – a vicious cycle. We need to find solutions to the access to capital problem created by the wealth gap.

The Talent Gap

In addition to capital constraints, many entrepreneurs rank lack of business training as high among the challenges they face. Increasingly, financial institutions see training and mentoring as a risk mitigator, increasing a business’s likelihood of success and repayment.² While most small business and entrepreneurial experts agree that money can’t fix a business without a fundamentally sound business model, it is a simple truth that money can buy expertise and can enable a small business to stay afloat long enough to figure things out and adjust. Access to capital makes the pivot to profitability possible. Access to capital enables entrepreneurs to bolster their own skill sets, hire experts and build a capable employee base. Undercapitalized businesses have no room for error and little capacity for weathering a storm.

Again, this is where we see a divergence in what exists for high tech, high growth businesses and for the community based businesses that we serve. In New Jersey and across the nation, there is a strong effort to support incubators and accelerators for tech companies that have the potential to attract significant private sector investment dollars as well as government and institutional research grants. The NJIT Enterprise Development Center, which has collaborated with us since our inception, supports high tech companies and the Entrepreneur Center in Nashville, which I visited through a Startup America conference, which accelerates the development of high growth companies, are two such examples that do a great job at their intended purpose. The NJITEDC has university support and the Entrepreneur Center has the support of the entire Nashville entrepreneurial and business communities. There are many, many examples of similar facilities and resources across the country and around the world for high tech, high growth businesses – and this is a good thing. Most of the value proposition of these incubators and accelerators is in having access to the talent and expertise that they could not otherwise afford during the early years in the development of the business. These incubators and accelerators stimulate innovation, provide support and connect capital to projects that can change the world. What we are missing is the same level of resource for entrepreneurs who can change communities.

By helping community based entrepreneurs and small business owners gain access to talent, we can help them navigate their way to success. Their success can provide economic stimulus at a

² *Creating Capital, Jobs and Wealth in Emerging Domestic Markets*, p. 64

local level and sets the stage for healthy functioning communities with strong families, motivated youth, safe streets, arts and culture, and more. If we are able to help more community based entrepreneurs realize their potential, we can create jobs for those who are often difficult to employ and ultimately expensive to house, feed and clothe through other government channels. We need to find solutions to the talent gap that exists for community based entrepreneurs.

Solutions

So what are the solutions to these challenges that have plagued the micro-enterprise landscape for years? While there are no magic bullets, a renewed commitment to community based entrepreneurs and small business owners as the engine of revitalization in our most distressed regions can lead us to solutions that require relatively limited financial stimulus from the federal government. Here are a few solutions that we propose:

Access to Capital:

1. Provide incentives for private debt investment in micro-businesses.
These businesses are not great candidates for equity investment for many reasons. A loan of \$20-100K is often what they need and could be provided by friends and family, except this target population doesn't have friends and family with these resources. For loans with principal payments deferred 3+ years, interest paid could be tax free or at a reduced tax rate.
2. Encourage the SBA to work with its micro-lending partners to relax the credit and collateral requirement for loans up to \$10K.
3. Include incentives for investors in businesses in distressed communities in the crowdfunding legislation being considered.

Eco-system:

1. Motivate banks to support entrepreneurial training and ongoing support (with evidence of results) through stronger CRA requirements; give additional credit for banks that demonstrate results in historically redlined communities
2. Include small business development as a component of Community Block Grant funding
3. Require that federally funded projects not just have minority subcontractor targets, but also include targets for ancillary services like catering, photography, and printing. This could provide a boost to local businesses in the area around federally funding projects.
4. Require SBA funded programs like SBDC, SCORE, WBC to demonstrate evidence of partnership with community based organizations

“Government must be a key partner in creating a favorable environment for business to flourish in integrating these communities into a regional, national, and global economy. The nonprofit sector also must continue to be a partner.

Community-based organizations and other nonprofit entities have a critical role to play in linking investment with community resources so that partnerships can create a fertile environment for community capitalism. They are a critical component to the success of economic growth in distressed areas by identifying market opportunities, leveraging public and philanthropic dollars, creating healthy communities, and facilitating business investment.

Community capitalism's goal must be to create healthy economies that produce jobs, income, and wealth for community residents at rates that are at or near national norms. This will provide the economic foundation on which business, government, nonprofit organizations, and individual residents can join together to build decent homes, good schools, cultural and recreational opportunities—all the ingredients of livable, sustainable communities.”³

After our years of work with thousands of aspiring and existing entrepreneurs, I have come to believe with all my heart that solutions are possible if we believe that entrepreneurship is truly the way to the American Dream. It is not enough to just focus on those who have been blessed with the benefits and privilege of history, we must also empower those individuals who have not, but aspire for more and whose spirits are still open to dreaming. On behalf of the thousands of people who pursue entrepreneurship and small business ownership as their path to the American dream, I ask that you commit yourselves to inclusion of the community entrepreneurs whose success creates a better way of life for us all.

Respectfully Submitted,

Jill Johnson

Chief Executive Officer

Institute for Entrepreneurial Leadership/Workshop In Business Opportunities

550 Broad Street, 15th floor, Newark NJ 07102

www.ifelnj.org / www.wibo.org

³ Excerpts from *Community Capitalism: Rediscovering the Markets of America's Urban Neighborhoods*, The Ninety-first American Assembly, April 1997, The American Assembly, Columbia University.