

Testimony by Scott H Bellows

At a subcommittee hearing entitled

Examining the Barriers for Small Business Contractors at the DOD

Taking place on Tues., November 8th at the Sumter County Council's Chambers, 13 East Canal Street, Sumter, SC 29150.

Thank you for this opportunity to present my views on matters relating to barriers for small business contractors at the Department of Defense. In my role as the SC Procurement Technical Assistance Program Manager, a Dept. of Defense initiative aimed at maintaining America's industrial infrastructure and enhancing competition in the procurement arena, I work with a broad assortment of private sector firms, collaborate closely with my Small Business Development Center network colleagues and interface often with various agency Small Business Specialists. Although our operations have helped our South Carolina clients to secure over \$1 billion in contract awards so far this year, this work masks a number of fundamental problems that affect our client base, especially the smaller of the small businesses.

I believe that there's a general consensus that America's small business community is what's going to revitalize our economy. I think that there's also a quiet concern that with the pending government belt tightening, the downward shift in public sector work will align with a depressed private sector economy...to further complicate an already depressed economy. The return of a large number of our troops in the coming months may only accentuate the problem. In this context, I offer the following four observations.

First, there are a number of forces at play in our economy that are, for the time being, distorting what should be a highly competitive market. Changes in banking regulations are stifling loans, changes in the insurance industry are reducing the ability of firms to reduce risk and changes in labor laws are causing firms not to add new employees.

The consequence of all this appears to be that larger firms are moving into a self-financing mode and insourcing work where possible; medium-sized firms are contracting out labor but are hesitant to actually bring on W-2 employees and small business are just working hard to survive. Most of our work revolves around helping the small business community.

Second, the small business community is undercapitalized. While the larger, less risky firms are finding ways to deal with the economy, smaller businesses are finding this much more difficult or impossible. Termination of the SBA's Community Express Loan pilot program ended one of the few meaningful options available to many of these small businesses. Similarly, changes to the Export Express Loan Program that was made permanent under the Jobs Act tightened the language in a way that the funding could only be used for export related activities. For many small businesses whose domestic and export functions are not as clear cut, this change ruled out yet another option for many of the smaller, would-be exporters.

Third and compounding these problems, our well-intentioned small business programs have evolved in a way that skews their original intent. First, the plethora of small business programs—8a, Hubzone, SDVOSB, WOSB—has disenfranchised many of those who are not eligible to the extent that they no longer back the very programs they once were glad to support. Even those set-aside programs don't really achieve what most think that they do. It's not that the percentages are wrong, it's just that many of the same contractors tend to get the work time and time again and those who want to break into government contracting soon realize that it's a long, uphill battle. Instead of asking how many dollars went to small business contractors, if one asks how many 'unique' vendor contracts were awarded during a certain period of time, you might just come away with a different impression of how these programs are promoting small business development and helping to revitalize our economy. Many of these small business contracts are actually quite large, awarded for long periods of time and all but eliminate new opportunities for aspiring government vendors. I have included a report generated from the Federal Procurement Data System in support of this argument. In all fairness to the Contracting Officers, these individuals tend to be understaffed, have to consider the risk to taxpayer money and are cognizant of the need to meet small business target numbers. Technically speaking, they're just playing by the rules set before them. The prime contractors, likewise, are helping to meet the small business targets while simultaneously minimizing their risks by using subcontractors that they know and trust. I would probably do the same, were I in their position.

The fourth and final point that I would like to make is to note that across all government sectors there seems to be an emphasis on "job creation." The best way to do this is to create a policy environment that facilitates private sector growth. If the government does this, I am confident that the private sector can manage the creation of jobs.

Thank you for this opportunity to express my views.

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