

**Congress of the United States**  
**U.S. House of Representatives**  
**Committee on Small Business**  
2561 Rayburn House Office Building  
Washington, DC 20515-6515

**MEMORANDUM**

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**TO:** Members, Subcommittee on Investigations, Oversight, and Regulations  
**FROM:** Chairwoman Judy Chu  
**RE:** Subcommittee Hearing: Lost Opportunities? SBA's Engagement with Historically Black Colleges and Universities  
**DATE:** April 30, 2019

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On **Tuesday, April 30, 2019, at 10:00 a.m. in Room 2360 of the Rayburn House Office Building**, the Committee on Small Business Subcommittee on Investigations, Oversight, and Regulations will convene for a hearing titled, "Lost Opportunities? SBA's Engagement with Historically Black Colleges and Universities."

Historically Black Colleges and Universities (HBCUs) play an important role in preparing African American students for success. The White House Initiative on HBCUs was established by President Jimmy Carter to strengthen the capacity of HBCUs, and each subsequent Administration has issued an executive order to continue with the initiative. The executive orders require certain agencies, with one being the Small Business Administration (SBA), to develop annual plans to strengthen HBCUs. The hearing today will examine whether HBCUs are receiving adequate support from the Small Business Administration (SBA) to help develop successful entrepreneurs. The witnesses will be:

**Panel 1**

- Ms. Anna Maria Ortiz, Acting Director, Financial Markets and Community Investment, Government Accountability Office
- Mr. Allen Gutierrez, Association Administrator, Office of Entrepreneurial Development, Small Business Administration

**Panel 2**

- Dr. Paulette Dillard, President, Shaw University
- Dr. Barron H. Harvey, Dean of the School of Business, Howard University
- Dr. Michael H. Casson, Jr., Dean of the School of Business, Delaware State University
- Dr. Roslyn Clark Artis, President and CEO, Benedict College

**Background**

America's 30 million small businesses are engines of economic growth, generating two-thirds of all net new jobs and supporting nearly 56 million jobs.<sup>1</sup> A major part of SBA's mission is to help aspiring entrepreneurs start, build, and grow small businesses.<sup>2</sup> To achieve this mission, the SBA

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<sup>1</sup> SBA, FY2020 CONGRESSIONAL BUDGET JUSTIFICATION AND FY2018 ANNUAL PERFORMANCE REPORT at 2.

<sup>2</sup> SBA, available at <https://www.sba.gov/business-guide>.

oversees several unique programs that are designed to provide small business owners with the resources and tools they need to succeed.

The hearing will focus on the SBA's entrepreneurial ecosystem, which provides valuable counseling and training services to more than one million entrepreneurs each year.<sup>3</sup> The entrepreneurial ecosystem is comprised of the following resource partners: Small Business Development Centers (SBDC), Women's Business Centers, SCORE, and Veterans Business Outreach Centers. The SBA's resource partners counsel and train small business owners on developing business plans, obtaining financing, improving cash flow, competing for federal contracts, and exporting products overseas. The SBA recognizes that there is a direct positive correlation between the hours of business advise and training that a small business client receives to the amount of improvement in the longevity, profitability, and growth of their business.<sup>4</sup> Research indicates that small businesses that receive more than three hours of counseling have higher one-year survival rates than firms that receive less counseling.<sup>5</sup> The training and mentoring leads to more sales for businesses, create new jobs, and have long lasting impacts on local communities across the nation.

Many of the service delivery centers are located on or near college and university campuses, with some being located on HBCU campuses. These institutions provide education and training to hundreds of thousands of African Americans each year, many of whom are low-income and the first in their family to attend college.<sup>6</sup> They offer tremendous opportunities to drive economic growth, particularly in underserved communities. The hearing will examine the SBA's efforts to target and tailor their counseling and training programs to better meet the needs of HBCUs.

#### *Benefits of the Entrepreneurial Ecosystem*

Small business owners in underserved communities face a number of challenges, including access to affordable credit from traditional lenders, counseling, and federal contracting opportunities. According to recent testimony before the Small Business Committee, minority-owned businesses have a harder time accessing capital, which is the lifeblood of all businesses. The loan denial rate is three times higher for people of color than non-minority firms, and they often have loans with higher interest rates.<sup>7</sup>

The SBA's entrepreneurial development ecosystem can help minorities overcome these challenges and provide a clear path to small business ownership. This ecosystem can also provide the necessary outreach to entrepreneurs to make them aware of programs such as the SBAs Microloan Program, which has a stated mission of providing affordable capital to emerging business and start-ups. Moreover, entrepreneurship is a powerful builder of wealth

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<sup>3</sup> SBA FY20, *supra* note 1 at 82.

<sup>4</sup> *Id.*

<sup>5</sup> IMPACT STUDY OF ENTREPRENEURIAL DYNAMICS: OFFICE OF ENTREPRENEURIAL DEVELOPMENT RESOURCE PARTNERS FACE-TO-FACE COUNSELING. Concentrance Consulting Group, LLC, (Sep. 2013).

<sup>6</sup> United Negro College Fund, THE VALUE PROPOSITION OF HISTORICALLY BLACK COLLEGES AND UNIVERSITIES, Jul. 2018.

<sup>7</sup> EXPLORING CHALLENGES AND OPPORTUNITIES OF UNDERSERVED BUSINESSES IN THE 21<sup>ST</sup> CENTURY: HEARING BEFORE THE HOUSE SMALL BUSINESS COMMITTEE, 116<sup>th</sup> Congress (2019) (Statement of Ms. Sharon Pinder, President and CEO, Capital Region Minority Supplier Development Council).

in communities. According to testimony before the Small Business Committee, “when minority-owned businesses thrive, communities of color thrive” because “diverse businesses, which are more likely to hire locally and employ people with similar backgrounds, work as powerful forces for economic development.”<sup>8</sup> The hearing will give leaders from HBCUs an opportunity to share their on the ground experiences with the SBA, including the level of engagement with the SBA’s resource partners and district offices to help foster entrepreneurship on campus and in the community.

### **Historically Black Colleges and Universities**

The Higher Education Act of 1965, as amended, defines Historically Black Colleges and Universities (HBCUs) as “any historically black college or university that was established prior to 1964, whose principal mission was, and is, the education of Black Americans.”<sup>9</sup> There are 101 accredited institutions in the United States, both public and private universities. In 2017, HBCUs served nearly 300,000 students, many of whom were low-income and first generation African American students. Since 1984, HBCUs have produced more than 1.2 million new associate bachelor’s, master’s, and doctoral degrees.<sup>10</sup>

### **Executive Orders to Strengthen HBCUs**

Executive orders are issued by the President of the United States and generally directed to governing actions by federal agencies and officials. President Jimmy Carter issued the first executive order to establish a White House Initiative to strengthen HBCUs. Each subsequent administration issued an executive order to continue the initiative.<sup>11</sup>

- In 1980, President Jimmy Carter signed Executive Order 12232, which established a federal program to overcome the effects of discriminatory treatment and to strengthen and expand the capacity of Historically Black Colleges and Universities to provide quality education. The executive order required the Secretary of Education to consult with federal agencies to establish annual goals to increase participation of HBCUs in federally sponsored programs.<sup>12</sup>
- In 1981, President Ronald Reagan signed Executive Order 12320, which continued the White House Initiative on HBCUs. The order required agencies to develop annual plans, which included “measurable objectives” to increase HBCUs participation in federally sponsored programs. The order also tasked the Secretary of Education with the responsibility of developing an integrated Annual Federal Plan and provide an opportunity for Presidents of HBCUs to comment prior to its consideration by the President, Vice President, and the Cabinet Council on Human Resources.<sup>13</sup>

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<sup>8</sup> *Id.*

<sup>9</sup> HIGHER EDUCATION ACT OF 1965, 20 U.S.C 1061 (2018).

<sup>10</sup> United Negro College Fund, *supra* note 6.

<sup>11</sup> Government Accountability Office, Report Number GAO-19-328R, Small Business Administration: Key Entrepreneurship Programs and Activities Do Not Specifically Target Historically Black Colleges and Universities, but Collaboration Exists with Some Schools, (2019).

<sup>12</sup> 45 Fed. Reg. §. 1-101 53,437 (Aug. 20, 1980).

<sup>13</sup> 46 Fed. Red. § 2 46,107 (Sep. 17, 1981).

- In 1989, President George H. W. Bush signed Executive Order 12677, which established a Presidentially Appointed Advisory Board on HBCUs to advise the President and the Secretary of Education on the best strategies to strengthen the institutions and achieve greater financial security. The executive order also sought to increase HBCU participation in part-time and summer positions in the federal government.<sup>14</sup>
- In 1993, President Bill Clinton signed Executive Order 12876, which required agency leaders to establish annual goals that would increase the dollar amount available to HBCUs for federal grants and contracts.<sup>15</sup> This order required a senior level executive in each federal agency to be responsible for implementing the objectives set forth<sup>16</sup> and required the Office of Management and Budget to monitor the implementation of the order.<sup>17</sup>
- In 2002, President George W. Bush signed Executive Order 13256, which transferred the White House Initiative on HBCUs to the Secretary of Education and required the agency's annual goals to be included in the congressional budget submission.<sup>18</sup>
- In 2010, President Barack Obama signed Executive Order 13532, which established a position for an executive director who would serve as the executive director on both the White House Initiative on HBCUs and the President's Advisory Board. The order encouraged agencies to engage with communities to strengthen HBCUs and establish the Interagency Working Group to advance and coordinate agencies' efforts to implement the executive order.<sup>19</sup>
- In 2017, President Donald Trump signed Executive Order 13779, which established the White House Initiative on HBCUs, and set two goals: (1) increase the private-sector role in strengthening HBCUs; and (2) enhance HBCU's capabilities for helping young adults.<sup>20</sup>

### **2017 White House Initiative's Requirements for Small Business Administration**

Most of the executive orders require certain agencies, including the SBA, to develop annual plans detailing efforts to strengthen the capacity of HBCUs to participate in federal programs. Specifically, the 2017 White House Initiative requires the SBA plan to:

- describe how the agency intends to increase the capacity of HBCUs to compete effectively for grants, contracts, or cooperative agreements;
- identify federal programs where HBCUs are not well represented and improve HBCU participation in these programs; and

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<sup>14</sup> 54 Fed. Reg. § 11 18,870 (May 2, 1989).

<sup>15</sup> 58 Fed. Reg. § 4 58,733 (Nov. 4, 1993).

<sup>16</sup> 58 Fed. Reg. § 5 58,734 (Nov. 4, 1993).

<sup>17</sup> 58 Fed. Reg. § 6 58,734 (Nov. 4, 1993).

<sup>18</sup> 67 Fed. Reg. § 4 6,823-6,824 (Feb. 14, 2002).

<sup>19</sup> 75 Fed. Reg. § 2(e) 9,750 (Mar. 3, 2010).

<sup>20</sup> 82 Fed. Reg. § 12499 (Feb. 28, 2017).

- encourage private-sector, public sector, and community involvement in improving the overall capacity of HBCUs.

### **The SBA’s Office of Entrepreneurial Development and the 2018 Annual Plan**

The Office of Entrepreneurial Development (OED), which helps small businesses through management and technical assistance, is responsible for fulfilling the objectives of the SBA’s 2018 annual plan. The OED houses three separate sub-offices; the Office of Small Business Development Centers, which services SBDCs; the Office of Women’s Business Ownership, which oversees Women’s Business Centers; and the Office of Entrepreneurship Education, which works with SCORE. Through a multitude of resources and tools, OED manages the three congressionally-created programs and their respective resource partners.<sup>21</sup>

The objectives of the SBA 2018 plan are twofold: (1) raise awareness and provide information to raise the capacity of HBCUs to participate in federally funded programs, and (2) promote collaboration between HBCUs and the SBA resource partners and District Offices.

To achieve these goals, the SBA planned to encourage the formation of Strategic Alliance Agreements between SBA District Offices and HBCUs. It also planned to explore partnerships with the National Association for Equal Opportunity in Higher Education (NAFEO), Thurgood Marshall College Fund, and the United Negro College Fund to raise awareness and share resources with HBCUs. Finally, it planned to disseminate its Business Smart Toolkit to these institutions to use in the communities they serve.<sup>22</sup> Below is a summary of the SBA’s projected support for HBCUs:

- In Fiscal Year 2018 (FY 2018), Howard University and the University of the Virgin Islands received funding to operate SBDCs. The SBA provides the operating funds for each network on a population-based formula, and the recipient is required to provide a 1:1 funding match.
- The SBA’s plan did not provide funds for training and development, specifically designed for HBCUs.
- The SBA’s plan did not propose any programs or initiatives designed to foster public-private partnerships with HBCUs.
- The SBA’s plan states “the Office of Human Resources is in the process of creating a national recruitment strategy, which will include a partnership and an outreach campaign to Hispanics Association of College and Universities (HACU), Conference on Asian Pacific Americans Leadership (CPAL), Washington Internship for Native Students (WINS), Mayor Marion S. Barry Summer Youth Employment Program (MBSYEP), Historically Black Colleges and Universities (HBCU), Peace Corps, AmeriCorps, Transitioning Military Personnel, Veterans, and other groups.”

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<sup>21</sup> THE OFFICE OF ENTREPRENEURIAL DEVELOPMENT WEB RESOURCES, <https://www.sba.gov/offices/headquarters/oed>.

<sup>22</sup> Memorandum from the Small Business Administration, White House Initiative on Historically Black Colleges and Universities Agency Plan (on file with Small Business Committee).

- The SBA’s plan did not include any investments in cooperative agreements, specifically designed for HBCUs.
- The SBA’s plan mentioned the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs are underutilized by HBCUs. SBA has participated in several outreach activities including the National Society of Black Engineers annual convention, and in two HBCU focused innovation engagement forums at Johnson C. Smith University and Clark Atlanta University. SBA supported a SBIR/STTR road tour with stops at two HBCUs: Alabama A&M University and Jackson State University.
- The SBA’s plan for technical assistance activities in support of HBCUs included a SBIR/STTR road tour, which is a national outreach effort to raise awareness of available research and development funding through set asides at 11 participating federal agencies in the SBIR/STTR program.
- The SBA’s plan for available loan programs for HBCUs includes a list of the SBA’s loan programs.<sup>23</sup>

**Government Accountability Office (GAO) Report**

Representative Alma Adams (D-NC), along with 19 Members of Congress, signed a letter requesting that the GAO review the SBA’s entrepreneurship efforts with HBCUs. The report examined (1) federal priorities and the SBA goals related to working with HBCUs; and (2) the SBA’s key entrepreneurial development programs and outreach activities for fostering entrepreneurship with HBCUs and HBCU participation in these programs and activities.

The report found that key SBA entrepreneurship programs and activities do not specifically target HBCUs, but collaboration does exist. The GAO report highlighted areas where collaboration between the SBA and HBCUs currently exist. Some HBCUs have hosted SBDCs, co-sponsored activities and signed strategic alliance memorandums.

- Two of the 63 lead SBDCs are hosted HBCUs. Howard University and the University of the Virgin Islands. Since 1979, Howard University has hosted a lead SBDC in Washington, DC, which offers workshops and counseling on marketing, business financing, social media, and other topics.
- Sixteen service SBDC centers are located at HBCUs. As of September 2018, the 16 SBDCs were Alabama State University, Bluefield State College, Delaware State University, Elizabeth City State University, Fayetteville State University, Florida A&M University, Jackson State University, Lincoln University of Missouri, North Carolina A&T State University, North Carolina Central University, Prairie View A&M University, South Carolina State University, Southern University and A&M College, Tennessee State University, Winston Salem-State University, and Xavier University of Louisiana.

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<sup>23</sup> *Id.*

- SBA cosponsored ten counseling and training activities with six HBCUs to foster entrepreneurship in 2013 -2016, mostly through the SBA Regional Offices. The six HBCUs were: Edward Waters College, Bethune Cookman University, Southern University and A&M College, Morgan State University, and West Virginia University.
- The Small Business Administration signed 24 strategic alliance memorandums with Historically Black Colleges and Universities. The strategic alliance memorandums were two-year agreements that stated that the SBA and the HBCU would work together boost small business development in the local area. However, the strategic alliance memorandums do not authorize funding, and GAO was told that they were largely symbolic in nature. The universities are: J.F. Drake State Technical College, Lawson State Community College, Miles College, Stillman College, Concordia College Alabama, Shelton State Community College, Tuskegee University, Delaware State University, Edward Waters College, Florida A&M University, Bethune-Cookman University, Florida Memorial University, Morehouse College, Savannah State University, Dillard University, Rust College, Alcorn State University, Mississippi Valley State University, Tougaloo College, Coahoma Community College, Shaw University, St Augustine University, LeMoyne-Owen College, and American Baptist College.

### **Conclusion**

Many presidential administrations have introduced executive orders calling on federal agencies to work with HBCUs. This administration recognized the vital role HBCUs play in our society and in particular has the goal of increasing the private sector role in strengthening HBCUs. The 2017 White House Initiative's Requirements for Small Business Administration plan must, among other things, identify federal programs where HBCUs are not well represented and improve HBCU participation in them.

At the request of Representative Alma Adams, the GAO examined whether Historically Black Colleges and Universities (HBCUs) are receiving adequate support from the SBA to help develop successful entrepreneurs. The GAO report found that despite executive orders calling for greater collaboration, the SBA hasn't specifically targeted HBCUs in its outreach to foster entrepreneurship, but some collaboration exists. The hearing will provide an opportunity to examine the findings of the GAO report and discuss ways in which the Committee can work with the SBA to promote engagement with HBCUs.