

CONGRESSIONAL TESTIMONY

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To

HOUSE COMMITTEE ON SMALL BUSINESS

Subcommittee on Investigations, Oversight, and Regulations

“Lost Opportunities? SBA’s Engagement with Historically Black Colleges and Universities.”

The Honorable Judy Chu, Chairwoman

and

The Honorable Ross Spano, Ranking Member

By

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The Honorable Judy Chu and The Honorable Ross Spano and distinguished Members of the Subcommittee, thank you for the opportunity to testify in support of enhancing and expanding SBA’s partnership with Historically Black Colleges and Universities.

Importance of Historically Black Colleges and Universities

Historically Black Colleges and Universities (HBCUs) are more important today than ever! From an educational perspective, the nation’s one hundred and six HBCUs represent 3% of America's Colleges and Universities and yet they represent nearly 20% of all African-Americans who receive college degrees and a little over 25% of African-American graduates in the areas of science, technology, engineering and mathematics. In a Gallup – Purdue survey it was noted that HBCU graduates were more likely to have felt supported while in college and to be thriving afterwards than their black peers who attended predominately white institutions. Historically Black Colleges and Universities are also top producers of African-Americans receiving PhD's in Science and Engineering, as well.

The total economic impact of HBCU’s is significant and growing. It is estimated that HBCU’s generate more than \$15 billion in economic impact annually. Spending by National HBCUs and its students generates positive economic benefits. Historically Black Colleges and Universities are the economic engines in their communities, creating jobs, increasing economic well-being, providing social benefits such as arts and culture and graduating students who are going to have a positive impact in their communities and generate billions upon billions of dollars of economic benefit. Historically Black

Colleges and Universities serve as significant and essential economic drivers, both on their campuses and their local communities.

Howard University, for example, generates more than \$1.5 billion in total economic impact for its local and regional economies. This includes direct spending by Howard University on faculty, employees, academic programs and operations—and by students attending the institution, as well as the follow-on effects of that spending. Every dollar spent by Howard University and its students produces positive economic benefits for its local and regional economies. Communities and regions hoping to foster a more robust and diversified economic climate find HBCU-connected spending a critical component of that effort. Howard University generates 9,591 jobs for its local and regional economies. Of this total, 3,301 are on-campus jobs, and 6,290 are off-campus jobs. For each job created on campus, another 1.9 public- and private-sector jobs are created off campus because of Howard University-related spending. Finally, the estimated lifetime earnings for each Howard University's graduating class is more than \$6 billion.

Today, Historically Black Colleges and Universities are continuing their legacy of educational excellence. As a reflection of their importance, many HBCU's are seeing an increase in their enrollment. As was further stated, the Historically Black Colleges and Universities continue to produce a disproportionate number of college graduates, relative to their size and enrollment.

The importance of HBCUs also can be reflected in the role that these unique educational institutions provide in closing the racial wealth gap. Although many HBCU graduates have large student loan debt, compared to their white counterparts, their degrees have aided them in closing that wealth gap. As stated earlier, HBCU graduates are getting advanced degrees in STEM related disciplines. For example, more than 50% of black engineers and 65% of black doctors have earned their degrees from Historically Black Colleges and Universities.

Historically Black College and Universities have provided long standing resources for their communities and have served as a catalyst to produce sustainable economic growth. Historically Black Colleges and Universities have long collaborated with their communities to address workplace problems and find viable, sustainable solutions and new opportunities.

State of Minorities and African-Americans Entrepreneurs and Small Business Owners

Entrepreneurship and small business ownership for minorities including African-Americans have made impactful progress over the last six years, but there is still much more to be done. We should note that there are more than 2.5 million black-owned businesses in United States, which generates more than \$150 billion in revenue. However, a major challenge for African American small businesses is growing to size. For example, the top 100 Black Owned Businesses in a recent Black Enterprise Magazine's ranking show \$27 billion in revenue and employment of nearly 80,000 workers. These numbers do represent a continual growth over the previous years but if we look at it compared to some of the major Fortune 100 Companies, the collective impact of African-American top small businesses is minuscule. Walmart for example reports more than 20 times the revenue that the collective 100 black-owned businesses earn and employ more than 2.2 million workers. The data really states that entrepreneurship and small business ownership of African-Americans is still a significant challenge. U.S. Census data shows that over 90% of Latino and black-owned firms do not have even one employee other than its owner. Minority women are the fastest growing demographic in entrepreneurship and black women owned businesses have grown by nearly 68% in the five-year period of 2007 to 2012 according to U.S. Census data. Add to

that the proportion of owner only firms reaches close to 90% for African-American female business owners. The reality is that black-owned businesses are of small scale compared to their white counterparts, but this represents an opportunity for the Small Business Administration, Small Business Development Centers, and Minority and African-American businesses.

Today, more than 71% of all US businesses are white-owned, with African-Americans owning about 2.6 million businesses or 9.5% of all US businesses and Latinos owning 3.3 million businesses, which is nearly 12.2% of all U.S. businesses. However, the revenue and employment numbers are depressing. Of the 19 million businesses owned by White Americans, they have 88% of the overall sales and 87% of the U.S. employment while African-American businesses have 1.3% of the total U.S. revenues and 1.7 of the nation's employees. This represents significant challenges and great opportunities.

Entrepreneurship and small business ownership have always been a strategy that minorities and African-Americans have used to bridge the racial wealth gap. Small business ownership has long been seen, particularly by minorities and African-Americans, as the way to create wealth and economic impact in their communities. However, the racial wealth gap continues to be large and has not shown any signs of closing. The white households living near the poverty line typically have about \$18,000 in wealth, while black households in similar economic straits typically has zero wealth. At the other end of the spectrum, black families in the 99th percentile are worth \$1.6 million, while white families in the 99th percentile are worth \$12 million. African-Americans while representing 13% of the nation's population, collectively own less than 3% of the nation's total wealth. The take away here is that there is a need for new strategies in assisting black businesses in their development and growth, which will aid in bridging the racial wealth gap, as well as increasing employment and economic impact for their respective communities.

The challenge for minority business owners is that of access to capital. African-American owned businesses still have a harder time in securing financing than white owners of small businesses. In fact, more than one third of minority owned firms with gross revenues under \$500,000 would not apply for a business loan for fear of rejection. This presents a great opportunity for unique and special programs to prepare small business owners, particularly African-American business owners for the loan application process and to provide an opportunity for them to work with bankers around strategies for success.

To further reinforce the challenges that minority and African-American small-business owners have in securing SBA loans, a 2014 study at Brigham Young University recruited mystery shoppers to go and seek small business loans. Three were African-Americans, three were Hispanic, and three were White. They all wore the same clothing and had nearly identical backgrounds and asked for \$60,000 in business loans. What was found was that there is still significant racial bias in seeking business loans. The minority small business owners were given less long-term information, were asked more questions about their personal finance, and offered less application support than the White business owners. The study also found that continuous denial, rejection, and restricted access to loans for minority small business owners lead to lower self-esteem and impacted feelings of self-worth. The reality is that there is still a significant challenge for African-Americans and Minorities to be successful in securing small business loans even when their economic profile is exactly the same as their white counterpart.

Since the end of the great recession, the number of loans going to African-American business owners has declined and many are feeling as if the African-American business community is missing out on the economic recovery that America is experiencing. There are some concerns that SBA lending practices provide economic benefits to more affluent communities and less and those that are in need of economic stimulus. A study has shown that in 2009, 5% of SBA's 7a loans with African-American

businesses but by 2014 that figure had declined to 2%. The decrease was even worse for SBA's 504 loan guarantee program where lending to African-American businesses went from \$134 million in \$2009 to \$48 million in 2014 representing a 64% decline.

Historically Black Colleges and Universities and the U.S. Small Business Administration

The U.S. Small Business Administration has a Small Business Development Center Network, which are service centers that offer a wide variety of support to small businesses, entrepreneurs, students and communities. The network is made up of 63 lead small business development centers which are funded by the small business administration. Of those 63, two are at Historically Black Colleges and Universities. There are also over 963 entities, including Colleges, Universities and Nonprofits that are part of the overall National Small Business Development Center Network. This means that 900 of these organizations in the network are subcontractors to the lead centers. Of these 900 entities in the network, only 16 are at HBCUs. It is important to note that SBA also operates more than 100 women business centers throughout its network and only one of those centers is located at an HBCU. It is also important to note that SBA co-sponsored 880 activities with non-HBCUs entities to foster and encourage entrepreneurship and just 10 activities with six HBCUs.

This points to a disparity on the part of SBA and its approach and process to foster and encourage education and small-business assistance to the minority community, specifically African-American communities. As stated previously, HBCUs have long been a significant source of education and economic development within minority communities. The Small Business Administration needs to increase its presence at HBCUs if it truly seeks to increase the participation rate of African-Americans and Minorities in its various programs.

Historically Black Colleges and Universities also can provide a tremendous opportunity for the Small Business Administration through its SBDCs to educate the next generation of entrepreneurs in the Minority and African-American communities. It is recommended that SBA and its SBDCs work with HBCUs to craft educational programs that will have college credit and at the same time increase knowledge and awareness of entrepreneurship and small business ownership of HBCU students. Part of the Small Business Administration's overall strategy to increase more minority and African-Americans participation in its programs and to gain success in entrepreneurship and small business ownership. Therefore, a unique and special partnership on behalf of the SBDCs and HBCUs to collaborate and offer for college credit courses for HBCU students in a variety of academic areas including Science, Technology, Engineering, Business and Medicine.

Howard University and the District of Columbia Small Business Development Center Network

The District of Columbia Small Business Development Center (DCSBDC) Network is a partnership between Howard University and the Small Business Administration. Established in 1979 we were invited to be in the pilot program that established the first Small Business Development Centers around the country. We are celebrating 40 years of an outstanding economic impactful partnership. Out of the 62 lead centers Howard University is one of two HBCU's in the program, the University of the US Virgin Islands in St. Thomas is the other. Howard University is the only private university that is a lead center. Additionally, there are close to 1000 centers located across the country. We at Howard University are very proud of the accomplishments of our Lead Center as well as our strategic partners across the District. Our economic impact in the District of Columbia since 2013 has been significant:

Clients Served	2,082
Jobs Created	2,255
Loan Assistance	\$33,196,941.00

As far as what the SBA could do, we believe much more can be done if each HBCU had the opportunity to be a part of the national SBDC network. The economic impact that Howard and our SBDC has on the Washington, DC community can be easily replicated across this country. Most if not all HBCU's are located in underserved communities, if the SBA spent more money helping the HBCU's in those communities to assist with establishing a SBDC to assist with small business development and job creation we will see real growth and economic prosperity in those communities.

The opportunities of an Enhanced and Expanded Strategic Partnership

Education

The SBA and its small business development center networks are missing out on a tremendous educational opportunity - providing education to the next generation of African-American and minority entrepreneurs and small businesses. The historically black colleges and universities including their students and faculty in the areas of science, engineering and technology, business and medicine should engage in a collaboration to develop a series of training courses that would be beneficial to HBCU students as they prepare for their professional careers. This is very important because this is a wonderful opportunity to provide essential entrepreneurship education and training, while also educating future entrepreneurs about programs that are available through the US small business administration and its SBDC network. A recommendation would be to have the faculty and the staffing of SBDCs develop a two-part series which would be equal to two elective courses for students as well as entrepreneurs and small businesses. The first part of the series would be a training and understanding of the SBA programs and activities available for current and future entrepreneurs and business owners. An example would be the SBA's young entrepreneur series that is offered by Johnson C Smith University in North Carolina. The second part of the series would focus on functional areas of small-business success such as marketing, strategic planning, finance, sales, and service etc. An example of this kind of training is offered by the University of Georgia Small Business Development Center and its Maximum Series, which focuses on six functional areas: marketing, human resources, service, social media, finance, and retail sales. It is also recommended that SBDCs have student training and education as part of their annual goals including minority and women participation.

Research

Another opportunity for SBA and it's SBDC Network to engage HBCUs and that is in research. Historically Black Colleges and Universities their faculty and graduate students provide an excellent resource for local and regional research on small business ownership challenges and identifying success strategies. Small Business Development Centers on a competitive basis can provide HBCU faculty in the areas of sciences, technology, engineering, business, and medicine, small supporting research grants to conduct surveys and research to identify unique problems and opportunities for that particular region, city, or locale. In addition, HBCU faculty would be very instrumental in working with SBA to develop new strategies that are more effective for financing for African-Americans and Minority business owners who are challenged currently by the process of obtaining SBA loans.

HBCU SBDC Student Externship Program

Small Business Development Centers should develop an externship program for HBCU students to assist African-American and Minority business owners, while receiving college credit. Since many African American small business businesses begin with only one employee, the owner, they are lacking in technical expertise. Historically Black Colleges and Universities business schools and engineering schools can provide up to 10 hours a week of student assistance to a business owner in the areas of accounting, marketing, technology, social media, innovation, etc. The program will have African-American entrepreneurs and Minority business owners filling out student technical assistance requests and specific to the areas of their need. The assignment will be for an entire semester and would be a maximum of 10 hours a week for the HBCUs student. Students will receive college credit and a small stipend for expenses. Finally, SBDCs should annually holds an annual conference on entrepreneurship for students and small business owners.

HBCUs and Technology Transfer Programs

The Small Business Innovation Research Program or SBIR and the Small Business Technology Transfer or STTR our program are significant contributors to U.S. innovation by the America's Small Business community. The SBIR program has four major goals: (1) to stimulate technological innovation; (2) to use more businesses to meet federal research and development needs; (3) foster and encourage participation in innovation and technology by minorities and disadvantage individuals; and (4) increased private-sector commercialization of innovation derived from federal research and development funding. The STTR program goals include, stimulating technological innovation, foster technology transfer through cooperative research and development between small businesses and research institutions, and increase private-sector commercialization of innovation derived from federal research and development. Important to note that the SBIR program has a legislative mandate to foster and encourage participation in innovation and entrepreneurship by minority and disadvantaged persons. Unfortunately, data from the U.S. small business administration shows that SBIR are awards to women and minorities fall far short of their representation and the potential applicant pool measured by business ownership. It is stated that women and minority owned businesses receive less than 16% of all SBIR awards. Of that amount, 6% go to women-owned firms and less than 10% go to minority owned firms. When you take into consideration the 51% of U.S. population is made up of women and women make up 27% of STEM graduates this number is appalling in addition African-American Asians and Native Americans constitute 36% of the U.S. population and 26% of the STEM graduates. Add to these sobering facts the fact that the Department of Defense has not made any sustain efforts to foster or encourage the participation of women and minority businesses and the SBIR program.

Historically Black College and Universities create a unique and special opportunity to increase the number of African-Americans awareness of the United States Government Technology Transfer Programs as well as increasing their participation in these very important programs. Each Lead SBDC center should be required to host at least one SBIR/STTR workshop on the campus of the HBCU's represented in their state. SBA should also allow funding for the advertising of this important program initiative. This should be a nationwide campaign initiated by SBA and implemented by the Small Business Development Centers across this nation.

I would also recommend that the Small Business Administration utilizing the SBDCs engage in an HBCU/ SBIR road tour. In 2018, the U.S. Small Business Administration, conducted a road tour to promote awareness of the small business innovation research program and the small business technology transfer program at selected HBCUs. The focus was to increase the awareness and education to faculty, students and small businesses in the surrounding communities of HBCU's. The HBCUs visited included Johnson C. Smith University, Clark Atlanta University, Alabama A&M University, and Jackson

State University. The recommendation would be that the road tours would visit all HBCU's in a two-year cycle. Again, the road tour would increase awareness of these technology transfer programs, serve as a forum for participation and collaboration, and foster future strategic planning on the part of HBCU's, their students as well as small business owners of that community.

Concluding Recommendations

- Small business development centers should be established at all HBCU's.
- Small business development centers should be required to track its assistance to minorities and women owned enterprises as well as HBCUs who have strategic memorandums and or sub centers on their campuses.
- SBDCs in concert with HBCUs should develop a college credit entrepreneurship training series with a focus on students in the sciences technology engineering business and medicine.
- SBDCs and HBCUs develop a student externship program where students in business engineering technology and the sciences can provide much-needed consulting services for African-American, women own and minority small businesses in their communities.
- Provide funding for HBCU faculty and graduate students to conduct research on the problems, opportunities, and challenges of African-American and minority entrepreneurs and small business owners in their specific community.
- It recommended that SBA, in partnership with HBCU's, develop an SBA Loan Candidacy program designed to prepare minority and women loan applicants for SBA guaranteed loans and for recently denied minority and women applicants. The SBA Loan Candidacy program implemented by the SBDC will work with candidates to provide a path to loan application success.
- U.S. Small Business Administration convene a conference with SBA District Directors, Executive Directors of Small Business Development Centers and The National HBCU Business Deans roundtable to engage a dialog and discussions about strategies and recommendations regarding enhancing and expanding the partnership. The National HBCU Business Deans Roundtable, established in 1999, consists of approximately 65 business programs across the country. The Roundtable was formed to provide a forum for deans of HBCU business schools to collaborate on opportunities and challenges with expanding business programs and initiatives. The organization also works to develop strategic partnerships with various businesses to provide essential tools and resources for student success.

An overarching recommendation is that SBA implement a unique and special partnership with HBCUs, including expanding the number of SBDC subcenters at HBCUs from 16 to more than 50, strategically located in communities and areas of great need for economic impact.

Thank you for this opportunity to present testimony on behalf of Historically Black Colleges and Universities.