



June 27, 2023

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United States Department of Commerce  
1400 Constitution Avenue NW  
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**RE: Capital Formation and Inclusive Economic Growth for MBEs**

The African American Alliance of CDFI CEOs (the Alliance) is pleased to submit this written statement for the record, addressing the current state of issues, problems, and proposed solutions relating to capital formation and inclusive economic growth by minority business enterprises (MBEs). The Alliance is a national membership-based organization with a mission to empower Black communities by promoting economic stability, well-being, and wealth. Leveraging a network of 77 Black-led Community Development Financial Institutions (CDFIs), the Alliance is working towards establishing power and promoting equal economic opportunity for Black individuals, families, and communities across all 50 states.

Minority-owned businesses (MBEs) are an integral part of our economic framework, propelling innovation, job creation, and community development. Presently, our nation hosts close to 9.7 million such enterprises, 1.04 million of which maintain a salaried workforce. Together, these establishments significantly contribute to our economy, generating \$1.48 trillion annually and employing 9.43 million individuals. Specifically, Black-owned businesses, numbering approximately 3.12 million, generate an annual revenue of \$206 billion and employ 3.56 million individuals.

Nonetheless, these numbers conceal substantial disparities within the MBE community. As per the 2021 Small Business Credit Survey by the Federal Reserve, 77 percent of Black small business owners reported that their financial condition was merely fair or poor, a stark contrast to the 54 percent reported by white business owners. Additionally, 57 percent of Black entrepreneurs have faced at least one bank loan rejection during their startup phase, compared to 37 percent of non-Black entrepreneurs. Moreover, it typically costs Black entrepreneurs an additional \$5,000 on average to set up a business relative to their non-Black peers. These obstacles are indicative of larger systemic issues and are not a reflection of a lack of ambition or potential.

The heart of the matter revolves around the unequal access to capital. Conventional financial institutions, characterized by their conservative lending practices, frequently bypass MBEs, thereby creating a challenging environment for their growth and prosperity. The absence of strong networks further exacerbates this issue, as it hinders MBEs from accessing investors and mentors who could provide critical guidance and financial support.

Community Development Financial Institutions (CDFIs) are pivotal in this context, forming a bridge between traditional financial systems and MBEs. CDFIs aim to extend credit and financial services to markets and populations that typically fall through the cracks. They are instrumental in providing MBEs with the necessary financial resources for growth, thus aiding in economic development and reducing income disparities. CDFIs also provide a range of support services beyond financing, offering assistance in areas like financial management, business planning, marketing strategies, and securing government contracts. This comprehensive assistance bolsters the ability of MBEs to succeed and promotes sustainable growth.

The CDFI industry, with more than 1,400 institutions and assets exceeding \$200 billion, has proven its ability to exceed the performance of larger capital reserve lenders in meeting the needs of small businesses. For instance, during the initial months of the COVID-19 pandemic, 303 CDFIs granted over 106,000 Paycheck Protection Program (PPP) loans, amounting to \$7.4 billion. Nevertheless, to optimize the impact of CDFIs on MBE capital formation, there is a need for Congress to allocate increased funding for the CDFI Fund. An expansion of regulatory support would augment the capacity of CDFIs to serve MBEs, by enhancing their lending potential and reach, their ability to develop innovative financial products, and their capacity to provide technical assistance to MBEs.

Reinforcing MBEs is tantamount to investing in our economy. By fortifying the capabilities of CDFIs, we can engender a more equitable and inclusive economic environment conducive to MBE prosperity. Your consideration of this written testimony on this critical issue is much appreciated. I remain available to provide further insights and assistance in promoting economic growth through bolstered support for MBEs.

Sincerely,

A handwritten signature in black ink, appearing to read "Lenwood V. Long, Sr.", written in a cursive style.

Lenwood V. Long, Sr., President and CEO  
African American Alliance of CDFI CEOs