



## Minority-Owned Business Development

*By Ian Pulsipher*

*Minority-owned businesses are growing at more than six times the rate of all firms.*

Minorities currently represent 27 percent of the U.S. population and are projected by the Census Bureau to account for approximately 90 percent of the nation's population growth over the next 50 years. Minorities also are rapidly increasing their presence and influence in the economy. A 2002 Kauffmann Foundation study found that minorities, especially African-Americans, are 50 percent more likely to start their own businesses than are other demographic groups. In addition to a strong entrepreneurial propensity among minorities, studies have found high success rates in minority-owned businesses. According to the 2000 U.S. Census, minority-owned businesses (defined by the race, ethnicity and gender of the people owning the majority interest in the business) are growing at more than six times the rate of all firms in the United States in number, and nearly twice the rate of all firms in annual sales.

*Minority firms benefit less from government procurement than do other firms.*

Despite these increases, significant gaps still exist between minority-owned businesses and their majority peers. The percentage of minority-owned businesses—14.6 percent—is only a little over half of the U.S. minority population percentage, according to the U.S. Minority Business Development Agency. In addition, studies indicate that minority firms benefit less from government procurement than do other firms.

In an effort to address these economic issues, federal and state government programs have used a number of ways to encourage minority business enterprise (MBE) development. These include business lending, entrepreneurial education and procurement programs.

*Lending programs show both business growth and loan default.*

**Business Lending.** Among the first government MBE development efforts were loan assistance programs administered by the U.S. Small Business Administration in the early 1960s. They were designed to broaden the base of business loan recipients by relaxing credit and collateral requirements. Consistent with other enterprise development, MBE lending programs show both business growth and loan default. In an analysis of unsuccessful MBE lending programs, Wayne State University Professor Timothy Bates points to loans made to nonviable firms and overcrowded lines of business, such as restaurants and food stores, as the chief reasons for failures. Among current state MBE lending programs, the successful Maryland Small Business Development Financing Authority, as well as the innovative Florida Loan Mobilization Program, address these problems while further expanding financial lending services to minority businesses. These programs concentrate on selecting more economically promising businesses as loan recipients and tailoring capital assistance services to the needs of their clients.

**Entrepreneurship Education.** Like other entrepreneurs, minority business owners often start

out with little experience or formal education in business operations. Entrepreneurship education teaches would-be business owners about financial institutions, government agencies and community resources that can support a start-up business. It also can involve training on basic business functions, such as budgeting, management and marketing.

**Procurement.** Among business development strategies, the most minority-specific—and among the most controversial—are programs designed to increase minority participation in government procurement. MBE procurement was designed in the early 1960s to address the traditional imbalance of low minority firm participation, as well as help those businesses grow, through greater access to the large market of government contracts.

State procurement programs usually consist of a certification process and a registry of MBEs to be used by government agencies in advertising bidding opportunities. Florida, Illinois, Kentucky and Maryland have laws that include specific goals for minority business participation in state procurement. These goals are expressed as a percentage of the total dollar value of procurement contracts. Florida's procurement law breaks down MBE procurement goals by industry. Kentucky law provides for the determination of item-specific procurement set-asides and allows prevention of bids from non-minority businesses. Set in 2002, Maryland's current MBE procurement goal of 25 percent is among the highest of the states.

Although their participation in government contracting has increased since the inception of MBE procurement programs, minority businesses continue to receive a much smaller percentage of government contracts than do other firms. U.S. Supreme Court rulings, including the often-cited case of *Virginia v. J.A. Croson Co.* in 1989, spurred a number of state and local governments to conduct "disparity studies" documenting minority shares of government procurement contracts. A comprehensive analysis of 58 of these studies done by the Urban Institute in 1997 found that MBEs receive only 57 cents for every dollar they would be expected to get from government contracting, based on their numbers and availability.

Increasingly, the success or failure of MBE development will affect more than just the minority-owned businesses it targets. As the U.S. minority population continues to grow, the results of this group's business endeavors will continue to affect national issues of wealth creation and poverty reduction on a much larger scale. If current trends in minority-owned business growth continue and they become a greater percentage of all U.S. firms, their viability also will be progressively more important to the continued growth and strength of the nation's economy.

### Selected References

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