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Report identifies obstacles minorities encounter

Financial barriers

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According to a recent report from the U.S. Commerce Department's Minority Business Development Agency, securing financing continues to be the number one challenge facing the minority business community.

The report, titled "Expanding Financing Opportunities for Minority Businesses," identifies several barriers minority business owners encounter when looking for financing.

While the report's findings are of no surprise to minority business, it makes several points as to why these hurdles must be eliminated and how to achieve that end.

According to the report's executive summary, the economic importance of minority firms becomes more compelling when considered in connection with U.S. population trends. Minorities, who now comprise nearly 30 percent of the U.S. population, will grow to more than 50 percent by 2050. From now until 2050, 90 percent of the growth in the U.S. population will be in the African-American, Hispanic, Asian-Pacific Islander or Native-American communities.

"Minority business enterprises have dramatically increased their participation in the free enterprise system. This is consistent with the dramatic increases in the minority population and minority purchasing power," said Ronald N. Langston, national director of Minority Business Development Agency, U.S. Department of Commerce.

"While MBEs are projected to achieve entrepreneurial parity with respect to the numbers of firms in 2020 and employees in 2050," he said, "they may never achieve parity with respect to the numbers of firms in 2020 and employees in 2050, they may never achieve parity with respect to business revenues. They continue to face systemic barriers to accessing capital market, which impede the efficient and productive flow of capital to them."

The barriers to financing as listed in the report are:

Lack of investment performance information. Lack of performance information on loans and investments made to minority entrepreneurs results in the perception by financial institutions that these loans are riskier than those to other small business owners.

Consolidation of financial institutions. The rapid consolidation of commercial banks over the last decade has resulted in the acquisition of a number of smaller banks that have been traditional lenders to small and minority businesses.

Ongoing disparities in lending. Research indicates that banks deny financing to African-American and Hispanic borrowers more often than to majority entrepreneurs, even when controlling for differences between firms.

Increased use of financial technology. Financial institutions are using technology to increase efficiency in loan processing, reduce transaction costs, maintain detailed databases of information on borrowers and loan performances, and generate credit-scoring models to assess risk. This has reduced relationship lending, traditionally a common financing methodology for MBEs.

Need for mentoring and technical assistance. Minority firms often need extensive mentoring and technical assistance services in addition to financing. For banking institutions, these services can raise the expense of making a loan.

Lack of professional and social networks between minority businesses and investors. One of the primary difficulties facing minority businesses is the lack of networks in the investment community. In particular, minority businesses often do not know venture capitalists or ways to penetrate the private equity community.

Recommendations include development of current and extensive governmental data to support investment decision-making and to identify market opportunities

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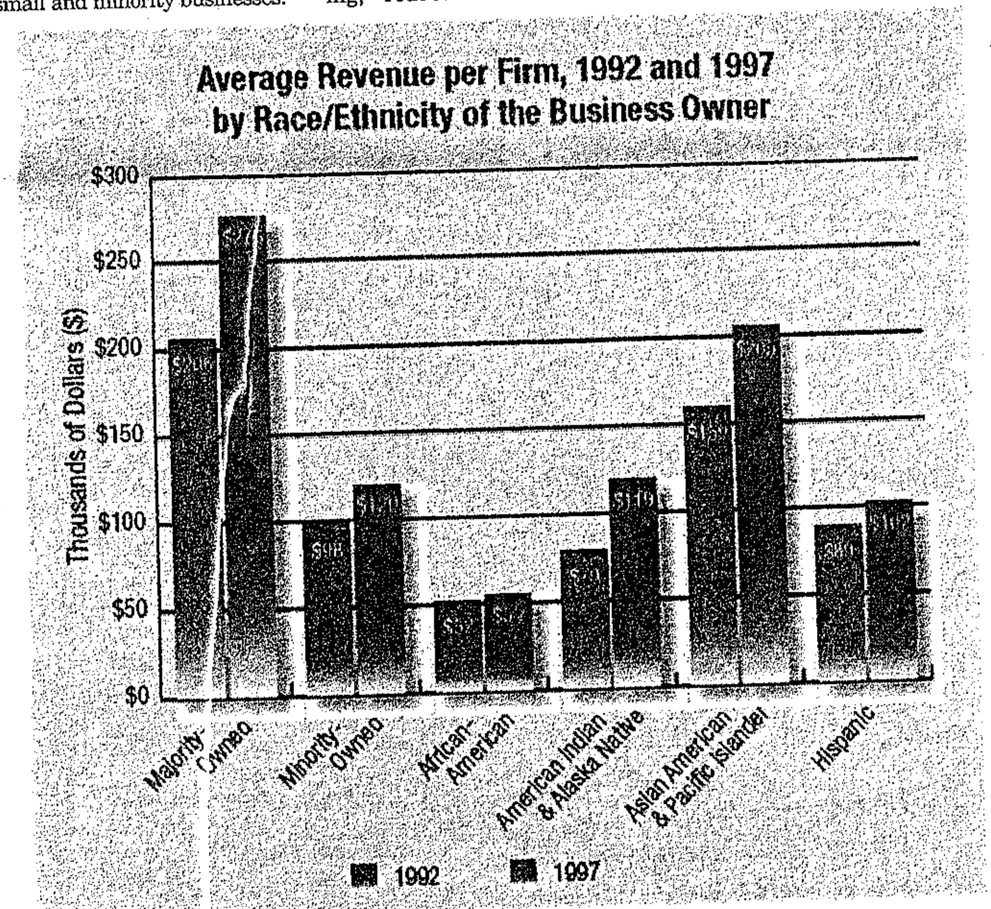

Source: U.S. Department of Commerce, Economics and Statistics Administration and the Minority Business Development Agency, September 2002. *Keys to Minority Entrepreneurial Success: Capital, Education and Technology*, p. 4.

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in the MBE community; improvement of capital availability and accessibility through existing and new programs; provision of expanded access to management and technical assistance; integration of the investment community, minority entrepreneurs and the federal government.

However, because that growth is projected to occur in California, New York, Texas and Florida, not Pennsylvania, meaning any federal initiative will most probably focus on those states. Local small business owners and hopeful entrepreneurs need to know where to go for assistance.

Banks used to be the first stop. While many banks do have special loan programs for start ups and small businesses, applicants still need t ow themselves as credit ready.

That when people like Doris Carson Williams, president and CEO of the African American Chamber of Commerce of Western Pennsylvania, come into the picture.

"We're a chamber of commerce. We advocate on behalf of our members with the financial community and state government for attractive loan packages for small businesses," she said. "For new biz starts, that's were the real challenge is."

Williams added that assisting small and minority businesses overcome financial hurdles is a "collective effort" among organizations, educational institutions, the financial community and other agencies.

"But it starts at home with the company; with the business owner," she said.

The chamber will attempt to educate entrepreneurs on a variety of issues including financing through its recently established Business Institute.

One of those other agencies that support minority businesses is the Pittsburgh Regional Minority Purchasing Council.

The council's Scott Coligan said the organization has partnerships with various banks—particularly PNC with its Business Consortium Fund—to assist minority busi-

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nesses certified through the council to have access to funds. The Business Consortium Fund provides loans of at least $10,000 to certified PRMPC members. All loans are made at approximately the prime interest rate.

National City, Citizens and PNC Bank are actively involved with the small business community. Business owners should remember that Mellon got out of that business when it sold its retail banking to National City.

Other resources for small businesses

Service Corps of Retired Executives, Pittsburgh Chapter, provides free and confidential business counseling for starting and growing a small business. SCORE counselors are available every Thursday, 10 a.m.-3:00 p.m. in the Business Services Department of the Downtown Library Center. Call 412-281-7141.

University of Pittsburgh Small Business Development Center: First Floor, Wesley W. Posvar Hall, Oakland. Phone: 412-648-1542, fax: 412-648-1636, e-mail ieeinfo@katz.pitt.edu.

Chrysler Corporation Small Business Development Center: Duquesne University, 108 Rockwell Hall, Uptown. Phone: 412-396-6233, fax: 412-396-5884, e-mail duqsbdc@duq.edu.

Saint Vincent College Small Business Development Center: 300 Fraser Purchase Rd., First Floor, Benedict Hall Latrobe. Phone: 724-537-4572, fax: 724-537-0919.