



AEO *Association for
Enterprise Opportunity*
THE VOICE OF MICROBUSINESS

Senate Committee on Small Business and Entrepreneurship

*Closing the Wealth Gap: Empowering Minority-Owned Businesses to Reach Their Full
Potential for Growth and Job Creation*

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on behalf of the Association for Enterprise Opportunity (AEO)

Thank you Chair Landrieu, Ranking Member Risch and Members of the Committee for the opportunity to be a part of this important roundtable. I further commend the Committee for its commitment to this important topic and the publication of the *Wealth Gap in the United States* Report. I am speaking today in my capacity as President and CEO of the Association for Enterprise Opportunity (AEO), the national member organization and voice of microbusiness in the United States. For more than 21 years, AEO and its more than 400 members and partner network of nonprofit lenders and business development organizations have provided critical access to capital and business counseling to underserved entrepreneurs and microbusinesses all across the country.

I want to start by drawing on remarks Labor Secretary Thomas Perez made recently, in which, referring to the equality of opportunity to work, he said, "For a moment I celebrated how far we have come and then I remembered that we also have a long journey still to complete." In the five decades since the March on Washington, many social, economic, and color barriers have been broken. However, the nation is faced with a growing wealth gap today that has crippling effects on communities and livelihoods, particularly on Main Street communities.

According to a 2013 Brandeis University study, the wealth gap between whites and African-Americans has tripled over the last 25 years, due to inequality in home ownership, income, education, and inheritances.¹ To put the size of the wealth gap into context, as the Committee report notes, the typical African-American household

¹ Racial Wealth Gap Project, Institute on Assets and Social Policy (IASP), Brandeis University, <http://iasp.brandeis.edu/research/wealthgap.html>.

had a net worth of only \$6,314 compared to the average white household, which had net worth of \$110,500.

The Power of Entrepreneurship

At AEO, we view entrepreneurship, particularly microbusiness, as a way to generate income and as a means of closing the widening wealth gap. A microbusiness is defined as enterprises with fewer than five employees. One business, one job can change the trajectory of one family, one community, or one city.

In fact, according to AEO's *The Power of One in Three* report, the median net worth of business owners is almost two and a half times greater than that of non-business owners.² For an African-American male, the difference is nearly eight times higher for business owners compared to non-business owners; for an African-American woman, the difference is more than ten-fold; for an Hispanic male, the difference is five-fold.

In that same report, AEO found that if just one in three microbusinesses hired a single employee, the U.S. would be at full employment. The benefits of entrepreneurship are evident, and yet, microbusinesses often encounter barriers when attempting to access capital and services to start, grow or hire. At the crux of the capital and services quagmire is assets. That is individuals with low or insufficient net worth or collateral simply have no assets with which to secure a loan.

Solutions to Deliver Capital and Services to Main Street

While entrepreneurship is a tool for wealth and job creation, many aspiring and existing business owners stumble on the road to get the capital and services they need.

AEO has launched a strategy that links diverse stakeholders in order to mobilize and channel technology, capital and other resources on behalf of Main Street, micro and solo businesses. This strategy is a pillar of AEO's One in Three Initiative, a broader effort to change the way that capital and services flow to underserved entrepreneurs so that they can start, grow and hire.

In 2012, AEO launched TILT Forward™, an online suite of capital and services solutions. The TILT Forward™ platform represents the opportunity to unlock billions of dollars of private capital for small and microbusiness lending and services through existing infrastructure of not-for-profit lenders and commercial banks by resolving structural barriers to scale. But simply moving money is not our goal. We seek to restore vibrant Main Streets in communities throughout the country and to

² The Power of One in Three, The Association for Enterprise Opportunity, 2011, http://www.oneinthree.biz/documents/OneInThree_WebBrochure.pdf.

ensure that no one who seeks economic opportunity through business ownership or entrepreneurship is left behind. Further, we believe that TILT Forward™ can play a significant role in addressing un- and under-employment, income inequality and racial and ethnic disparities.

AEO has focused efforts on assembling a network of partners from the private and nonprofit sectors. These partnerships represent the unique combination of capabilities and assets required to build a new system for microlending to Main Street. One of those partners is On Deck Capital, which uses in-house proprietary analytics to provide working capital loans of up to \$150,000 to businesses.

Strengthening the Entrepreneurial Ecosystem

Hand in hand with low net worth and the lack of capital access, is the limited availability of business assistance services, such as coaching and support related to many aspects of management and operation. In fact, AEO has found that businesses that received capital and services from a non-profit organization had median annual revenue growth 30 percent higher than businesses that did not.³ They also tend to be more successful: 88 percent are still in business after five years, compared to a 50 percent success rate among businesses that did not.⁴

We must ensure that there is adequate access to training and business-support services geared towards those who need it the most. In addition to accessing capital through TILT Forward™, microbusinesses can request technical assistance and critical business-support services from AEO member organizations. In effect, the platform has been designed to serve as a virtual “one-stop shop” for entrepreneurs and budding microbusinesses that face significant barriers to entry.

AEO believes the government plays a vital role in supporting underserved entrepreneurs through its various programs. These programs include the Program for Investment in Micro-Entrepreneurs (PRIME), the Microloan Program (SBA), Women’s Business Centers (SBA), Small Business Development Centers (SBA), the Community Development Financial Institutions Fund (Treasury), the Rural Microentrepreneur Assistance Program (USDA), and the Department of Labor’s Employment & Training Administration.

Conclusion

AEO is dedicated to helping individuals create wealth through entrepreneurship. At AEO, we know that starting a business is job creation. As the *Power of One in Three* shows, entrepreneurship is a means to a job and remains one of the best ways to establish financial security, create wealth, and close the wealth gap. Collaboration

³ The Power of One Business, The Association for Enterprise Opportunity, 2012, www.aeoworks.org.

⁴ FIELD/The Aspen Institute, “Facts About Business Ownership,” <http://fieldus.org/Stories/FastFacts.html>.

between the public and private sectors can play a critical role in creating jobs, both through models such as the TILT Forward™ platform and government programs such as those at the Small Business Administration.

Strengthening these services and programs, while exploring ways to increase access to capital to microbusinesses will go a long way in enhancing the entrepreneurial ecosystem for underserved entrepreneurs looking to start, operate, and grow businesses – and unleash *The Power of One in Three*.