

Supply Philly **Using Federal Infrastructure Spending to Grow Black- and Brown-Owned Businesses**

I. Organizational Structure & Function

To realize the full potential of federal infrastructure investments and support the growth of small and minority owned businesses in Philadelphia, the City of Philadelphia could create a ***Supply Philly Initiative***. The Supply Philly Initiative will be carried out in close concert with PIDC, the Chamber of Commerce for Greater Philadelphia, and the City of Philadelphia. The Economy League and the Chamber are both already working with local corporations, universities and health care institutions on exemplary supplier diversity efforts, which would inform and align well with this new public sector initiative. The City has a track record of pursuing efficiencies and innovations in contracting, including through the Rebuild program, which provide a strong foundation for further innovation.

Just as the Economy League and the Chamber work with local anchor institutions, Supply Philly would seek to work with the City and local public departments and authorities that issue contracts and procure goods and services. These entities could include SEPTA, the School District of Philadelphia, PhilaPort, Philadelphia International Airport, Philadelphia Gas Works, the Philadelphia Water Department, the Community College of Philadelphia, and others.

The Initiative would be grounded in the reality that procurement and contracting teams within each organization are sourcing goods and services from the same set of small and minority owned firms, and in order to grow those firms into those capable of being prime contractors, all entities must work together, rather than in silos, to support the growth of local businesses.

The Supply Philly Initiative would have three main components: A ***Supplier Diversity Hub***, ***Supplier Diversity Consortium***, and a ***Supplier Diversity Marketplace***.

Supplier Diversity Hub

Functions

A ***Supplier Diversity Hub*** would add capacity and accountability around public sector supplier diversity. Participating public authorities and agencies should include those set to receive federal funds from the Infrastructure Investment and Jobs Act, as well as others interested in participating. Participants would continue to procure goods and services. The role of the new Hub will be to help participating entities:

- Provide advisory services around how to alter internal procurement and bidding practices to advance supplier diversity, including a process review and recommendations to reduce unproductive regulations, guidelines, and practices;
- Establish uniform baseline reporting metrics and track performance objectively, providing accountability by publicly reporting, or helping agencies to report, their results, with the eventual goal of creating a tech empowered ***Supplier Diversity Marketplace*** to bring transparency to goal setting and reporting across multiple entities.
- Work with federal and state entities to reform statutory, regulatory, and administrative provisions that inhibit supplier diversity;
- Work closely with a ***Supplier Diversity Consortium*** of entrepreneurial support organizations, including The Enterprise Center, and capital providers to provide the full suite of necessary services to targeted firms to boost the *supply* of diverse suppliers in Philadelphia.

Governance Structure

The Supplier Diversity Hub would be governed by a Board consisting of representatives from all the participating public authorities and agencies participating in the initiative, particularly those receiving federal infrastructure spending. The Board would be chaired by the Commerce Director of the City of Philadelphia. The Hub would be headed by an Executive Director and have an initial staff of 7 to 10 professional and administrative personnel.

One of the first acts of the Hub would be the execution of a Memorandum of Understanding among participating public authorities and agencies, expressing their commitment to bring unity and conformity to all elements of supplier diversity, including the setting of goals, the collection of data, the transparency of reporting, the establishment of procurement practices and the identification of and support for Minority and Women-Owned Business Enterprises (M/WBEs) and Disadvantaged Business Enterprises (DBEs), and other categories of traditionally underutilized businesses.

Supplier Diversity Marketplace

The Supplier Diversity Marketplace would be developed and managed by the Supplier Diversity Hub and serve as a user-facing tech platform accessible by both suppliers and procurement staff. This new digital marketplace will enable public authorities and agencies to easily match procurement demand with the supply of qualified M/WBE and DBE firms. It would also create a uniform data tool to help authorities and agencies disaggregate spending, set supplier diversity goals and measure progress against targets. The platform created by Stimulus Inc. serves as a model for the vision for the Marketplace.

Supplier Diversity Consortium

The *Supplier Diversity Consortium* would ensure that potential vendors get the business coaching and quality capital they need to meet procurement demand. The Consortium would consist of high-quality entrepreneurial support organizations, including racial and ethnic chambers of commerce, as well as capital providers, including community development finance institutions, banks and other financial institutions. Providing access to high-quality, affordable, and responsible capital across the broad continuum of small business needs at different lifecycle stages and in disparate sectors is vital for nurturing growth.

II. Vision Statement & Background on the Initiative

A Historic Opportunity

In June 2021, President Biden announced an ambitious goal to use the federal government's purchasing power to increase contracting with small, disadvantaged businesses (SDBs) by 50%, or \$100 billion, over five years. This goal is part of the President's [plan to build Black wealth and close the racial wealth gap](#).

This announcement comes parallel to an infusion of federal spending through the \$1.2 trillion Infrastructure Investment and Jobs Act, which includes \$550 billion in new federal funding for infrastructure projects to improve roads, bridges, energy infrastructure, broadband, climate resilience, electric vehicle infrastructure and more. Combined, the projects funded through this bill will create a huge boost in demand for private sector firms to complete projects.

In November 2021, President Biden included the equitable investment of new funds, and investments in disadvantaged communities, as [one of six priorities the Administration has for infrastructure implementation](#). If deployed effectively, new federal funds present an urgent, once-in-a-generation opportunity to grow Black and brown owned businesses, particularly in the construction and professional

services sectors. These funds are arriving in the wake of the COVID-19 pandemic, which devastated Black- and Brown-owned small businesses in Philadelphia and across the nation, exacerbating what were already substantial gaps in the number, size, and growth potential of these firms.

To truly build back better, Philadelphia must grow Black and Brown business ownership rates above where they stood pre-pandemic. Realizing the full potential of federal investments to drive business equity will require actions to bolster the procurement of goods and services from Black-and Brown-owned businesses, provide these businesses the nurturing and mentoring they need to start and grow and give them access to quality capital, debt, and equity.

As a city, we can build community wealth by building a cadre of strong and scale-able Disadvantaged Business Enterprises (DBEs) that can deliver an array of infrastructure related goods and services, particularly in the construction sector. The formation and growth of such enterprises has, in turn, the potential to give Black and Hispanic Philadelphians access to quality jobs in the infrastructure arena, raising incomes in the community.

In summer 2021, the Philadelphia Equity Alliance and the Nowak Metro Finance Lab at Drexel University worked closely with McKinsey & Co. to understand the current state of procurement practices around public infrastructure spending in Philadelphia. Our conclusion is that the current system is overly fragmented and balkanized, with no unified approach to supplier diversity and the growth of Black- and Brown-owned businesses.

In Philadelphia, our goal is to ensure an equitable volume of infrastructure contracting dollars reach small and mid-sized businesses owned by people of color. The City of Philadelphia is committed to acting as a national leader on small business finance and public contracting reform to achieve equitable outcomes and inclusive economic growth.

The Case for Local Reform

The case for bold action in Philadelphia is clear. We lag other major U.S. cities on multiple measures of racial equity, poverty, and minority business ownership, and despite thoughtful past initiatives, there's significant room for improvement when it comes to ensuring public procurement and contracting practices encourage supplier diversity, rather than limit it through passive inaction. Despite our best efforts, past reforms have not impacted the racial wealth gap in Philadelphia.

Philadelphia's poverty rate stands at 23%, the highest among large cities in the U.S. Poverty rates are considerably higher for residents of color: 31% and 38% of Black and Hispanic Philadelphians live in poverty, respectively, compared to just 15% of White Philadelphians. White residents make up a disproportionate share of Philadelphians earning over \$200,000 a year, while Black residents make up a majority of those earning less than \$10,000.

Black Philadelphians are particularly underrepresented when it comes to business ownership. Despite comprising 43% of the city's population, Black-owned firms represent fewer than [three percent](#) of all employer firms in the city, and roughly [7 percent](#) of firms in the construction sector. When sole proprietorships, or non-employee firms are included, Black ownership rates are estimated to be [closer to 25%](#). We know Black-owned businesses are, on average, substantially smaller and less capitalized than White-owned businesses. The COVID-19 pandemic only exacerbated these challenges. The pandemic devastated Black- and Brown-owned small businesses, widening substantial gaps in the number, size, and growth potential of these firms. According to [estimates](#), the number of Black business owners in Philadelphia fell by 68% between March and July 2020, compared to a 44% drop in White business ownership.

Increasing access to public contracts for minority owned businesses provides firms a pathway to growth. **Within Philadelphia alone, looking beyond just the City of Philadelphia itself, over a dozen public and quasi-public organizations likely to receive federal infrastructure funds run their own procurement and contracting programs.** This presents a significant opportunity for contractors and vendors, but the disparate landscape presents a fragmented system for small businesses and suppliers, limiting the collective impact.

New research commissioned by the Philadelphia Equity Alliance (PEA) from McKinsey & Co. found the City and nine public entities¹ collectively outsourced over \$6.6 billion in spending in FY 2020, but only between \$400 and \$800 million, or between 6% and 13%, of that total made its way to businesses owned by people of color, despite those communities comprising over 58% of the city's population.² The City itself successfully committed [20% of city contracting dollars to minority business enterprises \(MBEs\)](#) in FY 2019, but failed to reach its own target of 25%.

McKinsey assessed that were all ten entities able to increase their MBE spend to 25% of all public contracts, they would contract roughly \$1.7 billion to minority owned firms per year, creating minority wealth and quality employment opportunities for residents of color. Part of the challenge, of course, is ensuring there are enough local MBE firms to meet that level of demand.

McKinsey also analyzed the potential impact of President Biden's original American Jobs Plan, which pre-dated the IJA, on Philadelphia. The original AJP proposal included over \$2 trillion in new spending, and represented a potential tranche of funds that could generate an additional \$100 million to \$900 million in MBE spend per year over 8 years, which would be heavily skewed to an industry (construction) that is more accessible to MBEs. The scale of the American Jobs Plan differed significantly from the bipartisan Infrastructure Investment and Jobs Plan that was signed by President Biden, but the spirit of the analysis remains.

In addition to the quantitative analysis, the McKinsey research, based on 27 stakeholder interviews, public and requested data, and a review of current practices, catalogued over 60 pain points that included those experienced by businesses seeking to win public contracts in Philadelphia, and those experienced by procurement staff seeking to improve outcomes for small and minority-owned suppliers and contractors. Challenges ran the gamut from the lack of access to quality capital, duplicative paperwork, insurance and bonding challenges, overly-complex MBE and DBE certification and bid processes, lack of procurement staff capacity, and a dearth of trust between communities of color and public systems. The McKinsey research revealed that these ten separate public-sector authorities have different definitions of DBEs and MBEs different reporting habits, use separate processes for procuring goods and services and engage, or fail to engage, with different stakeholders in the ecosystem, including entrepreneurial support organizations and financial institutions. There is simply no unified, wholistic approach to supplier diversity, meaning that the whole is less than the sum of its parts.

The City and public entities have a collective role to play on the demand side, by issuing contracts, and on the supply side, by helping Black and brown businesses launch and grow through expanded capital access and access to professional services in marketing, accounting, legal services and other functions necessary

¹ The ten entities included the City of Philadelphia, SEPTA, School District of Philadelphia, Philadelphia Water Department, Philadelphia Gas Works, Philadelphia Housing Authority, Philadelphia International Airport, Philadelphia Parking Authority, PhilaPort, and the Community College of Philadelphia.

² The estimate range reflect the difficulty of assessing public spend on minority firms given inconsistent definitions, data collection and reporting.

for business growth. Closing existing public contracting gaps would have a significant impact and provide the long-term contracting relationships which stabilize business for sustainable growth. The expected increase of federal funds that will flow through local intermediaries beginning in 2021 presents an urgent opportunity for reform.

A New Path Forward in Philadelphia

Achieving greater supplier diversity requires more than increasing M/WBE or DBE spending targets. It requires wholesale institutional change. In June 2021, Mayor Jim Kenney convened leaders from the City, the School District of Philadelphia, SEPTA, PIDC, LiUNA, The Enterprise Center, The Economy League, and other key stakeholders to review McKinsey's research and chart a path forward.

A strong supplier diversity system needs an entity that can both coordinate and align procurement efforts across multiple public entities as well as work across sectors to form and grow DBEs. **A strong ecosystem should match the regional demand coming from public entities with the supply of local DBE vendors that can (or could) meet these needs; in other words, market matching and market building.** This will require not only a change in public procurement practices which, in the past, has often inhibited DBE firms from applying for and securing major government contracts, but also an investment in significant DBE business coaching and mentoring and access to quality capital to be able to compete for and successfully deliver public contracts.