

Kerry Statement on Legislation to improve the New Markets Venture Capital Program

Tuesday, July 18, 2006

Mr. President, in 1999, President Clinton unveiled the “New Markets Investment Initiative” to counter an unmet challenge in the 21st century: building economically vibrant communities in underserved places such as inner cities and distressed rural areas, where there is a great need for jobs and economic development. The goal was to build a bridge between Wall Street and our untapped markets in Main Street America. In that same year, Senators Paul Wellstone, Jeff Bingaman, Paul Sarbanes, Carl Levin, Max Cleland and I introduced the Community Development and Venture Capital Act to spearhead this innovative New Markets initiative in the Senate. In 2000, our New Markets initiative was enacted with bipartisan support in Congress as part of the Consolidated Appropriations Act of 2001. The New Markets Venture Capital program (NMVC), which specifically promotes the creation of wealth and job opportunities in low-income areas, was only one part of the initiative agreed to by Speaker Hastert and then-President Clinton. The other elements of that agreement included the New Markets Tax Credits (NMTC), additional empowerment zones, and a new program: Community Renewal Zones. The overall goal of the legislation was to provide a number of different approaches to alleviating poverty so that we could better understand what works best. With the exception of the NMVC program, all of the other programs have moved forward. However, the NMVC program has not been given the opportunity, the funding, or the support to reach its full potential as Congress intended.

The NMVC program has had many successes since its inception five years ago. CEI Community Ventures, Inc. from Maine – close to my home state of Massachusetts – has invested venture capital funds in “Look’s Gourmet Food Company,” which manufactures and sells all-natural, high-quality, shelf-stable seafood products under the “Bar Harbor T” and “Atlantic T” brands. Another example can be found in Vermont, where Carolyn Cooke and Poppy Gall founded “Juno Rising/Isis Women’s Apparel,” an outdoor clothing company targeting the needs of today’s active women. Their products can be found in outdoor stores throughout the country.

Today, I rise to introduce legislation that will not only reauthorize the New Markets Venture Capital Program for three years, but will provide critical components for success: providing appropriate funding authorization levels, expanding the NMVC program into all regions of the country, encouraging investment in small manufacturers, making the NMVC program consistent with the NMTC as Congress intended, incorporating the operational assistance grant model from the Rural Business Investment Program, and establishing a long-overdue Office of New Markets Venture Capital. The legislation is a companion to H.R. 4303, introduced by Representatives Gwen Moore of Wisconsin and Hal Rogers of Kentucky. While few differences exist between our bills, both send a clear legislative signal that there is strong bipartisan and bicameral support from Congress to reauthorize this program.

Mr. President, this program has a history of strong bipartisan support. In FY 2001, together we appropriated

\$150 million for debenture guarantees and \$30 million in grant financing to support up to 15 NMVC companies. Unfortunately, only half of this money was obligated to support six NMVC companies and the remaining funds were rescinded in the FY 2003 Omnibus Appropriations Act Conference Report. Now today this program faces further challenges with the President's FY 2007 budget request asking for no funding for the NMVC program. This is the sixth year in a row the President has not backed this program, although Congress restored funding in 2002 and initially provided funding in 2003. The Small Business Administration's (SBA's) failure to obligate the remaining funds and the President's lack of support for funding the NMVC program raises an important question: Has the challenge in the 21st century of improving local economies in low-income urban and rural communities been met? All evidence says no. A 2006 report on America's Children by the Federal Interagency Forum on Child and Family Statistics stated that in 2004, 17 percent of children live in poverty – a total of 12.5 million, In addition, 42 percent of children with single mothers and one in three African American children live in poverty. The Bureau of Labor Statistics shows that in areas such as Flint, Michigan, where the NMVC has not yet had the time or resources to reach, the unemployment rate is at 7.3 percent, well above the national average of 4.6 percent. Congress must use this reauthorization process as an opportunity to stimulate business activity in all communities and create jobs for low-income residents throughout the entire country.

Prior to the creation of the NMVC program, Congress attempted to fill this unmet need through various programs. In fact, Congress created the NMVC program based on the SBA's Small Business Investment Company Program (SBIC). Since its beginning in 1958, the SBIC program has provided approximately \$46 billion of long-term debt and equity capital to more than 99,000 small U.S. companies. Although the SBIC program has been popular, it does not sufficiently reach the underserved areas of our country that need economic development the most. The NMVC is targeted specifically to very low-income areas, including Historically Underutilized Business Zones – HUBZones -- and low-income rural and urban neighborhoods, which are overlooked by traditional venture capital investors. I do not have a NMVC company in my state and I am sure that many states, like Massachusetts, could benefit from the opportunities that the NMVC creates.

To ensure that the NMVC program expands into diverse areas around the country, the legislation encourages the SBA Administrator to establish not fewer than one company from each of the 10 geographic regions of the country. In addition to diversifying the geographic distribution of NMVC companies to our underserved communities, there is a great need to diversify the types of investments approved by the SBA, particularly in the area of manufacturing. According to a 2004 study by the U.S. Department of Commerce, the most recent recession in the business cycle hit U.S. manufacturers and their workers hardest – a downturn that first was felt in 2000. The manufacturing community lost 2.6 million jobs, accounting for all of the net job losses from the fourth quarter of 2000 through the third quarter of 2003. Much of the manufacturing sector continues to operate well below its previous peak and potential. For example, in places such as Milwaukee, where in 2002, according to the Bureau of Labor Statistics, 59 percent of working-age African American males were either unemployed or out of the workforce. Milwaukee has also lost 33,000 manufacturing jobs in the past five years. We need to do all we can to bring back these lost manufacturing jobs, and the NMVC program could play a role. Relying on the market to bring venture capital funding to Milwaukee and other manufacturing hubs is not the solution: According to a study by the University of Kansas, Milwaukee ranks 49th out of the 50 largest U.S. cities in terms of venture capital dollars. Imagine the difference that a venture capital investment could make in this area, creating one job for every \$15,000 invested.

As I mentioned previously, this legislation is a companion to the bipartisan legislation introduced by Representatives Moore and Rogers in the House. Both of our bills include small manufacturers in the mission of the program, by encouraging the SBA Administrator to select at least one NMVC company that is

primarily involved in the investment and development of small manufacturing firms.

Mr. President, the legislation also makes the NMVC program and the NMTC consistent in defining low-income geographic areas. Both programs were designed to work together – the NMTC was intended to be a tool to encourage NMVC companies to raise private investment capital in low-income communities. Conforming their definitions will assure a smooth coordination between the two programs for future investors.

The nexus between the NMVC program and the NMTC is only one aspect that makes this program unique among all of the SBA's programs. Another unique aspect is the operational assistance grant program that fund managers can use to assist entrepreneurs in low-income communities to develop a business plan, manage employees, or market their products and services. These grants are an essential tool for fostering community development using venture capital firms because investors are able to reach out into communities not served by conventional investors. Many of the NMVC companies are also members of the surrounding community, therefore, they'll have the local expertise and guidance for entrepreneurs to start and sustain a viable business. Some NMVC companies are having a difficult time meeting the SBA requirement that each company raise an upfront dollar-for-dollar match in order to obtain an operational assistance grant. To avoid this unnecessary burden, the legislation incorporates a provision modeled after the joint SBA/Department of Agriculture Rural Business Investment Program which does not require a match from the company and limits the amount of the grant.

Mr. President, these improvements to the NMVC program are important but they cannot be implemented without dedicated staff at the SBA. In October 2005, I wrote a letter to the SBA expressing my concern about the lack of staffing and resources devoted to the NMVC office within the SBA's Investment Division. The SBA informed me that staff members within the Office of SBIC Operations were getting cross-trained on the NMVC program to ensure adequate staffing and provide ample support to meet the needs of the six NMVC companies currently assigned to the Office of New Markets Venture Capital within the SBIC program. Reshuffling SBA staff to assist six companies is not sufficient. If this program grows to its originally intended potential of 15 companies, there needs to be staff dedicated solely to administering the NMVC program. This legislation establishes an Office of New Markets Venture Capital within the Investment Division of the SBA, headed by a Director appointed by the SBA Administrator. The Director would be responsible for administering and encouraging investment in small manufacturing firms and working to expand the number of small businesses participating in the NMVC program.

This bill is urgently needed now to expand the good work of the NMVC program, and I urge all of my colleagues to show their support for the small but growing number of businesses that promise both financial returns for their investors and social returns to low-income people and distressed regions in which they invest. This double-bottom line distinguishes the NMVC program from any other SBA program and we cannot afford to let it expire.

Mr. President, I ask unanimous consent that my full statement be included in the record.

To read the press release on this bill, click [here](#).