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Chair

Mr. Tom Lukiwski

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•(1100)

[English]

The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)): Colleagues, I'll call the meeting to order.

I have a couple of points before we get going.

One, we have two witnesses with us today, but they are not in person, and they're not even by teleconference. We do have them hooked up by audio only, unfortunately. I would ask all of you, when you're going to be asking questions, to please identify yourselves so the witnesses realize who they're speaking with, and who's asking the questions. It's a little weird, I understand, but unfortunately it's all we can do at this point in time.

Secondly, we only have the two witnesses. I'm not sure exactly how long the questioning will take. That will be up to committee members. If we have exhausted all of our questions before one o'clock, which I anticipate we will, we'll suspend, and then go into committee business. I'm anticipating committee business perhaps around 12:30 p.m., although it might be earlier, and that all depends upon the people around this table.

With that, I think we'll commence.

As I mentioned, we do have two witnesses with us today, Mr. Eugene Cornelius, Deputy Associate Administrator, Office of International Trade; and Mr. James Parker, Acting Director of the State Trade Expansion Program, Office of International Trade.

Mr. Cornelius, please go ahead with your opening statement.

Mr. Eugene Cornelius (Deputy Associate Administrator, Office of International Trade, U.S. Small Business Administration): Thank you.

I would just like to say that the mission of SBA as created 60 years ago was to facilitate an environment, an ecosystem, to advance and to grow small businesses in order to heighten employment in the United States market. The U.S. Small Business Administration does this through what we call four pillars. There are three, for capital, counselling and training, and disaster for small businesses, as well as government contracting, which we will expand upon.

We make sure that we are creating level playing fields for our small and medium-sized businesses to compete for products and services. Within that, we have the department that deals with the counselling, contracting, and access to capital that we provide. It is

particularly our office of government contracting that we're here to talk about today.

GCP works to create an environment to maximize the participation by small and disadvantaged businesses, and even women-owned businesses, in the federal procurement contracting awards. We do that because the United States is a large purchaser of products and services—we spend over \$500 billion annually—so we want to make sure we have small businesses in that arena. We have a goal which we designate as a serviceable goal, and I'll talk about what that is.

Currently, we have a small business goal of about 23%. This is not a mandated goal, but it's a goal that we try to achieve and have achieved in the last three years. We've tried to break that goal down into specific categories; this includes 5% for women-owned small businesses, 3% for service-disabled veteran-owned businesses, and 5% for small disadvantaged businesses. That we'll detail a little more for you.

We also have 3% for what we call historically underutilized business zones. Those are areas in the United States that have high unemployment or low income, or a combination thereof, where we as a government have an interest in making sure economic development occurs. We incentivize small businesses to move into that area and hire people from those areas so that we can stimulate economic development and growth. We do this by offering them a 10% price differentiation when it comes to bidding for federal procurement or federally funded procurement. This is a very active program that we use.

In our small disadvantaged programs, we have a pillar program, which we call the 8(a) program. The 8(a) program is a nine-year developmental program. It's not a contract program, but it's a business development program. We use contracts within the federal government to entice and build these small businesses through exchange. In there, we have government set-asides. If you are a participant in this nine-year program—you have to be either socially disadvantaged, of minority status, or economically disadvantaged—we allow you the first four years for development and the last five years as transitional. We have set-asides of up to \$4 million for non-competitive contracts with the federal government, and we have above \$4 million, competitive only within the memberships of those people who qualify for that program.

•(1105)

Those are things that we use to make sure we are getting small businesses into the rank of that \$500 billion that I spoke of that the United States spends.

Now, all procurement actions that are expected to exceed \$150,000 U.S. go through what we call a simplified acquisition threshold. It's an attempt to open up the contract and to make it simple for those people who don't have prior experience dealing with the government to compete and bid for contracts within the unit, or the federal government, though they may not have had the expertise and experience previously to get such an award. That goes higher for other procurement actions that exceed \$650,000 U.S., and over \$1.5 million U.S. if it involves construction. Those are basic tools that we use as vehicles in our arsenal to make sure that small businesses get contracts.

How do we make sure that small businesses are aware of these contracts? How do we make sure that small businesses have the counselling and technical assistance provided to them in order to succeed in getting these contracts? There we use our field staff and our procurement centre staff and our commercial marketing representatives to make sure that we counsel, train, and develop every aspect in every potential wave of the contracting phases so that the small businesses have access and they know what they're doing.

Our field representation has what we call business development specialists and business opportunity specialists in 68 offices across the 50 states and U.S. territories. Their sole job is to work with those people, these small businesses, to make sure that they understand the business acumen necessary to obtain these contracts and, if necessary, to have the working capital to meet the requirements of these contracts, and also the surety and performance bonds and whatever else is necessary to ensure success for our small businesses that may not have the expertise in their in-house small business to do so.

That is an awful lot of stuff, but I believe that Jim has submitted to you a two-page paper that summarizes what I just said, and I hope that it can be a reference point for you regarding all that I have just said in general, and that we can go to the questions and answers, because I think that would be the best way to communicate to you regarding your direct requests and needs, which we can answer accordingly.

The Chair: Thank you very much, Mr. Cornelius. You're right: I think that a lot of the information that you wish to transfer will come out during the question-and-answer period.

I would remind you, colleagues, that we're going into a seven-minute round of questions now and I would ask that you please identify yourselves before you ask your questions so our guests, who cannot see us, will understand who is asking the question.

Mr. Drouin, we'll start with you for seven minutes. Go ahead, please.

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): I'm Francis Drouin.

Thanks for your presentation. I've listened attentively to what you have had to say. We've been studying this issue for probably the past few months now. We've obviously been looking at the U.S. model. One of the questions I'm curious about is how the U.S. came to \$150,000 for the small business set-aside.

•(1110)

Mr. Eugene Cornelius: Good question.

The actual \$150,000 is not for the set-aside. The set-aside goes up to \$4 million. What the \$150,000 goes for is the simplified acquisition. It actually starts at U.S. \$25,000.

What it means is that we want to make sure that even the smaller contracts, the contracts that are the most likely low-hanging fruit that our small businesses can go for, are not being favoured by certain people and certain things. We have a simplified acquisition process to ensure that everybody has a right to those contracts and they are not just being favourably given to certain people.

Now, having said that, to your question about the set-aside, if you are in the 8(a) program, the nine-year term program, and you are developing your business and you're going for a federal procurement, we can give you a federal procurement contract with non-compete status, a sole-source set-aside, for up to \$4 million. That's different. That's open only to those people who are members of that program.

But the simplified acquisition plan is open to all small businesses, whether they're in a program or not.

Mr. Francis Drouin: Once they subscribe to the simplified acquisition threshold, is that procurement process simpler than if the amount were higher? I'm coming from this angle where small businesses don't have the same resources as larger businesses to respond to RFPs and whatnot. Have you simplified that procurement process for small business?

Mr. Eugene Cornelius: Yes, that's why it's called a simplified process, because it is different.

If it is above those thresholds that I quoted, then it becomes a little more rigid and what we call the federal acquisition regulation rules come into play. Those rules can be very stringent and they can be very detailed.

This is a simplified process that makes it easier for these acquisitions and awards to be made, given the amount.

Mr. Francis Drouin: Is there a best practices adopted or suggested across the U.S. government in terms of limiting the number of pages that a potential proponent must answer to RFPs?

For example, here in Canada, we have heard that RFPs can be up to 400 or 500 pages, but we have heard that in the U.S. they limit responses to 15 pages. Is that something you guys work on as well?

Mr. Eugene Cornelius: Yes, and that is very true.

Through our contracting officers in the 24 different federal agencies across the United States government, SBA does monitor that to make sure that they are not add-on, burdensome requirements that will not facilitate small business participation.

We give the 24 agencies a scorecard on their ability to reach that 23% goal that we hope to make, even though it's not a mandated goal. We do look at them and we ask, "Are you allowing small business participation? Are you simplifying and making easier access for small businesses to participate? And are you awarding small businesses contracts up to the level goal?" And we give them a rating of red, green, or yellow based on their ability to meet those goals.

•(1115)

Mr. Francis Drouin: Thanks.

The other issue we're struggling with here is whether past performance should be taken into account for future opportunities. I'm wondering if that's something that the U.S. government does. In order to allow a new business or a former business to apply for potential new business, do they assess the past performance of that particular potential proponent?

Mr. Eugene Cornelius: I love that question. Thank you so much.

Yes, we do. However, we have mediation mechanisms to help with that. When you're in the nine-year program, the 8(a) program, we have what we call the "mentor-protege" agreement. You may not have the prior experience, but you team up with a mentor who does. They can give you the expertise and lend to you to make you qualify for a joint venture contract. We always say that 60% of 40% of a contract is better than 0% of a contract. It gives you a leg up, as a small business, for meeting the requirement of future procurements, because you now have gained prior experience by having that joint venture or by the mentor-protege working together to get that first contract.

So we do support that.

The Chair: Sorry, Mr. Cornelius, we're out of time.

Mr. Francis Drouin: Thank you.

The Chair: Mr. McCauley, our next intervenor, might ask you to expand on your last response.

Mr. McCauley, you have seven minutes.

Mr. Kelly McCauley (Edmonton West, CPC): Gentlemen, good morning. This is Kelly McCauley from Edmonton.

Mr. Parker, I should just let you know that there's a famous football player, James "Quick" Parker, who played in Edmonton several decades ago.

Mr. James Parker (Acting Director, State Trade Expansion Program, Office of International Trade, U.S. Small Business Administration): Oh. That's very nice to hear. Thank you so much.

Mr. Kelly McCauley: I was hoping it was you.

Mr. James Parker: No.

Mr. Kelly McCauley: At any rate, Mr. Cornelius, did you want to finish off what you were talking about with regard to the mentorship program?

Mr. Eugene Cornelius: Yes.

You'll remember that I said the 8(a) program is really not a contract program but a business development program. One of the things in our arsenal for business development—we're the federal government, we're not a business—is how do we develop businesses from here in the federal government? One of the key things we do is we take our graduates of the 8(a) program, we take medium-sized businesses, and we create mentorships with our incoming 8(a) participants, those who are in the first four years, the developmental years, of that nine-year program. We have learned that it is easier for them to get a contract when we create joint ventures and mentor-

protege agreements and have them compete for a contract in the federal government.

Mr. Kelly McCauley: You have the breakdown for your set-asides, such as disabled vets and women in business. Do you do the same kind of mentorship or help them out with the joint ventures as well?

Mr. Eugene Cornelius: Yes, we do.

Mr. Kelly McCauley: Is it all under the same same program, or is it done separately?

Mr. Eugene Cornelius: Even though it is very active in the 8(a) program, the mentor-protege program itself is a separate program that is used in the 8(a) program and outside of the 8(a) program. Joint venture agreements can be used by any small business. What we do is we create matchmaking facilitated events where we will match people with people who have the same lifetime experience or industry interconnections. We see if they can gel together and become a joint venture and go for a bid. The individual, without that, would not have been successful in getting a bid.

Mr. Kelly McCauley: Great.

You mentioned at the beginning that you have a goal of 23% to small businesses of government procurement. Is that 23% by dollar volume or by number of contracts awarded?

•(1120)

Mr. Eugene Cornelius: That's by dollar volume.

Mr. Kelly McCauley: Wow. That's huge.

When did your \$150,000 simplified contract start? When did you roll it out?

Mr. James Parker: Simplified contracting has been around for really quite a long time.

Mr. Kelly McCauley: It's a very foreign concept to us, to our government, I think.

Mr. James Parker: I personally got into procurement in 1984. That threshold in 1984 was \$25,000. So it's been in existence since at least 1984.

Mr. Eugene Cornelius: Yes—long before my time.

Mr. Kelly McCauley: Okay. So it's been around for quite a while.

I want to get back to some of the set-asides. Your goals are 5% women, 3% disabled, and 3% high unemployment areas. When you look at, say, small business for women or disabled vets, how are you deciding what qualifies as a small business? It's one of the discussions we've had in this whole process. Does it deliver more value to have, say, a gentleman running the business but it benefits women or first nations, or is it better to have a woman own it but it's all employed by men and therefore does not benefit a wide demographic?

Mr. Eugene Cornelius: Right. We don't want to create a police state within the federal government. In order for a woman-owned business to be a woman-owned business, we require 51% of ownership to be held by the woman. When it goes to a contract, not only does 51% ownership have to be held by a woman but the project manager over that particular contract should represent the female gender. That's what we look at.

If she chooses to subcontract out to a male or she chooses to hire men wholeheartedly, we don't police that. What we do police is who the project manager is on the procurement and what the ownership is of the business itself.

Mr. Kelly McCauley: Do you feel you're at risk, or has it come up that perhaps people are creating shell companies just to get the business, but it's not really delivering on what the intent was?

Mr. Eugene Cornelius: We do. We find there is very low risk of that. We do report that to our Department of Justice and we will terminate a contract if we find that. We don't actively go out looking for that, but if evidence of the contrary ownership comes available, we do review that and look into it.

I can tell you that, in my 18 years in the federal government, it's been very rare.

Mr. Kelly McCauley: Oh, good.

I'm very short of time; I have about half a minute left.

You talked about providing working capital. Can you briefly explain that?

Mr. Eugene Cornelius: Yes. Small businesses don't necessarily have the resources once they go after these contracts, particularly contracts of \$4 million or more. They don't necessarily have the working capital necessary to have the inventory or to have the necessary available labour force up and running in order to meet their 30-day to 90-day obligations of payout, or whatever.

Mr. Kelly McCauley: Are you providing capital after they've gained the contract: a short-term loan or something?

Mr. Eugene Cornelius: We can provide them working capital, lines of credit, and all kinds of inventory purchase and whatnot through our capital access program.

The Chair: Thank you very much.

Mr. Masse, you have seven minutes.

Mr. Brian Masse (Windsor West, NDP): Thank you, Mr. Chair.

Thank you to our witnesses for being here with us.

My name is Brian Masse, and I'm the member of Parliament for Windsor West, across from Detroit, Michigan.

Mr. Eugene Cornelius: That's my birth place.

Mr. Brian Masse: Well, I'm a Lions season ticket holder.

When I cross the border, I always tell them I should be celebrated as a champion, not as a suspect of any sort.

Mr. Eugene Cornelius: I was born right there in the Grace Hospital in Windsor.

Mr. Brian Masse: That is literally a block away from my house. This is awesome. This is great.

You'll understand my next question.

I'm Vice-Chair of the Canada–United States Inter-Parliamentary Group, so I'm there not only personally but also professionally, in and around the Detroit region. I'm talking about community benefits for infrastructure and the procurement process.

Can you give me a little bit of a highlight about perhaps targeting some of the programs or the targeting that's done for persons who are under-represented in the workforce and other types of groups and organizations that might have a program to do so?

Do you have programs and services? I know in Michigan they do. Maybe you can shed some light on that for the committee here.

• (1125)

Mr. Eugene Cornelius: Yes. What we do is we will map according to the census and the others into prime zones and empowerment zones. Those are places or areas within the United States that are at a level of the poverty line, maybe one to two standard deviations of the poverty, that we, as the United States, feel need economic development. That's where we apply our overlay of what we call our historically underutilized business zones.

We believe that people hire people locally, people hire people who look and act and walk like them, and communities hire people who are from their own communities. We will try our best to get small businesses to move into areas that are underutilized in business areas, for example, grocery desert areas or where we have a large manufacturer who has left the area, and small businesses are leaving accordingly. We will incentivize them to come into that area and to not only put their headquarters in that area, but to hire one-third of their workforce from that area.

Now, how do we incentivize them? For example, let's say there's \$1-million contract. The government likes to go for low-bid contracts. If there are several people competing for a contract of \$1 million, and the small business that moved into that historically underutilized area bid \$1,100,000, we will still give it to him or her, even though it's 10% more, because of their economic impact for that area, and it's in the best interests of the United States.

Mr. Brian Masse: This is nothing new. This has been a traditional model that's helped many areas. Is that correct? I've seen it happen myself in the Detroit region, but you're using this nationally as well. Is that correct?

Mr. Eugene Cornelius: Yes. It is a very well-used program. Like I said, in that program, 3% is our goal for national federal procurement, and we succeed at that every year.

Mr. Brian Masse: One of the challenges for the new Gordie Howe bridge that's being built in the Windsor region is community benefits, and we've been working with Delray on that.

Now just to get this clear, though, you use the census information as kind of your backstop to set the targets to identify, for example, where there are visible minorities, persons with disabilities, or underemployment in certain demographic groups. Is that correct?

Mr. Eugene Cornelius: That is correct, we do. We will take that information, we will look at the area, and look at the economic thinking.

Mr. Brian Masse: I just want to reconfirm that you do have discretion in your procurement decision-making. Let's say, for example, because of historic or systemic disadvantages that groups have, if somebody bidding on a contract comes in a little bit higher to deal with those, comes in a little bit higher than the contract because their costs are more to deal with those systemic problems, then there's a green light for the selection process to go, not with the lowest bidder, but maybe with the best-value bidder for the community, given that it's dealing with some of the systemic barriers that are now being addressed by the contract. Is that correct?

Mr. Eugene Cornelius: Well said, up to 10% of the cost.

Mr. Brian Masse: Well, thank you very much. That concludes my time. We'll see how the Lions' new head coach is going to do.

Mr. Eugene Cornelius: Yes.

The Chair: Thank you very much.

Madam Ratansi, you have seven minutes, please.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Thank you very much.

I'm Yasmin Ratansi.

I am interested in a study that was done, and I'm interested in your opinion on the WOSB program. There was a study done by the Madison Services Group. It said that women-owned businesses did not really benefit. I'm wondering if there is a tracking mechanism that you have employed that enables you to figure out whether these small and medium-sized enterprises that are women-owned are really benefiting or taking advantage of the program.

• (1130)

Mr. Eugene Cornelius: As I said we're very careful not to become a police state. I understand the issue that it comes to there. We look at only two things. Is it a small business-owned, women-owned operation, meaning is the ownership 51% or more? That's the first thing we look at. Then when we look at a procurement or a contract, we look at the lead on that contract. Who is the project manager, and who has the decision-making ability on that contract? Is that the woman's contract? We let them self-employ that. We only look at those things, and based on those things in operations, we have met our 3%.

Ms. Yasmin Ratansi: For the number of contracts that are being granted from a federal perspective, have you got a tracking system on how many small and medium-sized enterprises are benefiting from those contracts?

I know that you have a self-certification program saying they're a 51% woman-owned business. That's not my question. My question is, is there evidence-based analysis that you do to say...? What sort of evidence-based analysis do you adopt that we might be able to use?

Mr. Eugene Cornelius: Yes, based on the 24 different agencies, the contracting officer has to do a site inspection and has to do an evaluation of who they gave the small business contract to, and if they're alleging that it is a woman-owned business, they have to certify that they have looked at the financial documents of the

business, the tax returns, and everything else. They have to look at the contract and the performance of the contract and who was the lead on the contract, and they have to certify that this was a small business, as they report to us for our scorecard.

Mr. James Parker: I'd like to weigh in a little on that. Eugene is absolutely right, we do not want to have a police state, and honestly, it would take a crew of hundreds if not thousands of people to run a really strong oversight of that kind of thing.

However, as a practical matter, the small businesses themselves are very quick to bring any kind of violation to the contracting officer's attention. In my experience, other small businesses in that area, whether it's local janitorial services or computer services, are very well aware of the competition. I think Mr. McCauley asked a similar question. If a shell company or a company that really doesn't fall into that category would not properly benefit the community, the other small businesses that this shell company or that small business might compete against are very quick to bring that, not a fraud but a failure of support, to the attention of the contracting officer.

Ms. Yasmin Ratansi: I've got two quick questions. First, on your capitalization, you require a net worth of \$750,000 and we are dealing with a very wide range of women entrepreneurs. Sometimes they have a problem with that type of capitalization. Do you face similar challenges?

Mr. Eugene Cornelius: Yes, we do. That \$750,000 capitalization is absent of their home so when we look at net worth, we're taking out the home.

Ms. Yasmin Ratansi: So you're taking out the tangible asset and then you're looking for some cash there.

Second, on your hub zone, I'm quite intrigued by how you came up with your hub zone for the disadvantaged and how it is working. You said that businesses in that hub zone should employ at least 35% of people living in that marginalized or hub zone area.

• (1135)

Mr. Eugene Cornelius: Correction, 35% of their employees should come from a hub zone, not necessarily the hub zone they're in.

Ms. Yasmin Ratansi: Okay. How did you come up with that hub zone idea, and can we learn from it?

Mr. Eugene Cornelius: We came up with that because we realized that it's not only the minority communities that are underserved or experience economic downturn, but it's our rural areas as well. When our rural areas drop below the poverty line or those standard deviations of the poverty line, historically they become underutilized areas.

Employment is the key because I think when our name comes up—Small Business Administration—people think that our goal is to create small businesses. No, our goal is to create jobs. We use small businesses to do that because small businesses created two-thirds of the jobs in the last five years. We know the engine of our economy as far as creating jobs is concerned.

The question is how we get that into complete areas and not only in our minority areas, but our rural areas, our Native American areas, and our other underserved areas as well. We created the historically underutilized business zones for that reason.

Ms. Yasmin Ratansi: Thank you.

The Chair: We'll now go into our second round of questions, which will be five minutes in length.

We'll start with Mr. Kelly.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Thank you.

I'm Pat Kelly, member of Parliament from Calgary Rocky Ridge.

In the aspirational set-aside you have, which has the goal of 23% with the various breakdowns, how do you measure...? I want to make sure that I was clear on this. It was discussed a bit earlier. You measure a targeted area by poverty rate. I heard something about being two standard deviations below the mean, or something like that. Is it a matter of labour force participation? The two are obviously correlated but they are not the same thing.

Are you targeting areas that are statistically impoverished or those that have a significant level of unemployment?

Mr. Eugene Cornelius: Both. More likely I would say that if you look at the alignment, you see it's those that are historically in that situation. We do allow for when economies change and situations occur, and if they fall below, they can become a part of a hub zone. It's not a rigid map; it can vary. For example, we were talking about Detroit. Detroit today may not have as many hub zone areas as it did five or six years ago when it was going through its most difficult economic times. We look at those things.

However, I want to be clear that the hub zone is only one part of our program. It is not an umbrella of our program. We still have the set-aside for small businesses, women, and all the other things outside of the hub zones. Hub zones are only one particular vehicle that we use.

Mr. Pat Kelly: Maybe I misunderstood the nature of the hub zones, then. The hub zone is not within the small business set-aside; that's something separate from that.

Mr. Eugene Cornelius: That's correct.

Mr. Pat Kelly: I'm going to make sure again that I understood this and that we have it clear on the record. I heard that the total American government procurement is \$500 billion.

Mr. Eugene Cornelius: Yes.

Mr. Pat Kelly: Therefore 23% of that would be just over \$100 billion.

Mr. Eugene Cornelius: That's correct. I think it comes to something like \$120 billion.

Mr. Pat Kelly: I find that's quite a high number.

Can you tell me again about the definitions of small business? How big a contract would have to fit within that cumulative \$100 billion?

• (1140)

Mr. Eugene Cornelius: That's where variance comes into play because small businesses are looked at differently based on the national index code of their operations. Based on the industry's standard, a small business can be an enterprise with a revenue of upwards of a three-year average of \$6 million or less; or depending on the industry, it can be a business that has 500 or fewer employees, like you see in the airline industry. That would be a small airline. There are different ways that we define small businesses and it's based on industry comparisons and revenue comparisons for industries.

Mr. James Parker: This is Jim Parker.

I'd like to just add on to what Eugene said.

There are a couple of different ways of defining small. The two broad areas are, we define small by the number of employees, and we also define small by revenue. With the number of employees, you can have as few as about 100 employees and still be considered small, or as many 1,250 employees and still be considered small. Then, on the revenue side, you can be considered small with as little as \$750,000 in revenue or as much \$20 billion in revenue.

There's a broad range of small. Basically, above small is large. You have large businesses, and below small are considered not competitive with large businesses.

Mr. Eugene Cornelius: But most of our U.S. businesses are considered small. You're almost in the 90-something percentile of U.S. businesses that are small.

The Chair: Thank you very much.

Our next intervention will come from Mr. Jowhari.

You have five minutes, please.

Mr. Majid Jowhari (Richmond Hill, Lib.): Thanks to our witnesses.

My name is Majid Jowhari. I'm the member of Parliament for Richmond Hill. It's the northern part of the Toronto area.

We went through a lot of numbers. I'm going to try to summarize, and I have two specific questions. One is more around the definition. The other one is around how you balance between the risk and the reward.

Let me start with the first question. You talked about \$500 billion spent annually. You talked about 23% of that going to small businesses. With a track record of three years, you broke down around 5% with women-owned businesses, 3% for disabled vets, 5% for small disadvantaged businesses, 3% for underutilized business, on which we spent a lot of time.

My first question is, can you explain the disabled vets and small disadvantaged businesses? What is it specifically the government is doing in helping small businesses in that area?

Mr. Eugene Cornelius: A disabled vet is a person who has served in the United States military, Coast Guard, or native national service and, during the time of his or her service, was disabled and was therefore discharged as a disabled veteran. We know that they have a very difficult time getting back into the workforce and being employable.

One of the vehicles for economic development in that community is, of course, entrepreneurship and starting small businesses. If we want them to start small businesses, we know that making them a loan may help.

Mr. Majid Jowhari: What types of small businesses do disabled vets usually set up?

Mr. Eugene Cornelius: You name it, they do it—IT, construction—there's nothing a disabled vet can't do. They run the gamut.

We know that giving a contract prolongs the shelf life and life cycle of an entrepreneur.

Mr. Majid Jowhari: What is the definition of a small disadvantaged business?

Mr. Eugene Cornelius: A small disadvantaged business may be a business that is what we call a title 16, a minority business. An economically disadvantaged business is one that doesn't have the means, expertise, exposure, or the revenues necessary to be at the same level playing field as most prominent small businesses.

Mr. Majid Jowhari: Okay. I've got two minutes, so I'd like to move on. Thank you.

I'd like to move on to the second question.

You named what I call a number of enablers for the businesses and how you help them such as the working capital, mentorship programs, bonds, securities, and the know-how.

How does the government balance between the risk of granting bonds, securities, and working capital with the possibility of not being able to collect?

• (1145)

Mr. Eugene Cornelius: Well, we have an underwriting practice just like everyone else, but we don't make loans in the federal government. What we do in SBA—and that's a very good question—is we partner with over 7,500 U.S. banks. We will give them a guarantee if they make a loan to the small business community. We will only give them that guarantee if that small business is lacking

something: for example, they are lacking the necessary collateral that the conventional bank would use to make that loan, or they're lacking the managerial experience to make that loan.

If there's something in that bank's underwriting requirement and they feel they would not necessarily have made that loan on a commercial level, then the United States SBA will come in and say, "Well, wait a minute." We're looking at this small business. We're looking at this business plan. We believe this person can do this despite the fact of lack of collateral, or despite the level of experience you're requiring. Maybe your loan is going to have a payout over five years that is too burdensome on there. We'll give you the guarantee if you increase that loan to a seven-to-10 year payout. We do that, but we don't make direct loans.

The Chair: Thank you very much.

We'll now go to Mr. McCauley once again, for five minutes.

Mr. Kelly McCauley: Great. Gentlemen, thank you for your information. It's been a pleasure having you with us.

I just want to go back to the simplified contract. How often are you updating it to keep it relevant? Do you find that any of the bureaucracy are trying to go backwards, like a mission creep, or add stuff back into it? One thing we struggle with here, especially with our small business, is the near impossibility of doing business with the government because of the massive RFPs, and requirements, and technicalities. I'm just wondering how you deal with it. How do you keep it from growing back again?

Mr. Eugene Cornelius: I don't know the answer to that. What I will say is that it's been pretty much the same for years. We have never had, really, push-back from anybody to change the amount or to push back on it.

It's been a very good tool that we use. We have employed A-123, which is an enterprise risk assessment product to make sure we are keeping it safe, and we are guarding against possible risks and mitigating where we can, but there's really been no push-back on it.

Mr. Kelly McCauley: One thing that a lot of our small businesses are finding, actually even the larger ones, is apparently all of our government contracts require unlimited liability as part of their bids. Do you have any such thing? Do you have a limited liability? How do you do yours? I realize this is a rather broad question.

Mr. Eugene Cornelius: Yes, I was going to say that. That would depend. I would not be concerned with that. Depending on the agency, for example the Army Corps of Engineers, that might be a relevant issue for them. That might be a relevant issue for the defence department and the navy, but that might not be one for education or even the SBA, for that matter. It depends on what we're buying and what we're servicing.

That's too broad for me to answer.

Mr. Kelly McCauley: Do you have anything like that written into your simplified contract, for the up to \$150,000?

Mr. Eugene Cornelius: No. Again that would depend on what we're buying, the liability of that particular product or service.

Mr. Kelly McCauley: Great.

On the counselling that you provide as part of your pillars to the small businesses, can you just run us through some of the services you provide? If someone is stuck halfway through filling out their RFP, do you step in and help them with that? Do you help them at the very beginning? Do you just do seminars and walk away? Can you walk us through what counselling services you provide?

•(1150)

Mr. Eugene Cornelius: Well, we have several different counselling services. Let me go over what they all do. First of all, we have umbrella counselling services, throughout universities and colleges across the United States, called small business development centres. They help really small businesses as far as business acumen is concerned, and with everything from business plans, HR issues, to legal—

Mr. Kelly McCauley: Sorry, does your department coordinate with the universities and colleges for that?

Mr. Eugene Cornelius: Yes, through SBA, we provide grants to these universities to provide such services. Yes, we do.

Mr. Kelly McCauley: Okay, thank you.

Mr. Eugene Cornelius: Then we have what we call the procurement centres, which is going down to what you're asking about. Our procurement centre representatives, PCRs, and our commercial marketing representatives help small businesses, when they are going for a bid and contracting, to follow the rules and procedures of acquisitions under the federal acquisition regulations, FAR, for getting contracts. They make sure they understand the rules, regulations, and playing field, and they advise them as professional advisers to go for a bid.

Yes, they do that, very much.

Mr. Kelly McCauley: Right. Thank you.

The Chair: Mr. Peterson, you have five minutes, please.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thank you, Mr. Chair.

Thank you for being with us on the telephone today. I'm Kyle Peterson. I'm the member for Newmarket—Aurora, which is also in the Toronto area. I'm happy to be with you today and learning a lot about what your administration does.

I just want to ask some broad contextual questions about the SBA.

The SBA wouldn't be a contracting party in any of these procurements, correct?

Mr. Eugene Cornelius: No, we would not.

Mr. Kyle Peterson: The way I see your role is that you obviously provide services to small businesses. Procurement would just be one of the many services. Is that correct?

Mr. Eugene Cornelius: That's correct.

Mr. Kyle Peterson: Okay, good.

Here in the federal government, we have—I won't call it centralized because it's not quite—a public procurement department, so to speak, that is responsible for a large portion of the federal government procurement and contracting.

Is there anything like that in the U.S. federal government, or would each department have its own contracting and procurement policies and procedures?

Mr. Eugene Cornelius: What we have is 24 different agencies that SBA looks at.

We coordinate with their contracting officers in their agencies, and we look to make sure that they're making every effort to meet that 23%. We look at contracts that can go to small businesses. We look at contracts that we can put into our developmental program, the 8(a) program that only those participants can compete and apply for. We look at those procurements that are less than \$4 million that are sole-sourced, where they will not have to compete and where we can apply and give them a small business that can do it. We partner in line with them, and the contracting officers in those agencies have to justify to us in writing why they have not chosen to use these small businesses if we present them to them.

Mr. Kyle Peterson: Right. So it's the comply or explain framework.

Mr. Eugene Cornelius: Yes, and let me tell you, you try to explain that to us.

Mr. Kyle Peterson: It can be an effective policy tool, for sure.

Mr. Eugene Cornelius: Yes.

Mr. Kyle Peterson: The 8(a) program, is that only one of the sort of levers that are at the disposal of small businesses to encourage them to participate in federal procurement. Is that correct?

Mr. Eugene Cornelius: That's true, but it's a key one. It is a huge one, and it's the one that SBA has the most power in.

•(1155)

Mr. Kyle Peterson: Right, and that applies to, I think the definition is “small disadvantaged businesses” that are owned or controlled at least 51% by the—

Mr. Eugene Cornelius: Right, it's small socially disadvantaged or financially disadvantaged businesses.

Mr. Kyle Peterson: Right. I understand that. That sounds like an effective program.

I think part of the problem here in Canada—why small businesses aren't participating in the procurement process or aren't participating fully as they perhaps could be—is the sense that it's not worth the time to make the application, not worth the return on the investment of the time that needs to be invested. We've even heard some complaints that payment wasn't done in a timely manner and they really weren't in a position to effectively underwrite the federal government, to take part in procurement.

Some of these can be addressed, I think, not necessarily by any policy or programs but just by an awareness and a promotion of what it takes to do business with the federal government. From my understanding of our conversation today, your administration seems to play an important role in that process.

Mr. Eugene Cornelius: Yes, we have an executive order signed by the previous president that you only have 15 days to pay a small business. That's very strict.

The Chair: Thank you very much.

Our final intervention will be a short one from our resident Detroit Lions fan, Mr. Masse.

You have three minutes, please.

Mr. Brian Masse: It's funny, because you need to know what a world of difference.... We're currently financing construction of the Gordie Howe International Bridge, and we're having to wait for a P3 selection process whereby some international consortium—because they're down to three—will eventually provide community benefits. In the meantime, our entire community is being ripped up for the preparatory work and the construction in an area similar to Delray; it's Sandwich Town in Windsor, Ontario. At any rate, it's quite different from that.

I just wanted to follow up with outcomes at the end of projects for the selection. I know you have a rating system, as you mentioned, the green, yellow, and red traffic light approach. Have there been other studies, or any types of assessments done, to look at the progress of some of the benefits that have come out of the procurement process, and that have contributed to breaking some systemic problems?

Mr. Eugene Cornelius: One of the things we are very proud of is what we call our early graduation period. Remember that nine-year program that I said the 8 (a) involved? The young lady asked the question about the \$750,000. We have created a situation whereby if they exceed the threshold of net worth, they are early graduates out of our program because they no longer need the government, and that level playing field. A significant number—I don't have the exact percentage—of 8(a) firms are graduated early because they are no longer considered socially or economically disadvantaged because of being in the program and getting contracts and making money and moving their net worth out of the eligibility for continuation. That's one way.

The other way is what you see on the east side of Detroit. As you speak right now when you go down Grinnell, you see that this was

once a historically underutilized business zone. As you see now, there are businesses and corner stores and all kinds of stuff going on, and we had to take that off the declaration. That is an economic achievement.

These are the ways we look at that.

Mr. Brian Masse: Thank you very much for your testimony. We appreciate it.

The Chair: Thank you.

Colleagues, I understand there's a willingness for a couple more questions.

Mr. Ayoub and Madame Mendès, do you both have questions? I'm just trying to get a sense of how many more people want to participate.

• (1200)

[Translation]

Mr. Ramez Ayoub (Thérèse-De Blainville, Lib.): Okay.

[English]

Thank you for asking. I'm going to transfer my question to Yasmin.

The Chair: That's fine. We'll go to a second round, then, with seven-minute interventions, starting with Madam Ratansi.

Ms. Yasmin Ratansi: I probably won't need seven minutes. All I want to ask is, I'm curious as to your suggestion that you guarantee loans that the small or medium-sized enterprise gets from a bank. What happens if they default? Is the government on the hook?

Mr. Eugene Cornelius: Yes, and we do it this way. We can guarantee loans up to \$5 million U.S., and we will put a guarantee of 75% to 80% on that loan. That leaves some skin in the game for the banks to do very good underwriting because they are responsible for 20% to 25% of that loan, and they have to reserve losses accordingly.

We make sure that our banks that are participating are constituent with our rules and regulations. We have a 17-point underwriting process that the banks have to go through to award our guarantee, and if they don't then we will mitigate our 75% guarantee accordingly.

I can tell you that our default rate is not very big.

Ms. Yasmin Ratansi: Do you have a percentage or a dollar value for your default rate?

Mr. Eugene Cornelius: I don't.

Mr. James Parker: The default rate is usually dependent upon the type of program it is and the population that we target. It's a rate of about 8%.

Mr. Eugene Cornelius: Yes. It's very low. It's not even in the double digits.

Ms. Yasmin Ratansi: Okay, thank you.

The Chair: I do not see any other questions coming from our committee. On behalf of our committee, thank you so very much, Mr. Cornelius and Mr. Parker.

The testimony you have given today, at least from my personal standpoint, has been illuminating. I think that our government—not just the current government but all governments, past, present, and future—could learn a lot from the approach you have been taking in your dealings with small businesses and your attempts to promote small business in the United States. It has been fascinating.

Should you have any additional information you wish to provide that you think would be of benefit to our committee, I would recommend that you contact our clerk directly. Obviously, we don't

want to get into a cross-border dispute about which government approaches its dealings with small business better, but it has been helpful. I can guarantee you that.

I wish we could have had the video portion of this conference for the benefit of all our committee members, but your testimony has been well received. Once again, thank you so much.

Mr. Eugene Cornelius: Thank you. It's been our pleasure.

The Chair: Colleagues, we'll suspend for just a couple of minutes and then go into committee business.

[Proceedings continue in camera]

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