NMSDC Growth Initiative

Increasing Growth; Expanding Opportunities

FOR MINORITY BUSINESS ENTERPRISES (MBEs)

For 40 years, the National Minority Supplier Development Council (NMSDC) has been in the forefront of minority business development, and our certification process, based on 51% ownership, operation and control by minority individuals, is and will continue to be the hallmark of our organization.

This important initiative provides minority business enterprises (MBEs) with the potential for substantial growth and with the opportunity to access equity capital, while retaining management and control, and the advocacy of NMSDC and its member corporations. The timely provision of this essential tool is crucial if MBEs are to participate on an equal footing in the expanding national and global economies.

1. To qualify for NMSDC certification, an MBE is a for-profit enterprise, regardless of size, physically located in the United States or its trust territories, which is owned, operated and controlled by minority group members. "Minority group members" are United States citizens who are African-American, Hispanic-American, Native American, Asian-Pacific American and Asian-Indian American. Ownership by minority individuals means the business is at least 51% owned by such individuals. Further, the management and daily operations are controlled by those minority group members. This will not change.

2. This program affects only those NMSDC-certified firms that have an opportunity to accept equity capital from professional institutional investors, through the creation of a new class of non-voting stock.

3. Any exceptions to the 51% ownership policy would be made on a case-by-case basis. MBEs approved for this special certification will be tracked separately.

4. In these cases, a minority business may be certified as a MBE if the minority owners own at least 30% of the economic equity* of the firm. This occurs when non-minority investors contribute a majority of the firm’s risk capital (equity). Under this special circumstance, a business may be certified as a minority firm if the following criteria are met:

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A. Minority management/owners control the day-to-day operations of the firm.
B. Minority management/owners retain a majority (no less than 51%) of the firm's "voting equity".
C. Minority owner/s operationally control the board of directors (i.e., must appoint a majority of the board of directors).

5. In order to become certified as an MBE under the framework outlined in Section 4 above, the MBE's non-minority investor must be a "professional institutional investor" approved by the certifying committee. We define the term professional institutional investor to mean a firm that (a) is in the business of making equity investments (not managing businesses), and (b) manages more than $25 million in capital.

6. Given the complexity of the issues involved and the need for consistency in certification decisions, NMSDC will employ a national, rather than regional, certification committee for these purposes. Firms will be certified by a committee at the national level, in conjunction with members of the National Association of Investment Companies (NAIC), an industry association for investment companies that dedicate financial resources to investing in the ethnically diverse marketplace.

7. All NMSDC-certified MBEs, regardless of size, are eligible for this consideration.

8. This will not have any effect on the requirements of other nonprofit organizations or government agencies.

*The current requirement of 51% minority control severely restrains minority firms from expanding, by limiting non-minority secured financial investments to MBEs. To address this issue, there is a distinction made between "economic equity" and "voting equity". Economic equity refers to equity that gives the holder a residual claim on the firm's economic assets (i.e., it entitles the holder to a portion of the economic returns generated by the firm). Voting equity refers to the equity that gives the holder a vote for purposes of selecting a firm's board of directors.

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