

ACCESS TO CAPITAL

At all stages of business development, from start-up to growth, access to capital is a constant challenge for small businesses. This seems to be particularly true for women business owners, as the amount of capital they receive continues to lag behind that of their male counterparts.

Women business owners frequently tell the Council that they do not know where to find information about accessing capital for their businesses and are therefore unaware of the financing options available to them. While some women business owners are frustrated that they have not been successful at getting capital from private sources, many of those same women are unaware of the Small Business Administration's 7(a) or Microloan programs offered through private lenders.

Similarly, many women entrepreneurs do not know about Women's Business Centers and how these centers could be helpful to them in identifying sources for capital and developing the business and financial plans that would enable them to compete for financing. Women familiar with Women's Business Centers strongly advocate more funding and the establishment of more centers in both urban and rural locations around the country.

Women business owners consistently recommend partnering among national women's business organizations to develop a website or a resource guide to outline all of the different sources of capital—everything from SBA loans and bank loans, to venture capital and angel investors, to other state, local, and

Recent reports from the Center for Women's Business Research indicate that:

- **The use of commercial credit by women-owned businesses has grown significantly in the past decade — 67% between 1996 and 2003 alone** (Financing Business Growth)
- **56% of women-owned businesses with greater than \$1 million in annual revenues use or intend to use commercial bank loans or lines of credit compared to 71% of men-owned firms with comparable revenues.** (Financing Business Growth)
- **23% of all women business owners have never sought a business bank loan, and 19% of all women business owners have never sought a business line of credit** (Financing Business Growth)
- **Only 4% of women business owners with revenues of greater than \$1 million are using or intend to use equity capital compared with 11% of men business owners** (Financing Business Growth)

private programs. Such a guide could also include resources for business planning, financial planning, links for loan information, and links to state level programs.

Members of the Council have spoken with many women who have used retirement funds, credit cards, and home equity lines as the primary source of financing to start and grow their businesses. Many think that the requirements of small business loan programs do not support the development of small business. Those who have tried to get bank loans, for example, note that they had been turned down by banks for not being in business long enough, for not growing rapidly enough, or for not having put enough of their own resources into the business. Women also tell us that today's credit environment has made access to bank loans more difficult because lenders are getting more stringent about credit scores and collateral.



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Many also say that it is often harder to get growth capital than it is to get start-up capital. Those who have been successful at finding start-up money note the lack of options for additional funding in the first few years of the business—the time when funding for staff, office space, and supplies is most critical to enable a business to grow, but before there are revenues to support those growth expenses. Collectively, these difficulties might suggest a need to evaluate the guidelines for the SBA-backed lending programs to determine if there are areas in which they could be more flexible to support the growth of small business.

Another issue concerns the inaccessibility of equity capital for microbusinesses. Small business owners who are aware of venture capital found that the amount of funding available from venture capitalists far exceeds the money needed to grow and maintain their microenterprises. In general, those seeking equity financing were mostly interested in amounts lower than \$100,000. Since venture capital is generally given in increments of millions of dollars often starting at \$1 million, it is not an option for many small—and especially very small—businesses. In addition, venture capitalists seek significant involvement in the business in which they choose to invest, and they tend to invest in companies that they expect to be sold in the future. As high risk, high reward seekers, both venture

capitalists and their partners expect a rapid rate of return on their investment. Since women are more likely to start businesses in which they are the primary controller and operator, venture financing is rarely a desirable option.

The inapplicability of venture capital to most small, women-owned businesses suggests the need for more awareness of angel investing. By definition, angel investors are affluent individuals who provide start-up or growth capital for businesses with very little control of or involvement in the company in exchange for a slower rate of return. Congress has been considering a bill known as the Angel Fund Investment Bill that would create tax credits for parties who make such investments in small businesses.

Women business owners also often identify the need for “patient capital,” or money that does not have to be paid back right away. In general, many businesses fail because they run out of time, not because they run out of clients. Finding investors who are willing to extend their timelines for investment returns may often make the difference in whether an enterprise succeeds or fails.

Policy Recommendations from Women Business Owners

- Increased funding for the establishment of additional entrepreneurial development centers like Women's Business Centers, Small Business Development Centers, and SCORE
- Partnering among national women's business organizations to develop a website or a resource guide to outline the different resources and sources of capital
- Increased incentives for equity investors, possibly including tax breaks for those willing to invest in the growth and success of the small business community
- Evaluation of the guidelines for the SBA-backed lending programs to determine if there are areas in which they could be more flexible to support the growth of small business