



Access to Capital and Credit

Expert Policy Workshop Series with Women Business Owners

Recommendations for Growing Women's Businesses

Submitted to

- ★ the President
- ★ the Congress and
- ★ the Interagency Committee on Women's Business Enterprise
by the National Women's Business Council

The National Women's Business Council

September 1997

To the President, Congress and the Interagency Committee on Women's Business Enterprise:

The members of the National Women's Business Council are pleased to present to you *Growing Women's Businesses*, the report of the Expert Policy Workshop Series: Access to Capital and Credit.

Jointly hosted by the Council, the Federal Reserve System and the U.S. Small Business Administration, the workshops were convened in ten cities across the nation during the summer of 1997. The workshops provided a forum to discuss, develop and reach consensus on policy recommendations to enhance women business owners' access to capital and credit. The more than 500 experts invited to participate in these sessions included women business owners, investors, lenders, government officials and regulators whose expertise and experience were instrumental in developing the innovative recommendations included in this report.

In the spirit of our public-private sector partnership, we respectfully submit these recommendations. It is our hope in sharing these recommendations that, together, we can work toward their implementation. As more and more Americans, particularly women, choose self-employment, government has a greater role to play in creating an economic infrastructure that supports entrepreneurship and business development. Investing in the growth of women-owned firms is critical to our future economic health as a nation.

Faithfully,

Lillian Vernon, Chair
Chairman of the Board/CEO
Lillian Vernon Corporation

Raydean Acevedo
President/CEO
RMCI

Muriel Siebert
President
Muriel Siebert & Company

Ella Williams
President/CEO
Aegir Systems

Cheryl Womack
Founder/CEO
VCW, Inc.

Association for Enterprise Opportunity
Christine Benuzzi

National Association for Female Executives
Leslie Smith

National Association of Women Business Owners
Phyllis Hill Slater

National Council of Negro Women
Dr. Dorothy Height

Women's Business Development Center
Hedy Ratner



Table of Contents

SECTION I: THE REPORT OF THE EXPERT POLICY WORKSHOP SERIES: ACCESS TO CAPITAL AND CREDIT

SECTION II: THE RECOMMENDATIONS FROM THE EXPERT POLICY WORKSHOP SERIES

- ATLANTA, JULY 29: CREDIT-WORTHINESS: THE IMPACT OF CREDIT SCORING
- BOSTON, MAY 29: THE ANGEL CONNECTION
- BUFFALO, JULY 21: FINANCING FOR NEW ECONOMIC REALITIES
- DALLAS, JUNE 17: FINANCING FOR GROWTH: THE SERVICE SECTOR
- DENVER, JUNE 27: PRIMING THE ASSET PUMP
- FARGO, AUGUST 14: BUILDING ASSETS
- KANSAS CITY, JUNE 25: FINANCING HOME-BASED BUSINESSES
- NEW ORLEANS, JULY 31: EMPOWERING WOMEN FOR ENTREPRENEURSHIP
- SAN FRANCISCO, JULY 8: EQUITY MATTERS
- SEATTLE, JULY 10: GROWING GLOBALLY

SECTION III: APPENDICES

- EXPERT POLICY WORKSHOP SERIES PLANNING COMMITTEE
- EXPERT POLICY WORKSHOP SERIES RESOURCE PARTNERS
- EXPERT POLICY WORKSHOP SERIES PARTICIPANTS

In 1996, the National Women's Business Council and the Interagency Committee on Women's Business Enterprise released the latest statistics of the U.S. Census Bureau Survey of Women Owned Business Enterprises. The study recorded the extraordinary growth of the women's business sector during the 1980s. More recent studies have clearly documented the sustained growth and growing maturity of women-owned businesses.

Consider these two indicators alone:

- The number of women-owned start-up companies continues to outpace all business growth in each of the 50 states.
- Women-owned businesses have had a nearly 250 percent growth in revenues in the last decade.

This tremendous growth in revenue demonstrates a growing maturity in women-owned businesses. It reflects the return on the limited investments of Federal and state policies to support women entrepreneurs.

Most important, however, the growing success of women-owned businesses illustrates the opportunity that we have to invest in growing women's businesses. We have much at stake and much to gain from identifying and implementing effective strategies to invest in women-owned businesses and provide an infrastructure that will encourage their continued growth and development.

"This expert workshop series truly demonstrates how a public-private partnership can bring about positive change for women business owners, the business community and all who benefit from a strong and prosperous economy."

Aida Alvarez
Administrator,
U.S. Small Business Administration

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BUSINESSES

Government has a critical and active role to play in growing women's businesses. Government can serve as an advocate and initiator of policies and programs that will assist new businesses in preparing for and financing growth. A foundation has been laid. Initial government programs have produced remarkable results. Since 1993, for example, there has been a 300 percent increase in loans backed by SBA guarantees going to women. More recent initiatives, supporting women business owners' participation in private investment and export markets, have yet to yield measurable results. The anecdotal reports, however, demonstrate that these entrepreneurial programs match the needs of women business owners.

This report identifies several new initiatives that will build on the Government's work to date and spur efforts to grow women's businesses. It is based on a series of ten workshops across the country sponsored by the Council and its public sector partners, the Federal Reserve System and the U.S. Small Business Administration. The workshops provided an opportunity for experts to share their experiences as lenders, investors, regulators, policymakers and women business owners and to collaborate on efforts to identify new solutions that will increase women business owners' access to capital and credit.

Throughout the workshop series, a surprising number of participants were unaware of the wealth of services and programs now offered by the Federal government. The positive reports from women business owners who have already benefited from the mentoring services of

**Christine Cordaro, Founder
and General Partner
Aurora Venture Partners
San Francisco, California**

Cordaro, who holds a graduate degree in bacteriology, was a director of life-sciences funding for a venture fund in the Silicon Valley before launching Aurora Venture Partners last year. The fund, which will target women owned businesses, recently signed on Bank of America as its first institutional investor. Cordaro is close to raising \$10 million.

"Ten years ago, this would not have been a good idea," she says about targeting venture capital to women owned businesses. "Today, there is a growing number of women who have attained both advanced technical and business education, and/or have been executives in corporate America. But they generally lack a knowledge of venture capital, and lack the networks their [male] peers have. Women traditionally haven't been part of that circle. There are not a lot of women in venture capital, and that creates a barrier to entry.

"The government cannot compel endowments and pension funds to invest in funds like ours. What they can do is help us to convince people further up on the food chain that this market is more than viable, and that it will provide the same or a better rate of return than other investments. More people have to acknowledge there's a real opportunity in this market."

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BUSINESSES

the Service Corp of Retired Executives (SCORE), the free counseling services of the over 900 Small Business Development Centers, the technology-rich Business Information Centers, the programs developed for-women, by-women at the Women's Business Centers and the seed money for small business research and development provided through the Small Business Administration opened the eyes of all participants. In many regions, these Federal programs are matched by state initiatives. Joining with long-standing SBA loan guarantee programs, they provide a solid foundation on which to build and remind us of the critical role of communications and promotion of small business support initiatives.

Develop a Small Business Master Plan

This continual sense of revelation led to the first recommendation of the workshops — a call for the development of a "Small Business Master Plan" across the Federal government. The plan should reflect the public-private partnership needed to provide support to small businesses and link Federal, state and private resources. It should address the span of small business initiatives from home-based to high-tech; from rural to suburban to urban; from microloans to venture capital investments; and from SBA guaranteed loans to angel investors. A "Small Business Master Plan" will provide a platform for clear and comprehensive communications and clearly mark the doorways through which small businesses can access support.

**Annette Taylor, Director
Women's Equity Fund
Boulder, Colorado**

Started in 1992, the Women's Equity Fund is an "equity investor primarily in women," says Taylor, its director. The fund is a limited partnership that includes Norwest Bank and the Bank of Boulder, plus 12 individual investors.

"My mission is to find good early-stage businesses primarily in the services industry," says Taylor, whose fund makes loans of between \$40,000 to \$60,000 per deal. "We also provide added value and professional consulting services to the companies, since early-stage companies don't have the groundwork and experience to be competitive in those first few years.

Building the assets of these businesses through our "micro-equity" fund is an investment which pays big dividends for the investors, the businesses and the community. "We have a long history in this country of government guarantees for loans to business. Why not guarantees for equity?"

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BUSINESSES

Workshop participants believe that the SBA should be charged with the development of the Master Plan. Only the SBA has the scope and experience to play the national coordinating role needed to bring the Plan together.

Clearly, and importantly, the "Small Business Master Plan" will include programs designed to meet the particular needs of the fastest growing small business sector: women-owned businesses.

Create Incentives to Encourage Small Business Investments

The second recommendation to emerge from the workshops was a clear consensus that new and innovative incentives are needed to spur investments that will grow women's businesses. Principal among the incentives called for are targeted tax credits that will encourage investments in small businesses and women-owned businesses. These incentives should be structured so that they encourage greater investment from existing sources of capital and credit and so that they encourage new investors to support this fast-growing segment of the economy.

An important part of the incentive program should be initiatives that minimize the risk and expense of making smaller loans. Current financial institution regulations place essentially equal regulatory burdens on commercial loans of \$5,000, \$50,000, \$500,000 and \$5,000,000. This serves as a disincentive to make smaller loans. A potential solution to this issue is the creation of a new category of small business loans and provision of rate subsidies in addition to, or as an alternative, to guarantees.

"We believe that there is vast opportunity for America, for our economy, . . . to promote women-owned businesses, by providing these businesses with capital and technical assistance."

Sen. Christopher "Kit" Bond (R-MO)

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BUSINESSES

Effectively Link “Lending & Learning”

Across the country, there is a growing recognition of the need to address “life-long learning.” This is especially true in the case of small businesses and women-owned businesses. A significant portion of the rapid growth in women-owned businesses has come from new entrants — of the estimated 24 million home-based enterprises currently operating in America, 70 percent are owned by women.

One avenue for increasing education is continued expansion of the microenterprise development program. This pilot program should be offered nationwide because it provides both “lending and learning” by incorporating business training as an integral part of its program. This training component is not found in other lending programs.

A second opportunity for increasing education will come through development and promotion of the “Small Business Master Plan” which will clearly identify, and make dramatically more accessible, current education opportunities offered through Small Business Development Centers, Women’s Business Centers and a wide variety of state, local and private-sector programs.

Recognize Service-Based Businesses

The classic American business is manufacturing. Our first association with the word business is frequently a factory. Today’s American business is led by the service sector. Today’s small business growth is also in the service sector, which includes the

**Marina Hatsopoulos, President
Z Corporation
Somerville, Massachusetts**

Several years ago, Marina Hatsopoulos was in the market to buy a business — preferably one that was ailing and in need of her turnaround skills. The MIT engineer had spent months calling business brokers, but came up empty-handed. Eventually, her search introduced her to experimental technologies with potential commercial applications. Two years ago she started her own high-tech company to perfect and market the technology to medical, architectural and design firms.

“Entrepreneurs don’t need a lot of babysitting,” declares Hatsopoulos. Nevertheless, she says she would have benefited from a service like ACE-Net, SBA’s on-line private investor network, when she was looking for a business to buy. “It’s a great idea, and I would have accessed that in my search had it been available at the time.”

Hatsopoulos, who is currently seeking to expand, suggests that government could lend support to an incubator model to assist rapidly growing companies like hers.

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BUSINESS COUNCIL



GROWING WOMEN’S
BUSINESSES

rapidly growing high technology industry. Traditional American lending programs, however, including small business programs, are structured to serve the manufacturing sector. Investments in manufacturing equipment and raw materials serve as collateral for lending programs.

Workshop participants recommended specific changes to current programs to improve recognition of service-based businesses, as well as new initiatives to increase access to information about financial and other resources for growing businesses. Specific recommendations included improvements in SBA's CAPLine program, proposed tax and regulatory incentives for small business and stronger information and outreach programs to women business owners.

Financing exports of service-based companies presents special problems because often there is no tangible asset for a borrower to offer as collateral. Workshop participants who had sought financial assistance from SBA or state export promotion programs did not believe that they were designed with service-based businesses in mind. Participants suggested new lending criteria using intangible assets, such as intellectual property, be developed to finance these ventures.

Redefine Work to Value Self-Employment

The official rate of women's participation in the workforce has risen dramatically during the last twenty years and a significant and increasing percentage of these entrants are choosing self-employment as a career. New Federal, state and community-based programs have been established which address the needs of the smallest enterprises,

**Nancy LaTulip, Senior Vice
President
Key Bank
Buffalo, New York**

Four years ago, Key Bank started a loan program to target minority and women business owners. "We looked at the reasons why we were declining loan requests to these businesses, and came up with three," LaTulip explains.

One was a lack of equity; another was insufficient collateral; and the third was the individual's poor credit history. Key Bank employed the county-supported capital access program and the SBA 7(a) loan program to make its lending criteria more flexible. "We were able to lower that 20 percent up front collateral requirement to five percent, the county would bridge the equity gap with an unsecured loan subordinate to the bank at prime minus 2 percent, and the rest was covered through an SBA guarantee. We would also lower the value of collateral required when a business plan was really solid. And, we put a mentoring piece into the program."

Government must continue putting the spotlight on women and minority business owners, LaTulip says. "We've got the tools already in place, it's just recognizing that small business overall — 36% of which is owned by women — is a viable market."

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BUSINESS COUNCIL



GROWING WOMEN'S
BUSINESSES

unemployed workers and people on public assistance. However, federal policies which support funding for job and re-employment training are built upon a definition of work as a waged or salaried job. Self-employment is seldom viewed or promoted as a viable work option. The workshop participants recommended that a new definition of work be established which recognizes and incorporates self-employment development into Federal and state employment, training and economic development programs.

Workshop participants recommend that the "Small Business Master Plan" recognize and clearly address the credit and asset building strategies required by very small businesses. One particularly important aspect of this initiative will be to elevate and expand the SBA's MicroLoan Demonstration program to support the credit needs of the 300,000 new women-owned, home-based businesses being launched each year. On the other side of the balance sheet, it will be critical to develop new investment initiatives that would "prime the asset pump" of our smallest enterprises. Just as the Labor Department's unemployment assistance program has been expanded to support the self-employment choices of unemployed workers, federal programs assisting women transition from welfare to work should be flexible enough to support women who wish to pursue entrepreneurship as an employment strategy.

Loretta Kaminsky, CEO
Lou-retta's Custom Chocolates, Inc.
Buffalo, New York

Kaminsky started her chocolate manufacturing business 13 years ago from her kitchen stovetop. With the help of a loan from her banker, Nancy LaTulip of Key Bank, Kaminsky opened a retail store in a local mall where she sold chocolate novelties. Wanting to reach a bigger market with her products, her banker referred her to the local Small Business Development Center (SBDC) for help. The SBDC has since assisted her in obtaining grants from several state programs that assist manufacturers, helped her find distributors and guided her in redefining her product line.

"The SBDC has been my right arm and my banker my left," says Kaminsky. "Every time we've had a change or a growth spurt, I've called them."

Kaminsky has also utilized the SCORE program for free expertise and business advice. She still works with the same counselor who, 13 years ago, helped her select a name for her new business. Kaminsky feels government must do more to let small business owners — especially women — know about the programs that can help them. "The SBDCs are the best-kept secret in this country. The more you can get women together to educate them about how they can get help, the better off women will be."

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BUSINESSES

Conclusion

The remainder of this report provides the detailed findings and recommendations from the ten workshops. Growing women's businesses have been a leading contributor to our country's current economic success. Developing and implementing programs that will encourage additional investment in women's businesses will help ensure their continued growth.

The National Women's Business Council, in collaboration with the Interagency Committee on Women's Business Enterprise, the U.S. Small Business Administration and the Federal Reserve System, stands ready to help turn these recommendations into actions and ensure that the United States continues to grow women's businesses.

"In the entrepreneurial economy, equity is the closest thing to a magic elixir for survival and long-term growth — it is the real frontier for the continued expansion of women-owned businesses."

Senator John Kerry (D-MA)

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BUSINESSES

The Recommendations from the Expert Policy Workshop Series

Since its inception, the National Women's Business Council has studied and made recommendations to the President, Congress and the Interagency Committee on Women's Business Enterprise concerning the needs and achievements of women-owned businesses. In 1997, the Council began a new phase in its work, in much the same way that women-owned businesses have entered an exciting and demanding phase in their development. Women-owned businesses are driving the current growth in small business start-ups: what implications does this have in terms of national policy?

Using the expert policy workshop format designed by the Council for this process, the Council, in collaboration with the SBA and the Federal Reserve System, held a series of ten workshops across the country on access to capital and credit for women-owned businesses. The workshops, held at Federal Reserve banks and branches, provided a forum to discuss, develop and reach consensus on policy recommendations to enhance women business owners' access to credit and capital at three phases of business growth and initiation: start-up capital and microenterprise development; mid-level financing for business growth and expansion; and sources of equity capital.

Atlanta

Boston

Buffalo

Dallas

Denver

Fargo

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BUSINESSES

The Recommendations from the Expert Policy Workshop Series

Participants in the sessions included women business owners, lenders, government representatives and others whose expertise and experience are instrumental in developing innovative financing strategies. In contrast to the basic fact-finding goals of earlier sessions, this series focused on larger aims: policy recommendations that will help create the infrastructure that supports women entrepreneurs and development of new business relationships within communities.

The following pages feature the recommendations of each of the individual workshops. As the President, Congress and the Interagency Committee on Women's Business Enterprise review this report, we urge state and local governments and private sector entities as well to join in implementing the innovative recommendations that resulted from this workshop series.

Kansas City

New Orleans

San Francisco

Seattle

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BUSINESSES

The Atlanta Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration (SBA) partnered with the Atlanta-based Georgia Women's Business Initiative, Inc. to sponsor this expert policy workshop on credit scoring and the factors that influence creditworthiness for women-led businesses. The workshop participants, a selected group of business owners, lenders and financial regulators, met in small groups to discuss the how credit scoring will effect both the lender and the small business owner as banks begin to rely more heavily on credit scoring to make lending decisions and minimize the risk in their loan portfolios.

Atlanta has experienced considerable economic growth especially in the small business sector. According to the National Foundation for Women Business Owners, the number of women owned businesses in the Atlanta metropolitan area has grown 113% since 1987, compared to a 78% growth rate for all businesses during that period. At the same time, sales receipts for women-owned businesses have skyrocketed by 279%. In keeping with national trends, the rate of growth of women-owned firms in Atlanta is highest in the "non-traditional" goods-producing sector, which includes agribusiness, construction and manufacturing.

As with other firms, creditworthiness is important to women-owned businesses. The factors considered when determining creditworthiness, however, are of great concern to the women's business sector because their businesses are more likely to be younger and smaller than those of business loan customers most banks seek.

During the session, workshop participants considered the relationship of creditworthiness to credit scoring. They discussed the risk lenders perceive in making loans to small business, and how credit scoring will affect the availability of credit for new and expanding businesses.

The Experts Recommend

Expert Policy Recommendation Number One:

Require the disclosure of the specific "formula" employed in the financial institution's credit scoring models. Require financial institutions to refer small business applicants which fall outside of a bank's "acceptable" credit score to local business development, training and mentoring resources.

Participants recognized that credit-scoring systems could expedite more loan applications and free up loan officers to market their programs and services to a larger percentage of the small business community. Unfortunately, small businesses are concerned that banks do not have to disclose the factors these systems consider and the weight applied to the factors during the credit decision process. The participants felt that it was only fair that banks be required to disclose the "ingredients" of their credit scoring model so that borrowers could approach those banks whose criteria they are most likely to meet. With respect to credit

denials, participants felt that lenders, in cooperation with local business development, should provide the denied small business applicant with information about training, technical assistance, and mentoring programs that would help the improve the applicant's chance of obtaining a loan in the future.

Expert Policy Recommendation Number Two:

Federally guaranteed loan programs should be applicable only to the “gray area” loans and not for loans likely to be approved automatically through credit scoring.

Lenders were interested in exploring a program where the level of government guarantee would increase as the risk of the loan increased. Participants suggested that using government guarantees for loans in the “gray area” would provide banks with more credit decision flexibility and would increase the number of small business loans.

The Boston Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration joined in partnership with the Boston-based Center for Women & Enterprise to sponsor this expert policy workshop on access to the private investment capital market by women-owned businesses. The workshop participants, a selected group of business owners, investors and financial regulators, met in small groups to discuss trends as well as experiences with the private investor market, including the challenge of increasing the number of active "angels" and the mechanisms that would improve the flow of capital and information to growing businesses. Boston is an ideal city in which to hold this particular workshop because of the growing number of new and expanding high-tech firms and the increasing amount of venture capital and private investor funding these firms attract.

The Experts Recommend

The workshop participants were charged with developing and reaching consensus on policy recommendations to facilitate access to "angel" or private investor investments for small, women-owned businesses.

The assembled experts concluded that the public and private sector should create incentives to encourage early stage investment in woman-owned small growth companies. In addition, entities developing newly minted tools, such as the Small Business Administration's ACE-Net service, should aggressively market and expand these tools to provide connections between investors and businesses that serve as a source of information and "know how" about the equity capital market.

Expert Policy Recommendation Number One:

Develop a partnership with state government, private industry, and philanthropic, business, and entrepreneurial institutions lead by the Small Business Administration.

This partnership would create an entity for using existing resources more effectively and for tapping into new technologies to build an easily accessible national network for entrepreneurs and investors. The participants also recommended the SBA develop a comprehensive plan to advertise and market this new resource.

Expert Policy Recommendation Number Two:

Provide tax incentives for equity investments for "patient" investors in women-owned businesses.

The participants recommended introducing tax incentives to encourage "patient" or more long term investments in early stage enterprises, especially those owned by women. Specifically, legislation increasing the exclusion on capital gains and eventually eliminating the tax entirely for long-term investments, could be a huge boost for women's entrepreneurial development. Developing and maintaining tax policy that positively favors entrepreneurship and, in particular, early-stage investment is key.

The Buffalo Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration partnered with the Buffalo and Rochester Chapters of the National Association of Women Business Owners to sponsor this expert policy workshop on access to capital and credit for women-led businesses. The workshop participants, a selected group of business owners, lenders, and financial regulators, met in small groups to discuss and develop new methods for encouraging the expansion of women-owned businesses as a catalyst for economic growth in the region.

The Experts Recommend

Expert Policy Recommendation Number One

Create a working partnership involving federal, state, and local government, financial regulatory agencies, financial institutions, and business advocacy and development organizations to recommend policy, educate small business owners, and develop mechanisms to increase capital and credit and provide technical assistance for women-business owners wishing to grow their businesses.

The participants envisioned establishing a local entrepreneurial development consortium for the greater Western New York region spearheaded by the Small Business Administration, state economic development agencies, the Federal Reserve bank branch, and the city government. The consortium would build upon the existing infrastructure of the government, financial, and business sectors, as well as membership organizations such as the Chamber of Commerce, Small Business Development Centers (SBDC), Service Corps of Retired Executives (SCORE), and women's business networks. The executive committee of this consortium would be charged with developing a master plan for the region to foster entrepreneurial development. This plan which would include the coordination and marketing of a network of financial resources, mentoring services, and training and technical assistance centers.

Expert Policy Recommendation Number Two

Expand the state's capital access program to provide a pool of capital to cover the collateral requirements of small business loans.

Many states, including New York state, have established capital access programs to boost bank lending to riskier businesses. The programs operate by creating a financial reserve to cover loan losses. Both the banks and the borrowers contribute to this reserve, which is then matched by the state and held by the bank. Banks may use the fund to lower interest rates for riskier small business loans and to cover any losses incurred on these loans. Using these funds, the bank is able to manage a portfolio of loans with a higher degree of risk than that normally targeted by the bank.

Participants also suggested that local economic or community development corporations assume a role in ensuring credit to small businesses by putting up the collateral the bank

Regional Report – Buffalo

requires to secure the loan. In particular, participants recommended that these local groups provide the collateral necessary to satisfy the banker's requirements, especially in cases where the economic vitality of an area may hinge on the successful growth and expansion of the small business. For example, helping small businesses in depressed areas would provide other benefits to the local economic and development agencies, such as urban renewal, which would be inducements to helping these businesses grow.

The Dallas Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration (SBA) joined in partnership with the Dallas-based North Texas Women's Business Council and the Dallas chapter of the National Association of Women Business Owners to sponsor this expert policy workshop on access to the debt and equity capital markets by women-owned service sector businesses. The workshop participants, a selected group of business owners, lenders, investors, and financial regulators, met in small groups to discuss their experiences in providing and accessing sufficient credit to grow service businesses. Generally, both debt and equity capital in the \$50,000 - \$500,000 range is needed to finance the growth of service sector businesses. Dallas was an ideal location for this discussion topic because women-owned businesses represent 36 percent of all service businesses in the city, ranking Dallas tenth in the nation for the number of women owned businesses.

Expert Policy Recommendation

Develop a partnership with state government, private industry, and business, financial, and entrepreneurial institutions lead by the SBA to foster and develop policies supporting growing enterprises. This partnership would create an entity to use existing resources more effectively and tap into new technologies to build an easily accessible national network for entrepreneurs, lenders, and investors.

The elements of this recommendation

1. Increase accessibility to and simplify the requirements of the revolving line of credit instrument, known as CAPLines, which is part of the SBA's guaranteed lending program. Business owners expressed a preference for access to a ready source of capital or a revolving line of credit. Lenders felt that the complicated reporting procedures involved in the CAPLines program were a strong disincentive for participation in the program. Lenders also indicated they could reduce the cost of the program if they were able to monitor the loans internally and eliminate some of the paperwork presently required by SBA reports. Granting the lenders the authority to manage and monitor these loans would increase both the profitability to the bank and the utilization of the instrument.
2. Introduce tax incentives to encourage investments in small business. The lenders acknowledged that new changes to the Community Reinvestment Act grant lenders more leeway in investing their funds in intermediaries such as Small Business Investment Companies (SBIC), Minority Enterprise Small Business Investment Companies (MESBIC), and venture capital funds and could increase the flow of capital to small businesses. The participants recommended taking this a step further by introducing new tax and regulatory incentives to encourage direct investments in small, growing businesses.
3. Develop programs which promote investments in business expertise. Participants felt the creation of a network or system for providing business and managerial assistance and mentoring was critical to growing companies. Modernizing and expanding SCORE (Service Corps of Retired Executives) and adapting the SBA's ACE-Net program to accommodate an entrepreneurial mentoring network was highly recommended.

The Denver Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration joined in partnership with the Colorado Women's Business Council and the Colorado Women's Leadership Coalition to sponsor this expert policy workshop on building assets through equity investments. The workshop participants, a selected group of business owners, investors, lenders, educators and financial regulators, met in small groups to focus on innovative ways to encourage equity investments in small, women-owned businesses. Within the last decade, Colorado has experienced significant growth in the number of women-owned, small businesses. At the present, women own forty percent of Colorado firms, making the state a perfect location for this topic. Developing strategies to help these small businesses grow is the new challenge for state and local governments.

The Experts Recommend

The workshop challenged participants to develop and reach consensus on policy recommendations to improve access to new sources of early stage, equity investments in women-owned, small businesses. Over the years, little attention has been paid to public policy that addresses ways to build assets and owners' equity in small and women-owned businesses. Because participants felt that lenders consider debt financing for small businesses only when the asset side of the balance sheet is adequate to carry the liability, participants suggested strategies that would "prime the asset pump" for women entrepreneurs. The strategies developed at this workshop should enable women-owned firms to expand their businesses and to use debt financing in more productive ways.

Expert Policy Recommendation

Create a public-private sector partnership to establish an "equity pool" to facilitate investments in the \$50,000 to \$500,000 level in women-owned, small businesses.

Borrowing from the successes of both the Small Business Investment Company and Microenterprise Development programs, workshop participants recommended creating a new vehicle to bridge the capital gap between the needs of very small start up companies and those of more established or high growth firms. Although changes to the Community Reinvestment Act (CRA) allow financial institutions to invest in intermediaries such as Small Business Investment Companies (SBIC), Minority Enterprise Small Business Investment Companies (MESBIC), and venture capital funds, the lenders at the workshop indicated that the CRA changes would not materially effect the small business market targeted by the workshop because these businesses are typically too small to be candidates for any of these funds.

The participants recommended creating a new fund that would target businesses whose capital needs and whose projected rates of return are lower than those normally considered by venture capital concerns. As envisioned, these businesses would have the potential for slow but steady growth. Suggested strategies for developing the fund included:

Regional Report – Denver

- reducing the minimum capital size requirements (currently \$1 million) for establishing SBICs owned by regulated financial institutions;
- incorporating equity financing programs as part of the SBA's Microenterprise program; and
- supporting the "pools" through tax incentives to encourage investments in small businesses. Examples include: federal tax incentives for equity investment in the pools; incentives for donated products and services; capital gains tax relief for long term investments; and a federal tax form check-off for voluntary contributions.

In addition to providing capital and credit incentives for lenders and investors, participants felt providing business and managerial assistance, as well as entrepreneurial mentoring, was critical to growing companies. Suggestions included modernizing and expanding the Service Corps of Retired Executives (SCORE), and expanding the microenterprise program to accommodate an entrepreneurial mentoring network. Businesses seeking access to the "equity pool" would be required to use the training and mentoring services, perhaps through a "virtual incubator".

The Fargo Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration (SBA) partnered with the North Dakota-based Women's Business Institute, the South Dakota-based Entrepreneur Network for Women, and the Minnesota-based Women in New Development to sponsor this expert policy workshop on access to capital for women-business owners in rural communities. The workshop participants, a selected group of business owners, lenders, government officials, and financial regulators, met in small groups to discuss their experiences with empowering women to launch successful businesses and encouraging communities to foster the growth and development these businesses need.

The Experts Recommend

The workshop participants looked at ways that women-owned business could help stimulate the region's economy. Participants were charged with developing and reaching consensus on recommendations to improve access to credit for women who live and operate their own business in rural areas.

Expert Policy Recommendation

Establish an entity to coordinate a network of "one stop shops" to provide credit and technical assistance to women in rural communities.

While there is a range of technical assistance programs available and a healthy demand for these services, the business owners present were generally unaware of these resources. Participants cited geography, a dispersed population, and few sources for capital and credit as roadblocks faced by women business owners seeking access to credit in the region. To overcome these roadblocks, participants suggested creating a partnership network to link and maximize the resources already available. For example, to expand the availability and flexibility of the existing private credit structure, participants recommend linking the government guaranteed microcredit and capital access programs with the resources available through technical assistance providers, such as small business development centers, women's business centers, and other community based business development initiatives. This linkage was viewed as critical to the success of any effort to stimulate economic and entrepreneurial development in the region.

The Kansas City Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration joined in partnership with the Kansas City based Home Business Connection and the American Business Women's Association, to sponsor this expert policy workshop on access to capital and credit for home-based enterprises. The workshop participants, a selected group of business owners, lenders, investors and financial regulators, met in small groups to discuss their experiences in providing and accessing sufficient capital to sustain these very small enterprises. As the growth of the economy continues to depend of the growth of small businesses, attention must be focused on ways to minimize the risk to lenders so that they can make the small loans more profitably. Encouraging the development of new regulatory policies and financial instruments that will increase the flow of capital and credit to very small businesses was the focus of this workshop. Kansas City was chosen for this topic because of the significant number of small home-based businesses owned by women in the area.

The Experts Recommend

Expert Policy Recommendation One:

The SBA and Congress shall clarify the definition of home-based businesses, creating a new class of commercial enterprise, in order to differentiate these businesses from the more inclusive category of small businesses.

- 1. Create a new preferred lending category for banks who lend to very small businesses.** Business owners were concerned that loans of less than \$50,000 were as costly for the lenders to process as loans in excess of \$1 million. Lenders agreed that even though the SBA had reduced the paperwork required of borrowers who apply for a federally guaranteed loan, banks are still required to fill out the same volume of paperwork. Lenders felt that the degree of risk and complicated reporting procedures involved in participating in the SBA's Low Doc and CAPLines program were a strong disincentive for them to participate. To make loans under \$50,000 more profitable for lenders, participants recommend the federal government simplify the regulations placed on small business lenders thereby decreasing administrative costs. Using a concept similar to the SBA's "preferred and certified" lending categories, lenders in the new "select" category would receive special rate subsidies for creating substantial portfolios of small loans.
- 2. Expand the federal microenterprise development pilot to provide programs specifically for home based businesses.** Business owners expressed a preference for access to a "ready source of capital" but found lenders reluctant to make the smaller loans or to issue credit cards directly to the business. Participants also felt that owners who had more training in managing a business, as well training in the intricacies of what lenders look for when making loans, had a better chance of receiving financing and growing a successful business. The microenterprise pilot which provides both "lending and learning" was deemed by the participants to be an ideal program for home-based businesses because it includes "business training" as an integral part of its program. This training factor is not usually a component of other lending programs.

Expert Policy Recommendation Two:

School curricula should include lifelong business and economic education programs which can be incorporated at the earliest grade level. This training should include practical experience in running a business and should prepare students to be entrepreneurs.

Participants believed business, managerial, and mentoring assistance should be more accessible. Incorporating economic literacy, entrepreneurship, and the “work ethic” into the school curricula was felt to be an important educational effort which could begin as early as the kindergarten level. Modernizing the Service Corps of Retired Executives (SCORE), and expanding the microenterprise development program to provide training and technical assistance to home-based enterprises, was also highly recommended.

The New Orleans Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration (SBA) partnered with two Louisiana-based women's business centers, the Southeast Louisiana Black Chamber of Commerce (SLBCC) Womens' Business Center and the Women Entrepreneurs for Economic Development, to sponsor this expert policy workshop on empowering women to move from welfare to self-employment. The workshop participants, a selected group of business owners, lenders, financial regulators, and intermediaries who help transition welfare recipients to the workforce, met in small groups to discuss their experiences with programs that provide training, mentoring, and microcredit to welfare recipients interested in self-employment. Participants recommended both local and national strategies to address the current issues and challenges raised by the federal government's new welfare-to-work initiative.

The Experts Recommend

Expert Policy Recommendation: A Local Solution

Create a revolving community/microenterprise loan fund to provide microcredit and technical assistance to welfare recipients engaged in self-employment.

No microenterprise development funds presently exist in Louisiana. Participants recommended that the SBA and the Department of Treasury, (through its Community Development Financing Initiative (CDFI) fund), work with local officials and community development organizations to establish one or more revolving community/microenterprise loan fund throughout the state. As envisioned, this revolving fund would screen potential candidates and offer them credit, technical assistance, and microenterprise training. In addition, the fund would also help welfare recipients start and maintain their own companies.

Expert Policy Recommendation: A National Solution

Part 1

Integrate strategies for self-employment and microenterprise development into federal and state employment, training, and economic development programs.

The participants felt strongly that the success of a self-employment strategy relies in part on its inclusion in programs that promote economic development. Moreover, participants argued that federal economic, community development, and microenterprise development efforts should be coordinated and expanded to provide the credit, technical assistance, and microenterprise training new entrepreneurs need to develop and expand a business. Participants also recommended adding a self-employment component to the federal government's community development and employment training programs. For example, to promote entrepreneurship, the Department of Housing and Urban Development's Community Development Block Grant Program, the primary funding mechanism for economic development in many communities, should consider the needs of the self-employed for training, credit, and technical assistance.

Part 2

Reevaluate current welfare policies and proposed reform policies, including time limitations on welfare receipt, for their effectiveness as income supplements for poor women working towards self-employment.

The participants felt that current economic development policies favor employment over self-employment strategies. They recommended revising laws which do not allow a woman to accumulate financial resources or pursue entrepreneurship as an employment strategy. Workshop attendees suggested the following tactics for improving welfare reform:

- increase self employment training and minimum education guarantees
- provide flexibility when enforcing the two-year transitory support period for welfare recipients. Participants thought this period may not be long enough for a woman to achieve self-sufficiency through self-employment.
- increase the amount a woman may earn and receive supplemental government benefits
- increase the asset limits for welfare recipients. Participants believed these limits act as barriers for the development of self-employment activities.
- increase the child and health care assistance amounts available during the transitory support period
- offer participants in welfare reform initiatives microcredit as an alternative to paid employment

The San Francisco Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration (SBA) partnered with silicon valley-based Women In Technology International to sponsor this expert policy workshop on access to equity capital for women-led businesses. The workshop participants, a selected group of business owners, investors, and financial regulators, met in small groups to discuss their experiences with raising and investing in venture capital. The participants agreed that the supply of venture capital funds was not sufficient to meet the demands of the rapidly growing ranks of women-led technology firms. They saw targeted tax and regulatory incentives, programs which leverage private capital with government guarantees or matching funds, and a nationwide marketing effort to raise the visibility of women-led firms as integral to the success of raising equity capital.

The Experts Recommend

Expert Policy Recommendation Number One:

Establish targeted tax or regulatory incentives to stimulate equity capital investments in women-led businesses.

The participants felt tax incentives would encourage investments in technology-based businesses. They were optimistic that changes in the federal capital gains tax laws and revisions to the Community Reinvestment Act (CRA) presented new stimuli for both banks and private companies specializing in providing venture capital to small businesses. While new policy changes should increase the flow of capital to all small businesses, the participants recommended taking these changes a step further by introducing targeted tax and regulatory incentives to encourage direct investments in women-led businesses. In addition, the expansion of government loan guarantees, matching funds, and grant programs, such as those offered under the SBA's 7(a) lending program, the Small Business Investment Company (SBIC) program, and the Small Business Innovative Research (SBIR) program, could increase access to funding for such high risk activities.

Expert Policy Recommendation Number Two:

The private sector, in particular a consortium of women's business organizations, should initiate a nationwide marketing, research, and public relations effort to increase the venture capital market's familiarity with, and the attractiveness of, women-led firms.

Participants acknowledged that the need to target federal programs for women or minorities is difficult to substantiate without supporting economic data or disparity studies. They also recognized, however, that it may be more appropriate and expedient for the private sector to assume responsibility for this data collection. Participants agreed that more research on women-led high growth businesses was necessary to target and market these firms to investors.

The Seattle Workshop

The National Women's Business Council, the Federal Reserve System, and the U.S. Small Business Administration (SBA) partnered with the Seattle Chamber of Commerce, Small Business Action Council to sponsor this expert policy workshop. The participants, a selected group of business owners, lenders and financial regulators, met in small groups to discuss their experiences in the global marketplace. The workshop presenters provided information about new federal and state programs established to help small businesses break into export markets. In general, business owners were unaware of these government programs and recommended the SBA develop and implement a marketing plan to inform small businesses of these resources. The group also recommended that the SBA establish export lending and support services targeted at service-based businesses.

The Experts Recommend

Expert Policy Recommendation Number One:

Develop a comprehensive marketing plan for the federal government's U.S. Export Assistance Center program and the SBA's Export Technical Assistance Program. This plan would involve coordination among federal agencies, banks, law firms and accounting firms to provide both financing and technical assistance for small businesses seeking opportunities in export markets.

Although the SBA and other federal and state government agencies have implemented valuable programs for lenders and borrowers that significantly increase the access to capital and trade information for exporters, participants were generally unaware of these programs. An extensive marketing plan would help increase familiarity with and use of these programs.

Expert Policy Recommendation Number Two:

Develop new export financing and assistance programs targeting the needs of service-based businesses.

Financing exports of service-based companies presents special problems because often there is no tangible asset for a borrower to offer as collateral. Absent collateral, small service providers must look to financial options other than secured loans, as a means of raising money to finance their international sales. Participants who had sought financial assistance from the SBA or state small business export promotion programs, however, did not believe these programs were designed with service-based businesses in mind. To make governmental programs more responsive to the needs of export firms, participants recommended that the export assistance centers help service businesses negotiate advance or progress payments and help locate equity capital. Participants also suggested new lending criteria using intangible assets, such as intellectual property, for financing these ventures.

The **National Women's Business Council** was created by an act of Congress to serve as an independent, bipartisan source of advice and policy recommendations to the Interagency Committee on Women's Business Enterprise, the U.S. Small Business Administration, Congress, and the President. The Council members are successful women business owners and advocates representing women's entrepreneurship nationwide.

The **Interagency Committee on Women's Business Enterprise**, comprised of senior officials from 9 federal agencies and the White House, ensures that women's economic issues are being addressed at the highest policy-making levels. The committee reports directly to the President and the Congress. Both the Federal Reserve System and U.S. Small Business Administration are active members of the Interagency Committee.

The **Federal Reserve System** is the central bank of the United States. The Federal Reserve was founded by Congress in 1913 to provide the nation with a stable and flexible monetary and financial system. It is composed of a central, governmental agency, the Board of Governors, and twelve regional Federal Reserve Banks, located in major cities throughout the nation.

The **U.S. Small Business Administration** was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our Nation. The SBA revolves around two principles: customer-driven outreach and quality focused management.

Steering Committee

*Barbara Lowrey
Federal Reserve System*

*Sherrye Henry
U.S. Small Business Administration*

*Amy Millman
National Women's Business Council*



*Carol Whitney
Workshop Series Facilitator*

NATIONAL WOMEN'S
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Expert Policy Workshop Series Resource Partners

The Expert Policy Workshop Series was a public-private sector partnership designed to give local women entrepreneurs a voice in public policy formulation that impacts their businesses. The partnership involved federal officials and nationally recognized women business leaders including, the U.S. Small Business Administration's field operations staff and the Federal Reserve System's Consumer and Community Affairs staff. The local women business leaders and advocates, our private sector partners, were instrumental in the success of these workshops. The following organizations are to be commended for their support and participation in this series.

American Business Women's Association
Center for Women & Enterprise, Boston
Colorado Women's Business Office
Colorado Women's Economic Development Council
Colorado Women's Leadership Coalition
The Entrepreneur Network for Women, Watertown
Georgia Women's Business Initiative
Home Business Connection
National Association of Women Business Owners
North Texas Women's Business Council
Seattle Chamber of Commerce, Small Business Action Council
Southeast Louisiana Black Chamber of Commerce Women's Business Center
Women Entrepreneurs for Economic Development, New Orleans
Women in New Development, Bemidji
Women in Technology International
Women's Business Institute, Fargo

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Ms. Elizabeth Brock Pallets Incorporated	Ms. Tonya Jones Mark IV Enterprises, Inc.	Ms. Carolyn A. Stradley C&S Paving, Inc.	Mr. Christopher Gabrieli Bessemer Venture Partners
Ms. Janis Burda Georgia Women's Business Initiative, Inc.	Ms. Teresa Kittle Padgett Business Services	Ms. Lynn Vos The University of Georgia	Ms. Diane Gargano Harvard Clinical Technology, Inc.
Mr. Ron Burney First State Bank and Trust	Mr. Terence Lewis Sun Trust Bank	Ms. Daisy Walden Nadlor Media	Ms. Judy George Domain Inc.
Ms. Bernadette Carter Hudson Carter Technical Services	Ms. Dana Little Business Development Corporation	Ms. Omi Walden Walden & Associates	Ms. Jennifer Gilbert DeHarvard Fine Art
Ms. Paige Collier Wachovia Bank	Ms. Peggy Magar The Women's Network, Inc	Ms. Jody Wasserman The New England Financial Group	Ms. Suk Harvey Microlan Computers
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Ms. Lee Fukartas Renu Enterprises Inc.	Ms. Mary Ann Roberts Roberts Little Ones	Mr. Peter Cassidy Commonwealth of Massachusetts	Ms. Jennifer Kushel Young Entrepreneurs Network
Ms. Nancy Heard First Colony Bank	Ms. Annette Rodriguez Small Business Resource Center	Ms. Theresa Cavanaugh BankBoston	Ms. Mary Lassen Women's Educational and Industrial Union
	Ms. Elina Rodriguez Scoring Solutions, Inc		
	Ms. Melanie Sawyer AT&T Capital Corporation		

Expert Policy Workshop Series Participants

Ms. Dianne McPartin
Bessemer Venture Partners

Ms. Nancy Nager
Specialized Health Management

Ms. Judith Obermayer
Obermayer and Associates

Ms. Pamela Reeve
Light Bridge Technology

Mr. James Roll
Massachusetts Business
Development Center

Professor William Sahlman
Harvard Business School

Ms. Julie Schofield
Smaller Business Association
of New England

Ms. Andrea Silbert
Center for Women & Enterprise,
Inc.

Ms. Micho Spring
Bozeil, Sawyer, Miller Group, Inc.

Ms. Jennifer Starr
Up to Data Partners

Ms. Marie Turkey
Boston Women's Commission

Mr. William Wetzel
Center for Venture Research,
University of New Hampshire

BUFFALO

Mr. Herbert M. Ausderau
Service Corps of Retired
Executives

Ms. Nancy Barry
Women's World Banking

Ms. Zenda Bennett
Urban League of Rochester

Ms. Lupe Breen
Dunhill Staffing Systems

Ms. Bonnie Clewans
The Bread Gallery

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Gymnastics Training Center of
Rochester, Inc.

Mr. Ronald Coan
ECIDA

Ms. Brenda L. Copeland
The Bank of Castile

Ms. Cathy Cummings
American Rated Cable &
Communications

Ms. Audry Czesak-Kennedy
Trinity Title & Abstract Co.

Ms. Mary Ann Daugherty
Mad Data Products Inc.

Ms. Irene A. Dobies
Small Business Development
Center

Ms. Holly Donaldson
WNY International Trade Council

Mr. Barbara Drago
Empire State Development

Ms. Marcia Duell
Computer Conference Inc.

Mr. Richard Gorko
Small Business Development
Center

Ms. Deborah Haney
Sweet Jenny's Ice Cream

Ms. Susan Hudson
Mid-Atlantic Small Business
Finance

Mr. Peter Humphrey
Financial Institutions Inc.

Ms. Kathryn Jackson
Gibson, McAskill & Crosby

Ms. Barbara J. Jones
Chase Manhattan Bank

Ms. Carol Jones
Sarette Temporaries Inc.

Ms. Laurie Irish Jones
Irish Welding Supply Corporation

Ms. Antoinette Kaiser
STECO Industries

Ms. Loretta Kaminsky
Lou-Retta Custom Chocolates Inc.

Ms. Sara Kash
Write Woman Computer Products
Inc.

Ms. Carol Kociela
Marine Midland Bank

The Honorable John J. LaFalce
United States Congress

Ms. Rebecca Landy
The Center for Industrial
Effectiveness

Ms. Nancy LaTulip
Key Bank

Ms. Barbara Laughlin
First Empire State Corporation

Mr. Robert Lazar
Empire State Certified
Development Corporation

Ms. Roseanne Lettieri
Dreamco Development
Corporation

Ms. Nanette Levin
Fulcrum Communications

Ms. Gloria Lucker
Occupational Therapy Association

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Trust Co.

Ms. Diane Luksch
Citibank

Ms. Dolores McCarley
Resources Planning Associations
Inc.

Ms. Susan McCartney
Small Business Development
Center

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Professional Land Surveyor

Ms. Karthryn O'Donnell
Botanicus

Ms. Betty Perkins-Carpenter
Senior Fitness Programs, Inc.

Ms. Sara Pittman
Sarette Temporaries Inc.

Ms. Fran Pullano
Pullano & Company

Ms. Charlene Ray
American Women's Economic
Development Corporation

Ms. Lynn Rollins
NY State Division for Women

Mr. David Session
Fleet Bank of New York

Ms. Sharon Stiller
Greater Rochester Chapter
NAWBO

Ms. Nora Sullivan
Rand Capital Corporation

Ms. Kathleen Whelehan
Marine Midland Bank

Ms. Deborah Williams
Black Cat Computer Wholesale

Ms. Louise Woerner
HCR

Ms. Myrna F. Young
Everywoman Opportunity
Center, Inc.

DALLAS

Ms. Cindy Alvarado
North Texas Women's Business
Development Center

Ms. Cheryl Basye
ZoCom Technologies/Troy
Marketing

Ms. Norma Lee Beasley
Safeco Land Title of Dallas

Ms. Shallie Bey
Rep. Eddie Bernice Johnson

Ms. Rollie Blackwell
Gourmet Dallas

Expert Policy Workshop Series Participants

Mr. Walter Boyer
United Central Bank

Ms. Wanda R. Brice
Computer Directions Inc.

Ms. Beverly Brooks
Beverly Brooks & Associates

Ms. Rita Brooks
Brooks Glover & Associates

Ms. Billie Bryant
CESCO, Inc.,

Ms. Lisa Buyher
Kilgore First National Bank

Ms. Theresa Canales-Jud
North Texas Women's Business
Council

Ms. Deborah Cannon
NationsBank

Ms. Kathy Dawson
Dawson Group, Inc.

Ms. Loren Eberline
Commercial Building
Maintenance Co.

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Foreman Office Products

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Compass Bank

Ms. Jan Gann
Wells Fargo Bank

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The Garza Creative Group

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Comerica Bank

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Bank One, Texas, N.A.

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The INNIS Company

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First Texas Bank

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Mozarella Company

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Mesbic Ventures, Inc.

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Wendy Lopez & Associates, Inc.

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PFS/Ameriserve

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Liaison, Inc.

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McKinley Communications

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The Miller Agency

Ms. Dianne Patterson
Claims Services Group

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Global Travel of Dallas

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Texas Community Bank

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Southern Methodist University

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Board of Colorado Microcredit

Ms. Sonni Biundo
Rep. Bob Schaffer

Mr. Alice Borodkin
Women's Business Chronicle

Ms. Joy Burns
World Trade Center

Ms. Jan Campbell
Norwest Bank

Ms. Janney Carpenter
Shorebank Advisory Services

Ms. JoAnn Corn
Health Care Resources Group

Ms. Elaine Demery
Nelson, Coulson & Associates

Ms. Selena L. Dunham
Rep. Diana DeGette

Ms. Grace Hernandez Fink
Rep. Dan Schaefer

Ms. Susan Fisher
Colorado Women's Business
Office

Ms. Marilyn E. Force
Small Business Center

Mr. Thomas A. Godwin
Complexity Simplified, Inc.

Ms. Erika Gonzalez
Rocky Mountain News

Ms. Maurice Goodgaine
Colorado Banking Board

Ms. Patricia Foley Hinnen
Colorado Microcredit

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LaJunta State Bank & Trust

Ms. Martha Kreutz
Colorado State Representative

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Oyster Communications Inc.

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Camp Kazoo

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All American Personnel Services
Company

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Eldercare 2000

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Colorado Enterprise Fund

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Denver Post

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Aurora SBDC

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U.S. Representative

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Women's Equity Fund

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Manns Companies

Ms. JoAnne Underhill
Underhill and Underhill

Ms. Barbara Walker
Independent Bankers of Colorado
Office

Ms. Barbara Wells
Minor & Brown, P.C.

FARGO

Ms. Pat Athmann
Athmann's Clothing Store

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Norwest Bank

Ms. Bette Blixt
Caspar's East 40

Mr. Ron Braseth
The Goose River Bank

Ms. Linda Butts
Prairie Inn Restaurant Corp.

Ms. Laurie Chatham
Laurie's Incorporated

Mr. Greg Cleveland
BNC Bank

Ms. Patty Corwin
Corwin Communication

Ms. Becky Doerr
The Entrepreneur Network for
Women

Ms. Joyce Eisenbraun
Gateway Marketing

Expert Policy Workshop Series Participants

Ms. Ruth Elvold
NW MN Initiative Fund

Ms. Belinda Engelhart
Small Business Development
Center

Ms. Janelle Ensrud
Women's Business Institute

Ms. Lori Fromke
Face to Face

Ms. Virginia Goerger
Virginia's Photos & Flowers

Ms. Elaine Goldberg
Women's Business Institute

Ms. Devon Green
Green's Family Foods

Ms. Betty Grenier
Creations, Inc.

Ms. Sue Hartmann
Lake Agassiz Regional Council

Ms. Pat Helgeland
The Entrepreneur Network for
Women

Ms. Cynthia Herfindahl
Cynthia's

Mr. John Hoeven
Bank of North Dakota

Ms. Tara Holt
Holt and Associates

Ms. Susan Hoosier
Women in New Developments

Mr. Dennis Huber
United Tribes Technical College

Ms. Ruth Anne Iverson
Classic Promotions

Ms. JoAnne Johnson
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Kashpaw Enterprises

Ms. Jean Kiesau
Home of Economy

Ms. Joelle King
Face to Face

Ms. Penny Knudson
The Branding Iron

Ms. Betty Langseth
Your Designs By Betty

Mr. David Lessard
North Dakota Dept. of Banking
and Financial Institutions

Ms. Toni Merdan
Rep. Collin Peterson

Ms. Launa Moldenhauser
Kirkwood Bank & Trust Co.

Mr. Randy Newman
First National Bank

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Fashion Gallery

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Pied Piper Florist

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Union State Bank

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Going Places Magazine

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P R Company, Inc.

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Business & Life Resources

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J&G Landscaping

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Women's Business Institute

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Satrom Travel & Tour, Inc.

Ms. Lois Scheider
Senator Kent Conrad

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Harvey Sand & Gravel

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Red Lake Tribal Council

Ms. Pat Steeves
Richels Beverages, Inc.

Mr. Lee Stenjemh
First International Bank and Trust

Ms. Linda Steve
Steve & Hulsing, CPA's

Mr. Trent Tarvestad
Ramsey National Bank

Ms. Marilyn Thelen
Thelen Drug and Gift

Ms. Maria Tibbets
Maria's Cleaning Service

Mr. Steve Velk
Bremer Banks—First American
Bank

Ms. Arlene Wilhelm
Excel Cleaners

KANSAS CITY

Ms. Linda Adams
Cherry Pickers Creative

Ms. Kathleen Barney
Economic Development
Corporation

Ms. Kim Beyer
Balloons and Beyond

Ms. Pat Binder
An Alternative

Mr. E.L. Birch
Platte Valley Bank

Ms. Carol Birkey
Administrative Services

Ms. Sheila Birkner
BD Zines

Ms. Elizabeth Blanchard
Infor MED

Ms. Janet Bonet
Metro Home Based Business
Associates

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Mega Vend Inc.

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Hammock/Cecil Events, Ltd.

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Clark's Sports

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Sweet Confections by Lonnie

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Paper Chase

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Ms. Freda Durbin
1st National Bank of Olathe

Ms. Carolyn Elman
American Business Women's
Association

Ms. Barb Engel
South KC Chamber of Commerce

Ms. Katrina Luise Everhart
National Association of Female
Executives

Ms. Denise Farris
Farris Law Firm

Ms. Linda Flynn
The Flynn Company

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Rockhurst College

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Rep. Karen McCarthy

Ms. Sharon Gulick
Missouri Department of
Economic Development

Expert Policy Workshop Series Participants

Ms. Loyette Hayden
Let Loy Do It

Ms. Marian Herrington
Herrington Display, Ltd.

Ms. Macie Houston
Senator Sam Brownback

Ms. Kathy Hunter
Commerce Bank

Ms. Katrina Jackson
First Step Fund

Mr. Paul Jokerst
AT&T Capital Corporation

Mr. Bob Koliach
Johnson County Community
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A Mother's Touch

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Johnson County Certified
Development Company

Mr. Rick Lutz
Hillcrest Bank

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Decorating Den

Ms. Loren Medley
Kansas Electric Power Co-op

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Baby Baskets Delivered

Ms. Cate Morris
The C-Net

Ms. Nancy Nauser
Consumer Credit Counseling

Ms. Margie Padgitt
Balloon Events

Ms. Jamie Parkison
Juxtaposo-Photo/Prose

Ms. Dale Pearson
KC SoHo Buyers's Guide

Ms. Cathy Pribyl
Smart Choice

Ms. Sylvie Radvinsky
Advanced Computer Services

Mr. Brad Scott
Senator Kit Bond

Ms. Cesse Sessel
Creative Displays

Mr. Jack Sherer
Citizens National Bank

Ms. Cheryl Simmons
Office of the Treasurer

Ms. Charyl Smith
Coco's After 5

Ms. Carrie Stapleton
Phillips-West, Inc.

Ms. Judy Sutton
LogoMotion

Ms. Linda Gill Taylor
Interim Legal Services

Mr. Dan Teahan
Mark Twain Bank

Ms. Tracy Thomas
Tracy Thomas PR & Advertising

Ms. Pam Ulmer
Accounting and Business
Resources

Ms. Laura Valverde
Host Carpet Care

Ms. Susan Weir
Professional Expectations

Ms. Robin Wells
Country Club Bank

Ms. Diane Wier
Nations Bank

Mr. Bob Wiley
Mark Twain Kansas City Bank

Ms. Becky Wilson
Wilson Direct Source

Ms. Cheryl Womack
VCW, Inc.

Mr. Tina Wurth
Natural Soap Co.

Ms. Gayle Yelenik
Home is Better

Ms. Jolinda Young
Resultex, Inc.

Ms. Marie Young
Black Chamber of Commerce
of Greater KC

Ms. Barbara Zeigler
KC Smal! Business Analysts

Ms. Betty Zeigler
Insignia Promotions

NEW ORLEANS

Ms. Sandra C. Adams
Louisiana Maternal & Child
Health Coalition

Ms. Lauren Anderson
Neighborhood Housing Services

Mr. Marvin Beaulieu
United Bank & Trust

Ms. Cynthia Beaulieu
Women Entrepreneurs for
Economic Development

Ms. Shirley Brown
SB Shirlee AMC Co., Inc.

Ms. Diane Carney
d Enterprises

Ms. Trinette Casimere
SLBCC Women's Business Center

Ms. Cheryl Cramer
New Orleans Private Industry
Council

Ms. Judy Ewell Day
Government Relations

Ms. Ann Duplessis
Liberty Bank and Trust

Ms. Susan Eddington
Images, Images

Mr. Joseph Ewell
Southeast Louisiana Black
Chamber of Commerce

Ms. Teri G. Fontenot
Women's Health Foundation

Mr. Bob Gayle
Chamber of Commerce

Ms. Cathy Harris
C. Harris Companies, Inc.

Ms. Monetta W. Henson
Henson Production

Ms. Laverne Kilgore
SLBCC Women's Business Center

Ms. Karen Kurtz
United Air Conditioning

Mr. Chris Laborde
Chamber of Commerce

Ms. Helen W. Lang
Section 8 Residential Council of
New Orleans

Ms. Rosa Langley
Small and Emerging Business
Development

Ms. Dian Lusher
Dynel Communications

Ms. Elise McCullough
Staffing Solutions

Ms. Rosana Nash
Conference Child Care Services

Ms. Sara Roberts
Sara A. Roberts Professional
Accounting Corporation

Ms. Irene Salahuddin
Salahuddin International

Ms. JoAnn Slaydon
Slaydon Consultants, Inc.

Ms. Patsy Strider
Casa-New Orleans

Ms. Crystal Jones Taylor
National Center for Public &
Private Alternatives

Ms. Herma Thomas
Women in Community Service
(WICS)

Ms. Carol Ward
Hibernia National Bank

Expert Policy Workshop Series Participants

Ms. Viola Washington
Welfare Rights Organization

Ms. Judith Watts
Agenda for Children

Ms. Monalina Wilson
Cierra Productions, Inc

SAN FRANCISCO

Ms. Eve Abbott
Organizer Extraordinaire

Ms. Cherie Arnold
Capital Missions Company

Ms. Dina Jan Artz
Paine Webber, Inc.

Mr. Paul Bidinger
GirlTech

Ms. Karen Bixby
Oasis Capital

Ms. Christine Cordaro
Aurora Ventures Partners

Ms. Twila Foster
Jackson Tufts Cole and
Black, LLP

Ms. Cathy Gawne
Shapiro, Rosenfeld & Close

Ms. Sylvia Gerst
Gerst App, Inc.

Ms. Dianne Giancarlo
Giancarlo & Gnazzo

Ms. Anne Gingras
Systems Partners

Dr. Virginia Gordon
Safety Associates, Inc.

Ms. Pamela Gray
Hermetika, Inc.

Ms. Loren Gruner
Integral Results

Dr. Marianne Hamm
Accsys Technology, Inc.

Ms. Joan Horvath
Jet Propulsion Laboratory

Ms. Mary Howell
Seismic Valve Company

Ms. N. Whitney Johns
Capital Across America, Inc.

Ms. Anna Johnson
VR Communications, Inc.

Ms. Linda Kazares
Ambit International, Inc.

Ms. Jennifer Kenny
Emergent Management
Consulting, Inc.

Ms. Lynn Leahy
Leahy & Associates

Ms. Etienne Legrande
The Enterprise Group

Ms. Linda Lipscomb
Hoven, Ness, Lipscomb & Cross

Ms. Karen Marengi
Smith Barney, Inc.

Ms. Teresa Martin
Project Cool

Ms. Wanda Martinez
Dean Ryan Consultants &
Designers

Ms. Susan Mason
Onset Ventures

Ms. Marlene McDaniel
Wire Networks

Ms. Elena Medo
White River Concepts

Ms. Kate Mitchel
Bank America Ventures

Ms. Catherine Muther
Three Guineas Fund

Ms. Meryl Natchez
Tech Prose/Master Software

Ms. Fira Nazari
Citibank

Ms. Bren Norris
Bren Norris Associates, Inc

Ms. Audrey Rice Oliver
Integrated Business Solutions

Ms. Denise Ryan
Stallion Technologies

Ms. Carol Sands
Sands Marketingplus, Inc.

Ms. Gail Schulte
Abingdon Business Capital

Ms. Janese Swanson
GirlTech

Ms. Virginia Turezyn
Information Technology Ventures

Ms. Elna Tymes
Los Trancos Systems

Ms. Pam Versaw
Medicounsel

Ms. Dorothy Webster
Webster Institute of Technical
Skills

Ms. Lily C. Yang
Neuromark

SEATTLE

Ms. Anne Abrams
Bow Wow Meow

Mr. Ernest Ballou
Wells Fargo Bank

Ms. JoAnne Bassett
Bassett Aromatherapy

Ms. Madeline Beery
Aids Impact

Ms. Fran Bigelow
Fran's Chocolates, Ltd.

Mr. James Bishop
Skagit State Bank

Ms. Halina Bojarski
Bojarski and Associates

Ms. Florine Bolar
Senator Slade Gorton

Mr. Robert Bryce
First Heritage Bank

Ms. Phyllis Campbell
US Bank of Washington

Ms. Anna Marie Canales
Soleil Noir District

Mr. Michael Cann
Whidbey Island Bank

Mr. John Canning
AT&T Small Business Lending
Corporation

Mr. J.E. Carmichael
Kitsap Bank

Mr. Mike Clementz
North Sound Bank

Ms. Joyce Coffaro
Coffaro's Baking Company

Mr. Damian Cordova
Rep. Jim McDermott

Ms. Melaine Dequesnel
Wells Fargo Bank

Mr. Patrick Fahey
Pacific Northwest Bank

Mr. Anthony Feraro
Zions First National Bank

Ms. Jean Ferries
Brooksode Soap, Inc.

Ms. Janice Friedman
JFMR, Inc/Lynlee's

Ms. Sally Fuller
Cascade Signs

Ms. Linda Granat
Seattle VIP Services Inc.

Ms. Roberta Greer
Tillicum Village and Tour

Ms. Julie Hadnot
Rep. Ronald V. Dellums

Mr. Conrad Hanson
Citibank

Ms. Kay Harlan
Another Door to Learning

Mr. Scott Harvey
Kitsap Bank

Ms. Stacy Hill
Stock & Hill Landscapes, Inc.

Expert Policy Workshop Series Participants

Ms. Kay Hirai
Studio 904, Inc.

Mr. Ralph Holliday
KeyBank National Association

Ms. Elizabeth Huang
Washington First International
Bank

Ms. Kazuko Ishimaru
Emerald City Export

Ms. Sally Jewell
Western Bank

Ms. Donna Jordan
Heller First Capital Corporation

Mr. Douglass Kemper
Key Bank

Ms. Laurie Klein
Valberg Corporation

Mr. Richard Kneipp
Islanders Bank

Ms. Marianne Kriezek
Sound Micro Systems

Mr. Paul Leliakov
The Money Store Investment
Corp.

Ms. Kristina Masrelietz
Kaytek Marine, Inc.

Ms. Gretchen Mathers
Gretchen's of Course

Ms. Beverly McConaghy
Financial Network Investment
Corporation

Ms. Duce McLean
Thistle Press & Seattle
Walking Tours

Ms. Paula Medina
Mediterranean Italian Fashions

Ms. Gina Medina
Mediterranean Italian Fashions

Mr. Rick Meikle
Towne Bank

Ms. Tish Oye
Glassworks

Ms. Vallie Pavino
Pavison Worldwide enterprises

Ms. Clare Petrich
Marine Relate Real Estate

Ms. Nancy Ray
Rucker's Bo'K's

Mr. Patrick Redmond
Viking Community Bank

Mr. John Rindlaub
Bank of America, NW NA dba
Seafirst Bank

Ms. Delores Rossman
K'lyte International Inc.

Ms. Jean Sensel
Sensel & Associates/The
Exchange Tavern

Ms. Diane Symms
Lombardi's Cucina

Ms. Patricia Taylor
Rep. Jim McDermott

Mr. Roy Thronson
Evergreen Bank

Ms. Grace Tsujikawa Boyd
Pyro Media

Ms. Linda Wilson
AdCorp

Mr. Scott Winship
North Pacific Bank

Mr. Daniel Yerrington
Centennial Bank

Ms. Jody Yoder
Accountant