



ADVISORS TO
THE PRESIDENT,
CONGRESS,
AND THE SBA

TESTIMONY of

Carla Harris

Chair of the National Women's Business Council
and
Vice Chairman of Wealth Management and Senior Client Advisor at Morgan Stanley

Joint Economic Committee

Encouraging Entrepreneurship: Growing Business, Not Bureaucracy

Tuesday, June 12, 2016

Chairman Dan Coats, Ranking Member Carolyn Maloney, Vice Chair Pat Tiberi and distinguished members of the Committee, thank you for inviting me to speak on behalf of the National Women's Business Council before the Joint Economic Committee for today's hearing titled *Encouraging Entrepreneurship: Growing Business, Not Bureaucracy*.

My name is Carla Harris and I am the Presidentially-appointed Chair of the National Women's Business Council (NWBC). The Council is a non-partisan federal advisory council created to serve as an independent source of advice and counsel to the U.S. Small Business Administration, Congress, and the White House on issues of impact and importance to women business owners, leaders, and entrepreneurs. The NWBC was established via the Women's Business Ownership Act of 1988 (HR. 5050), a landmark piece of legislation that most notably eliminated individual state laws that required women to have a male relative cosign a business loan. We act as convener, collaborator, and councilor; it is our mission to be a resource, to put forth actionable policy recommendations, and then to engage and support influencers, stakeholders, and decision makers in the implementation.

State of Women's Entrepreneurship

According to the most recent US Census Bureau's Survey of Business Owners (SBO) there are over 27 million privately-held businesses in the United States. These firms generate \$12 trillion in annual receipts and employ 56 million people.

Women-owned firms represent an important segment of the business sector. As of 2012, women-owned businesses comprised 36%, or nearly 10 million, of the country's privately-held businesses. These firms generate over \$1.4 trillion in sales and employ over eight million people. Between 2002 and 2012, the number of women-owned firms increased at a rate 2-1/2 times the national average (52% vs. 20%), employment in women-owned firms grew at a rate 4-1/2 times that of all firms (18% vs. just 4%), and the growth in revenues generated by women-owned firms paralleled that of all firms (up 51% compared to 48%).ⁱ

Some of the most dynamic changes since the 2007 SBO can be witnessed for women of color, specifically Black and Latina women. For example, in 2007 there were about 900 thousand Black women-owned businesses; now they stand strong at over 1.5 million and represent almost 60 percent of all Black owned businesses. Since 2007, Black women-owned firms have added over 71 thousand jobs to our economy while Black men-owned firms have added almost 11 thousand jobs to the economy. Latina-owned businesses increased at even greater numbers. In 2007, there were fewer than 800 thousand Latina-owned firms; now there are nearly 1.5 million.

These numbers demonstrate that women-owned businesses are thriving, thanks to a combination of supportive initiatives and policies and a strong entrepreneurial spirit. However, inequities and disparities still exist that inhibit many women-owned businesses from reaching their full economic impact or scaling effectively. Women are behind, in earnings and receipts, and in the amount of venture capital and other forms of equity investment they receive. Women continue to lack access to some of the most crucial assets, capital and markets, necessary to launch and grow their businesses. All of us here today can agree that we want regulations as efficient and effective for our small businesses, including those that are women-owned, to continue to start, sustain and grow as a strong force in our economy.

We often describe our work at the National Women’s Business Council as divided among four pillars, which include: data collection and analysis; access to capital; access to markets; and job creation and growth. Commonsense regulation plays a role in each and any of these areas; today, I specifically focus on access to capital and job creation and growth, by describing how women—and others—stand to gain from full transparency in the area of marketplace lending, as well as minimized or consolidated regulation in the area of occupational licensing. Most importantly, however, we want to acknowledge the value of early and frequent involvement of women business owners, and all stakeholders, in developing and refining regulation.

Women’s Access to Capital

Access to capital continues to be a challenge for too many women. NWBC’s work focuses on changing the infrastructure, and on increasing and improving resources, so more women can access the capital they need to start and grow their businesses. Per Council research, on average, men start their businesses with nearly twice as much capital as women - \$135,000 vs. \$75,000. This disparity is slightly larger among firms with high-growth potential - \$320,000 vs. \$150,000; and it is much larger in the Top 25 firms - \$1.3 million vs \$210,000. Babson College has concluded the lack of sufficient capital funding for women entrepreneurs will cost the economy nearly six million jobs over the next five years, so it is in the best interest of the economy to understand any barriers to these firms’ success.ⁱⁱ

Fortunately, the marketplace is responding to the challenges that women have faced in accessing capital, in the forms of both loans and equity investment. Thanks to great innovation in the capital space, with crowdfunding, peer-to-peer lending, microfinancing, and more, women have greater opportunities to pursue and raise the capital they need.

Debt

Beginning with an examination of debt, it is important to understand that women business owners take traditional business loans far less frequently than the overall population of business owners. Council research has found that women were more likely to be discouraged from applying for loans due to fear of denial, particularly during the financial crisis of 2008 to 2010. This research has also demonstrated that women are more likely to go to their community banks for assistance.ⁱⁱⁱ Unfortunately, the growth of federal regulation presents challenges to community banks, threatening lending to small businesses. As a result, the U.S. Small Business Administration has introduced a pilot program, Community Advantage (CA), to meet the credit, management, and technical assistance needs of small businesses in underserved markets. The pilot program is scheduled to last until 2020 unless extended or made a permanent part of the SBA’s financial assistance programs. We believe that the Community Advantage program brings great value to women entrepreneurs.

Beyond the Community Advantage Program, the SBA Microloan Program, which is the single largest source of funding for microfinance institutions in the U.S., provides direct funding to qualified community finance organizations, who then issue the loans to borrowers. Recall that one component of the Women’s Small Business Ownership Act of 2014 was to expand and improve the SBA Microloan Program to reach more women borrowers who need business loans of up to \$50, 000. It would have also reauthorized the SBA Intermediary Lending program to

provide more women access to loans between \$50,000 and \$200,000, helping to fill this gap that is currently unmet by traditional private lending.

Women entrepreneurs have historically been underserved by lending institutions, so these programs, as well as private marketplace lenders, are stepping in with capital and technical assistance, enabling stronger performance by these women's businesses by increasing their available capital, including in the lower dollar values commonly sought by women business owners. According to a study done by ACCION, one of the largest microfinance institutions in the U.S., there are an estimated 13.1 million micro-entrepreneurs in the U.S., including 2.4 million African-Americans and Hispanics.

Women business owners—and all borrowers—must be able to meaningfully assess the risks and benefits associated with various loan options. Many private microfinance and marketplace lending programs already do an excellent job with transparency of loan terms; it is important that *all* marketplace lending institutions, across the board, make the terms transparent and accessible.

Equity

Women-owned businesses also continue to lag behind those owned by men in terms of equity investment. Research conducted by Babson College has found that of the nearly 7000 companies funded by venture capital between 2011 and 2013, only 2.7% of the companies had a woman as the CEO. When more than a third of all business is women-owned or women-led, and they receive less than three percent of the available venture capital, the flag is raised. Women stand to benefit greatly from a more balanced venture capital landscape.

One hypothesis for the disparity in available equity is that the number of women in the upper echelons of investment firms is down – in 1999 it was at 10%; and as of 2014 only 6% of top management and investment firm partners are women.^{iv} Venture capital firms with female partners are reportedly two and one half times more likely to invest in companies with women on the management team (34% vs. 13%).^v Based on the argument that women investors would be more likely to invest in women entrepreneurs, an argument that merits further investigation, the declining number of women investors is a concern.

We are pleased to see that women are establishing funds for women. Examples include: Golden Seeds– a woman-focused early investment fund; Astia – a nonprofit dedicated to identifying and supporting high-growth women entrepreneurs; and Texas Women Ventures – an investment firm giving millions to women entrepreneurs in Texas. Golden Seeds has invested over \$70 million in more than 65 women-led businesses since 2005.^{vi} And I am sure that you are all familiar with the Small Business Investment Company (SBIC) Program, a public-private partnership that helps meet the needs of small businesses administered by the U.S. Small Business Administration. The SBIC Program harnesses the talent of professional investment fund managers to identify and finance promising small businesses. From 2011 through 2015, 7% of the small businesses financed through SBIC were women-, minority- or veteran- owned.^{vii} We know there is a focus to increase that percentage within these underserved populations and the Council is assisting to make sure women entrepreneurs are aware and leveraging this additional program.

The Council is committed to improving women business owners' capital access through a multifaceted approach, involving all components of the entrepreneurship ecosystem, and recognizes the value of government involvement as stakeholders develop innovative solutions to address this gap.

Occupational Certification

One additional area of concern for the growth of small business—and, in particular, the growth of women-owned small businesses—is the constraint that occupational licensing often imposes on entrepreneurs seeking to launch their enterprises. Recently, the United States Bureau of Labor Statistics released figures on occupational licensing in the US, which revealed that over one in five American workers hold a government-issued occupational license. As identified by the White House in a recently released statement, while licensing is commonplace in high-earning fields, such as medicine or law, licensing is also “prevalent in services such as healthcare support, protective services, and personal care.”^{viii}

Women's business ownership is strongest in the industries that comprise both personal care and healthcare support services. In other words, the industries in which women most frequently own businesses are also those areas strongly subjected to occupational licensing. There are, of course, important reasons to require licensure—we want to ensure consumers' protection, just as we would like for qualified individuals to have a competitive edge. However, the cost associated with obtaining a license may serve as a barrier to women starting businesses in these industries, as well as their ability to hire qualified employees. Women business owners stand to benefit from responsible regulation that minimizes financial barriers to launching and growing enterprises.

We encourage commonsense licensing requirements, echoing the Licensing Best Practices outlined by the White House in their report, “Occupational Licensing: A Framework for Policymakers,” including the charge to “[m]inimize procedural burdens of acquiring a license, in terms of fees, complexity of requirements, processing time, and paperwork.”^{ix}

Further, we applaud the Department of Labor's recently announced intent to award up to \$7.5 million to “one or a few national or regional organizations that will establish consortia of states to design and implement strategies that enhance the portability of occupational licenses and to otherwise reduce overly burdensome restrictions.”^x

Conclusion

As the government's only independent voice for women entrepreneurs, the Council's mission is two-fold: to 1) support and conduct groundbreaking research that provides insight into women business enterprises from startup to success, and to 2) share the findings to ultimately incite constructive action and policies. The numbers confirm that the full economic participation of women and their success in business is critical to the continued economic recovery and job growth in this country, and we are committed to sustaining the potential that women entrepreneurs present. We believe that early and frequent involvement of women business owners in the development of business regulation is critical to developing strong and commonsense rules to promote and protect business ownership across our nation.

Thank you for this opportunity to testify, and I look forward to your questions.

-
- ⁱ Womenable. “The Growth and Development of Women-Owned Enterprises in the United States, 2002-2012” (Commissioned by NWBC, 2016). <https://www.nwbc.gov/research/SBOTrends>.
- ⁱⁱ Stengel, Geri. “Money’s There if Small Businesses Know Where to Look.” Forbes. 2014. <http://www.forbes.com/sites/geristengel/2014/03/05/moneys-there-if-small-businesses-know-where-to-look/>.
- ⁱⁱⁱ Coleman, Susan and Alicia Robb. “Access to Capital by High-Growth Women.” (Commissioned by NWBC, 2012). <https://www.nwbc.gov/research/high-growth-women-owned-businesses-access-capital>
- ^{iv} Brush, Candida, Patricia Greene, Lakshmi Blachandra, and Amy Davis. “Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital.” The Diana Project. 2014. <http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Documents/diana-project-executive-summary-2014.pdf>.
- ^v Brush, Candida, Patricia Greene, Lakshmi Blachandra, and Amy Davis. “Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital.” The Diana Project. 2014. <http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Documents/diana-project-executive-summary-2014.pdf.com>.
- ^{vi} Brush, Candida, Patricia Greene, Lakshmi Blachandra, and Amy Davis. “Women Entrepreneurs 2014: Bridging the Gender Gap in Venture Capital.” The Diana Project. 2014. <http://www.babson.edu/Academics/centers/blank-center/global-research/diana/Documents/diana-project-executive-summary-2014.pdf.com>.
- ^{vii} The Small Business Investment Company (SBIC) Program one pager. U.S. Small Business Administration. https://www.sba.gov/sites/default/files/articles/SBIC_Program_Executive_Summary_2016_April.pdf
- ^{viii} Furman, Jason and Giuliano, Laura. “New Data Show that Roughly One-Quarter of U.S. Workers Hold an Occupational License.” The White House. 17 June 2016. <https://www.whitehouse.gov/blog/2016/06/17/new-data-show-roughly-one-quarter-us-workers-hold-occupational-license>
- ^{ix} Department of the Treasury Office of Economic Policy, the Council of Economic Advisers, and the Department of Labor. “Occupational Licensing: A Framework for Policymakers.” The White House. July 2015. https://www.whitehouse.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf
- ^x “Notice of Intent to Fund Project on Occupational Licensing Review and Portability: NOI-ETA-16-14.” U.S. Department of Labor. 2016. <https://www.doleta.gov/grants/pdf/NOI-ETA-16-14.pdf>