CHAPTER 11

Financing for Minorities and Women

INTRODUCTION

As noted in the beginning of the book, minority- and women-owned firms are fast becoming powerful economic forces in the small-business world. Minority-owned businesses grew more than 3 times as fast as U.S. firms overall between 1997 and 2002, increasing from 3.1 million to 4.1 million firms.[1] The following statistics come from a report by the Small Business Administration in 2007 and are worth considering:

- Minority-owned firms generated $694 billion in annual revenue.
- While Hispanics controlled the largest share of firms owned by minorities and constituted the largest minority business community, Asian- and Pacific Islander–owned firms had the largest share of minority-owned business revenues—49 percent.
- Black-owned firms experienced explosive growth. The total number of black-owned firms grew 45 percent, while their total receipts grew 25 percent.
- The number of employees declined by 6 percent for white-owned firms, while Hispanic firms saw the highest employment growth—11 percent.

- Women owned 17 percent of all private firms with employees in the United States; Native Americans women owned 30 percent of all businesses with employees owned by Native Americans, the highest percentage among all ethnic groups.

As I also mentioned at the beginning of the book, my mother, Ollie Mae Rogers, was the first entrepreneur I ever met, and accordingly, I have a tremendous amount of respect for women entrepreneurs. As noted earlier, women-owned businesses total over $1.9 trillion in annual sales and have more than 12.8 million employees nationwide.[2] Between 1997 and 2006, the number of majority women-owned firms increased from 5.4 million to 7.7 million, an increase of 42 percent, almost double that of all firms.[3] Between 1997 and 2004, the number of privately held firms that are more than 50 percent owned by women of color grew 6 times as fast as the total number of privately held firms.[4]

Needless to say, minority and women entrepreneurs have played the game of catch-up brilliantly, and they have forced the traditional small-business infrastructure to change. Thank God we are past the era when women could not get a loan without their husband's signature and it was legal to reject a loan application from a person simply because of his ethnicity or race! The laws that made such gender and racial discrimination legal had a profound effect on minority and women entrepreneurship. The inability to access capital from other than personal savings, family, friends, and angels retarded the growth of most entrepreneurs from these two sectors. Given the absence of growth capital from financial institutions, these entrepreneurs, in essence, were involuntarily relegated to a life as mom-and-pop, or lifestyle, entrepreneurs. The legacy is that we have virtually no major corporations that were founded by minorities or women.

Recent research from the SBA also indicates that race is a significant predictor of the likelihood of opening a business and that the odds of a minority person opening a business are 55 percent lower than those for a nonminority. The data in Table 11-1 show the composition of the total U.S. population side by side with a breakdown of U.S. business receipts by race. While the situation continues to improve, these data clearly indicate that the process is still ongoing.

TABLE 11-1

Composition of U.S. Population versus Share of Business Receipts

Group	Share of Population	Share of Business Receipts
White	68.2%	92.5%
Hispanic	13.5%	2.5%
Black	11.8%	1.0%
Asian/Pacific Islander	4.1%	3.7%
Native American/Other	2.4%	0.3%

Source: Small Business Administration.

And while there are federal laws that prohibit gender and racial discrimination in debt and equity financing, it is sad to report that even today, minority and women entrepreneurs are receiving a pittance of all the capital provided to entrepreneurs.

Still, there are an increasing number of investment firms that are focusing on all kinds of niches, and these firms are an important resource. For example, there are specialized firms that target entrepreneurs who are female, are minorities, or are in industries such as consumer goods, food products, banking, and sports. There are even firms that will invest only in companies in certain geographic regions, such as the New England region or rural areas. A few of these specialized firms are listed in Figure 11-1.

FIGURE 11-1

Niche Equity Investment Firms

Name	Targeted Investments
Belvedere Capital Partners	Community banks in California
IMG/Chase Sports Capital	Sports-related companies
Village Ventures	Underserved areas, nonmajor cities
Bastion Capital	Hispanic entrepreneurs
Capital Across America (CXA)	Women-owned businesses
Ceres	Women-owned businesses

MINORITIES—DEBT FINANCING

The history regarding the success rate of minority entrepreneurs in raising institutional equity and debt capital is worse than that of women. Research by the Small Business Administration showed that minorities face significantly higher rejection rates for credit than firms owned by white males. The data in Table 11-2 show denial rates for minority owned firms.

TABLE 11-2

Denial Rates for Business Lending

African Americans	53%
Asian	36%
Hispanic	47%
All minority-owned	47%
All firms	21%

The result of this high rejection rate is that minority-owned companies use personal financing more. SBA data suggest that only 9.5 percent of white-owned businesses use a credit card in their business, whereas 20.6 percent of Islander-owned, 15 percent of black-owned, and 13 percent of Hispanic-owned business do.

Advice

Minority entrepreneurs who are seeking debt capital should approach the institutions that are friends to minorities. Those firms include community development banks and large finance companies such as CIT Group, the large middle-market-focused financial services firm (which is unrelated to the more widely known bank holding company Citigroup, Inc.). The CIT Small Business Lending Corporation has been the nation's leading SBA lender to women-, veteran-, and minority-owned businesses for the past four years. CIT provided $440 million to these groups during 2005–2006.

Another excellent source of debt financing is SBA lenders. The number of SBA loans has increased from 37,528 to 88,912 between 2001 and 2005. During this period, the share of total loans to minorities has increased from 25 percent to 29 percent. Large financial institutions that have increased their lending to minority firms include Wells Fargo, which has committed to lend $3 billion to Asian-owned businesses, $5 billion to Latino businesses, and $1 billion to black-owned businesses. Other sources of funding for minority-owned businesses are Accion USA, the largest business lender of its kind in the United States, making loans from $500 to $25,000. Also, the National Minority Business Council Micro-Loan Fund provides short-term loans of $1,500 to $2,500 to minority-owned small businesses.

MINORITIES—EQUITY FINANCING

Less than 1 percent of all equity capital provided by institutional investors has gone to minority entrepreneurs. Part of the problem is participation rates. For example, minority entrepreneurs represented only 6.9 percent of entrepreneurs that presented their business concepts to angels. Strong evidence suggests that the problem is a lack of opportunity. The yield, or percentage of approved investments, for minority-owned firms was 7.1 percent, or close to two-thirds the general yield rate. This makes no sense in light of the fact that from 1991 to 2001, investment firms targeting minorities returned an average of 23.9 percent compared to 20.2 percent for all private equity firms.[5]

Virtually all of that capital has come from firms that are associated with the National Association of Investment Companies (NAIC). These NAIC-related firms explicitly target investments in minority-owned companies and work together extensively to find minority investments. As proof, a survey of these firms indicated that 100 percent of them had participated in syndicated deals. Some also invest proactively in women entrepreneurs. There are more than 50 NAIC firms in the United States that have invested over $2.5 billion in approximately 20,000 ethnically diverse businesses. By 2003, these firms had a collective $5 billion of capital under management.[6]

Almost every high-growth, successful, minority-owned company has received financing from an NAIC-affiliated firm. A few of the equity capital recipients are listed in Figure 11-2.

FIGURE 11-2

Various Equity Investments from NAIC Member Firms

Company	Minority	Description	NAIC Member
Radio One	Black	Public company (Nasdaq: ROIA). Largest station targeting African Americans	TSG Capital
Black Entertainment Television	Black	Former public company (NYSE: BTV). Acquired by Viacom	Syncom
Z-Spanish Media	Hispanic	Largest Spanish-language media network	TSG Capital
Watson Pharmaceuticals	Asian	Public company (NYSE: WPI)	Polestar Capital
BioGenex Laboratories	Indian		Pacesetter

Equity capital has also been made available to minority entrepreneurs by angel investors. One such group is called the Access to Capital Group. It is a Dallas-based group of minority investors that can be contacted at 877–408–1ACG.

Advice

Minority entrepreneurs who are seeking equity capital should contact the NAIC at www.naicvc.com to get a complete listing of the member funds. A few are presented in Figure 11-3.

FIGURE 11-3

Various NAIC Members

NAIC Member	Location	Phone
Black Enterprise/Greenwich Street Equity Fund	New York, New York	212-816-1189
Opportunity Capital Partners	Fremont, California	510-795-7000
Hispania Capital	Chicago, Illinois	312-697-4611

WOMEN—DEBT FINANCING

Throughout history, women have always had a tough time getting debt capital from institutions such as banks. Fortunately, that situation has begun to improve in recent years. A new study by Wells Fargo showed that 70 percent of women express satisfaction with their access to credit. That figure is up from 50 percent 10 years ago.[7] Moreover, women business owners' access to commercial credit increased by more than two-thirds between 1996 and 2003, from 20 percent of women using commercial credit in 1996 to 34 percent in 2003.

However, there is still considerable work to be done. An SBA study showed that 32 percent of male-owned businesses had a line of credit, compared to only 23 percent of women-owned businesses. Rejection rates for a bank line of credit for a woman-owned business were higher, at 45 percent versus 32 percent for a male-owned firm. Rejection rates for all credit sources for women-owned firms were 26 percent as compared to 20 percent for all firms. Finally, 22 percent of women view credit as their greatest challenge during their first 2 years in operation, versus 13 percent for men.[8] To compound the problem, the Wells Fargo study showed that many women business owners are not taking advantage of the full range of credit products. For example, 74 percent never considered pledging accounts receivable, 55 percent never considered unsecured personal loans, and 42 percent never considered vendor credit.[9]

Advice

Women who are seeking debt financing should approach institutions that want to do business with women. Those firms include SBA lenders and banks such as Wells Fargo, which in 1994 committed to loan $1 billion to women entrepreneurs. A year later, Wells Fargo became so convinced that financing women entrepreneurs was a great strategy that it increased its commitment to $10 billion to be invested over a 10-year period. In the following 10 years, Wells Fargo lent more than $25 billion through 600,000 loans to women business owners.[10] This additional commitment came after the National Foundation for Women Business Owners published research showing that investing in women entrepreneurs was sound business because they had a better chance of repaying business loans. This fact was proved by information showing that, on average, women-owned companies stay in business longer. Specifically, nearly 75 percent of women-owned firms founded in 1991 were still in business 3 years later, compared with 66 percent for all U.S. firms.[11] Other banks that have actively targeted women-owned businesses include KeyBank, through its Key4Women program, and Wachovia. Both banks have successfully provided more than $1 billion in loans to women.[12]

In addition, the SBA has increasingly supported women's businesses. Between 1990 and 2004, the percentage of U.S. Small Business Administration–backed loans going to women increased from 13 percent to 22 percent. While this increase in activity is to be applauded, it should be noted that there is still room for improvement on SBA loans. From 2000 to 2004, the percentage of loans made to women increased only from 20 percent to 21 percent.[13] A few other institutional sources of debt capital for women entrepreneurs are listed in Figure 11-4.

FIGURE 11-4

Various Women-Focused Institutional Debt Sources

Source	Description/Contact
Capital Across America	Mezzanine-stage financing
Count-Me-In for Women's Economic Independence	An online lending program
FleetBoston Financial's Women Entrepreneurs' Connection	Small-business-banking program
SBA, Office of Women's Business Ownership	800-8-ASK-SBA
Wells Fargo Bank	800-359-3557, ext. 120
Women, Inc.	$150 million loan fund, 800-930-3993

WOMEN—EQUITY FINANCING

The year 2000 was the first year in which women received more than 2 percent of institutional equity capital. In 2000, they received 4.4 percent.[14] In 2003, only 4 percent of women business owners with revenues of $1 million or more obtained or intended to seek equity investment, compared with 11 percent of men-owned firms. In that year, 4.2 percent of venture capital went to women entrepreneurs.[15] According to a study commissioned by the Center for Women's Business Research (formerly National Foundation for Women Business Owners), women entrepreneurs who seek or have obtained equity capital find their sources of funding in three ways: word of mouth (60 percent of recipients, 49 percent of seekers), their own networks of business consultants (50 percent of recipients, 42 percent of seekers), and investors who have sought them out (38 percent of recipients, 39 percent of seekers).[16]

Advice

My advice would be the same as with the debt capital sources: go to sources that are interested in doing business with women. Figure 11-5 lists equity funds that target women entrepreneurs.

FIGURE 11-5

Women-Focused Private Equity Firms

Source	Location	Information
Three Guineas Fund	San Francisco, California	www.3gf.org
Boldcap Ventures, LLC	New York, New York	www.boldcap.com
Ceres Venture Fund	Evanston, Illinois	www.ceresventurefund.com
New Vista Capital	Palo Alto, California	www.nvcap.com
Isabella Capital	Cincinnati, Ohio	www.fundisabella.com

A leader in the campaign to accelerate women's access to equity markets is Springboard Enterprises. Springboard has held 17 forums, involving over 3,500 women, and has raised over $4 billion for women's businesses. Springboard's Web site has a Learning Center that is a good resource for women entrepreneurs.[17]

Another great source of equity capital is angel investors. Figure 11-6 lists those investors who are interested in financing women entrepreneurs.

FIGURE 11-6

Various Women-Focused Angel Investors

Source	Location	Information
Astia	San Francisco, California	www.astia.org
Seraph Capital Forum	Seattle, Washington	www.seraphcapital.com
Golden Seeds	New York, New York	www.goldenseeds.com
Phenomenelle Angels	Madison, Wisconsin	www.phenomenelleangels.com

In addition to Springboard, there are several other resources and organizations devoted to helping women entrepreneurs. Some of these include:

- The Amber Foundation Biz Plan Competition. This monthly competition awards grants to the best mini-business plans received from women on the Web.[18]
- The SBA's Online Women's Business Center. The SBA's Office of Women's Business Ownership (OWBO) promotes the growth of women-owned businesses through various programs that address business training and technical assistance and provide access to credit and capital, federal contracts, and international trade opportunities. Every SBA district office has a women's business ownership representative, providing a national network of resources for women entrepreneurs.
- WomenBiz.gov. WomenBiz.gov is a Web gateway for women-owned businesses that sell to the federal government and helps a woman business owner explore whether the federal government is the right customer for her.
- Center for Women's Business Research. The Center for Women's Business Research was originally founded as the National Foundation for Women Business Owners. It is a premier source of knowledge about women business owners and their enterprises.
- National Association of Women Business Owners. The National Association of Women Business Owners (NAWBO), headquartered in the Washington, D.C.,

metropolitan area, is the only dues-based national organization representing the interests of all women entrepreneurs in all types of businesses. The organization currently has more than 75 chapters and is represented in 35 countries.

- Center for Women & Enterprise. CWE is the largest regional entrepreneurial training organization in Boston and Worcester, Massachusetts, and Providence, Rhode Island. Its mission is to empower women to become economically self-sufficient and prosperous through entrepreneurship.
- Women's Business Development Center. The WBDC offers a full-service approach to launching emerging businesses and strengthening existing businesses owned by women in the Chicago area. Services of the WBDC include workshops and one-on-one counseling on all aspects of business development, including marketing, finance, business management, technology integration, and more. The WBDC has consulted with more than 35,000 women entrepreneurs, helping them to start and grow their businesses, and facilitated the receipt of over $24 million in loans to women business owners.

While things are improving for both women and minorities, it is not happening fast enough. Poor access to capital for these two groups is hurting America. Former SBA chief Aida Alvarez stated it beautifully when she said: "Businesses owned by women and minorities are multiplying at a faster rate than all other U.S. businesses. If we don't start investing now in the potential of the businesses, we will not have a successful economy in the new millennium."[19]

NOTES

1. U.S. Census Bureau, 2002.
2. Center for Women's Business Research, "Women-Owned Businesses in the United States, 2006: A Fact Sheet," 2006.
3. Ibid.

4. "Women Lead the Startup Stats," *BusinessWeek*, November 29, 2004.
5. Minority Business Development Agency, "Expanding Financing Opportunities for Minorities," 2004.
6. National Association of Investment Companies, www.naivc.com.
7. Center for Women's Business Research, "Capital Choices: Volume Two, The Value of Knowledge," 2006.
8. Center for Women's Business Research, press release, January 25, 2005.
9. Center for Women's Business Research, "Women Business Owners in Nontraditional Industries," 2005.
10. Wells Fargo, press release, May 2, 2006.
11. National Foundation for Women Business Owners, October 17, 1996.
12. *Atlanta Journal-Constitution*, July 4, 2007.
13. Center for Women's Business Research, press release, January 25, 2005.
14. *USA Today.com*, August 14, 2001, http://www.usatoday.com.
15. *Ottawa Business Journal*, November 29, 2004.
16. "Women Entrepreneurs in the Equity Capital Markets: The New Frontier, National Foundation for Women Business Owners, 2000.
17. Springboard Enterprises Web site.
18. Georgia SBDC Network, "New Non Traditional Financial Sources," August 2006.
19. *Chicago Sun-Times*, March 24, 1999, p. 69.