21st Century Barriers to Women's Entrepreneurship

Majority Report of the U.S. Senate Committee on Small Business and Entrepreneurship

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KEY FINDINGS AND NEXT STEPS

Women entrepreneurs still face challenges getting fair access to capital. Only 4 percent of the total dollar value of all small business loans goes to women entrepreneurs. The report proposes expanding microloans and makes SBA's Intermediary Loan Program permanent to provide more capital to women entrepreneurs.

Women entrepreneurs still face challenges getting equal access to federal contracts. The U.S. Government has never met its goal of awarding 5 percent of federal contracts to women-owned business. If they did, women-owned businesses would have access to marketplace opportunities worth at least $4 billion each year. The report proposes changing federal law giving women-owned businesses the opportunity to win sole source federal contracts.

Women entrepreneurs still face challenges getting relevant business training and counseling. Although Women Business Centers are in nearly all 50 states and they successfully provide specialized counseling and training to women business owners, these centers have not been re-authorized since the 1990s and funding has remained flat for the same time period. The report proposes reauthorizing and funding the centers to provide adequate training and business counseling to women entrepreneurs, especially low income women.

EXECUTIVE SUMMARY

It has been twenty-six years since the enactment of the Women's Business Ownership Act of 1988 (P.L. 100-533). This landmark legislation helped women's business-ownership grow from 4.1 million small businesses in 1987[1] to 8.6 million in 2013.[2] In 2009, women-owned businesses had an economic impact of nearly $3 trillion – translating into the creation/maintenance of 23 million jobs and 16 percent of all U.S. jobs.[3] These women-owned businesses now account for nearly 30 percent of all businesses in America.[4]

Nonetheless, women entrepreneurs have not achieved their full potential – largely due to issues they have faced for more than three decades. This report details those challenges in three specific areas: access to capital, access to federal contracting, and access to business counseling.

Findings

In the 21st Century, women entrepreneurs still face a glass ceiling. While women-owned businesses are the fastest-growing segment of businesses, and many succeed, women must overcome barriers their male competitors do not face.

In the area of capital, studies find that women do not get sufficient access to loans and venture capital. Women account for only 16 percent of conventional small business loans[5] and 17 percent of SBA loans even though they represent 30 percent of all small companies.[6] Of conventional small business loans, women only account for 4.4 percent of total dollar value of loans from all sources.[7] In other words, just $1 of every $23 in conventional small business loans goes to a woman-owned business. The report proposes expanding microloans and making the SBA's Intermediary Loan Program permanent to provide more capital to women entrepreneurs.

The challenge is not limited to conventional loans: Women receive just 7 percent of venture funds – and the percent of female venture capitalists has actually declined from previous years.

The findings on the low percent of capital and credit that goes to women-owned firms paint a discouraging picture and underscore the need for updated data to better track where inequities lie and how to address them.

Accurate and current data is critical for documenting problems, targeting our resources, and validating trends. The most recent government data available is outdated and comes from the 2003 Survey of Small Business Finances and the 2007 U.S. Census Survey of Business Owners, before the financial crisis.

Studies find that women entrepreneurs still do not have equal access to government contracts, holding back the potential of women-owned businesses. 2014 marks the 20th anniversary of congressional passage of the federal contracting goal for women-owned businesses – a goal that has never once been met. The Women-Owned Small Business (WOSB) Procurement Program was established by Congress in 2000 in an effort to increase federal opportunities for women at a time when the highest goal achievement to date was only 2.47 percent. This program remains the only major small business contracting initiative that lacks sole source authority – like that which is granted for other historically/traditionally disadvantaged groups.

The lack of sole source authority has contributed to the continued inability of the WOSB Procurement Program to meet the 1994 congressionally established government-wide goal of awarding 5 percent of federal contract dollars to women-owned small businesses. The inability to meet this goal means that women-business owners miss out on at least $4 billion of dollars in government contracts annually.

Studies find that women face challenges getting access to relevant and sufficient specialized business counseling and training, which is important for business growth. According to the SBA, in fiscal year 2013, Women Business Centers (WBC) served 1,300 entrepreneurs each – with 80 percent of those who received training having found it "useful or very useful." Yet Congress has not been able to reauthorize the WBC program since the Women Business Centers Sustainability Act of 1999 (P.L. 106-165).

Women Business Centers around the country have been hamstrung by funding uncertainty and a 1990s-era law in need of 21st Century modernization. Women entrepreneurs would benefit if the program were reauthorized by Congress. By helping women-owned businesses start and grow strong, we help the economy and create jobs.

Critical Next Steps

These findings demonstrate the challenges that women-owned firms face, and policymakers must confront these challenges head-on. Critical next steps for Congress should include:

- Modernizing and improving the SBA Microloan Program to reach borrowers needing capital of up to $50,000, and reauthorizing the Intermediary Lending Program to allow more women to obtain capital between $50,000 and $200,000 that have outgrown the microloan program but are not yet ready for SBA's other loan programs or traditional credit.
- Enacting legislation to allow sole source contracts to be awarded to women-owned small businesses through the WOSB Procurement Program and accelerating the due date for SBA's disparity study to improve contracting opportunities for women owners.
- Modernizing the Women Business Center (WBC) program by increasing program funding and changing grant ceiling awards to help keep up with demand and the need for existing and potential women entrepreneurs, particularly in socially and economically disadvantaged areas.

THE STATE OF WOMENS BUSINESS OWNERSHIP TODAY

The state of women's business ownership today may be best characterized as "everywhere and nowhere." In other words, while women entrepreneurs have achieved modest gains in our economy, major gaps and inequalities persist that threaten those gains.

To be clear – it is not all bad news. The Committee finds that:

- Women-owned businesses increased from 4.6 percent of all firms in 1972[8] to 28.7 percent of all firms in 2007.[9]
- The growth rate of women-owned firms rose by 20 percent from 2002 to 2007.[10]
- The share of revenue generated by women-owned firms rose from just 0.3 percent of all receipts in 1972 to 3.9 percent in 2007.[11]
- The growth of women-owned firms outpaces that all other firm types; women-owned businesses added roughly 500,000 jobs between 1997 and 2007, while the rest of privately held firms lost jobs.[12]

This last statistic, in particular, shows that women-owned businesses are critical to the United States economy. This is especially notable when one considers how women-owned businesses have recovered economically after the collapse of our financial markets in 2008. Women-owned businesses in the United States have emerged from the recent recession as second only to publicly traded companies in job growth, with 274,000 net new jobs since 2007.[13]

A study in 2009 noted that women-owned companies had an economic impact of nearly $3 trillion, which translates into creating/maintaining 23 million jobs – or 16 percent of all jobs in America.[14] In fact, according to a 2013 report, the number of women-owned firms in the United States now stands at 8.6 million.[15]

Not only are women-owned businesses critical to our job creation, but they also are an effective source of wealth creation for women, especially microenterprises, which are usually defined as having fewer than five employees. The Association for Enterprise Opportunity (AEO), which represents the microbusiness and the microfinance industry in the United States, found in its 2013 *Bigger Than You Think* report that microbusiness entrepreneurship is a game changer for women. The report states:

> *In the U.S., women own nearly one-third of all microbusinesses and in 2010, the median income for households headed by women with a microbusiness owner or employee was significantly more than similar households without microbusiness involvement.*[16] *The National Women's Law Center found that the median hourly income of women microbusiness owners and employees was higher than those who were employed elsewhere.*

But despite this good news, troubling data exists that shows women-owned businesses still face significant hardships in our current economy. Further, we are missing the full picture of the challenges facing women entrepreneurs, hamstrung by incomplete data that clouds efforts to improve the situation.

U.S. Census data from the 2007 Survey of Business Owners remains the last substantial government-sponsored research and widespread data collection on women's business. An updated survey, covering 2012, is tentatively slated to be released in June 2015. The long-lead time of the update cycle – especially in light of the 2008 financial collapse – makes it difficult to fully evaluate the state of women's business ownership today.

For this reason, non-government organizations have made collecting data on women's entrepreneurship a priority. The data covers a variety of issues facing women entrepreneurs today, including special challenges of young women with a desire for entrepreneurship, information on microbusinesses, special challenges facing women entrepreneurs of color, and the economic impact of women, including employment. But without an official, regularly updated source of data from the federal government, policy is unable to be well informed on the shifting priorities that best serve women entrepreneurs.

But despite the deficiencies in data, it is clear there are great challenges confronting women entrepreneurs. And those challenges, sadly, are very similar to the challenges they have faced for years. This report examines three of the largest challenges facing women entrepreneurs – access to capital, access to federal contracting, and access to business counseling – and provides recommendations for policy to address them.

ACCESS TO CAPITAL: SIMPLY NOT ENOUGH TO GO AROUND

Findings

As the saying goes, you can't measure what you don't count. Much of our understanding of women's business ownership before the early 1970s remains unclear due to poor historical records. But in 1972, the U.S. Census Bureau collected the first nationally representative data on women's business ownership. According to that survey, the 1972 Survey of Business Owners, there were only 402,025 women-owned firms operating in the United States.[17]

In the early 1970s, lenders would categorize and assign numerical scores to factors including income, gender, age, and personal history. Conventional "credit scoring" practices, meant to simplify credit analysis for loan officers, inherently incorporated predetermined bias, making it difficult for women to obtain conventional loans.[18] In fact, some lenders would even discount the wages of working women applying for mortgages, even when the woman was the primary breadwinner.[19]

Further constraining, SBA-backed loans in the 1960s and 1970s were larger in size, often more than what most women needed to start a business. In many ways, this made SBA loans an unrealistic option. Without access to smaller loans, women often relied on personal savings, loans from friends, or credit cards to finance their businesses.

Millenny Walters, Millenny's Handbags
Monroe, Louisiana

Millenny Walters owns and operates a small business in Monroe, Louisiana called Millenny's. Ms. Walters is not only a woman, but a minority woman, and Millenny's has been in operation since 2012. Millenny's is a purse boutique, and Ms. Walters prides herself on providing high quality handbags and accessories at reasonable prices. Millenny, on the difficulties women entrepreneurs face accessing capital:

"I would like there to be more resources. I've spoken with women and they sometimes think it isn't possible to open a business because they don't know where to go for resources and finances. I have a master's degree in business, but for those who do not, it's hard to get a small business loan."

These challenges of discriminatory credit scoring and wrong-sized loans helped build a strong case to Congress about the need to improve access to capital. Women's groups, including the National Organization for Women, the Women's Equity Action League, and the National Women's Political Caucus, publicized the issue and brought in women to testify before Congress on discriminatory lending practices.[20]

In response, Congress passed the Equal Credit Opportunity Act (ECOA) of 1974 (P.L. 93-495), which prohibited discrimination based on gender and marital status.[21] The ECOA was later amended in 1976 to include race, religion, ethnicity, and other factors.[22] Although concrete data is sparse, some studies have found that the ECOA had a positive impact on women's ability to obtain loans.[23]

With momentum growing for further parity for women over the following decade, Congress passed the Women's Business Ownership Act of 1988 (P.L. 100-533), which eliminated state laws requiring women to obtain the signature of a husband or other man as a prerequisite for a loan,[24] and required the first federal government reporting on contracting with women-owned companies.[25] By 1992, the number of women-owned businesses had already increased to 6.4 million, fueled in part by the 1988 law.[26]

The Women's Business Ownership Act of 1988 also authorized the SBA to establish a certified loan program for lenders for small business loans of $50,000 or less – an amount frequently sought by women entrepreneurs – by permitting lenders to use their own forms without regard to SBA paperwork, incentivized by the retention of one-half of the loan guarantee fee.

More recently, Congress has focused on improving and expanding SBA-backed small business lending programs. Women are three to five times more likely to be approved for an SBA-backed loan than a traditional loan.[27] Of all SBA programs, women-owned firms do extremely well proportionally in its microloan program. According to an estimate by the Urban Institute, women receive only 16 percent of conventional loans, whereas 57.4 percent of the SBA Microloan program's loans went to women-owned or women-led businesses.[28]

Through the Small Business Jobs Act (P.L. 111-240), Congress increased the maximum SBA Microloan amount from $35,000 to $50,000, which has given women-owned businesses access to more credit to start and grow their businesses.

For women-owned businesses that are ready for a larger amount of credit beyond the SBA's Microloan Program, the Small Business Jobs Act also created the Intermediary Lending Pilot Program. The Intermediary Lending Pilot Program was designed to close the gap between the SBA's Microloan Program and the 7(a) loan program by providing loans between $50,000 and $200,000. This program offers another product to make credit more affordable for women-owned businesses who might not qualify for conventional small business loans.

Carrie Ferrence, Stockbox Grocers
Seattle, Washington

Stockbox is a neighborhood grocery founded in July 2011 with the goal of improving access to quality food in communities across the Seattle region. With the help of SBA-backed financing, the company has been able to open its first two stores. CEO and Co-Founder Carrie Ferrence on the difficulties of securing capital and how SBA financing has helped Stockbox expand:

"We received $250,000 in SBA backed loans, which has helped us to open two community grocery stores that reach underserved communities in Seattle; hire 13 people; and support 27 local suppliers. This funding was absolutely crucial in enabling us to launch our business and open two new stores. As a start-up with little runway, other banks would not consider us for a loan because we couldn't offer multiple years of financials. We were able to secure these loans easily, quickly, and in a flexible way that reflected the challenges of starting a new business. It was also crucial in enabling us to leverage additional investment from private funders."

Specifically, through that law, the SBA also gained authority to waive all borrower fees on 7(a) loans of less than $150,000, and created the Community Advantage Pilot Program, which provides entrepreneurs in underserved communities with loans of up to $250,000 via "mission-focused" lenders.[29]

At the same time as the SBA and its lending partners are working to broaden access to capital, the Consumer Financial Protection Bureau (CFPB) should be working to remedy the data shortfall by collecting new and improved small business lending data. Section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) amended the Equal Credit Opportunity Act to require lending institutions to collect and report data on loans to small, minority-owned, and women-owned businesses.

The law specifically stated that this data was necessary to allow government entities and other stakeholders to identify the business and community development needs of these firms. Unfortunately, the CFPB has not yet promulgated the rules and guidance necessary to implement Section 1071 and so the data is not yet being collected. According to an April 2014 *Fair Lending Report* by the CFPB, the "CFPB has begun to explore the issues our rulemaking will need to address."[30] The CFPB needs to issue implementing regulations and undertake this data collection process.

Venture Capital: One Option for Growing Businesses

In addition to traditional bank financing, like male-owned firms, women-owned firms need access to venture and angel capital to grow their businesses.

Traditionally, very little venture capital has been invested in women entrepreneurs. Out of the universe of women-owned and women-led firms, only 2 percent of women begin their business ventures with equity financing, and only 11 percent, whether start-up or established, have received venture capital backing.[31] The total amount of venture funds that go to women-led companies is only 7 percent.[32] This data paints a picture of women-owned firms not receiving their fair share of venture funding opportunities.

Part of this could be because there is a shortage of women in senior positions at venture firms, and the situation is getting worse: the number of female venture capitalists declined – from 14 percent in 2008 to 11 percent in 2011.[33] To that point, one woman investor recently said,

> *We not only need more female VC's but we need more female entrepreneurs; they go hand in hand.*[34]

Crowdfunding: Broadening the Investor Base

While women have historically had substantial challenges in accessing equity investment, crowdfunding can provide some opportunity for success. Through crowdfunding, an undefined large number of individuals invest a relatively small amount through the Internet and social networks. According to a report by TD Economics, the global crowdfunding market is estimated at between $3 and $5 billion, with North American and Europe accounting for 95 percent of the market.[35] Massolution, a research firm specializing in crowdsourcing, found that crowdfunding platforms raised $2.7 billion and successfully funded more than 1 million campaigns in 2012 alone.[36]

The Jumpstart Our Business Startups (JOBS) Act of 2012 (P.L. 112-106) authorized financing for entrepreneurs through crowdfunding by non-accredited investors and relaxed various securities registration requirements. While some of the implementing regulations have been issued by the Securities Exchange Commission, not all of the regulations are complete and further action is necessary to see the full effects of this law.

When fully implemented, the JOBS Act through crowdfunding has the potential to greatly expand the investor base and allow women-owned companies to appeal to a wider investor audience, such as other women investors. For example, analysis from one crowdfunding source from 2009 to 2012 showed that women had a 69.5 percent success rate in crowdfunding versus a 61.4 percent success rate for men.[37]

Also notable, 40 percent of the funds from female investors were invested in projects by female entrepreneurs, while only 22.5 percent of the male investor funds went to female-led projects – leading to the conclusion that female entrepreneurs are more likely to attract female investors.[38]

Expanding the investor base will provide greater options for women entrepreneurs. This fact is highlighted by Diane Ringellman, founder of Indiegogo, an online crowdfunding website, who has said that woman-owned firms reached their crowdfunding capital goal 47 percent of the time – much greater than traditional equity financing attainment by women-owned firms.[39]

Consider this story from a partner at an angel fund in the clean energy financing arena:

> *Women receive greater shares of crowdfunding as opposed to other venture investment options because of the types of industries that appeal to both women entrepreneurs and women investors, such as retail; the amount of investment sought through crowdfunding is often much lower than for other types of venture investment, giving women an opportunity to begin the investment process with less risk; and that many women are intimidated by the "men's club atmosphere" of angel networks and do not participate as a result.*

Minority Women: Helping Drive Small Business Growth

Women of color are one of the fastest growing segments of the women-owned small business community.[40] African American women are starting businesses at a rate six times the national average, and their 2.7 million firms are currently generating $226.8 billion in annual revenue and employing almost 1.4 million people.[41] African American women are both the fastest-growing segment of the women-owned business population, and the largest share of female business owners among women of color, at 13 percent.[42]

From 1997 to 2013, while the total number of female-owned firms in the United States grew by only 59 percent – one and a half times the national average[43] – a closer look at the statistics shows that women of color are the catalyst behind much of this growth:

- African American women-owned businesses grew by 258 percent;
- Latina women-owned businesses grew by 180 percent;
- Asian American women-owned businesses grew by 156 percent;
- Native American and Alaska Native women-owned businesses grew by 108 percent; and
- Native Hawaiian and Pacific Islander women-owned businesses grew by 216 percent.[44]

In fact, projections by the U.S. Census show that women of color will make up the majority of women by 2045, with Hispanic women leading this population growth.[45] While non-minority women will make up 62 percent of the female population in 2015, their numbers are projected to fall to 47 percent of the female population in 2050, when 53 percent of all women will be women of color.[46]

As our nation grows increasingly diverse, the contributions of women of color in the economy stand to grow further. As of 2013, more than 1 in 10 women-owned businesses were owned by Latinas across the country, and these 944,000 firms totaled $65.5 billion in receipts.[47] While Latina women will make up an estimated 16.7 percent of the female population in 2015, this share will increase to 25.7 percent by 2050.[48]

And despite representing some of the fastest growing segments of the small business population, capital challenges exist for companies owned by women of color too. Almost half of all African American women business owners say that they have faced challenges when trying to obtain business financing.[49]

Additionally, a review of studies on small business revealed that minority-owned businesses, when compared with similar non-minority-owned businesses, face greater difficulties in accessing loans from financial institutions, including having their loan applications rejected more often, receiving smaller loans, and experiencing higher borrowing costs.[50]

Despite some segments of growth though, challenges exist. A 2010 survey of members of the National Association of Women Business Owners showed that 63 percent of female respondents were significantly less likely to use certain types of credit products, specifically lines of credit, financial leases, and equipment loans. However, they were significantly more likely to use business credit cards to finance their businesses: Altogether:

- 44 percent used private sources, such as personal savings, family, and friends;
- 37 percent used a business line of credit;
- 13 percent used a commercial or bank loan;
- 11 percent used a personal bank loan;
- 4 percent used a loan guaranteed by the Small Business Administration; and
- 2 percent used equity capital.[51]

However, when it comes to assessing the capital needs of women-owned businesses, limited government data on small business credit – and virtually none that is gender-based – has hindered the development of effective public policy to support and provide adequate access to capital. The lack of data is as astounding as it is concerning. Most of the government data that is available comes from the 2003 Survey of Small Business Finances and the 2007 U.S. Census Survey of Business Owners. In both cases, data is woefully outdated – eleven and seven years old, respectively – and collected before the 2008 financial crisis and the ensuing changes in our credit markets.

Nonetheless, a limited sampling paints a stark reality for women-owned businesses:

- Women account for just 16 percent of the total number of conventional small business loans – totaling just 4.4 percent of the total dollar value of all conventional small business loans, according to an estimate by the Urban Institute published in 2008.[52]
- Women-owned businesses accounted for only 17 percent of the total number of SBA 7(a) loans approved in fiscal year 2013 – which in turn was just 13 percent of the total dollar value of those loans, according to SBA.[53]
- Women-owned businesses accounted for only 17 percent of the total number of SBA 504/CDC loans approved in fiscal year 2013 – which in turn was just 14 percent of the total dollar value of those loans, according to the SBA.[54]
- The denial rate for white women-owned firms is twice the rate for white male-owned firms, according to the 2003 Survey of Small Business Finances.[55]
- Women seeking first-year financing to get their companies off the ground receive about 80 percent less capital than their male counterparts, according to the Ewing Marion Kauffman Foundation.[56]
- Even for established firms looking to expand, women are at a disadvantage: only 39 percent of women-owned firms had a bank loan compared to 52 percent of male-owned firms that did.[57]
- Women are more likely to be turned down for loans or receive loans with less favorable terms than their male counterparts.[58]

Additionally, in 2011, only 11 percent of capital-investment funds went to women entrepreneurs – 89 percent of capital investment went to male entrepreneurs – despite the fact that 20 percent of top entrepreneurs were women.[59]

An important study issued in early 2014 raised even more concerns about the ability of women-owned firms to access important venture investment.[60] Controlling for business type, and using several different formats, the study used the industry standard for venture competitions – a 5 minute verbal pitch in which the entrepreneur narrates a series of slides providing an overview of the business plan to potential investors – and concluded that attractive men were "significantly more likely" to receive venture investment as opposed to females.

Finally, the millennial generation – representing an estimated 80 million people – has expressed a high degree of interest in entrepreneurship, with 54 percent either wanting or who have already started a business. This interest is notably higher – 10 to 11 percent - among young people of color.[61] Younger people with dreams of being their own boss – many of whom are women – have particular challenges with respect to high debt compared to income, primarily due to student loan obligations, which have reached record levels.[62] This has forced many younger people to delay their plans of business ownership due in large part to the higher levels of capital required to accommodate student loan debt that often results in loan application denials.

Critical Next Steps

The SBA Microloan Program and Intermediary Lending Program are well-suited to target women-owned borrowers who might not qualify for lending from a traditional financial institution.

As mentioned earlier in the report, the SBA Microloan Program has been a successful tool for women and women-owned businesses receive 57.4 percent of microloans, a higher rate than many other types of loans.[63] Many lenders in the program also require borrowers to participate in specific training programs before receiving their loan. Combining loan and intensive training assistance is one of the SBA Microloan Program's distinguishing features.

Similar to the SBA Microloan Program, the Intermediary Lending Program (ILP) allowed SBA to make loans of up to $1 million to participating intermediary lenders, which then used the funds to make smaller loans of between $50,000 and $200,000 to startup, newly established, and growing small businesses.

The SBA microloans and ILP loans are direct loans to intermediaries who then lend directly to the borrowers– and therefore differ from other SBA-backed lending guarantee programs such as the popular 7(a) working capital loan program in which private sector banks loan out their own deposits or funds and SBA pays the bank if the loan goes bad.

Modernizing and improving the SBA Microloan Program and reauthorizing the Intermediary Lending Program will help more women obtain the financing needed to start and grow a small business at the low end of the loan scale since women disproportionately receive loans through these programs. To do so, Congress should:

- Increase the maximum loan the SBA can make to a qualified micro-lending intermediary to allow high-performing lenders make more loans;
- Eliminate restrictions and red-tape, which have been in place since the SBA Microloan Program was authorized in 1991, by modernizing technical assistance and formula funding requirements;
- Develop a credit-building initiative to help microloan borrowers develop a stronger credit history and open the door for more affordable financing in the future.
- Allow lenders to develop and offer more flexible lending terms to better suit the needs of borrowers;
- Reauthorize the Intermediary Lending Program, which serves a critical lending gap between $50,000 and $200,000, as a permanent program; and,
- Require the SBA Office of Capital Access to issue an annual report for all SBA lending programs broken down in detail with demographic data.

FEDERAL CONTRACTING FALLS SHORT

Findings

The federal procurement market is an area where annual contracting opportunities now total more than $500 billion. Historically, women business owners have had only peripheral access to these opportunities – often only through subcontracting.

In an attempt to change this, in 1994 Congress established a government-wide goal of awarding 5 percent of federal contract dollars to women-owned small businesses (WOSBs).[64] The intent of this goal was to encourage federal agencies to work with non-traditional contractors which were women-owned.

But that effort stumbled. From 1997 to 1999 – a period that saw a marked increase in the success of women-owned companies nationwide – contracts awarded to women decreased by a staggering 38 percent.[65] In 1999, the government achieved a paltry 2.47 percent – not even half the statutory goal.[66]

In response to this shortcoming, in 2000, Congress established the Women-Owned Small Business Federal Contract Program ("WOSB Procurement Program") to facilitate increased contracting with women-owned small businesses in under-represented industries. Despite the efforts of women nationwide and their supporters in Congress, the implementation of this program was delayed for more than ten years.

During this time, WOSBs received on average only 3.14 percent of federal contracting dollars - only slightly more than the low 2.47 percent that had given rise to the creation of the WOSB Procurement Program and well short of the 5 percent goal.[67] Had the 5 percent contracting goal been achieved over the course of the eleven years since enactment, it would have represented an additional $63 billion in contract opportunities for WOSBs.[68]

In 2011, eleven years after the enactment of its authorizing legislation, the WOSB Procurement Program was finally implemented. As enacted, awards to women-owned small businesses under the program were capped at $4 million (and at $6.5 million for manufacturing contracts). These caps meant that contracting officers were unable to award the largest and most lucrative of government contracts to women entrepreneurs, and imposed a barrier that was not included in other small business procurement initiatives.

Due to advocacy of women business owners and Small Business Committee leadership in Congress, the barriers to federal contracting for women-owned businesses caused by the award caps were finally eliminated in 2013 when the National Defense Authorization Act of 2013 was enacted. The change became effective with the publication of the SBA's implementing regulation.

The highest achievement to date towards the 5 percent women-owned small business goal is 4 percent, in fiscal year 2012. According to data on contracting goals released by the SBA for fiscal year 2012, the highest performing agency in women-owned small business utilization was the Department of Housing and Urban Development, with an achievement of 14.65 percent. The lowest achieving agency was the Department of Energy, with an achievement of 1.24 percent.

And four of the top five agencies in terms of procurement dollars did not achieve the goal: Department of Defense, Department of Energy, Department of Veterans Affairs, and the National Aeronautics and Space Administration. The only top 5 agency in terms of procurement dollars that accomplished the goal was the Department of Health and Human Services, with an achievement of 6.6 percent.[69]

Failure to meet the congressionally set goal translates to an average annual loss of $5.7 billion in awards to women-owned small businesses - a gap the WOSB Procurement Program was intended to fill. Part of the problem is that the program is complicated and not well understood by the federal agencies charged with implementing it.

Despite SBA efforts to educate women business owners and federal acquisition officers in federal agencies on the WOSB program, well below 1 percent of total federal award dollars have passed through the program.[70]

Another part of the problem is that the WOSB Procurement Program is not open to all industries represented by women, and that limitation has proven very controversial. Only 83 industries[71] and 330 North American Industry Classification System (NAICS) codes are included in the program,[72] out of more than 19,000.[73]

The decade-long delay to implement the program centered on a disparity study, which SBA was required to conduct to determine those industries in which contracts could be set-aside for women-owned small businesses under the WOSB Procurement Program. The study, which was prepared by the RAND Corporation in 2007, identified industries in which women were deemed either "under-represented" or "substantially under-represented."[74] Under direction of the SBA, the study used a narrow standard for what could be deemed as an underrepresented industry. In the fiscal year National Defense Authorization Act of 2013 (P.L. 112-239), Congress required the SBA to complete a new, broader study by 2018.[75]

The unique limitations imposed by the disparity study on contracting with women-owned small businesses have only furthered the inequity in federal contracting, not remedied it. A new disparity study would help identify industries in which the program can be used or expanded. The following represent two poignant examples:

- NAICS industry code 336413 for aircraft parts is currently not eligible for the WOSB Procurement Program. Contracts awarded in this industry accounted for more than $10 billion annually in spending from fiscal year 2010 through fiscal year 2013. A new study, using newer and more complete data, might allow for women-owned small businesses to compete for these services through the WOSB Procurement Program; and
- NAICS industry code 541519 for computer programming services is currently only eligible to economically

disadvantaged WOSBs. A new study might open this industry to all WOSBs.

Alta Baker, Safe Haven Enterprises, LLC
Jennings, LA

Founded in 1998, Safe Haven Enterprises, LLC provides protection to personnel and property. President and CEO Alta Baker on how sole source award contracts would help grow her business:

"The WOSB Procurement Program would greatly benefit from sole source authority. At my company, Safe Haven, we fabricate security products. With sole source, I would be able to sale my superior products such as doors that will stop RPG rounds or modular buildings and compete more effectively in the areas I target."

One reason the agencies contracting with women-owned businesses have not hit their goals is that the WOSB Procurement Program remains the only major small business contracting program that does not have sole source authority. Sole source authority is an important tool used by agencies, which allows them to award sole source contracts up to a certain value (generally $6.5 million for manufacturing contracts or $4 million for all other contracts). The authority to award sole source contracts allows agencies to negotiate with a single contractor without being bound by traditional competition requirements.

This benefits agencies by allowing them to award small contracts more efficiently, and it benefits small contractors by removing certain administrative burdens that can be costly and can result in early elimination from consideration for award. Due to these advantages, 15 percent of small business awards are awarded through sole source contracts to other traditionally disadvantaged groups. Agencies' inability to utilize this tool to award small contracts to women-owned small businesses puts the WOSB Procurement Program and the women it seeks to assist at a disadvantage.

The WOSB Procurement Program is implemented poorly, with statutory and regulatory burdens that prevent its efficient use by agencies charged with meeting women-owned small business contracting goals. That poor implementation is exacerbated by outdated industry classifications, created by the narrowly-focused disparity study, and a lack of sole source authority that makes using the program harder for federal contracting officers. These challenges for the program combine to place an undue burden on women attempting to contract with the federal government.

Critical Next Steps

Despite continued efforts to improve federal contracting opportunities for women-owned small businesses, the federal government has yet – since the goal was created – to reach its 5 percent contracting goal. To improve contracting procedures and finally achieve that goal – allowing access to more than $500 billion in annual federal procurement opportunities – Congress should:

- Enact legislation to allow sole source contracts to be awarded to women-owned small businesses and economically disadvantaged women-owned small businesses through the WOSB Procurement Program. This will give contracting officers an additional tool by which to increase the participation of women-owned small business in the federal market, and it puts the WOSB Procurement Program on a more even footing with the other federal contracting programs designed to benefit certain historically disadvantaged socioeconomic classes of small businesses.
- Accelerate the due date for the updated disparity study, which SBA must conduct to determine those industries in which women-owned small businesses are underrepresented, from 2018 to 2015. This could potentially open hundreds of new contract opportunities within new industry NAICS codes to women-owned small businesses.

At the end of the day, women business owners should have the same tools that other small businesses have available to them. Providing women-owned firms with a sole source mechanism would ensure that contracting programs for all small businesses are treated the same. This would also improve the likelihood that women will receive at least $4 billion additionally each year that they should receive in government contracts.

Further, an outdated study of under-represented industries is the underpinning of the Women-Owned Small Business Federal Contract program and works against congressional efforts to diversify the government's supply base, and possibly strengthen our national security, because women are only allowed contracting benefits in industries that have historically been closed to them. Rather than waiting until 2018 for the results of the new study of under-represented industries, women should have access to this information much more expeditiously, which will likely result in increased opportunities in many industries. By the time the new study is available in 2018, the data for the first study – still in effect until the new study results are released – will be nearly 15 years old.

Karen Say-Valadez, Sabyr Contractors, Inc.
Tacoma, WA

Sabyr Contractors, Inc. was created in 1997 as a full service general contractor specializing in commercial and industrial applications. CEO and President Karen Say-Valadez on the importance of sole-source contracting through the Women-Owned Small Business Program:

"Sole-source awards are significantly faster than standard contracting methods, which saves the agency labor costs. At the same time, it allows contractors to build capacity in negotiating contracts effectively and providing competitive pricing. By allowing much more open and frank discussions regarding project scope, pricing and "opening the books", it ensures that the contractor is being cost competitive for the agency, while also allowing a reasonable profit for [the] contractor. It is a true win-win!"

BUSINESS COUNSELING: HANDCUFFED BY STATUTE

Findings

Created in 1988, the Women's Business Center (WBC) Program was originally a demonstration pilot program, enacted as a part of the broader Women's Business Ownership Act of 1988 (P.L. 100-533) to provide "financial, management, and marketing assistance" to women entrepreneurs.

Kim Osterhoudt, Jams by Kim
Hillsborough, NJ

Jams by Kim is an artisanal food company that produces all natural jams, jellies and preserves that are gluten free. Jams by Kim founder Kim Osterhoudt started her business with the help of the Intersect Fund, a Community Development Financial Institution which offers business coaching, training, and microloans. Kim on her experience:

"Having made my first jam at the age of 12, I took some classes to learn about small business management and started Jams by Kim. [Intersect Fund] compelled me to become a knowledgeable entrepreneur, with their training, homework, and in depth coaching and counseling. They helped me write my first business plan, and provided me with a class full of peer entrepreneurs, that I could also learn from and share experiences with, making the role of entrepreneur far less isolating than it can ordinarily be. My experiences with the Intersect Fund were invaluable, and I continue to use their Entrepreneur Directory, and the Entrepreneur of the Year Award they bestowed upon me in my marketing campaigns."

Several years after the original demonstration pilot program was enacted, Congress reauthorized the demonstration projects through fiscal year 1997, under the Small Business Administration Reauthorization and Amendments Act of 1994 (P.L. 103-403). At that time, under the same Act, Congress established the Office of Women's Business Ownership within the SBA to be responsible for the administration of the program.

The program was ultimately made permanent by the Small Business Reauthorization Act of 1997 (P.L. 105-135) and was subsequently reauthorized and restructured into its current form by the Women's Business Centers Sustainability Act of 1999 (P.L. 106-165). The program has not been reauthorized since that time in spite of evidence that it is effective and a good return on the investment.

Today, the WBC program helps more than 100 nonprofit organizations across the country provide business training and counseling to approximately 134,000 female entrepreneurs and aspiring entrepreneurs, which includes women in underserved communities, each year.[76] It remains the only authorized business counseling program statutorily purposed to serve socially and economically disadvantaged women within SBA.[77]

Currently, the WBC Program provides grants of up to $150,000 to private, non-profit organizations, which must be matched with private funds. Initial grants are awarded for up to five years, consisting of a base period of 12 months and four 12-month option periods, contingent upon SBA approval and demonstrated ability to match federal grant funds. Initial grants require a 50 percent match in the first two years of the grant for every federal dollar received and a 100 percent grant in the remaining three years.

Upon successful completion of the initial five-year grant period, WBCs may apply for continuing three-year renewal grants. Continued grant funding is subject to the availability of congressionally appropriated funding. The renewal grant requires a 100 percent match for all three years. In the wake of the economic downturn, many Women's Business Centers reported increasing difficulty in meeting their match requirements.

According to the SBA, in fiscal year 2013, each WBC served 1,300 entrepreneurs. SBA's Office of Entrepreneurial Development's 2013 Impact Study found that 80 percent of entrepreneurs who received WBC training found it "useful or very useful," while more than 60 percent changed their management practices or strategies as a result of the assistance they received.[78]

In fiscal year 2013, WBCs helped clients access more than $25 million in capital and open more than 630 businesses.[79]

Despite continuing examination and reauthorization by Congress between the passage of the Women's Business Ownership Act of 1988 and enactment of the Women's Business Centers Sustainability Act of 1999, for reasons unrelated to the merits of and support for the program, Congress has been unable to reauthorize the program since 1999.

Julie Johnson Holt, First Class Communications, LLC
Little Rock, Arkansas

Julie Johnson Holt and Dauphne Trenholm founded First Class Communications, LLC, a public relations firm specializing in education. They will soon start their third year in business. Julie and Dauphne benefited from finding a business counselor through the Arkansas Women's Business Center.

Julie on her experience:

"As any new business owner knows, the first few years are, well, a roller coaster. Times of high productivity are followed by lulls in projects and, thankfully, those are followed (though not soon enough, it always seems!) by new spurts of business."

"We - founding partners Julie Johnson Holt and Dauphne Trenholm - have the Arkansas Women's Business Center, and specifically John Riggins, whom we fondly call our "counselor," to thank for helping us navigate these choppy seas of new business ownership."

"We still have a lot of room for growth and are working daily to reach our goals, but the support of the Arkansas Women's Business Center has been nothing short of invaluable to First Class Communication's success thus far."

At that time, there were 81 centers in 47 states, the District of Columbia, Puerto Rico, and the Virgin Islands – and those centers were operating on statutory funding levels intended to support 45 existing centers, an average of 12 re-competing centers, and an average of 12 new centers per year. This has severely constrained funding options for Women's Business Centers, reducing the number of women entrepreneurs each can serve.

Most recently, the Small Business Jobs Act of 2010 (P.L. 111-240) gave the SBA the authority to waive or reduce an individual WBC's required match, on a yearly basis, for not more than a total of two fiscal years. In determining whether or not to grant a waiver, the SBA was required to consider the economic conditions affecting the WBC or intermediary, the impact that a waiver would have on the credibility of the WBC or intermediary, the ability of the WBC to raise non-federal funds, and the performance of the WBC or intermediary. This authority provided key flexibility for Women's Business Centers which were temporarily struggling, but that authority expired at the end of fiscal year 2013.

The WBC program is long overdue for modernization to reduce red tape and maximize its resources to help more women start and grow businesses. It is operating on laws written more than ten years ago, without any updates. Providing additional financial resources for the program, requiring rules for administering the program to be promulgated and published, giving the SBA the ability to make individual determinations about a Women Business Center's match-requirements and modernizing performance measures, among other changes, would allow the program to operate more efficiently and give the Centers the tools they need to better serve our nation's women entrepreneurs.

Critical Next Steps

Operating under the same statutory funding level for over a decade has limited the Women's Business Center program's ability to keep up with the demands of existing and new women entrepreneurs seeking business counseling, training, and networking programs. That need is exacerbated in socially and economically disadvantaged areas, where the services offered by a Women's Business Center may have even more value.

Therefore, to remedy systemic problems related to the Women's Business Center program, Congress should:

- Increase Women's Business Center program funding and increase grant award ceilings, which will allow centers to receive more funding – in turn enabling them to offer more services to a greater number of women entrepreneurs in socially and economically disadvantaged communities;
- Measure the program's effectiveness better, thereby increasing accountability, by designing a scientific performance survey that measures outcomes; and
- Increase flexibility for Women's Business Centers in determining the match requirements, based on demonstrated success, need, and location.

Sarah Bogan, the Whisking Apprentice

Fayetteville, North Carolina

The Whisking Apprentice offers private cooking lessons in clients' homes and specializes in healthy cooking and fast meals for families, including as vegetarian, gluten & dairy free, and paleo meals. It also teaches people how to manage ailments through diet. Founder Sarah Bogan:

"I'm pretty new to the (Small Business Administration (SBA) /Women's Business Center (WBC)) however, the amount of support I have received from them on social media - especially Facebook and twitter - has been amazing. The employees at SBA/WBC are my cheerleaders. Sometimes the business world can seem cutthroat and cold, and these people provide such a positive atmosphere for me to grow and feel confident in my abilities because they are confident in your abilities! Simply having that support makes all the difference in the world."

PRIVATE AND NONPROFIT EFFORTS

Supporting women business owners is a joint public and private effort. Together, they attempt to close the gaps in both data available and within the barriers that women-owned small business owners still face today.

In the last decade, new information and training programs have focused on women's entrepreneurship and serve to complement the federal efforts outlined earlier in this report. Efforts such as the Women Impacting Public Policy's (WIPP) *GiveMe5* and *ChallengeHER* programs are aimed at educating women on how to access federal contracts.

Also important to the ecosystem that supports women-owned and women-led firms are corporate initiatives such as American Express OPEN's *CEO Bootcamp* for women, as well as organizations like Nely Galán's *Adelante Movement*, *The Eva Longoria Foundation* that makes microloans to Latina entrepreneurs, and the *Tory Burch Foundation* that supports and mentors women entrepreneurs through affordable loans, mentoring programs and entrepreneurial education.

The private sector is also helping to slowly improve access to credit. Companies such as OnDeck Capital and Accion, in conjunction with the Association for Enterprise Opportunity, are developing new lending platforms which hold the promise of transforming the deployment of capital to women-owned businesses.

Similarly, foundations such as the Citi Foundation concentrate on supporting financial capacity and asset building, while businesses like Sam's Club are deploying micro capital by empowering Women's Business Centers to become microlenders.

These private efforts are an important complement to federal programs. In fact, these private programs emerged due in part to the demonstrated success of the federal microloan programs. Many of the intermediary organizations that learned how to provide microloans working with Treasury and/or the SBA are now engaging private businesses to expand their capacity. The federal foundation is a critical complement to the continuing success of nonprofit and private programs.

CONCLUSION

There are steps the federal government can take to foster women's business growth. This report does not recommend any new programs; instead, it recommends strengthening and streamlining existing programs to foster an environment in which women-owned businesses can succeed.

There are three categories of concentration:

- access to capital;
- access to federal contracts; and
- access to business counseling and training.

Women entrepreneurs are a critical element in growing and transforming the 21st Century American economy. As women-owned and women-led businesses continue to increase their impact, it is more important than ever that public and private sector efforts to support their growth be focused on critical areas of need. While many succeed, women still must overcome the barriers their male competitors do not.

Women business-owners and women entrepreneurs have proven themselves over the decades despite the odds. It is vital that these proposals be deemed an important and worthwhile investment to the American economy.

The report provides a blueprint for how Congress, the Administration and the nonprofit and private sectors can tackle the issues of access to capital, access to federal markets, and access to effective business counseling and training.

We need to empower women to break the glass ceiling so it will be easier for even more women to succeed through the 21st Century – growing the U.S. economy and creating more American jobs.

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