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State of Minority and Women-owned Business Financing



State of Minority and Women Business Financing Agenda

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1. Introduction to Minority and Women Entrepreneurship

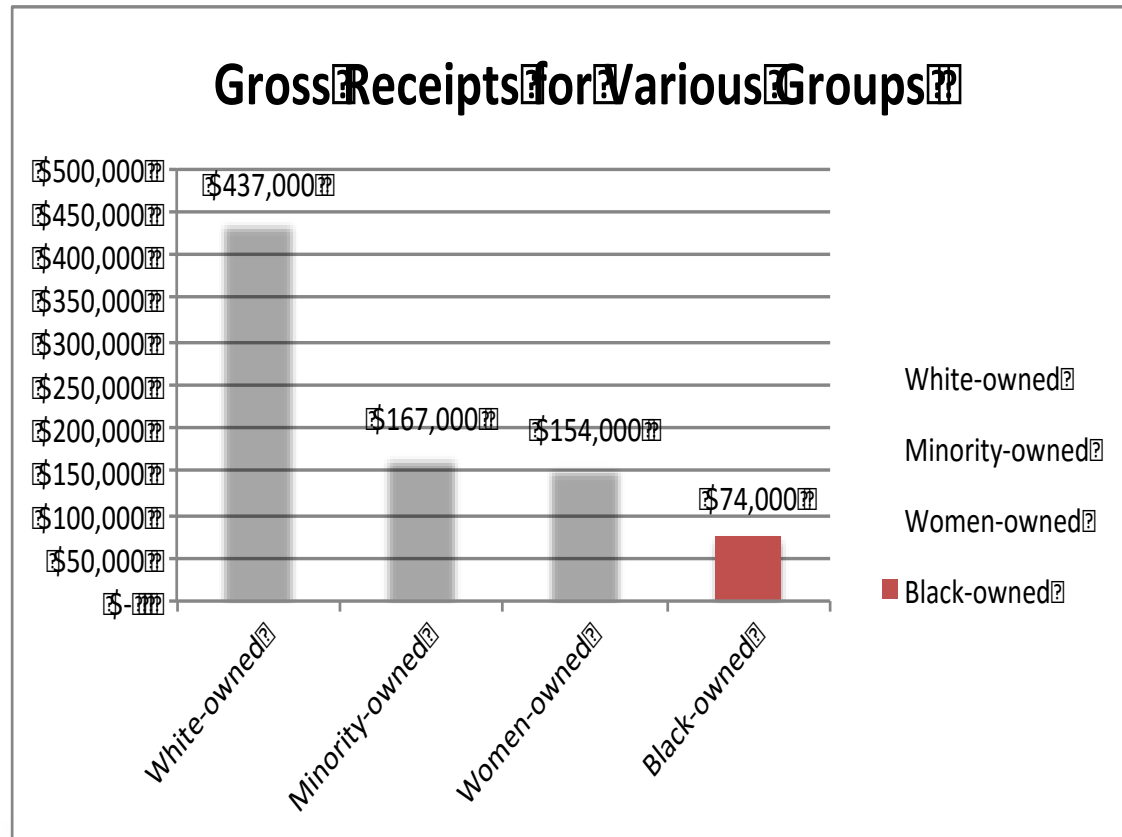
“The United States has an inevitable entrepreneurial culture and a track record of building new companies” (Hamilton Project, 2015).

There are about 20 million minority- and women-owned businesses in 2015 (Senator Kristin: Minority and Women Business Financing Guide, 2015).

- From 1997 to 2007, the number of minority startups surpassed the number of white startups. Additionally, the number of women-owned startups increased and the number of male-owned startups decreased (U.S Census Bureau, 2001; 2007).
- From 1997 to 2007, the gross receipts (sales, receipt, value of shipment) of minority and women firms grew faster than the gross receipts of nonminority firms (U.S Census Bureau, 2001; 2007).

2. State of Minority and Women Entrepreneurship

- White-owned businesses grossed about 6 times that of black businesses (\$437,000 vs. \$74,000).
- Black-owned businesses had the lowest gross receipts among women, whites, and minorities.
- The average annual receipts for women and minority businesses were relatively similar (\$154,000 and \$167,000). However, this is about 3 times less than the average annual receipts for white-owned businesses (Fairie and Robb, 2010).



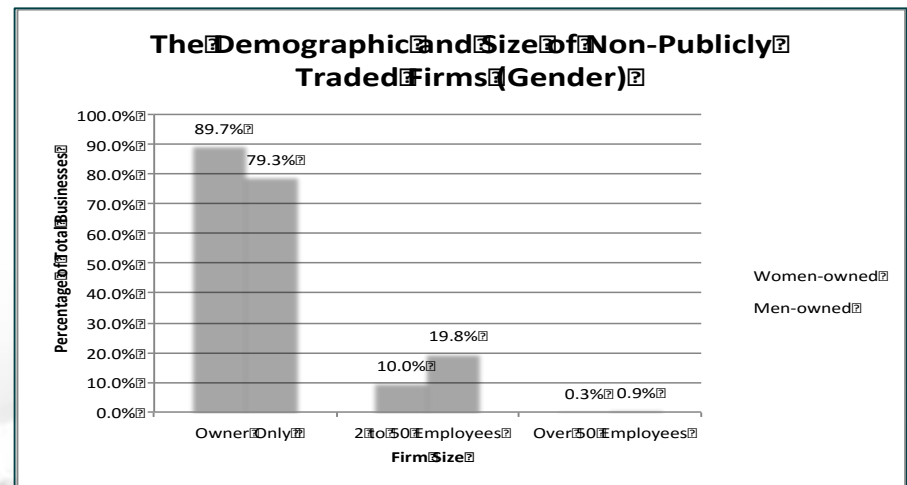
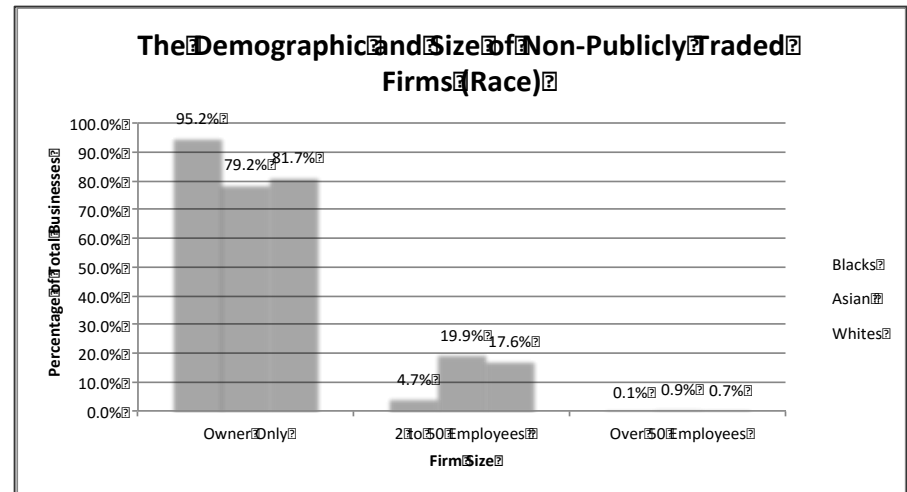
*Gross receipts defined as sales, receipt, and value of shipment

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2. State of Minority and Women Entrepreneurship

- Blacks had the highest rates of sole proprietorships, and the lowest rates of businesses employing between 2 to 50 employees and businesses employing over 50 employees.
- Asian and white businesses had similar rates of sole proprietorship, businesses with 2 to 50 employees, and businesses with over 50 employees.
- Businesses owned by men were 2 times more likely to have 2-50 employees than businesses owned by women (Hamilton Project, 2015).



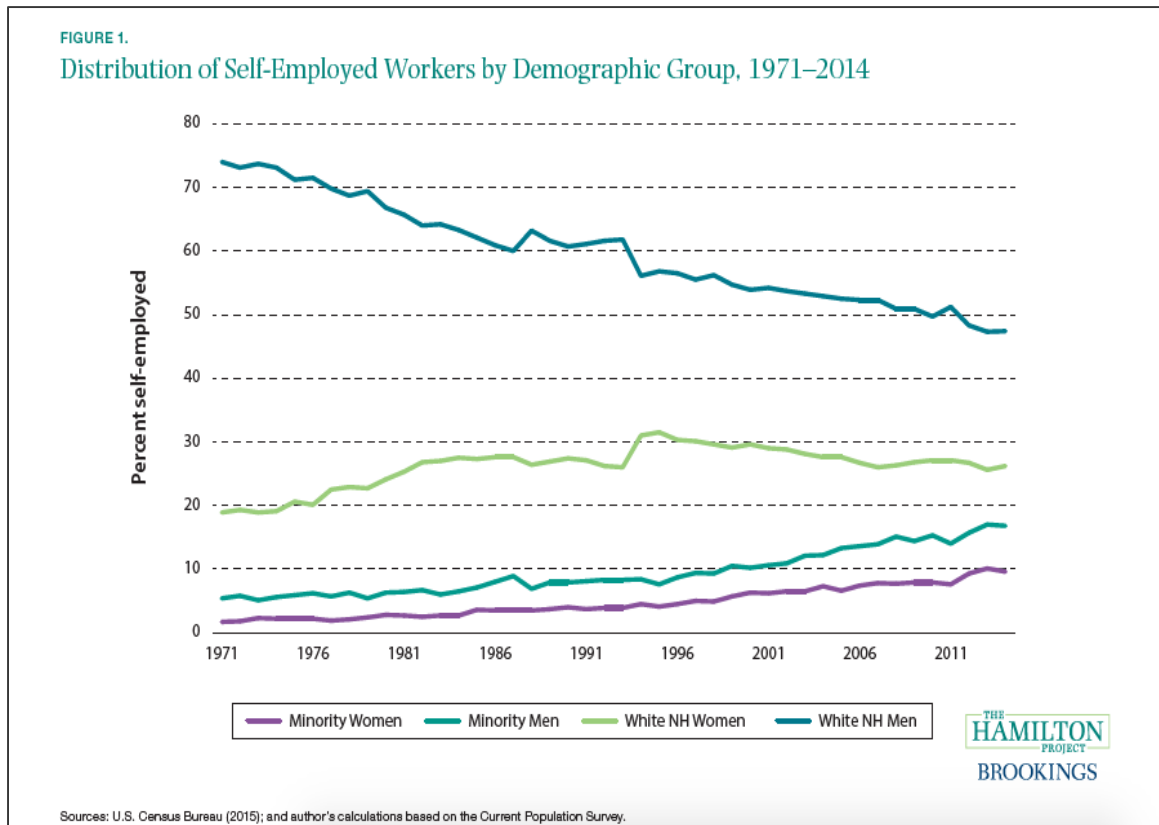
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3. Importance of Minority and Women Entrepreneurship

Minority and women self-employment rates still lag behind self-employment rates for white men.

Fostering business formation among these groups will play an important role in contributing to the overall rate of entrepreneurship (Hamilton Project, 2015).

This will provide important benefits.



(Hamilton Project, 2015)

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4. The Personal Benefits of Minority and Women Entrepreneurship

Successful entrepreneurship provides personal benefits such as wealth, savings, job satisfaction, and economic mobility (Hamilton Project, 2015).

- Small businesses serve as an important store of wealth. Households in the bottom half of the wealth distribution had an average business equity of only \$20,000, but that number represented 60 percent of those households' net worth (Yellen, 2014).
- Entrepreneurship increases economic mobility. Families who owned a business at the five-year period were more likely to move into a higher income group than other families over the same period. Those who did not start a business were more likely to stay at the same income group or fall to a lower one (Quadrini, 2000).
- **Black entrepreneurs are the most likely minority group to move to a higher income group. Black entrepreneurship can help reduce wealth disparities between blacks and whites (Bradford, 2014).**

5. The Economic Benefits of Minority and Women Entrepreneurship

- Small businesses account for 63 percent of net new jobs between 1993 to 2013 (SBA, 2014). Studies have demonstrated that young firms are responsible for the most net new jobs (Haltiwanger, Jarmin, and Miranda, 2013).
- Startups in their first year are only responsible for 3 percent of total U.S. employment. However, that accounts for 20 percent of total hires. Surviving startup firms generate jobs at a higher rate than older firms (Hamilton Project, 2015).
- Small businesses in America make an outsized contribution to economic growth and innovation because they embrace new techniques, have different incentives, and possess unique organizational structures (Carree and Thurik, 2005).

“Women-owned firms have an economic impact of \$3 trillion. That translates to the creation of 23 million jobs, 16 percent of all U.S. jobs” (NWBC, 2016).

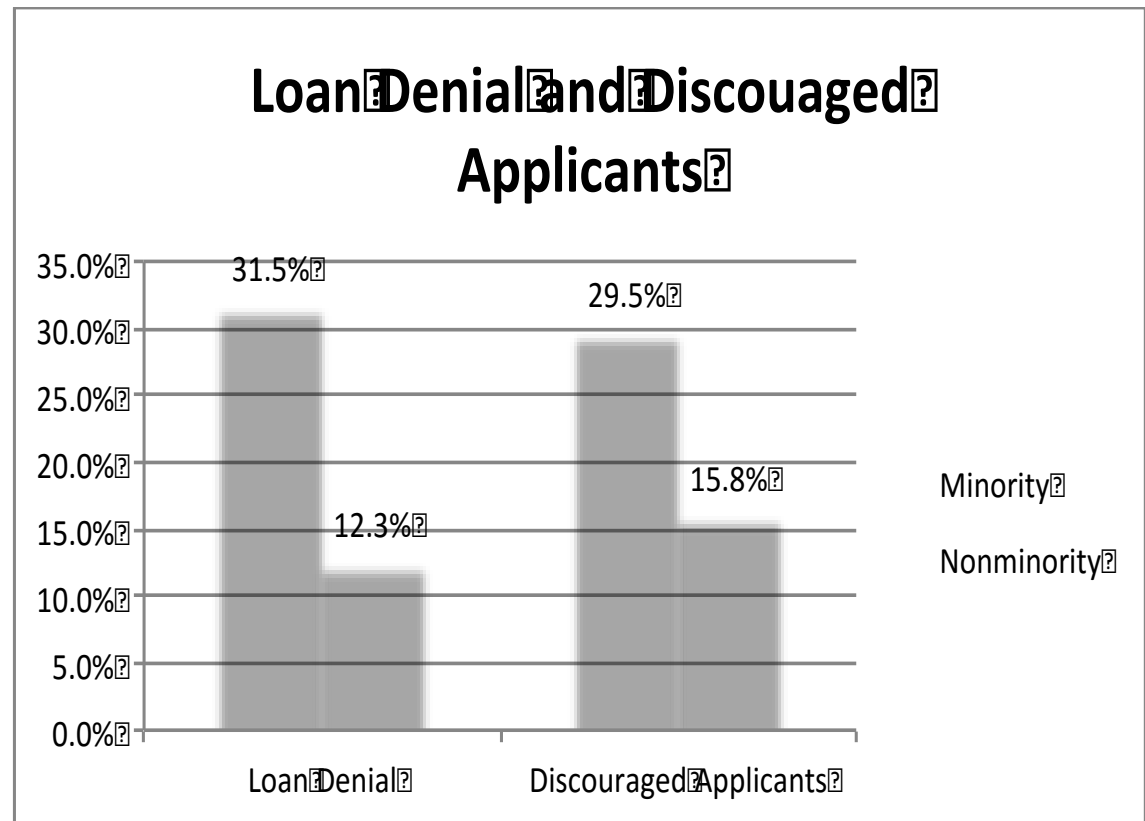
“Receipts for minority-owned firms climbed from \$1.0 trillion to \$1.4 trillion over the 2007-2012 period or 34.7 percent increase” (Census Bureau, 2015).

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6. Financing Obstacles for Minorities and Women

- After controlling for business and personal factors, minorities were still about 3 times less likely to receive a loan (Fairlie and Robb, 2008).
- Minority business owners are less likely than nonminority business owner to apply for loans (Robb, 2013).



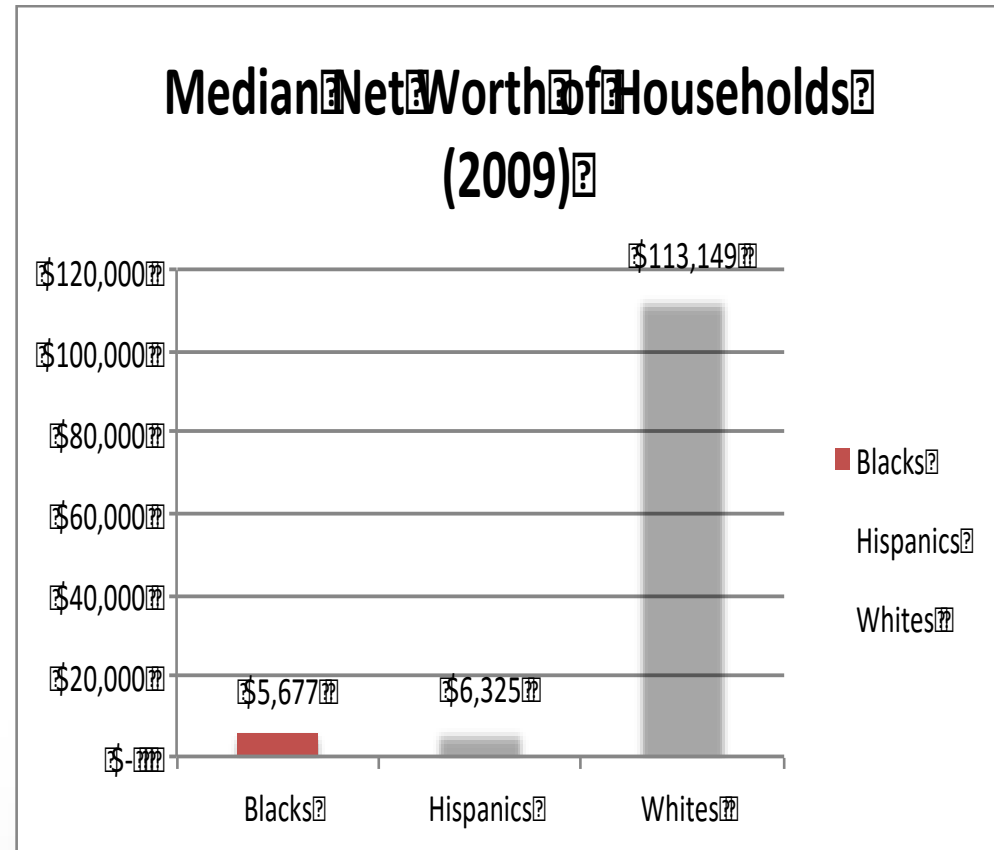
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6. Financing Obstacles for Minorities and Women

- Less wealth among women and minorities account for less access to capital (Hamilton Project, 2015).
- Minorities and women must rely more on family and personal wealth to start a business (Robb, 2013).
- Minorities and women start businesses with half the capital of nonminority men, with differences in capital widening overtime.

“Black and Hispanic women have less personal wealth--owning only a fraction of a penny on every dollar owned by white men” (NEDLC, 2010).



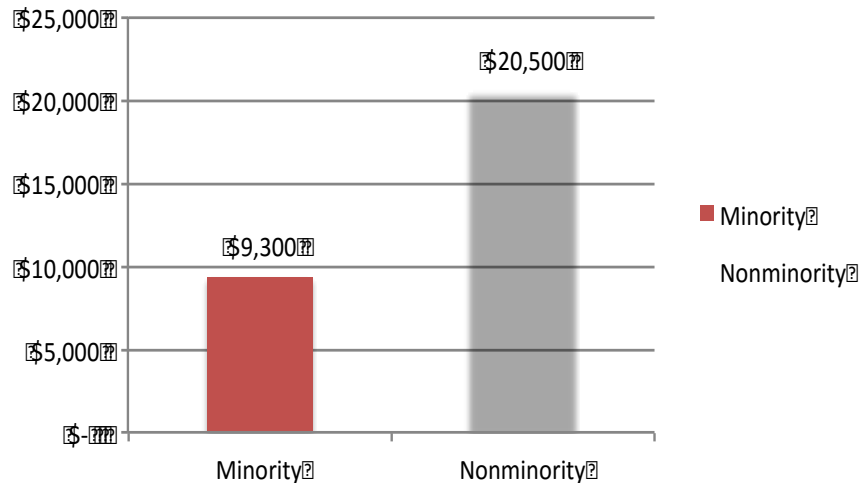
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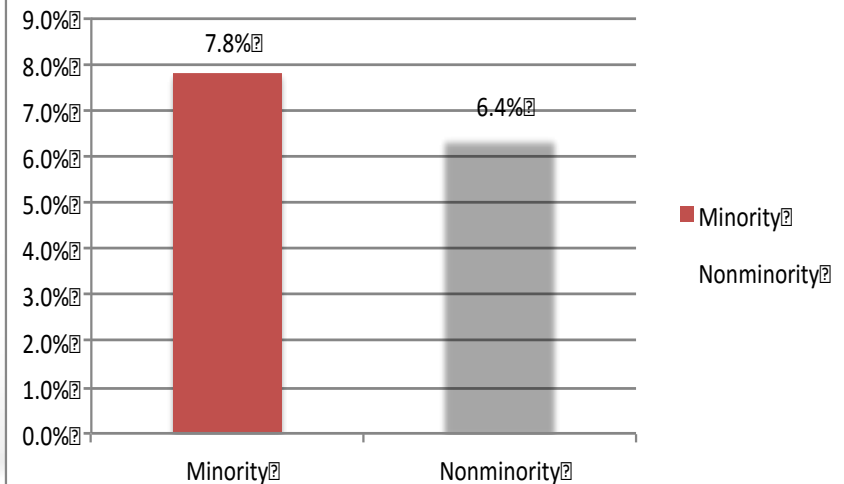
6. Financing Obstacles for Minorities and Women

Minorities receive less loan and pay a higher interest rate. Minority business loans average \$9,300, while nonminority loans average \$20,500. Minority loan rates average 7.7 percent, while nonminority loan rates average 6.4 percent (Survey of small business finance 2003).

Average Loan Amount



Average Loan Rates

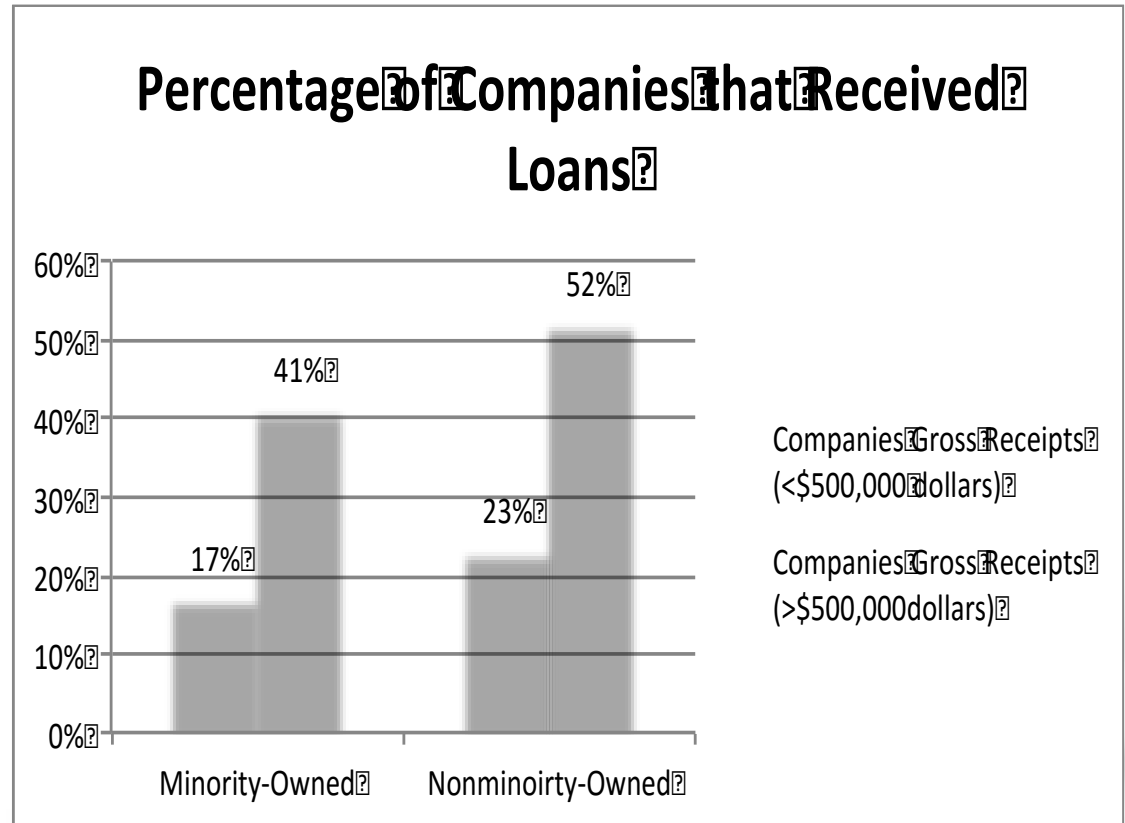


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6. Financing Obstacles for Minorities and Women

- Minority firms rely less on external debt even as they increase in size. 41 percent of minority businesses with gross receipts over \$500,000 receive loans, while 52 percent of nonminority businesses do.
- Nonminority firms are more likely to receive loans than minority firms regardless of sizes (Fairlie and Robb, 2010).



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6. Financing Obstacles for Minorities and Women

- No other groups reported cash availability, cost of conducting business, and cash flow more than black business owners over a period of 12 months (10.3%, 8.3% and 30.2% respectfully).
- Black business owners reported labor force problems and healthcare less than any other group. (0% and 12.7% respectfully)

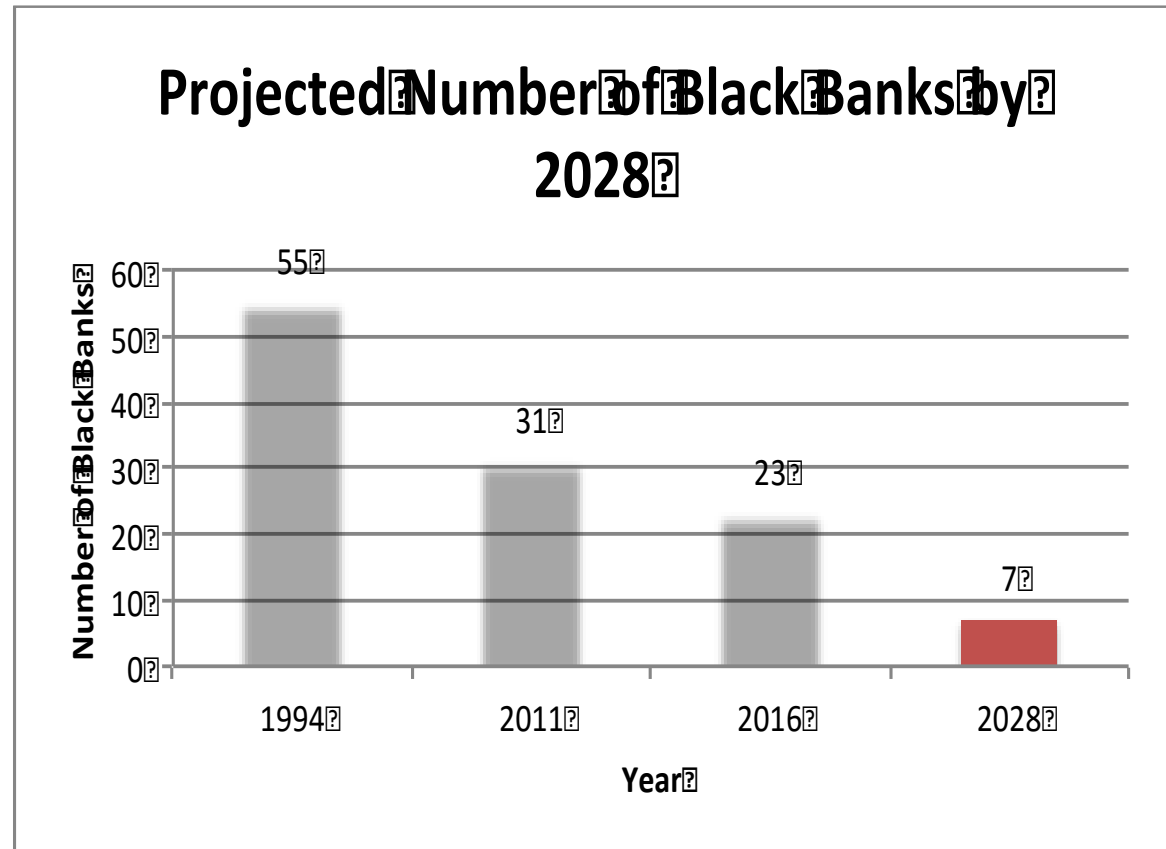
	All	Non-minority	African-American	Hispanic	Other Races
Credit availability	5.6	5.6	10.3	4.1	3.7
Health care, health insurance	23.8	23.9	12.7	22.2	30.0
Taxes, tax policy	6.5	6.8	4.1	5.1	2.4
General U.S. business conditions	13.3	12.8	13.6	17.3	23.6
High interest rates	6.1	6.5	5.8	0.0	0.0
Costs of conducting business	3.3	3.2	8.3	2.0	3.9
Labor force problems	2.8	2.5	0.0	12.9	2.4
Profits, cash flow, expansion, sales	8.1	7.8	30.2	4.6	4.2
Number of observations (unweighted)	570	459	50	27	34

*Percent % of total owners for each group

(State of Minority and Women Owned Business Enterprise, 2010)

6. Financing Obstacles for Minorities and Women

- The number of black banks who are more likely to support black businesses are disappearing-- projected to have only 7 remaining by 2028. The number of black banks has decreased about 42% from 1994 to 2016.



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7. Conclusion

One study places the number of minority- and women-owned businesses at 20 million today.

That number is growing faster than nonminority businesses. (Of course, nonminority businesses outnumber total minority- and women- owned businesses.) Increasing the number of minority- and women- owned businesses can have huge positive implications on the economy and for the individual. Economic benefits include: economic growth and more jobs. Personal benefits include: social mobility and job satisfaction. The positive social mobility impact is especially true for blacks, and this can help reduce the wealth disparity between blacks and whites. However, minorities and women experience a much harder time financing a business. They face higher loan rejection rates, more interest rates, and less capital.

8. Additional Resources

The Minority Business Development Agency

<http://www.mbda.gov/>

Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables

<https://www.sba.gov/sites/default/files/Issue%20Brief%203%20Access%20to%20Capital.pdf>

Factsheet on Minority and Women Firms

<http://www.mbda.gov/sites/default/files/FactSheet-Minority-OwnedFirms.pdf>

Factsheet on Black Firms

<http://www.mbda.gov/sites/default/files/FactSheet-AfricanAmericanOwnedFirms.pdf>

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NEDLC

<http://www.mariko-chang.com/LiftingAsWeClimb.pdf>

Quadrini (2014)

<http://www-bcf.usc.edu/~quadrini/papers/redpap.pdf>

<https://www.sba.gov/sites/default/files/Issue%20Brief%203%20Access%20to%20Capital.pdf>

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Senator Kristin: Minority and Women Financing Guide (2015)

<http://www.gillibrand.senate.gov/imo/media/doc/Gillibrand%20Minority%20and%20Women%20Owned%20Business%20Guidebook%202015.pdf>

Separate and Unequal (2010)

<http://www.s4.brown.edu/us2010/Data/Report/report0727.pdf>

Small Business Association (2014)

https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf

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http://esd.ny.gov/mwbe/Data/NERA_NYS_Disparity_Study_Final_NEW.pdf

The Economic Impact of Women-Owned Businesses in the United States (2016)

<https://www.nwbc.gov/research/economic-impact-women-owned-businesses-united-states>

US. Census Bureau (2001;2007)

<http://www.census.gov/library/publications/2012/econ/2012-sbo.html>

Yellen (2014)

<http://www.federalreserve.gov/newsevents/speech/yellen20141017a.htm>