

**U.S. House of Representatives  
Small Business Committee Field Hearing  
Philadelphia, PA  
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**Small Business Capital Access: Supporting Community and Economic Development**

**Introduction**

- Good afternoon, Representative Evans, Representative Fitzpatrick, and members of the Small Business Committee. Thank you for the invitation to provide testimony on this very important topic.
- My name is Leslie Benoiel, and I am the President and CEO of Entrepreneur Works Fund (EWF), a non-profit organization that provides access to loan capital and business training to entrepreneurs and small-business owners in the five county Greater Philadelphia Region.
- Over the past 18 years, Entrepreneur Works Fund has assisted more than 5,000 entrepreneurs and has disbursed over 450 loans totaling \$1.7 million for business start-up and expansion.
- EWF serves 250-300 small business owners each year, and targets small business owners living or operating in low- to moderate-income neighborhoods in this region
- In Fiscal Year 2016, 84% of our clients identified as members of a racial minority (73% of whom identified as African-American); 68% resided in low- to moderate-income households; and 60% were women.
- I would like to commend the Small Business Committee for their hard work and efforts to acknowledge the disparity in access to capital in the state of Pennsylvania for deserving small-business owners, particularly those in underserved communities.
- I am here today to express my support of this committee's work to ensure better access to capital for aspiring entrepreneurs and small business owners looking to build successful businesses, build wealth, achieve economic self-sufficiency, create jobs for their neighbors, and make their communities better places to live and work.

**Small businesses are vital to and key segment of our region's and the national economy**

- Small businesses (firms with less than 500 employees) represent the largest proportion (99+%) of all firms and account for roughly half of all private sector jobs.
- In Pennsylvania, 1 million small businesses represent 98% of all PA firms and account for 2.4 million jobs, almost 47% of PA private sector employees
- The smallest of businesses are microenterprises (those with 5 or fewer employees). They numbered 27.6 million in the US in 2015 and account for 16.2% of all private sector jobs.
- SBA data consistently show that small businesses are the largest creators of jobs in the U.S., year after year, with rare exceptions: microbusiness employers (those with 1-19

employees were responsible for 11% of the 13.7 million private-sector net job gains from 2010-2016.

- Small businesses make up over 96% of businesses in Philadelphia and account for more than half of all jobs in the city. In 2013 there were 103,369 of small businesses with fewer than 20 employees.
- In the five county Greater Philadelphia region there were 359,182 small businesses
- However, aspiring small business owners in the Philadelphia region are at a disadvantage. The Kauffman Foundation's *2015 Index of Startup Activity* ranks Greater Philadelphia 31st among the US's 40 largest metropolitan areas across multiple measures of new business and startup activity.

### **Who are these small businesses?**

- We find most small businesses in our local neighborhoods, on and near commercial corridors and along "main streets" of our region's smaller cities and townships: neighborhoods such as Germantown, East Oak Lane and West Philadelphia, often clustered around commercial corridors such as along 52nd Street and Lancaster and Germantown Avenues. Also in county townships such as Bristol in Bucks County.
- We, as residents, see, engage with and rely on with these small businesses every day.
- They are child care centers, coffee shops, food trucks, dry cleaners, landscapers, exercise studios, clothing boutiques, barber shops, professional and health service providers to name a few.
- Others are operating in basements, attics, shared spaces or on the internet: software developers, graphic designers, translation services, as examples.
- These businesses are the lifeblood of our neighborhood economies and are important contributors to our region's economy and to our collective community health.

### **Why are small businesses so important?**

1. Small businesses provide the goods and services that we want, need and value
2. Small businesses create jobs, especially for those who face challenges (low income, low skills, young adults, people that need flexibility, immigrants). Research shows that small businesses mostly hire from the communities that they serve
3. Small businesses tend to keep the money they make circulating locally. In the Sustainable Business Network's *Taking Care of Business* report, it was found that money spent at a small business in Philadelphia is 71% more likely to stay in the community versus money spent at a national chain
4. Small businesses make our neighborhoods and communities more vibrant, diverse, and interesting, and that attracts visitors and new residents
5. Small businesses create wealth for their employees and themselves
6. Small businesses invest in and support their communities: offer space, contribute dollars, offer themselves and their employees as volunteers

### **Small businesses create important pathways of wealth-building and economic opportunity for underserved populations**

- For many entrepreneurs, particularly those that are low-income, minorities, women, immigrants, veterans and returning citizens, entrepreneurship is a viable and critical path to break the cycle of poverty and for improving economic self-sufficiency.
- These populations often lack social networks/relationships, education or training, and other resources needed to obtain a skilled job with a *livable* wage.
- Small business ownership offers a viable and attractive option for them to move up the economic ladder.
- Research shows that there are substantial wealth advantages for business owners compared to non-business owners: the median net worth of business owners is more than two times greater than that of non-business owners.
- This advantage is even more pronounced for minorities and women.
- For example, a recent study (The Tapestry of Black Business Ownership in America (2016) commissioned by the Association of Enterprise Opportunity (AEO) shows that the median net worth for Black-owned business is 12 times higher than for Black non-business owners
- Furthermore, minority- owned and women-owned business creation rates are exceeding those of non-minority males which is indicative of the desire and interest
- In recent years, we've seen an inspiring increase in Hispanic, African-American, and other minority-owned businesses; with a 37% overall increase in minority-owned businesses in Pennsylvania, which was reported by the Sustainable Business Network in December 2015.

### **There are barriers persist that stymie small business owners' access to capital**

Three major factors hinder small business owners' path to success: **(1) Low starting wealth, (2) limited access to capital and (3) a "trust gap"**

- While most individuals face challenges to get a business off the ground, the need is greatest among underserved and marginalized populations.
- Access to capital is chief among these needs.
- Other resources needed include training, guidance, mentoring and access to markets and business networks. Starting and growing a business can be costly and very complex. Business owners also need and value the guidance helping them navigate and prioritize.
- There are many who say they offer capital for small-business owners in Philadelphia, including banks. Unfortunately, much of this is unaffordable, inaccessible and, in some cases, harmful.
- Many small businesses don't meet the bank standards to qualify them for loans: credit score thresholds; insufficient collateral; limited equity to put in the business; limited experience; and lack of networks and relationships that could support their endeavors.
- Minority business owners face steeper barriers than their white counterparts: lower starting wealth, fewer assets and less disposable income.
- When they do qualify for a bank loan, the loan amounts are often less than what was requested and less than what is needed by the business

- Furthermore, banks are reluctant to make smaller business loans (less than \$50,000) because they are unprofitable.
- Many minority small business owners feel intimidated by banks according to several national surveys recently conducted. This is especially acute among Black business owners.
- Banks and other lenders can be difficult with which to establish relationships.
- With limited professional networks and limited knowledge about how to navigate our complex financial system, it is difficult and, indeed, intimidating for small business owners to establish relationships with banks.
- The business owners often become discouraged from applying and are increasingly turning to alternative types of financing –particularly on-line lenders to source capital.
- Many of these “alternative” lenders (particularly online lenders) are predatory and onerously expensive. The borrowers can easily get caught in a debt cycle leaving them in worse financial shape.

### **Important roles CDFIs like Entrepreneur Works Fund play in supporting small business**

- Entrepreneur Works Fund, among other CDFIs, in the Greater Philadelphia Region, provide much more than just a loan transaction for entrepreneurs and small-business owners.
- We provide the trusted guidance (technical assistance) either directly or by partnering with other community-focused organizations such as the Women’s Business Development Centers (WBDC), Small Business Development Centers (SBDCs), community development corporations and business associations.
- I’d like to emphasize this point: mere access to capital isn’t always enough. Capital needs to be coupled with technical assistance (trusted guidance) and appropriate training to ensure the small-business owner is prepared to take on a loan, to use the capital to build the business and, lastly, ensure he/she is capable of paying off the loan.
- Traditional lenders, such as banks, and on-line lenders do not offer this support.
- CDFIs, WBDCs, SBDCs form the foundation of a vast network of business support and business capital.
- Organizations like ours have built strong, trusted relationships in the communities and among the populations we serve.
- We have built a deep knowledge of the need of the small business community and developed effective ways to reach and serve them.
- Our successes and that of our small business clients would not be possible without funding and capacity-building support from the Small Business Administration and the U.S Treasury’s Community Development Financial Institutions Fund (CDFI).
- Support from these sources have allowed us to reach hundreds of entrepreneurs each year – particularly those that are low- to moderate-income; women; minorities; immigrants; and returning citizens
- To amplify our reach and channel more resources to small-business owners, Entrepreneur Works and organizations like ours are continually seeking more capital to disburse, as well as the resources to be able to provide the technical assistance (guidance, mentoring and coaching) these small-business owners truly need and value.

## **Promising solutions to unleash the economic potential of small businesses**

What can we, as lenders, business support providers, policy makers, and donors do to bridge this gap and connect those wishing to start small businesses and others looking to grow their business with appropriate resources?

- Help individuals looking to start businesses build wealth through innovative asset building tools. Greater assets to begin with provide the entrepreneur with more “runway capital”.
- Support innovative lending programs and products: forgivable loans; loan guaranty; loan and equity blends (“patient capital”)
- Look at crowdfunding delivery models that target specific populations
- Provide greater support to non-profits that support underserved small business owners and help them build their capacity to reach them, develop trust with them and deliver culturally competent products and support services in their community. Meet them where they are.
- Facilitate and support efforts that build social and business networks. Peer mentoring is one example

These are a few strategies that can help small business owners build credit worthiness, business competencies, broaden their networks and build trust and confidence.

### **Closing Remarks**

- In closing, small businesses are the back-bone and the engines of our economy – in Philadelphia, in Pennsylvania, and the nation as a whole.
- It is imperative that we, from the public, private and non-profit sectors work in concert to support the growth and sustainability of small businesses especially in our underserved communities

I want to thank you again for this opportunity to testify and for continuing to champion small businesses.

Respectfully submitted,

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