



Closing the Wealth Gap Through Self-employment **Women of Color Achieving the American Dream**

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EXECUTIVE SUMMARY

Women's Initiative for Self Employment has found that microenterprise is a highly successful strategy for increasing household wealth as well as income. This year we completed a decade-long study of our clients' asset growth after completing our 20-session business management course, Simple Steps to Business Success. The study collected and analyzed empirical data which shows that business ownership is particularly effective in bridging the wealth gap for women of color who receive culturally-competent training and resources to start and grow their own businesses. Among the key findings were:

- Women's Initiative clients more than triple their overall household wealth and increase their business equity six-fold an average of two years after participating in the Simple Steps business training.
- There is a positive relationship between a client's business development and their household's financial well-being. For every dollar of business equity owned, Women's Initiative clients have nearly two dollars of overall household wealth.
- Despite financial risks associated with business start-up and ownership, Women's Initiative clients who are in business have 40% higher average household incomes and 48% more household net worth than clients who have not started a business.
- After participating in the Women's Initiative program, one in five (20%) clients reported owning their own home. Homeownership rates increased most dramatically for Latina clients, growing from 11% before training to 32% after.
- African-American women and Latinas who receive business management training through Women's Initiative had the highest increase in their business equity and their overall household wealth among our clients. Despite starting with fewer business and household assets, two years after training these two groups accrued the highest business and overall household wealth.

Women both earn less and own less than men on average. The income and wealth gaps are most severely experienced by women of color, who face the compounded effects of gender and racial economic disparities. This report bolsters the case that microenterprise is an important tool for women seeking economic security. In addition to previously documented increases in income, there is compelling evidence that on average our clients' total household net worth rises dramatically after they have participated in our business training. For a woman facing significant barriers to self-sufficiency, the chance to leverage her skills, creativity, and hard work through business ownership allows her to create her own upward mobility. The relatively low start-up costs of microenterprise allows women to build an asset that in turn can be used to generate a safety net of personal wealth for the future of her entire family.

ECONOMIC SECURITY AND ASSETS

Asset ownership and wealth are in many ways a more elemental measure of economic well-being than income. While income is critical for meeting daily expenses, savings and other assets allow families to weather economic crises and unexpected periods of unemployment. Furthermore, wealth creates opportunity and allows families to move from poverty to long-term prosperity. Wealth building and asset acquisition are central to the mission of Women's Initiative, which is to move low-income women and families toward lasting self-sufficiency.

In California, asset poverty rates are nearly twice income poverty rates, per federal poverty guidelines. Nearly one quarter of California families are asset-poor, and these rates are significantly higher for women and families of color. At Women's Initiative we see many families struggling with persistent asset poverty.

Lack of wealth is both a cause and effect of inadequate income and poverty, and the two are highly correlated, creating a cycle of economic instability. Without adequate income, poor people are unlikely to acquire assets, such as a home or savings. Similarly, lack of asset ownership limits income opportunities, such as seeking advanced education or starting a business.

For low-income and asset-poor individuals with no credit or poor credit, starting a microenterprise enables an entrepreneur to build on work experience, ingenuity, and vision to grow an asset, which can then be leveraged to acquire additional assets.

Asset—An item that holds and, in some cases, produces financial value (i.e. bank accounts and equipment). Assets that dramatically grow in value (i.e. real estate, stocks, bonds, pensions, and retirement accounts) are particularly powerful. Education is an asset due to the correlation between education and earnings.

Wealth—The sum of all assets minus all liabilities. Used interchangeably with net worth in this report.

Income—Income is cash received from a job, business, or other source.

Asset Poverty—Inadequate cash reserves (or equity in a home or business) for a family to live at poverty level for three months in an unexpected financial hardship (i.e. illness, unable to find work, or divorce).

RESEARCH DESIGN AND METHODOLOGY

This report is based on data collected on 691 clients before and after they participated in the Women's Initiative business management training from 1998 to 2007. Baseline data was gathered through a written questionnaire and support documentation submitted by clients before entering the program. For the outcome data, one-on-one interviews were completed each year with a random selection of women who had participated in training one to five years earlier (for a combined average of 2.1 years following training). Random samples were pulled independently following training so there is the possibility that some clients have been interviewed at more than one point in time following training and may be overrepresented in the outcome data.

In order to measure and analyze changes that clients experienced after participating in our business management training, we have compared outcome data collected after training with baseline data collected before training. Because our priority is to serve women who come to us for support, we do not randomly assign women who receive or do not receive training into two groups (i.e. we do not compare an experimental group with a control group). That said, we cannot rule out that the women who choose to participate in business

management training differ in regard to certain success factors from those who choose not to participate (i.e. have greater or less business readiness, motivation, confidence, family support, etc.).

Rigorous statistical tests have been performed on the findings, and confidence intervals and probabilities of error have been included in the footnotes.

WOMEN'S INITIATIVE FOR SELF EMPLOYMENT

About the Agency and Program

Since 1988, Women's Initiative has been helping lower-income women, a majority of whom are women of color, achieve economic security through business ownership. Starting with their dream of self-sufficiency, more than 16,000 women have benefited from the Women's Initiative comprehensive, culturally-competent business and personal development training, in English and Spanish. In 2008, over 1,000 women will gain business management skills and build their confidence through the Women's Initiative training. Another 1,000 women who previously graduated from the program will benefit from the comprehensive post-graduate program services including access to capital, networking opportunities, peer advisory groups, and ongoing technical support. Over 250 women who cannot get bank loans will receive a loan through Women's Initiative and 80 women will open new IDA matched savings accounts. We estimate that over 11,000 businesses have been created by graduates, increasing women's financial stability and benefiting their families and communities.

Clients Entering the Program

Women's Initiative business management training is designed for low-income and low-asset women with multiple barriers to economic self-sufficiency. All Women's Initiative program participants must qualify as low-income (based on HUD guidelines) in order to receive our services. Many face additional obstacles to economic well-being such as little formal education, physical disability, and a history of domestic violence.

Nearly one third (31%) of our clients are at or below the federal poverty line when they initially enroll in our program. Nine out of ten (90%) newly enrolled clients are not earning their self-sufficiency wage¹, the income required to meet a family's basic needs for rent, food, childcare, healthcare, transportation, miscellaneous costs, and taxes.

Net Worth—The sum of all assets minus all liabilities. A distinction is made between business net worth and non-business net worth in order to compare wealth acquired through entrepreneurship to other forms of wealth.

Women's Initiative program participants also have low assets at program entry. Average household net worth of program participants is \$12,968 (median: \$40). Before training, both African-American and Latina clients have lower average overall household wealth than other clients. African-American clients have an average net worth of \$5,200 (median: -\$900), while Latina clients have an average net worth of (negative) -\$5,684 (median: \$40). Many clients also report low credit scores, including bankruptcies, and cannot access formal banking relationships at program entry.

¹Per wage calculations for CA county household formations by the Insight Center for Community Economic Development.

Business Start-up and Ownership After Training

The majority of Women's Initiative program participants start a business within the first three years after attending our business management training. Although each woman comes to the agency to pursue her entrepreneurial aspirations, in the course of preparing a business plan some choose not to pursue business ownership.

Previous research shows that one year after training 44% of Women's Initiative clients are making regular sales on their products and services. Five years after training the percentage of clients making regular sales increases to 71%.

FINDINGS

Financial Gains for Business Owners

Women's Initiative clients who are operating a business earn more on average and have higher average household net worth than the clients who are not yet in business. Despite the financial risks often associated with business ownership, clients who are in business have 40% higher average household incomes and 48% more household net worth than clients who have not yet started their businesses.²

Growth in Business Equity

After participating in our Simple Steps course, clients see an increase in their business value. Not necessarily reflecting the size of a business, business equity is one indicator of the economic fitness of a business.

Business Equity—The value of a business that is owned after deducting all business liabilities.

Participants report nearly a 600% increase in business equity after participating in our training. Average value of the businesses increases from \$914 (median: \$0) before training to \$6,352 (median: \$300) two years after training.

Business equity increased six-fold from an average of \$914 before program participation to \$6,352 after training.

A large portion of this growth comes from two business assets which show significant gains after a client participates in our services. The percentage of client businesses which reported owning equipment rose 30% and the percentage with business checking accounts rose 79%.

Growth in Household Wealth

In addition to increasing the value of their businesses, Women's Initiative program participants reported an increase in overall household net worth two years after training. Our study showed that overall household wealth increased more than 300%, growing from an average of \$12,968 (median: \$40) at program entry to \$53,572 (median: \$5,000) after Women's Initiative training. More than three out of five clients (62%) reported gains in overall household net worth after program participation. The results of the study indicate that starting a business is an effective asset acquisition strategy.³ Growth in specific asset categories—real estate, vehicles, checking and savings accounts, retirement funds, stocks and bonds, IDAs, etc.—are likely outcomes when our clients start their own businesses.

²Clients not in business had less average household income ($p < .01$) and household wealth ($p < .17$) than clients in business

³Analyses of variance show significant differences in group means for real estate assets ($p < .09$) and savings ($p < .07$).

Business Equity Linked to Household Wealth and Home Equity

Women's Initiative clients' business equity is found to correlate with their overall household wealth and home equity. Using regression analysis to model the relationship between the variables showed that clients had nearly two dollars of overall household wealth and over one dollar of home equity for every dollar of business equity they owned.⁴

Clients have nearly two dollars of overall household wealth for every dollar of business equity they possess.

While a statistical correlation alone cannot prove causal relationships between business equity on the one side and wealth and home equity on the other, it does indicate that clients are leveraging business equity to accumulate other assets.

Home Ownership and Real Estate Ownership Increases

After participating in the Women's Initiative program, one in five (20%) clients reported owning their own home. This represents a two-fold increase from intake when just one in ten (10%) women reported owning their own home.

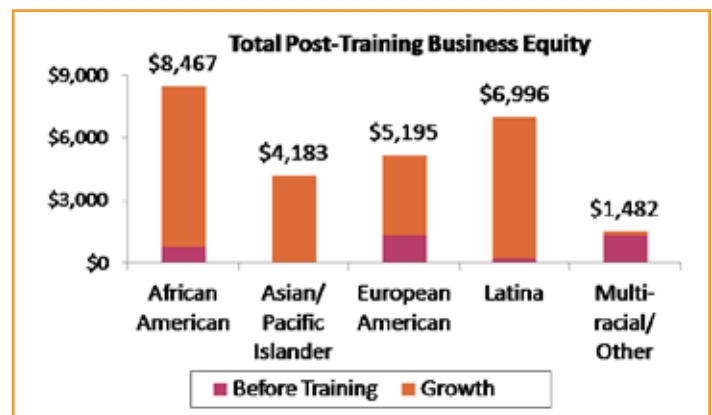
Clients' home equity can be expected to increase over one dollar for every dollar of business equity they own.

Rates of home ownership increased most dramatically for Latina clients⁵, growing from 11% before training to 32% after participation. Before entering the Women's Initiative program, Latina clients owned homes at approximately the same rate as non-Latina clients, but two years after training, Latina clients own homes at twice the rate of non-Latina clients.

In addition, three times the number of women reported that other real estate investments—such as land, rental property, and vacation homes—tripled after participating in the Women's Initiative program, growing from 2% at intake to 6% two years after training. Again, Latina clients demonstrated the most significant growth in rates of other real estate ownership, jumping from 0% at intake to 12% after training.

Greatest Gains for Women of Color

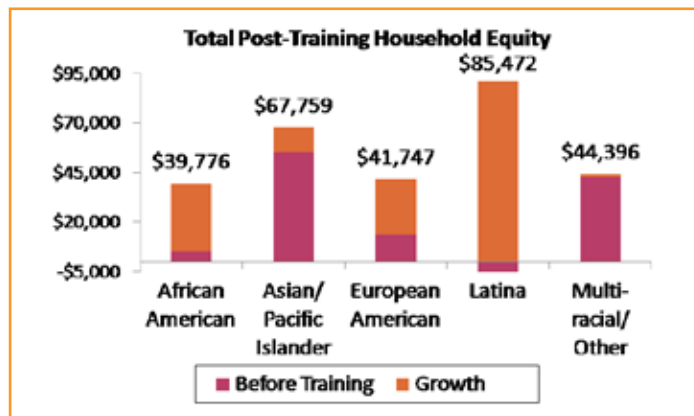
A comparison of business equity owned by different ethnic groups, before and after they participated in our business management training, showed the greatest average gains among African-American and Latina clients. African-American clients reported the greatest average absolute growth in business equity, increasing over 1000% from an average of \$759 (median: \$0) before training to an average of \$8,467 (median: \$400) two years after training. Latina clients saw the largest relative gains in business equity, growing over 3,000% from an average of \$216 (median: \$0) before training to an average of \$6,996 (median: \$0) after.



⁴Analysis of variance shows that business equity explains variation in overall household wealth and home equity ($p < .01$).

⁵Analysis of variance shows significant differences in the home ownership rate before and after training ($p < .01$).

A comparison of Latina and non-Latina clients showed that Latinas achieved the largest gains in average overall household wealth, moving from (negative) -\$5,684 (median: \$40) before the program to +\$85,472 (median: \$16,612) two years after training. Latina clients who received services in Spanish reported \$97,343 average household wealth (median: \$19,450) two years after training while clients who received services in English reported \$43,253 average household wealth (median: \$3,000). In other words, Latina clients experienced greater average gains in overall household wealth than non-Latinas. Moreover, clients who received services in Spanish reported more than double the average household wealth two years after training compared to clients who received services in English.



PUBLIC POLICY RECOMMENDATIONS

Wealth building and asset acquisition are critical to achieving and preserving economic self-sufficiency. The findings presented in this report provide compelling evidence that microenterprise can be a powerful asset building strategy for low-income women and women of color. While microenterprise is generally strong in California, it has not been fully harnessed as an asset building tool.

Building Assets through Microenterprise Training

Support for targeted and culturally-competent microenterprise training programs are an effective means to achieve economic self-sufficiency for all Californians.

- Microenterprises are assets which simultaneously increase income and facilitate acquisition of additional assets critical for economic stability and well-being.
- Starting a microenterprise is a particularly effective asset-building strategy for low-income women of color.
- While microenterprise program participants grow their businesses, they simultaneously increase their overall household wealth.
- Microenterprises are critical to California’s ability to overcome economic difficulty.



Women’s Initiative client Adriana Razo opened her business Crayon Box Preschool in her mother’s home. Today she has expanded her bilingual child care to a fully equipped facility. Photo by Cathy Cade.

Bridging the Racial Wealth Gap

The racial, gender and regional wealth disparity in the U.S. is well documented. Households headed by minorities own 13 cents for every \$1 that households headed by white adults own. Twenty-six percent of minority households and 19% of households headed by women have no net worth or more debt than assets. In spite of California's business development policy successes, minority-owned business value is low on a national level. The Corporation for Economic Development (CFED) ranks California 26th in the nation for African-American business value and 40th for Latina business value.

Attempts to reduce the racial and gender wealth gap must provide culturally-competent and targeted microenterprise support as a key asset building strategy. Disincentives and penalties for asset acquisition should be eliminated for recipients of public benefits and other income supports. Furthermore, access to asset building and asset preserving tools such as retirement accounts, health insurance, and life insurance should be improved for all self-employed people. Findings in this report suggest that starting one's own business can be a critical strategy for low-income women and people of color to build assets that are transferable across generations, breaking the inter-generational poverty cycle and build financial security.

Support for Microentrepreneurs

Asset ownership can be made more equitable in California through policies that improve microentrepreneurs' access to asset building and asset preserving tools. We recommend the following:

- Expanded eligibility requirements, allowable uses, and time limits for IDA programs that match the deposits of low-income savers to capitalize their business. In high cost-of-living regions, modestly raising income and asset limits for IDA programs will allow more low-income, low-asset women with earned income to contribute regular, structured savings while preserving the spirit of these programs. In particular, asset limits which are less than that which a family would need to survive for three months prevent asset poor individuals from benefiting from IDA programs. In addition, inclusion of asset preservation as well as asset building activities contributes to women's overall financial well-being and increases net worth. Examples of expanded uses should include citizenship fees, health care expenses, and refinancing fees to prevent foreclosure. Finally, expansion of time limits beyond one year in order to allow clients more time to use IDA savings. This is particularly important for home buying, which often takes more than one year to acquire the necessary money, qualify for a mortgage, and find the right home. Reviving the saving culture in the U.S. is more important than ever.
- Universal health insurance that attends to the specific needs of self-employed people and microentrepreneurs. California is ranked by CFED as 39th in the nation for low-income parents without insurance, 42nd for uninsured low-income children and 44th for employer-sponsored insurance. Over half of personal bankruptcies in the U.S. are attributable to medical debt. In spite of improved income and wealth following training, nearly 17% of Women's Initiative clients remain financially at risk due to lack of health insurance.

- Simplified procedures for Earned Income Tax Credit for Microentrepreneurs. Although many Women’s Initiative clients earn less than the federal EITC threshold, complicated procedures for self-employed persons coupled with limited support mean that many qualified microentrepreneurs are not applying for EITC. In addition to introducing State EITC in California (19 other states have their own EITC), procedures should be simplified for low-income microentrepreneurs, and funding should be provided for tax preparation sites.

ACHIEVING THE AMERICAN DREAM

Despite significant social and economic barriers to entrepreneurship, after receiving culturally-competent business management training, Women’s Initiative clients are able to start successful businesses, increase their incomes, and boost their net worth. This research shows that entrepreneurship as a route to financial stability is particularly effective for low-income women of color.

Business equity ranks second to homeownership as a share of overall household wealth in the United States. In California, where home ownership rates are some of the lowest in the country due to the high cost of real estate, business ownership is a valuable asset which becomes a bridge to home ownership. For low-income families, particularly those with barriers to traditional wage employment, home ownership is often an unattainable dream. Starting a business with little more than imagination, determination, and culturally competent training allows such families to build business equity that can be leveraged to purchase a home. Business ownership allows all families to build a financially secure future and achieve the American Dream.



Starting her restaurant in her garage, Women’s Initiative client Eva Saavedra opened El Huarache Azteca in Oakland’s Fruitvale District, allowing her to purchase her first home. *Photo provided by Eva Saavedra.*

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Individuals, corporations, foundations and other agencies can invest in Women’s Initiative for Self Employment, a 501(c)3 nonprofit organization. To donate or for more information about the program and ways to get involved, please call Women’s Initiative at (415) 641-3460 or visit www.WomensInitiative.org.