Arkansas

Asset Funders Network

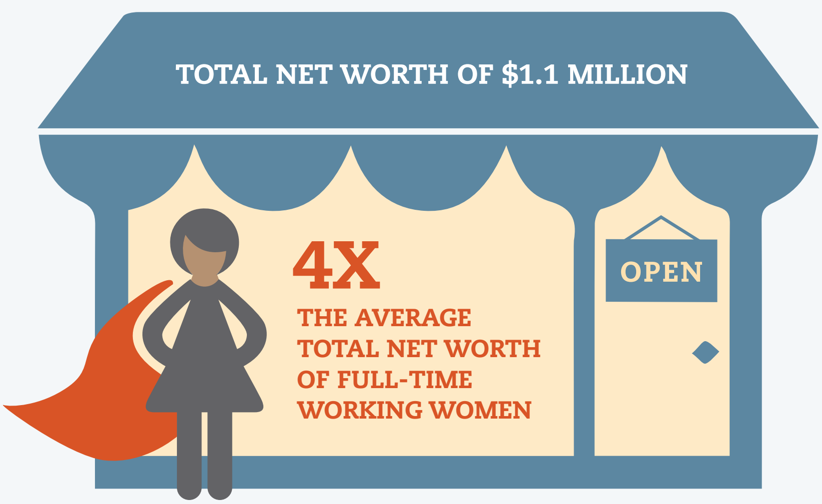
FEATURE

CAPITAL
What Women Really Want

Building Arkansas Women's Wealth Through Business Ownership

Arkansas women entrepreneurs face systemic barriers to accessing capital that prevent them from developing and growing wealth-building businesses. Grantmakers, financial institutions, and other stakeholders play a critical role in changing the wealth-building landscape for women entrepreneurs in Arkansas. This feature explores the barriers women face and offers funders and financial institutions recommendations for action.

FEMALE BUSINESS OWNERS NATIONALLY



Business ownership is a critical way in which women can build wealth. On average, female business owners have a total net worth of $1.1 million — approximately four times higher than the average total net worth of full-time working women at $319,000.[1] But wealth is more than net worth. Wealth is an asset that supports both family and community success and creates a ripple effect that impacts future generations.

WHAT IS WEALTH?

WEALTH IS THE VALUE OF ASSETS MINUS DEBTS

Wealth, or net worth, is the difference between a household or individual's assets and liabilities. It is a measure of financial health and economic security as it represents our ability to deal with the financial consequences of unexpected life events like illness, unemployment, or divorce. Wealth reflects our ability to invest in our future and that of our children.

COMMON TYPES OF ASSETS INCLUDE:

- Cash
- Investments
- Real estate
- Retirement accounts such as IRA and 401(k) accounts
- Business assets

COMMON DEBTS INCLUDE:

- Mortgages
- Credit card debt
- Education debt
- Vehicle loans

WEALTH IS AN ASSET

WEALTH PROVIDES:

- ☑ A reservoir that can be drawn upon in times of need
- ☑ A better future for our children
- ☑ Support in old age

ARKANSAS WOMEN ENTREPRENEURS DO NOT HAVE ACCESS TO THE CAPITAL THEY NEED

Access to capital is what women want and what women need. Capital is necessary to create and grow a business. Data shows that many women cannot secure startup capital for their new business, and even when they do, women receive lower levels of funding than their male peers.[2]

In AR, 1 in 4 small businesses are women-owned.[3]

AR has about 80,000 women-owned businesses contributing nearly $10 billion in revenue to the state's economy.[4]

Nationally, women receive only 2% of all venture capital funding.[5]

Nearly 75% of AR entrepreneurs of color depend on personal cash to finance their businesses compared to 55% of White entrepreneurs.[6]

Of the $1 billion in SBA financing to AR small businesses from 2015 to 2019, only 1.2% ($12M) supported Black-owned businesses and 1.8% ($18M) supported Latinx-owned businesses.[7]

In the last 3 years, AR business owners of color applied for lending at a disproportionately lower rate than White business owners but were denied lending at a higher rate.[8]

71% of AR business loan applicants were denied a loan for insufficient operating capital. Female business owners of color the were most impacted.[9]

KEY CHALLENGES IMPACTING WOMEN'S ABILITY TO START AND GROW WEALTH-BUILDING BUSINESSES

RESOURCES REQUIRED FOR WOMEN ENTREPRENEURS

- Constrained access to business financing, including loans and equity investments.
- Lower levels of approved business financing.
- Initial lower levels of overall wealth, particularly for women of color.
- Less cash to start, which limits the types and scale of businesses women own.
- Occupational segregation, which limits the sectors within which women are starting businesses.
- Limited access to mentors, business networks, and markets.

There are important differences in access to capital based on gender and race. In Arkansas, women of color have some of the greatest systemic barriers to accessing capital.[10]

From private mainstream business loans to venture capital, women still receive a very small share of those dollars. While female entrepreneurs are not likely to be charged higher interest rates when a loan is made, they are less likely to receive a loan in the first place — or to receive as large a loan as a comparably situated man. This is due, in part, to historic gender bias and ongoing embedded biases that continue to have a discriminatory effect and result in lack of trust with traditional financial institutions.[11]

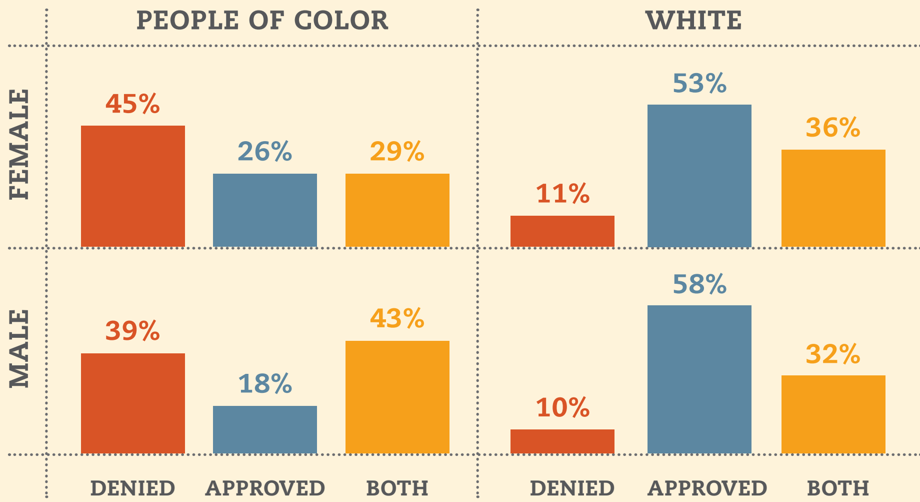
Nationally, women-owned businesses have not generated wealth for their owners at the same rates as male-owned firms. In 2015, male-owned businesses received close to 80% of all sales revenue, and businesses owned by women received a paltry 12%.[12] From 2012 to 2015, the average amount of venture capital for Black women who managed to close deals was only $36,000, compared to $1.3 million to the typical failed startup, largely obtained by White males.[13]

Arkansas data shows that women of color are more often denied for a loan or line of credit than any other group.[14] And women of color feel much lower levels of support from financial institutions than their White peers, regardless of gender.[15] Women are more likely to use credit cards, personal cash, or rely on family members for contributions to fund business startups.[16]

> **I WAS AFRAID TO REACH OUT TO A BANK INSTITUTION AND SEEK A LOAN,** so I actually saved money… [and I] pretty much created a loan for myself."
>
> —ARKANSAS FEMALE BUSINESS OWNER

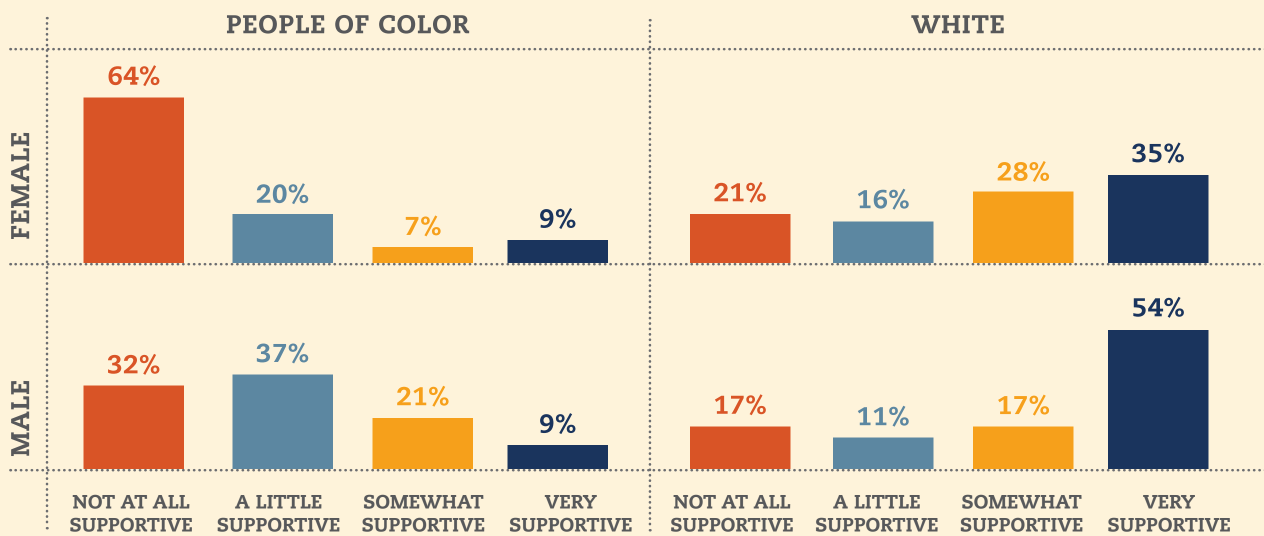
APPROVED OR DENIED A LOAN OR LINE OF CREDIT IN THE LAST THREE (3) YEARS IN ARKANSAS

- People of color reported being denied a business loan or line of credit at a higher rate than White borrowers.
- Likewise, White borrowers reported being approved for a loan or line of credit at a higher rate than people of color.
- The rate of approval for lending services for males and females were similar within their respective racial/ethnic group.



SOURCE: Precise Data Consulting, 2019

LEVEL OF SUPPORT FELT FROM FINANCIAL INSTITUTIONS RELATED FOR FINANCIAL NEEDS IN ARKANSAS



SOURCE: Precise Data Consulting, 2019

- Female business owners of color reported the highest rating of “not feeling supported at all” by financial institutions.
- White males had the highest favorable rating of “feeling very supported” and “somewhat supported” by financial institutions.
- Male business owners felt more supported by financial institutions compared to female business owners.

ROLES FOR PHILANTHROPY AND FINANCIAL INSTITUTIONS

Philanthropy can address systemic barriers women encounter accessing capital. Women business owners face barriers to building stronger businesses, equity, and ultimately wealth that are both historic and systemic. Furthermore, women have to navigate an underdeveloped and unconnected entrepreneurial ecosystem for support. Grantmakers have an opportunity to support systemic change.

RECOMMENDATIONS FOR PHILANTHROPY

- **INVEST IN ORGANIZATIONS/FUNDS THAT PROVIDE EQUITABLE ACCESS TO CAPITAL.** Examples are community development financial institutions (CDFI), collaborative funds, market investor groups, and new and innovative methods of financing.
- **SUPPORT WOMEN-LED VENTURES IN HIGH-GROWTH FIELDS.**
- **CLOSE MENTORSHIP AND NETWORK GAPS** by investing in organizations that connect women with new business networks.
- **SUPPORT ALTERNATIVE METHODS OF BUSINESS EDUCATION AND TRAINING** such as accelerator programs that allow women to start and grow their businesses.
- **CATALYZE THE CREATION OF NEW PATHWAYS** for women entrepreneurs to gain capital.
- **ADVOCATE FOR POLICIES THAT INCREASE EQUAL ACCESS TO CAPITAL** for women from government and other institutions.
- **FUND LEGAL ADVOCATES TO ALTER THE BEHAVIOR** of existing institutions through antidiscrimination laws and lawsuits.
- **SUPPORT CDFIs AS LENDING INSTITUTIONS AND COLLABORATIVE FUNDS** explicitly designed to provide credit on reasonable and *equitable* terms for women and/or all borrowers.
- **INVEST IN RESEARCH USING DISAGGREGATED DATA** to fill gaps in knowledge about who is receiving capital.

Financial institutions can create new pathways for women to get the capital they need to be successful. Traditional routes for access to capital are not working for women — especially women of color. Intentional changes are needed to ensure women entrepreneurs are able to access and leverage capital that allows them to build equity and wealth.

RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

PROVIDE MORE FLEXIBLE LENDING OPTIONS THAT SUPPORT WOMEN-OWNED BUSINESSES.

- Offer low-barrier startup loans that benefit business owners and/or promote business growth in specific sectors.
- Add new products, test models, and pilot new underwriting criteria.
- Provide feasible lending options that provide incentives for startups, consideration for differences in how some industries generate revenue, and display objective criteria for loan qualifications.
- Make business financing, including loans and equity investments, less constrained and more accessible, and explore ways to require less collateral for new borrowers.

INCREASE ACCESS TO TECHNICAL ASSISTANCE.

- Invest in technical assistance and partnerships with organizations that help business owners with becoming lender ready.
- Spark a technical assistance fund targeted to helping women business owners.
- Link women business owners and aspiring entrepreneurs to mentors, business networks, and markets.
- Support the creation of a dynamic, interactive directory of entrepreneurial support organizations, services they provide, and connection points.
- Partner with community development financial institutions that are able and willing to offer riskier loans and provide business support.

IDENTIFY AND CHANGE INTERNAL PRACTICES THAT INTENTIONALLY OR UNINTENTIONALLY LIMIT ACCESS TO CAPITAL BY WOMEN AND PEOPLE OF COLOR.

- Weigh community impact in loan analysis and loan determinations.
- Emphasize diversity in hiring staff and invest in ongoing bias education training.
- Intentionally partner with women-owned businesses on community initiatives, their ongoing development, and promote their presence within the community.
- Incentivize employees to leverage community partner relationships to help guide the client/borrower when a loan cannot be approved.
- Replicate successful strategies from other banks or community development financial institutions.
- Establish and/or invest in open forums for women of color business owners.

ENDNOTES

1. William Darity Jr., M'Balou Camara, Khaing Zaw, Mitchell J. Murphy, Martine Aurelien, and Amy Fan, "Unlocking Assets: Building Women's Wealth Through Business Ownership," *Asset Funders Network, Closing the Women's Wealth Gap*, 2019.
2. Ibid.
3. Pat Brown, "Minority, Women-Owned Business Enterprise Helps Grow New, Existing Companies," *Arkansas Money and Politics*, July 2019. https://armoneyandpolitics.com/minority-women-owned-business-enterprise/.
4. Jennifer Joyner, "Report: Women-owned businesses add $9.5 billion to Arkansas economy," *Talk Business & Politics*, December 2017. https://talkbusiness.net/2017/12/report-women-owned-businesses-add-9-5-billion-to-arkansas-economy/.
5. Darity Jr., "Unlocking Assets."
6. "Arkansas Small Business Access to Capital Study," *Winthrop Rockefeller Foundation, Winrock International, Precise Data Consulting, LLC*, 2019. (unpublished)
7. Ibid.
8. Ibid.
9. Ibid.
10. Ibid.
11. Darity Jr., "Unlocking Assets."
12. Ibid.
13. Kathryn Finney, "Innovating Inclusion: digitalundivided and #Project Diane," Inc., 2016, https://www.inc.com/kathryn-finney/innovating-inclusion-digitalundevided-and-project-diane.html
14. "Arkansas Small Business Access to Capital Study," *Winthrop Rockefeller Foundation, Winrock International, Precise Data Consulting, LLC*, 2019. (unpublished)
15. Ibid.
16. Ibid.

ACKNOWLEDGEMENTS

This feature, developed by Arkansas Asset Funders Network in collaboration with Precise Data Consulting and the University of Central Arkansas, builds on the Asset Funders Network's Unlocking Assets: *Building Women's Wealth through Business Ownership* and research commissioned by the Winthrop Rockefeller Foundation, Winrock International, and the Women's Foundation of Arkansas.

PUBLICATION RESEARCHERS

KRISTY CARTER
Director of Marketing, Outreach and Community Engagement, University of Central Arkansas

JULIA CHEARS-YOUNG
Ph.D., Principal Researcher, Precise Data Consulting

EDITORS

ABBY HUGHES HOLSCLAW
Senior Director, Asset Funders Network

ANNIKA LITTLE
Deputy Director, Asset Funders Network

SUPPORT FOR THIS PUBLICATION

University of Central Arkansas · wfa Women's Foundation Arkansas · winthrop rockefeller foundation · Winrock International · Precise Data Consulting, LLC

ADDITIONAL CONTENT AND CREATIVE DIRECTION WAS PROVIDED BY

JENNIFER FARLAND, *AFN Communications Director*

REBEKAH HALL, *Writer*

While this document draws on insights shared throughout the process, the findings, interpretations, and conclusions expressed in this report, are AFN's alone and do not necessarily represent the view of AFN's funders or participants.