

Assisting the Smallest Businesses:

Assessing Microenterprise Development as a Strategy for Boosting Poor Communities

An Interim Report

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Executive Summary

The Problem Microenterprise Addresses

Today, in many towns and cities across the nation, we face unemployment and poverty rates on a scale that we have not seen in decades. To address this, there is an urgent need to find ways to create new jobs, to develop economically disadvantaged communities, and to keep the majority of our population in the productive economy.

Structural changes in the economy have resulted in far fewer good paying jobs, a different mix of skills required in the jobs that are available, and lower real wages for the majority of those who are in the productive economy. Economic decline in inner city and very rural areas coupled with economic growth in suburban areas have resulted in the isolation of many poor, minority or disadvantaged populations, moving them even farther from the economic mainstream. Paths out of poverty, or paths into the middle class from a lower income status are difficult to chart for even educated, skilled individuals.

In the face of diminished employment options, the prospect of running one's own business in one's own community appears to offer hope to some of the unemployed or underemployed. There is evidence that small businesses run by self-employed individuals, or very tiny businesses called *microenterprises*, are an important option for a segment of the unemployed and working poor population today.

The field of microenterprise assistance, where programs offer very small loans and technical assistance to microentrepreneurs, has grown dramatically over the last few years. In 1987, there were a handful of programs, perhaps ten at the most; in 1992, the *1992 Directory of Microenterprise Programs* recorded 108 programs in 38 states; today, the most recent survey for the *1994 Directory of Microenterprise Programs* reports on over 200 programs.

This article reports on early findings from a study of five of the oldest microenterprise assistance programs, and describes the characteristics of microentrepreneurs, their microbusinesses, and the programs that assist them.

The Self-Employment Learning Project

This article is based on findings from research conducted by the Self-Employment Learning Project (SELP), a program supported by the C.S. Mott and Ford Foundations with the purpose of producing information on the new field of microenterprise development in the United States. The majority of data for this article is from the central piece of the SELP assessment, an intensive outcome assessment of 302 randomly selected borrowers from five leading microenterprise programs. This central piece is being carried out by the evaluation firm James Bell Associates (JBA), and is managed by SELP.

This article also contains findings from two other components of the SELP assessment: a series of case studies conducted on each program, and a data collection effort which tracks and analyzes all program clients using agencies' internal data collection systems. Unless otherwise noted, all of the statistical information reported here is from the randomly selected 302 borrowers interviewed by JBA. This article reports on the baseline year of data collection. Subsequent data collection will track entrepreneurs and their businesses to assess change over time.

The five programs included in this study are: The Good Faith Fund in Pine Bluff, Arkansas; the Institute for Social and Economic Development in Iowa City, Iowa; the North Carolina Rural Economic Development Center's Microenterprise Loan Program in Raleigh, North Carolina; the PPEP Micro Industry Rural Credit Organization in Tucson, Arizona; and the Women's Self-Employment Project in Chicago, Illinois. All of these programs target their services to disadvantaged communities and provide varying degrees of credit and technical assistance to established and would-be entrepreneurs.

Who are the Microentrepreneurs?

This research reveals that microentrepreneurs participating in these programs are predominately minority (66 percent of the sample); there are high numbers of women participants in each program (75 percent of all clients); and microentrepreneurs generally have at least a high school level education (83 percent) and many have a few years of college or more (57 percent). These programs serve clients from a range of income levels: from very poor to low- to moderate-income. Sixty-one percent of borrowers earn less than \$18,000 per year, and of these, 26 percent earn less than \$6,000 per year.

Income levels of clients are highly dependent upon program-specific considerations: many agencies operate several programs that target specific population groups, such as clients receiving welfare, entrepreneurs in disadvantaged communities, or simply, people who don't have access to credit and technical assistance elsewhere.

Microentrepreneurs often utilize a "patchwork quilt" approach to household income, "patching" from various earnings sources to provide income for their families. Thirty percent of sampled clients manage their microbusinesses while also holding down a job.

Microentrepreneurs start their businesses for two principal reasons: one, because they need the income or they need a job, or two, because they love to do the kind of work their business requires, and have a special skill in that area. Often, microentrepreneurs provide a very specialized product or service that is particularly appropriate to that entrepreneur or his or her community.

What is a Microenterprise?

Microbusiness types are varied and diverse and reflect the richness of our economy at the smallest level. From a woman who makes firemen's uniforms out of special non-burn fabric to a veterinary clinic to a cookie-maker to a book sales representative, microenterprises span a very wide range of business types, while most are within the service or retail sector.

Almost all microenterprises are sole proprietorships: sixty-one percent have one employee, the owner-operator, while 23 percent have two to three employees. Microenterprises in this study, which roughly represents 26 percent of the five programs' total current client base, have created, stabilized or retained 563 jobs. Most businesses are young, while many are established: 42 percent are one year old or less; 23 percent are two or three years old, and 28 percent are over five years old.

Fifty-one percent of microbusinesses are profitable on a monthly basis, while an additional ten percent break even. Just over half of the sampled businesses earn under \$1,000 a month in gross sales, while 22 percent earn from \$1,000 to \$2,500 a month, and 24 percent earn \$2,500 or more a month in gross sales.

What Services do Microenterprise Programs Provide?

The five programs in this study all provide technical assistance and small amounts of credit to entrepreneurs. Four out of the five programs operate a group lending program, where borrowers guarantee the loans of the other members of their group, a method that allows for some security when borrowers have inadequate collateral. The group lending approach, pioneered by the Grameen Bank of Bangladesh, is a major innovation that promotes credit for the poor and has demonstrated that many non-traditional, risky borrowers can be creditworthy if loans are given in a highly structured way.

What Does the Study Reveal to Date About the Viability of Microenterprise Assistance?

Microenterprise development is at once human development, economic development and community development. It produces results in capacity- and skills-building for disadvantaged populations, and in this way is similar to a traditional human capital development intervention. It also creates jobs and businesses and in this way is more like a traditional economic development program. It also promotes activities that result in the development of disadvantaged communities, such as coalition building between local businesses, the creation of successful local entrepreneurs who serve as role models, and the stabilizing of local businesses in impoverished neighborhoods and communities.

On all of these fronts, measurable results have been observed: this sample of 302 businesses represents 563 jobs that were created, stabilized or retained, and at least 150 profitable businesses are documented here that are bringing new wealth to marginalized communities. As a human development strategy, 62 percent of respondents report a significantly higher self-esteem regarding their businesses as well as their personal lives after participating in the program.

Issues Raised by the Findings

The preliminary findings reported here raise several important issues about the field of microenterprise development. One important area to clarify further is related to the wide range of clients served by these programs. Some very poor respondents are utilizing microenterprise as a path out of poverty, and these clients represent a significant portion of each program's work. Other clients use microenterprise as a source of supplemental income to help their families make ends meet. While not severely poor, these clients could be considered the working poor, and they have turned to microenterprise to use their talents more productively than a wage job would allow them. Other clients seem to utilize microenterprise programs simply because they cannot obtain loans or technical assistance services elsewhere; because their business is too small, too young, they don't have sufficient collateral, or they have been discriminated against as women or minorities.

The wide range of clients served underscores the importance of clarifying the fact that microenterprise assistance will have different results for different types of populations. Within programs, there may be a subset of clients for whom the programmatic goal of poverty alleviation

is appropriate. For other clients in that program, the goals of more traditional economic development, such as job creation, small business creation or stabilization, are appropriate.

In a more perfect world, the more established clients would be able to “graduate” from the assistance of a nonprofit microenterprise agency to commercial banks. As the research is showing that many of these businesses are viable and profitable, it may prove possible to link these clients to more mainstream business assistance institutions after a period of time with a microenterprise agency.

Other important areas the SELP study will address in the next two years of data collection include the tracking of clients and their businesses over time to see if incomes rise and businesses grow, the documentation of program costs and benefits in relation to other programs with the same ends, and an analysis of how microbusinesses contribute to the communities of which they are a part.

Introduction

Few doubt that today we face an urgent and compelling challenge to address economic deterioration and unemployment in poor communities across the nation. The severity of the problem has become clear as we observe swelling national unemployment rolls, joblessness in families of skilled laborers who once felt secure, and a stark disparity between the rich and the poor in almost every community. Further, we see a rapidly growing “working poor” class who struggle to make ends meet while two adults in the household work.

In response to these trends, policymakers and the philanthropic community search for strategies and approaches that appear to offer some promise. Traditional job training and placement strategies seem to fall short in today’s radically changed economy. Similarly, branch plant attraction strategies, long the staple activity of state and local governments, are no longer as effective as they once were at creating jobs, especially in disadvantaged communities. In the meantime, the problems remain, and hard-working Americans of all races and classes struggle to find work to support their families.

In the face of diminished employment options, the prospect of running one’s own business in one’s own community appears to offer hope to some of the unemployed and underemployed. There is increasing evidence that small businesses run by self-employed individuals, or very tiny businesses called *microenterprises*, are an important option for a segment of the unemployed and working poor population today. Encouraging the development of microenterprises has become a new part of a growing trend towards supporting “growth from within” in poor communities, that is, encouraging economic development with resources that already exist in communities. In the case of microenterprise development, nonprofit agencies and government entities build upon the skills and talents of community residents and hope that even very small businesses can create jobs, create new business growth, encourage the accumulation of capital, and revitalize local economic activity.

To create knowledge on the new field of microenterprise development, the Charles Stewart Mott and Ford Foundations founded the Self-Employment Learning Project (SELP) at The Aspen Institute in 1991. At the core of SELP’s work is a three-year outcome assessment of five of the most established microenterprise programs in the United States. Data from two additional urban programs associated with the Ms. Foundation’s Collaborative Fund for Women’s Economic Development will be added to the study at the end of 1993; these are the Coalition for Women’s Economic Development in Los Angeles, California, and Women Venture in St. Paul, Minnesota.

This article is based on findings from several components of the SELP assessment: the baseline year of data collection from an intensive, interview-based study of 302 randomly selected borrowing clients from five microenterprise agencies that is being conducted by an evaluation

firm, James Bell Associates; the SELP Program Profile which aggregates internally collected data on all program clients from each of the participating programs; and, data from a set of case studies completed in 1992 on each of the agencies. Unless otherwise noted, all of the information reported here is from the baseline year of data collection from the interview-based study conducted by James Bell Associates. For the baseline year, survey respondents report on the 12-month period from October 1991 to September 1992. Respondents will be interviewed two more times at eight month intervals over the life of the project.

The Microenterprise Programs Participating in the SELP Study

The five agencies participating in the first baseline year of the SELP study operate in a wide variety of settings—rural Arkansas, urban Chicago, the border towns of Arizona, and counties in Iowa and North Carolina. Within these diverse contexts, all of the programs target their services in economically disadvantaged communities where unemployment rates range from 5.1 to 12.4 percent and poverty rates from 11 to 23 percent (see page 3, Program Counties). These programs have found that within these economically marginalized areas there is a vibrant sector of very small businesses, called microenterprises, that are generally excluded from traditional credit markets and other forms of business assistance.

The programs in the study offer varying combinations of credit and technical assistance to microentrepreneurs and would-be microentrepreneurs. All programs offer some form of technical assistance, generally including business plan preparation, financial statement preparation, marketing, and other subjects, together with small amounts of credit. The average size of loans range from \$1,537 to \$8,230; they carry market rates of interest—from 9.5 to 15 percent, and they are short term—on average, from 8 to 24 months.

Programs use innovative methods of securing loans. The “peer lending” or “group guarantee” method pioneered by the Grameen Bank of Bangladesh is used by three of the five programs (Good Faith Fund, North Carolina Rural Economic Development Center, the Women’s Self-Employment Project) to group borrowers together who “guarantee” each other’s loans. Another program, the Institute for Social and Economic Development, provides a guarantee fund to encourage a participating bank to make loans directly to welfare recipients and others who have been through a training program and are starting businesses. Some programs take collateral on loans but do so in a creative way: allowing bicycles or other non-traditional household items to serve as collateral or guaranteeing less than the full value of the loan with collateral. Programs also offer other forms of support to entrepreneurs including forming them into associations and/or requiring their participation in various training and technical assistance programs.

The five programs participating in the study are:

The Good Faith Fund (GFF), located in Pine Bluff, Arkansas, is in the heart of the delta region. Created in 1988, the Good Faith Fund is a nonprofit program of the Southern Development Bancorporation, a federally regulated bank holding company dedicated to rural economic development in the state. The Southern Development Bancorporation was created by the founders of South Shore Bank in Chicago, one of the first community development banks in the country, at the behest of the Winthrop Rockefeller Foundation and then-Governor Clinton.

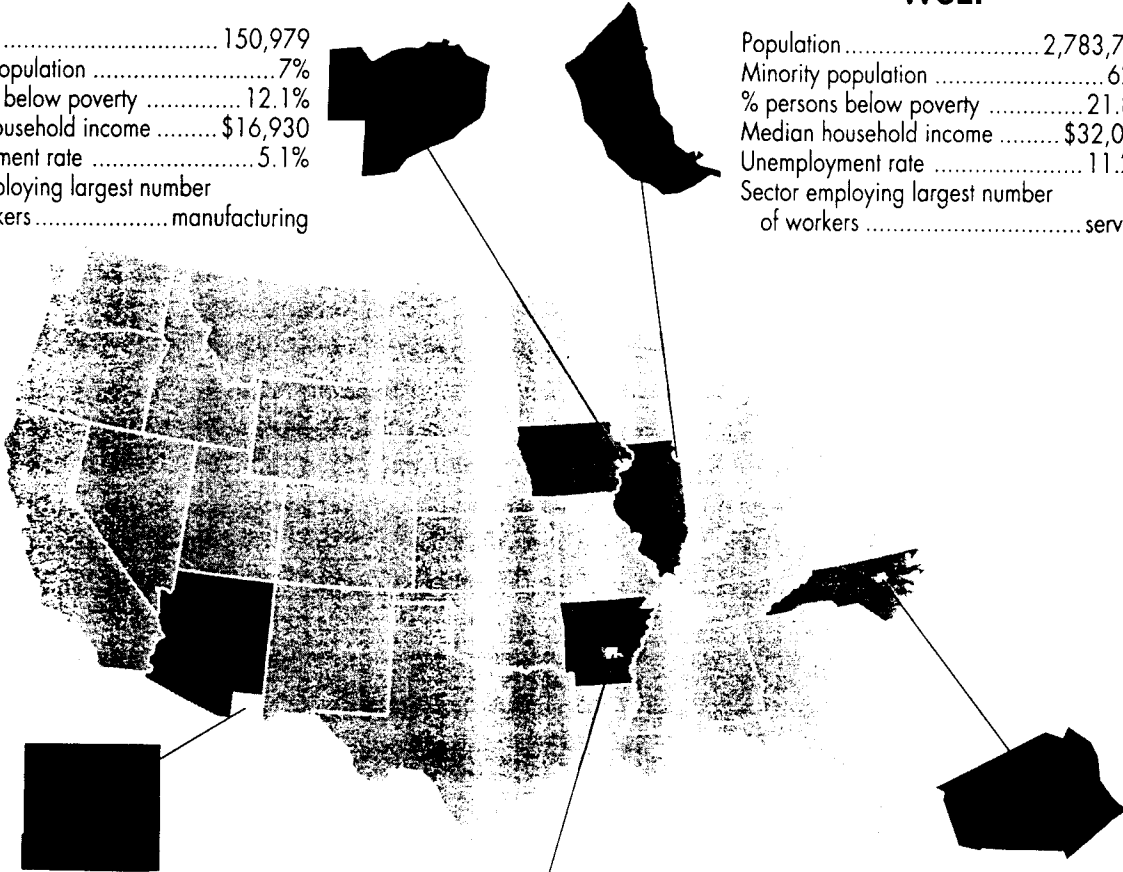
Program Counties with Largest Number of Clients

Scott County, Iowa ISED

Population 150,979
 Minority population 7%
 % persons below poverty 12.1%
 Median household income \$16,930
 Unemployment rate 5.1%
 Sector employing largest number
 of workers manufacturing

Chicago, Illinois WSEP

Population 2,783,726
 Minority population 62%
 % persons below poverty 21.8%
 Median household income \$32,009
 Unemployment rate 11.2%
 Sector employing largest number
 of workers service



Cochise County, Arizona MICRO

Population 92,172
 Minority population 36%
 % persons below poverty 20%
 Median household income \$22,425
 Unemployment rate 10.2%
 Sector employing largest number
 of workers government

Wilson County, North Carolina REDC

Population 66,061
 Minority population 38%
 % persons below poverty 19.74%
 Median household income \$29,312
 Unemployment rate 6.6%
 Sector employing largest number
 of workers white collar*

Jefferson County, Arkansas GFF

Population 85,487
 Minority population 44%
 % persons below poverty 22.71%
 Median household income \$27,000
 Unemployment rate 12.4%
 Sector employing largest number
 of workers service

* White collar is
 defined as profes-
 sional, technical, or
 managerial workers

Source: U.S. Bureau of the Census. 1990 Census of Housing and Population on CD-ROM, County level Data. 1992.
 Data compiled by the Self-Employment Learning Project.

As one of the nonprofit arms of Southern, the Good Faith Fund was a pioneer effort to replicate the peer lending approach of the Grameen Bank of Bangladesh in the United States. In its five years of operation, the Good Faith Fund has continued to operate its innovative peer lending program, and has also added an individual lending program that works with more traditional collateral requirements. As a program of a bank holding company, Good Faith Fund's role is to widen the profile of potential entrepreneurs to include women, minorities and other dislocated workers. Working in a sparsely populated, rural and poor region, the Good Faith Fund has assisted 230 entrepreneurs and made 90 loans totaling \$173,420 in the period from May, 1988 to December, 1992.

The Institute for Social and Economic Development (ISED), headquartered in Iowa City, Iowa, provides intensive technical assistance to low-income individuals who are interested in starting a business. The Institute was founded in 1988 with a demonstration program to offer services to women who were interested in self-employment as a route off of welfare. Since that time, the Institute has grown to serve nascent entrepreneurs in 33 counties in Iowa and 3 counties in Illinois. The Institute differs from the other programs in the SELP study by not offering credit directly, but delivering an intensive technical assistance package that includes business planning and self-esteem building, and then linking some entrepreneurs with banks for loans, some of which are partially guaranteed by the Institute. Until recently, ISED served only very low-income entrepreneurs, in particular, women on welfare. The Institute has served 725 clients, 152 of which started businesses and 32 who expanded their businesses in the period from 1988 to December, 1992. In the same period, ISED assisted entrepreneurs to obtain 95 loans totaling \$624,121.

The Rural Economic Development Center's (REDC) Microenterprise Loan Program, based in Raleigh, North Carolina, operates statewide through 15 local community development organizations. The program was initiated in 1989 as one part of a comprehensive enterprise development initiative supported by the North Carolina legislature. Created as a demonstration program, the Microenterprise Loan Program was designed to address several clear questions, the key ones being: "Is there a demand for very small amounts of credit and does the delivery of this credit lead to improvements in the local economy?" And, "Is there a cost effective way to deliver this credit?" Two program methodologies were implemented, the group lending model and the institutional, or individual lending model.

The demonstration phase proved successful, and the program has received continued support from the state legislature for expansion. Central to the structure and philosophy of this program is the use of a "piggybacking" approach—entering into partnerships with local community organizations who add microenterprise to the array of services they already offer. This approach keeps transaction costs low and helps to support a close relationship between lender and borrower while still allowing state-wide program coverage. From September, 1989 to December, 1992 the Rural Center served 315 clients and disbursed 206 loans with a total value of approximately \$1.2 million.

The Women's Self-Employment Project (WSEP) was founded in Chicago, Illinois in December, 1986 with the mission of raising the level of economic self-sufficiency of low- and moderate-income women in Chicago through self-employment. The program utilizes two

techniques of credit and technical assistance delivery: group lending, based on the Grameen Bank model, and an individual lending program. WSEP also runs a program that is targeted specifically to women on welfare. WSEP's programs provide a range of support services to entrepreneurs, emphasizing participatory approaches to training and technical assistance which are designed to bring out the talents and skills of individuals, and give women the self-esteem needed to succeed in business.

WSEP is unique among the group of programs in the SELP study in that it is an urban program, and one that solely targets women. From December 1986 to December, 1992, WSEP served 1,179 clients and disbursed 300 loans for a total value of \$461,078.

Portable Practical Education Program (PPEP)/ Micro Industry Rural Credit Organization (MICRO), was founded in January, 1987 to serve entrepreneurs in the border towns of Arizona and California. As one of the first microenterprise programs in the United States, it drew from the experience of ACCION International, a successful microenterprise organization with experience in Latin America. Rather than utilizing the group lending approach, PPEP/MICRO chose to use the concept of business associations, or groups of 20–30 microentrepreneurs, who meet regularly and assist each other's businesses. As distinct from the other programs in this study, PPEP/MICRO

Defining Microenterprise

A *microenterprise* is generally a sole proprietorship that has fewer than five employees, has not had access to the commercial banking sector, and can initially utilize a loan of under \$15,000. Most of the microenterprises that programs work with are in fact much smaller, with less than three employees, and the majority of microbusinesses are operated by the owner alone, which has led to the frequent use of the term *self-employment*.

A *microenterprise development program* is generally a program run by a non-profit organization (although there are some state-run programs) that provides any combination of credit, technical assistance, training and other business and personal assistance services to microentrepreneurs. Of 108 programs in 35 states surveyed for the *1992 Directory of Microenterprise Programs*, 95 percent offer some form of technical assistance and 58 percent offer credit.

A *microloan* is a very small loan to a microenterprise. Of the programs surveyed for the *1992 Directory of Microenterprise Programs*, most microloans are under \$10,000, with an average loan size of \$5,640. Loan terms range from one year to 4.75 years. Programs charge market rates of interest, from eight to 16 percent. Loans are generally secured by non-traditional collateral, flexible collateral requirements or group guarantees.

Margaret Clark and Tracy Huston, eds., *1992 Directory of Microenterprise Programs* (Washington, D.C.: Self-Employment Learning Project, 1992), p. xv.

specifically targets businesses that have been in operation for at least a year, rather than start-ups. PPEP/MICRO places a great value on encouraging its entrepreneurs to expand their businesses and create jobs for new employees.

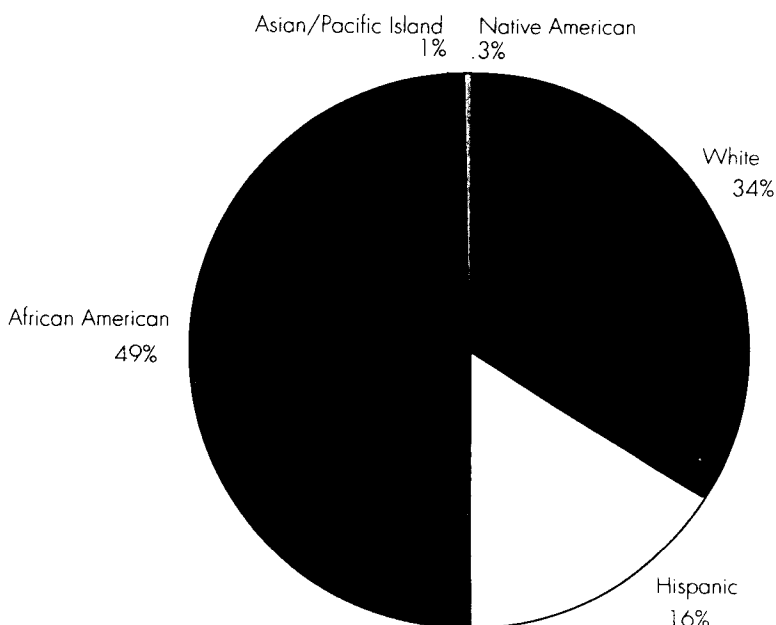
Serving a predominately Hispanic population, PPEP/MICRO supports businesses in the poor but economically active area of the U.S. border with Mexico. Many PPEP/MICRO businesses sell to Mexicans who come across the border to shop or acquire services. In the period from January, 1987 to December, 1992 PPEP/MICRO has served 441 clients and disbursed 893 loans totaling approximately \$1.5 million.

Microentrepreneurs: A Portrait of Educated, Skilled Workers who Need to Increase their Incomes or Improve their Lives

Across programs, a clear portrait has emerged of the typical microentrepreneur served by these nonprofit agencies. The majority, 66 percent, are from a minority ethnic group, the largest minority group being African-Americans, who make up 49 percent of this study. This reflects the racial and ethnic composition of the communities where these programs target their activities: they work in poor counties where there are generally high minority populations. Four of the five agencies work in counties where 36 to 62 percent of the population are African-American or Hispanic. This finding points to the possibility that these minority entrepreneurs go to microenterprise programs because they are excluded from other conventional credit or business assistance sources, such as banks or business assistance agencies.

While only one of the programs serves women exclusively, a very large majority of program respondents, 75 percent, are women. In the four programs that serve both men and women,

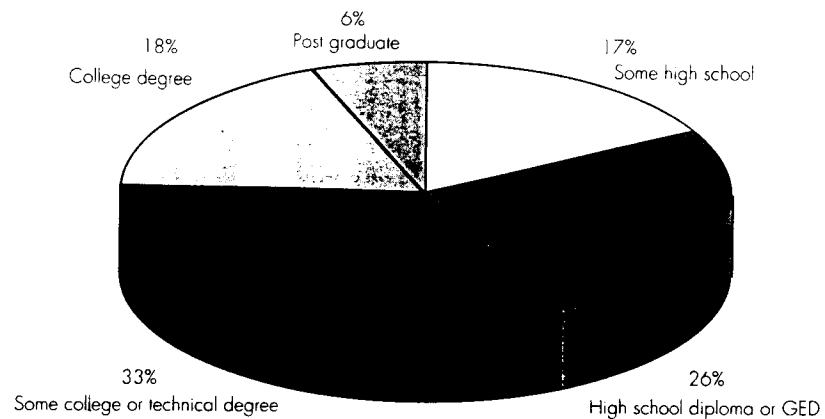
Racial/Ethnic Makeup of Respondents



women represent 45 to 68 percent of the total client population. This finding is in keeping with trends in the American population as a whole where female business ownership has increased dramatically in the last decade. It also reflects the fact that programs, in their efforts to reach low-income and needy individuals, must target women as they make up a majority of the poverty population. In every county where programs operate, women's income levels are lower than those of men, and women and children make up a significant portion of the poverty population.

Generally, survey respondents are at least middle-aged; more than two-thirds of survey respondents are between the ages of 30 and 49. At a later point in life people are generally better positioned to start a business: they may have savings, skills, and the information needed for entrepreneurship, and they may also have some assets to protect them against business risk.

Education Levels Attained



Significantly, sampled microentrepreneurs appear to be well-educated, with 82 percent having a high school level education or more. Of the total sample, 26 percent have a high school diploma or an equivalency degree, 33 percent have some college or a technical degree, 18 percent have a college degree, and 6 percent have completed some post graduate work. This reflects the education levels in counties where programs work.

This finding is important because education has always been seen as a key predictor to job success. In America, it was thought that a high school level education would guarantee you a decent job. Even better, if you had some college or additional skills, we always believed that you would find a productive niche in our economy. Structural changes in our economy have led to increasing unemployment and widespread low wages, and both of these trends are not necessarily mitigated by a person's education level. The majority of clients sampled, 53 percent, started their microenterprise because they needed additional income or they needed a job. This implies that many well educated respondents turned to microenterprise out of economic necessity.

Microentrepreneurs are generally well-skilled and a significant number have a talent and a love for the field in which they started their business. Twenty-eight percent of the sample said they started their business because they love what they do, they have the skills, and because they saw a market opportunity or community need that they thought they could fill.

A "Patchwork Quilt" Approach to Household Income

For forty percent of respondents, the microbusiness is their sole source of income. However, many others hold down one or two other jobs while also running their microbusinesses. Microentrepreneurs typically have a "patchwork quilt" approach to providing income for their families, "patching" from various income sources to provide for their families. Thirty percent of the sample, or ninety people, manage their microbusinesses while also holding down a job, and in many households there are several different sources of income from several adults. This phenomenon can be linked to the growing numbers of "working poor" in the United States today. These people find that they cannot provide for their families on one low-wage job—or even, in some cases, two low-wage jobs. This trend underscores the limited economic opportunities that

Microbusiness Profile

Surviving on Several Different Income Sources, Including a Microenterprise

Martha and her husband Hank live in a small town near the Mexico-Arizona border. Several years ago, Hank lost his job in the local smelter plant when it relocated out of the area. Since that time, they have survived as a household by "patching" from a number of different income sources, including Hank's monthly pension of \$872 from the smelter plant. Other income sources include approximately \$3,000 a year from Hank's new cattle sales business and Martha's contribution from her work as an Avon sales representative. However, the main source of earnings for the household is Martha's microbusiness, a specialty embroidery business.

Martha began her embroidery business in 1986 "to raise extra money and to keep my mind going." With the assistance of three loans from MICRO to purchase the embroidery machines, threads and supplies, she has built a thriving business from the spare bedroom of her home. Last year she had a gross profit of \$29,000.

Martha embroiders logos and names on sporting goods clothing and equipment. Her major customers are sporting goods stores, businesses, and colleges, who have learned that they can contract with Martha locally and save themselves the 125 mile trip to Tuscon, while still getting the same high quality product in a shorter time frame.

Her future plans are to add a room onto their house and move Martha's machines out of the spare bedroom and into a shop area. Martha says, "I probably could do a lot more if I wanted to expand, but I can handle what I have right now. I'm happy. I don't need to advertise anymore; I just rely on word of mouth."

are available to the typical microentrepreneur and conversely, to the resourcefulness with which they approach their economic lives. This points to the possibility that microenterprises may serve an important buffer role, allowing families to have higher incomes than they would if family members only held wage employment.

The majority of clients (54 percent) rely on their microbusinesses as their primary source of earnings, while 31 percent of participants rely on a job for their primary earnings. For all programs, the majority of clients rely on their microbusinesses as their primary source of earnings, with REDC and PPEP/MICRO having the largest percentage, 68 and 61 percent respectively.

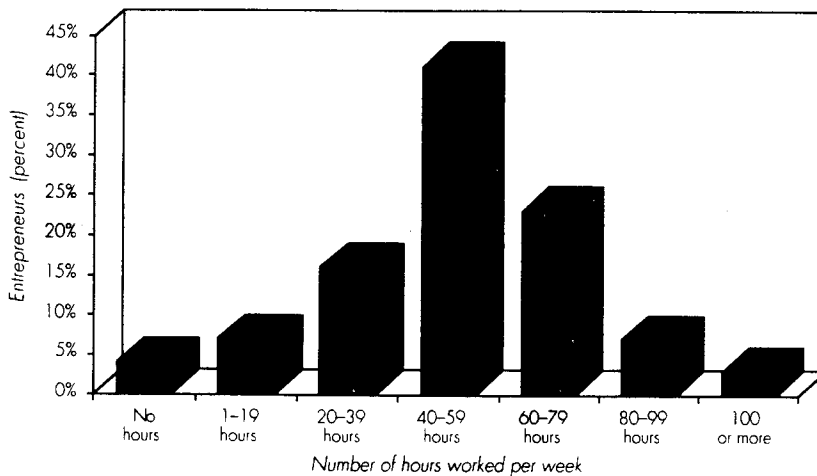
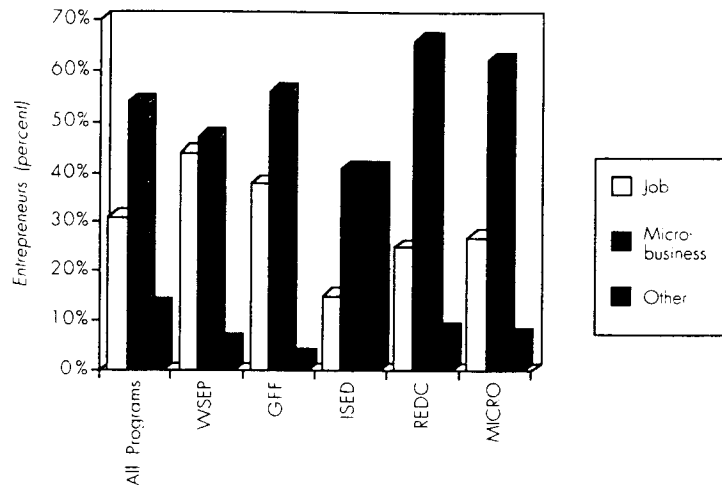
For clients whose primary source of earnings is the microbusiness (54 percent), earnings per hour varies. The largest percentage of clients, 33 percent, earn \$9.00 or more per hour. Twenty-eight percent of these clients earn less than \$3.00 per hour. Thirteen percent earn \$3.00–4.99 per hour, seventeen percent earn \$5.00–6.99 per hour, while nine percent earn \$7.00–8.99 per hour.

For the clients who consider the microbusiness their primary source of earnings, but who hold a second job, 69 percent earn above the hourly minimum wage in that second job; and close

to half earn \$5.00 to \$6.99. Thirteen percent earn \$7.00 to \$8.99 an hour, and an additional 13 percent earn more than \$9.00 an hour at the second job.

Overall, most survey respondents are generally full-time workers, and work at least forty hours a week. Forty-one percent work for 40 to 50 hours per week and 23 percent work 60 to 79 hours per week. More than half of the microentrepreneurs devote 76 to 100 percent of hours worked to their microbusinesses, although on average, respondents spent 23 percent of their time per week in a regular wage job that is not their business.

Entrepreneurs' Primary Source of Earnings



Number of Hours Worked Per Week from Primary and Secondary Earnings Sources

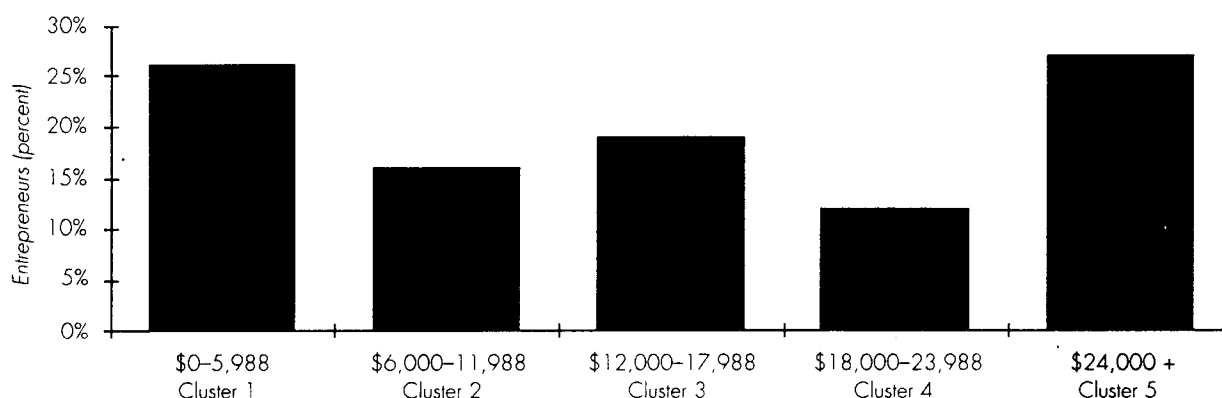
Programs Serve a Range of Income Levels with Most Clients Earning Below \$18,000 per Year; Client Income Levels Reflect Program Goals

Findings reveal that 61 percent of the clients sampled earn less than \$18,000 per year. The mean total monthly income is \$1,413 or \$16,956 per year. There are roughly five clusters of income levels of clients: the first consists of clients who earn below \$5,988 per year; this group represents 26 percent of the total sample. This cluster encompasses the subset of welfare clients who currently have no other source of income beyond government assistance but who are starting a microbusiness to try to get off of welfare. The subset of welfare clients within this cluster represents 12 percent of the total sample. The programs who have the most clients in this group are the Institute for Social and Economic Development, PPEP/MICRO, and the Good Faith Fund.

The second income cluster consists of clients who earn between \$6,000 and \$11,988 per year. This group is 16 percent of the sample, and falls below standard definitions of the poverty line.

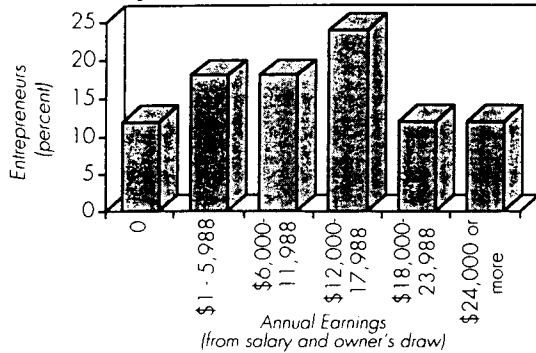
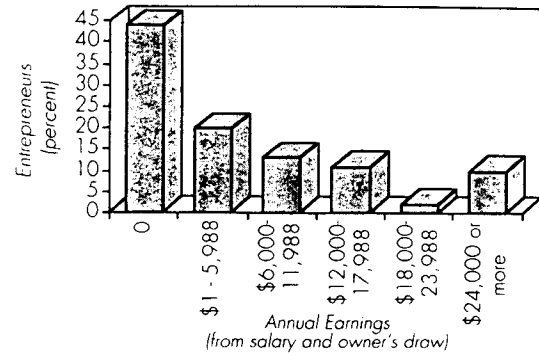
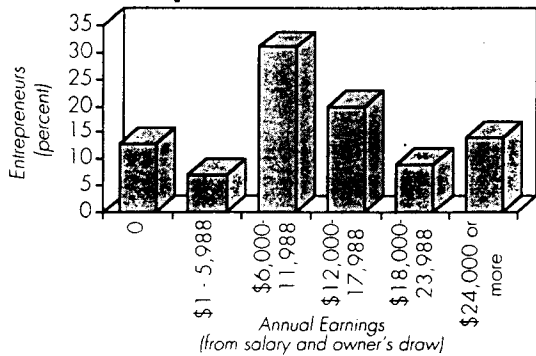
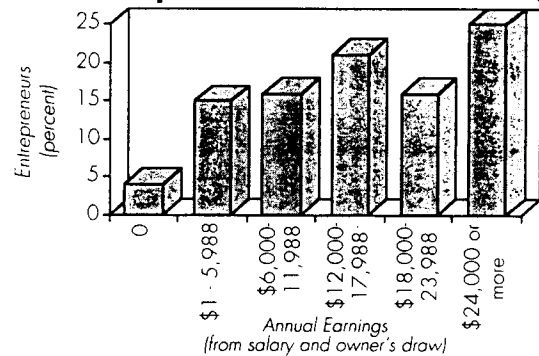
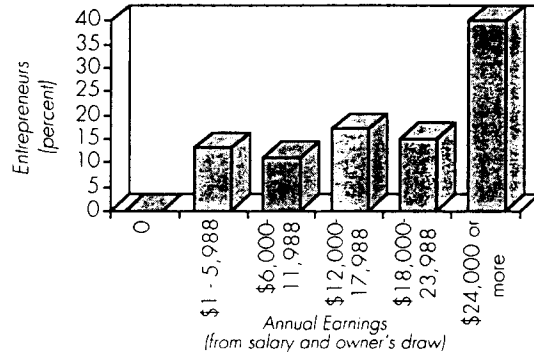
These first two clusters of people who earn less than \$12,000 per year represent 42 percent of the total sample. The objective of programs serving these clients is poverty alleviation. Programs strive to offer services to these clients and their microbusinesses to enable them to survive economically and to move out of poverty. The characteristics of self-reliance and initiative-taking that running a business requires are important skills for this group to acquire, as they need to muster up enough will to break the psychological hold of dependence and helplessness that welfare and persistent poverty often bring.

Entrepreneurs' Individual Annual Earnings



The third cluster of clients earn \$12,000 to \$17,988 per year; this group is 19 percent of the sample and consists of people who run microenterprises because they need supplemental income or are working but poor. The fourth major cluster, 12 percent of the sample, is comprised of individuals who earn \$18,000 to \$23,988. These two groups may be called low to moderate-income. An additional 23 percent of the sample earn more than \$24,000 per year. For this last group, we may find that they participate in microenterprise programs because of a persistent credit gap, where, because of their race, or gender, lack of collateral, or the smallness of their business, they are unable to get credit from a commercial bank. Another explanation for the presence of clients with higher incomes may be revealed in subsequent reports where we will be able to determine if these clients' incomes are higher because they have more established businesses and their incomes have grown over time during their participation with the program.

Income levels of clients are highly dependent upon program-specific considerations. Some programs operate several different microenterprise programs geared to different types of clients. WSEP, for example, has a peer lending program where services are provided to any woman who has not been able to get credit or technical assistance elsewhere. WSEP also runs a program specifically for very poor women who are interested in getting off of welfare through starting a microbusiness. The Institute for Social and Economic Development in Iowa until recently targeted only low-income people, and has a large program just for women receiving welfare. Other programs target disadvantaged communities where unemployment and poverty rates are high and serve all clients within those communities who qualify for their services. The Good Faith Fund, the North Carolina Rural Economic Development Center, and PPEP/MICRO are examples of this approach.

GFF Entrepreneurs' Annual Earnings

ISED Entrepreneurs' Annual Earnings

MICRO Entrepreneurs' Annual Earnings

REDC Entrepreneurs' Annual Earnings

WSEP Entrepreneurs' Annual Earnings

Entrepreneurs' Annual Earnings from Salary and Owners' Draw (%)

Dollars	All n=302	WSEP n=86	GFF n=34	ISED n=54	REDC n=83	MICRO n=45
\$0	12%	0%	12%	44%	4%	13%
\$1-5,988	14%	13%	18%	20%	15%	7%
\$6,000-11,988	16%	11%	18%	13%	16%	31%
\$12,000-17,988	19%	17%	24%	11%	21%	20%
\$18,000-23,988	12%	15%	12%	2%	16%	9%
\$24,000-29,988	8%	16%	0%	4%	10%	2%
\$30,000-35,988	5%	9%	3%	0%	5%	4%
\$36,000-41,988	4%	7%	6%	0%	4%	4%
\$42,000 or more	6%	8%	3%	6%	6%	4%
Missing	4%	2%	6%	0%	6%	4%
Median (dollars)	\$13,200	\$2,004	\$11,820	\$1,980	\$15,804	\$10,800
Range (dollars)	\$0-165,000	\$396-165,000	\$0-47,880	\$0-48,000	\$0-99,996	\$0-69,000

Three of the Five Programs Actively Target Welfare Clients to Help them Leave Welfare by Developing a Microenterprise

The Good Faith Fund, ISED, and WSEP actively target welfare clients in an attempt to help them get off of welfare by starting a microbusiness. Of these, the Good Faith Fund and ISED have significant numbers of people receiving government assistance relative to their overall portfolio of clients. Fifteen percent of the Good Faith Fund's sampled clients are receiving Aid to Families with Dependent Children (AFDC) while 69 percent of the Institute for Social and Economic Development's clients receive AFDC.

More than half (62 percent) of the sample from the five programs are not receiving any form of government assistance while 38 percent receive some assistance. Of those receiving government assistance, the largest share are recipients of food assistance (23 percent), while 17 percent receive AFDC and 4 percent receive general assistance.

Microbusiness Profile

Establishing a Microbusiness as a Route Off of Welfare

Cheryl is a single parent of four children who had been working two part-time jobs as a waitress and barber. Two months before graduating from barber school, Cheryl recieved a notice of the ISED microenterprise program along with her monthly AFDC payment. It was perfect timing. Seven months after she enrolled in ISED's business training program and wrote a business plan, she purchased the barber shop from her boss with a \$10,000 loan at 5 percent interest and guaranteed by ISED. Although Cheryl and her family were on welfare, through ISED she obtained a special federal waiver that did not penalize her for accumulating assets over \$1,000. Cheryl obtained the federal waiver in July 1990 and 13 months later was earning enough income from her barber shop to support her family and get off of welfare.

Cheryl's biggest microbusiness challenge was to retain the customers of the previous owner. But with time and increasing name recognition, her sales have been steadily increasing. By joining the Downtown Business Association, she has found support as well as a network for clients. She was recently elected to the Board of Directors and received a "good citizen" award for helping out a local business owner in a time of need.

Cheryl attributes her leadership abilities to the self-confidence she developed through ISED's Self-Employment Investment Development program. She describes the program as "the best thing that ever happened to me. I have more self-esteem and confidence. I am in more control of my life. The program has helped me to be a stronger person and it taught me how to manage a business of my own."

The welfare-to-self-employment strategy is a unique subset of the microenterprise field that uses a specialized set of interventions that are particularly appropriate for people on welfare. While providing the same general package of direct microenterprise development assistance that includes technical assistance and credit, these programs offer a tailored, participatory set of training workshops and technical assistance interventions that may include workshops and consultations on self-esteem building, setting goals, analyzing the viability of starting a micro-business, balancing a budget, and other topics.

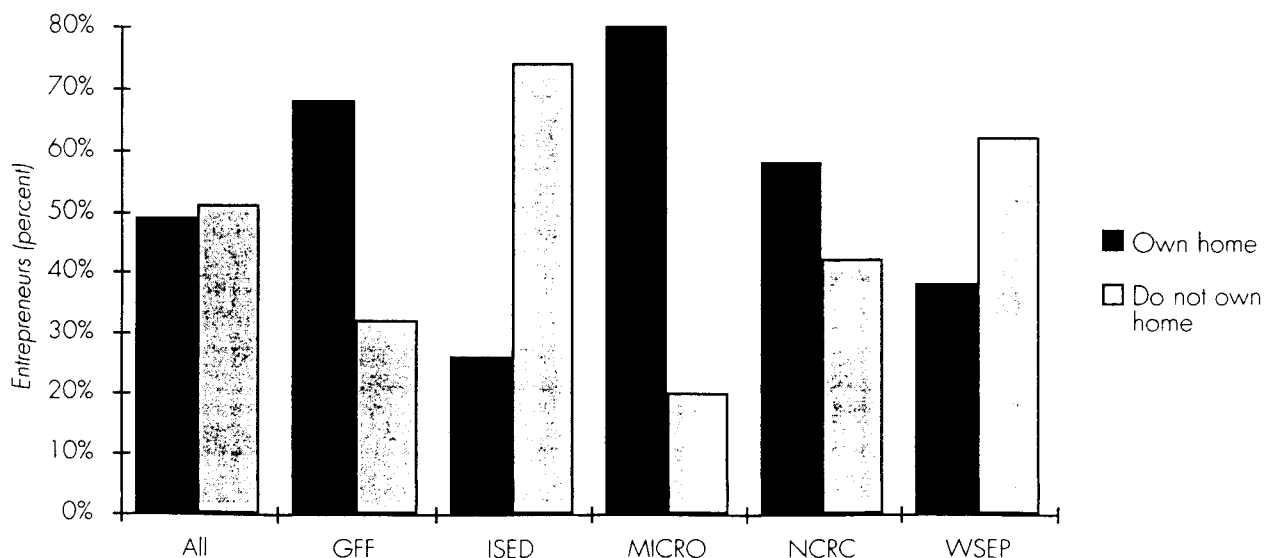
These programs have obtained state or federal waivers to allow recipients to maintain a certain portion of their benefits while they set up their businesses. These programs are also attempting to change other regulatory barriers that make it extremely difficult for a person on welfare to succeed at a new business. Some of these barriers that welfare recipients face include limitations on asset and income accumulation.

Sampled Microentrepreneurs Generally Have More Assets than Debt, and Almost Half Own their Homes

Forty-nine percent of respondents own their homes, while 51 percent do not. Three rural programs, the Good Faith Fund, Rural Economic Development Center and PPEP/MICRO, have high percentages of home owners (68 percent, 58 percent and 80 percent, respectively), while for the one urban program, WSEP, 38 percent of clients own their homes while 62 percent of clients do not. The other program with low levels of home ownership is the Institute for Social and Economic Development, which primarily targets low-income recipients. For this program, 26 percent own their homes while 74 percent do not.

While 21 percent of respondents have more liabilities than assets, or a negative net worth, 69 percent have a positive net worth. Of these, 20 percent have assets under \$5,000, seven percent have assets from \$5,000 to \$10,000 and 42 percent have total assets valued over \$10,000.

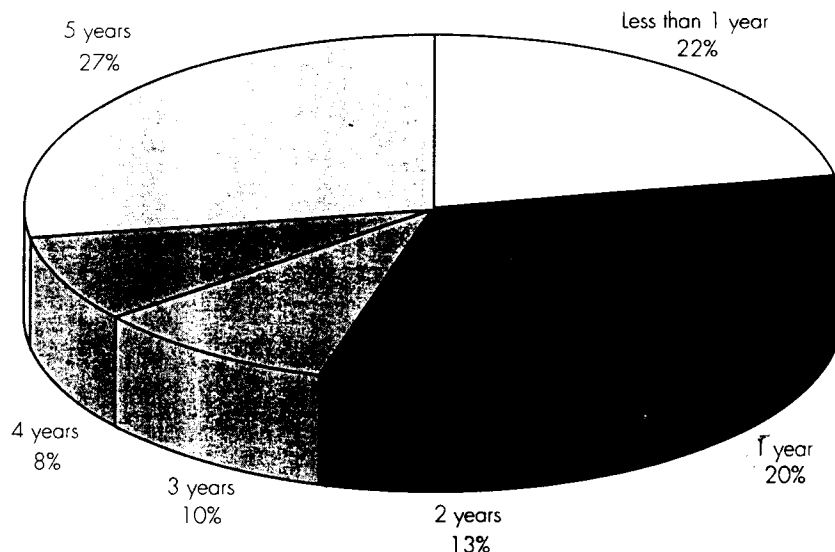
Homeownership



Most Microbusinesses are Service or Retail Sole Proprietorships that are Less than Five Years Old

Forty-one percent of businesses in the sample are one- to four-years old while 28 percent are five-years old or more. In the one- to-three-year category, 20 percent are one-year old, 13 percent are two-years old, ten percent are three-years old, and eight percent are four-years old. The older

Age of Microbusinesses for All Programs



businesses are spread evenly across programs, with the exception of ISED, which targets start-up businesses for welfare clients.

Only 22 percent of the sampled businesses are start-ups, and nearly half of these (41 percent) are from ISED. The small number of start-ups reflects the fact that this study surveyed borrowers, not non-borrowing clients.

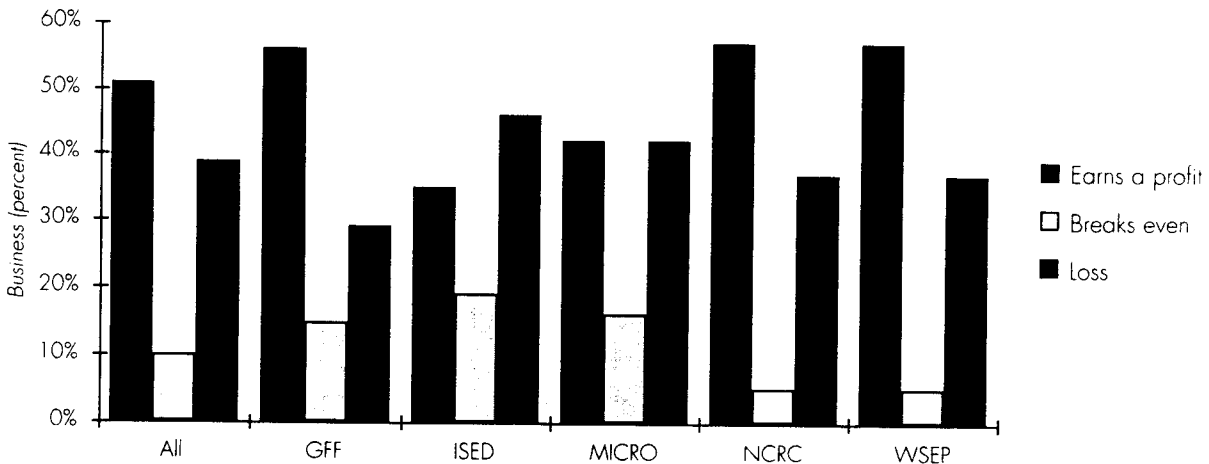
The overwhelming majority (90 percent) of businesses are sole proprietorships. Microbusinesses span a range of business types, with no one business type showing predominance. This array of business types reflects the diversity of economic activity at the smallest level. The only Standard Industrial Code categories accounting for more than 10 percent of the total are "personal services," "retail apparel stores," and "miscellaneous retail." Other businesses include apparel and other textiles, stone, clay and glass products, non-durable wholesale trade, retail food stores, durable wholesale trade, food and related products, special trade contractors, and business services.

Many microbusinesses in the sample, 62 percent, are home-based, which reflects an important trend in the U.S. economy as a whole. The only urban program in the sample, the Women's Self-Employment Project, has a large majority of home-based businesses in its portfolio: 81 percent of their businesses are home-based.

Fifty-one Percent of Businesses are Profitable on a Monthly Basis

A pressing concern about microenterprises has always been whether they are profitable, and further, whether they could be profitable enough to provide necessary incomes to a vulnerable population. Preliminary findings from the survey population reveal that just over half of the sampled microbusinesses are profitable on a monthly basis.

Net Profits in a Normal Month



Microbusiness Profile

Making a Profit and Providing a Needed Community Service

Clare is married and a mother of three children. She has been a music teacher since graduating from college. In 1989, she took a break from teaching to open a day care business and more importantly, to provide a needed service for the community. She started the business after recognizing the lack of good daycare facilities for working parents in her community.

The business employs four full-time employees and one part-time employee. Clare started the day care using both funds of her own and a \$4,000 loan from the Good Faith Fund. With the loan, she was able to purchase a new heating system in order to open her doors for business. At the same time, she participated in the Good Faith Fund's business training program which helped her develop good business practices such as cash flow accounting. The enterprise generates a good profit with average monthly gross sales of \$6,000 and average monthly expenses, including labor, of \$2,690. She has continued to participate in GFF's programs to develop her business management skills.

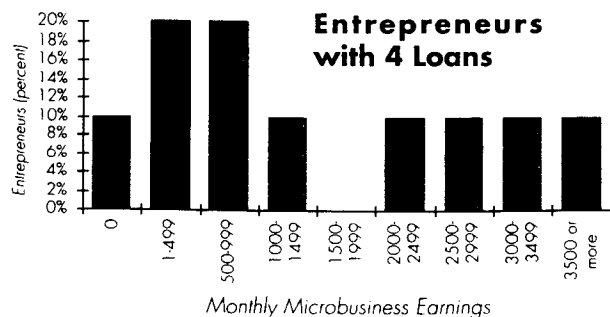
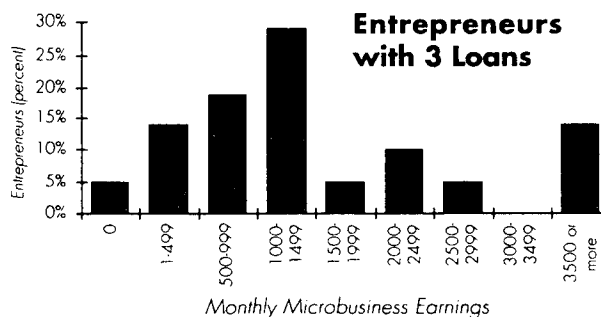
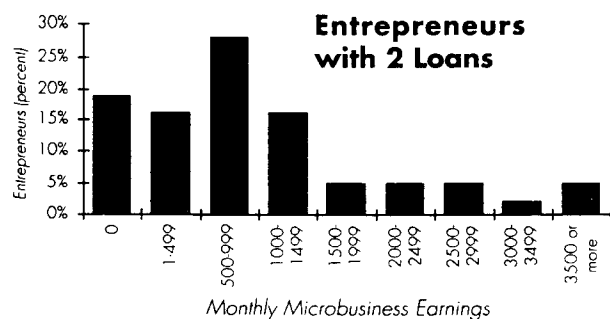
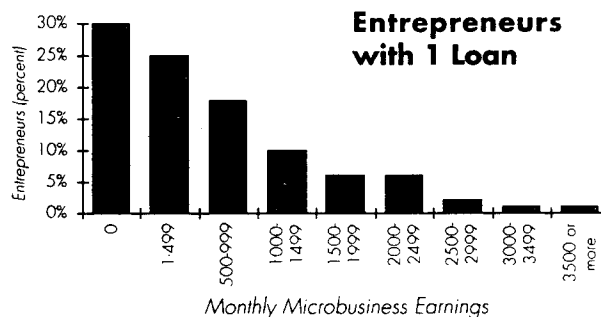
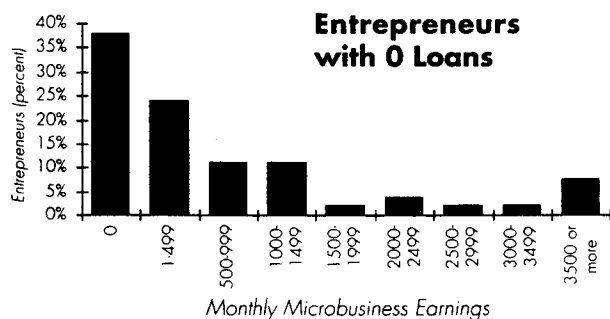
Now that the business is well-established, Clare has returned to teaching. Her future plans are to hire a certified worker and to develop a special preschool program.

Across programs, 51 percent of businesses are profitable on a monthly basis while 10 percent break even and 39 percent report a loss. There are significant variations across programs for business profitability, and this seems to reflect the nature of the program's target population and the age of the business. For example, the Institute for Social and Economic Development, which works with the most vulnerable of the range of microentrepreneurs (start-up businesses owned by low-income clients) shows 46 percent of its sampled businesses showing a loss with a smaller percentage reporting a profit. The other programs show a more even split between profitable and nonprofitable businesses.

Fifty-five percent of sampled businesses earn less than \$1,000 a month in gross sales, while a significant percentage, 24 percent, earn \$2,500 or more a month. All programs assist businesses at both ends of the profitability spectrum, but the largest percentage served by programs are those at the lower end, with gross sales of under \$1,000 a month. For all programs, at least 10 percent of their sampled businesses earn over \$2,500 a month in gross sales.

As the business grows and is able to take subsequent loans, an increase in business earnings can be seen in businesses that have received three and four loans.

Microbusiness Earnings Appear to Rise with the Number of Loans Received

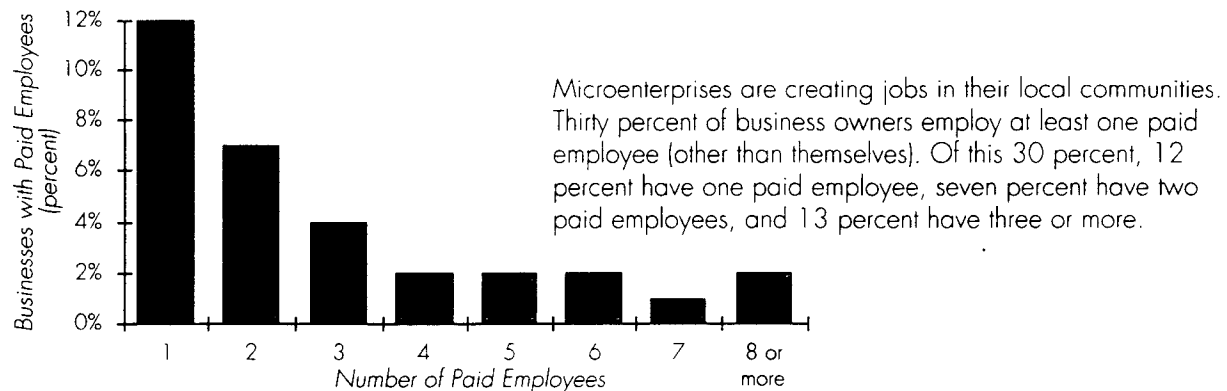


As the charts illustrate, microbusiness earnings appear to rise with the number of loans received. A significant rise in business earnings can be seen after the third loan, which may indicate the point at which microbusinesses stabilize and begin to realize some significant gains. Subsequent SELP reports will analyze changes in business profits over time and test this hypothesis.

Microbusinesses in this Study Have Created, Stabilized or Retained 563 Jobs

While microenterprises generally only create a job for the business owner, some microenterprises grow and take on new employees. Most microbusinesses, 61 percent of the sample, have just one employee, the owner, while 30 percent of businesses have additional

Microbusinesses with Additional Paid Employees



Microbusiness Profile

Creating Jobs in the Local Community

Doug was one of the first clients to participate in the microenterprise group lending program of the Rural Economic Development Center in North Carolina in 1989. Doug has a college degree and is married with five children. He has been manufacturing jewelry since he started his business in 1987. He was formerly a cabinetmaker, but he wanted to start his own business so he could remain at home with his children.

Doug sells his jewelry to wholesalers, jewelry stores and museum gift shops. He has gross sales of \$6,500 per month and attributes a recent increase in sales to better marketing techniques he learned from the Rural Economic Development Center's business training programs. He has borrowed three loans as his business has grown and developed. His most recent loan for \$8,000 was for hiring and training six full-time workers in order to expand his inventory of products and to develop a line of fall and winter designs. With a microenterprise loan, Doug's jewelry business has added six new jobs to his community.

Doug says the group lending model gave him a sense of community by working with other microentrepreneurs and he appreciated the shared sense of purpose that they developed. Most importantly, Doug is enjoying the opportunity to stay at home with his children.

employees. Three-hundred-two jobs are held by owner-operators, while 261 jobs are held by employees, to total 563 jobs for this sample of 302 businesses. Although these programs do not hold job creation as a primary goal, it is one of the outcomes of the microenterprise intervention.

The Microenterprise Methodology as Practiced By These Five Agencies

The missions of agencies in this study are similar and strike two major themes:

- to support the creation and strengthening of micro and small businesses as a strategy to raise incomes, enhance family self-sufficiency, create jobs and strengthen local economic development; and
- to facilitate the personal and social development of clients with a view to their empowerment.

Current Facts on All Programs

Unless stated, the following statistics are aggregate numbers since program inception, from all five programs participating in the SELP Assessment.

- Number of clients served: 2,890
- Number of clients with loans: 1,070
- Number of clients receiving technical assistance: 5,775
- Number of loans made to date: 1,577
- Dollar value of loans made: \$3,872,456
- Average loan size: \$3,826
- Average term of loan: 22.8 months

Programs are currently working with 423 new microbusinesses and 483 established microbusinesses.

Current total value of program capital funds: \$5,368,356

Average percent of capital fund from public sources: 24%

Total annual operating budgets: \$2,957,478

Average percent of annual operating budgets from public sources: 45%

This information is from the Program Profile component of the *Assessment of the Outcomes of Five Microenterprise Programs* and was collected from the five agencies participating in the SELP assessment. The Program Profile is self-reported data collected on all individuals served by programs.

Empowerment is viewed as both a means and an end: a means to increasing entrepreneurial and personal skills that result in better business decisions and management, and an end in terms of the overall quality of people's lives through increased self-esteem, personal control over factors that affect their lives, and greater participation in civil society.

All of the programs are relatively new and small. All are testing models and hypotheses of program intervention aimed at developing effective and efficient models of promoting self-employment. Many of these models are based on program strategies first developed and applied in the developing world. For example, WSEP's Full Circle Fund is an adaptation of the Grameen Bank of Bangladesh's concepts of stepped loans (increasing loan sizes as a credit history is established), mutual support and peer pressure to ensure loan repayment among those who are considered high credit risks. The Good Faith Fund began as a rural U.S. replication of the Grameen Bank methodology but has continued to modify its methodology to fit the context of Southeastern Arkansas.

Current Facts on Individual Programs

	GFF	ISED	MICRO	REDC	WSEP
<i>1992 Operating Budget</i>	\$463,000	\$839,395	\$351,906	\$323,741	\$979,436
<i>Cumulative # of clients served as of 12/31/92</i>	230	725	441	315	1179
<i>Cumulative # of loans made as of 12/31/92</i>	90	88	893	206	300
<i>Dollar value of loans made as of 12/31/92</i>	\$173,420	\$503,221	\$1,544,357	\$1,190,380	\$461,078
<i>Interest rate used as of 12/31/92</i>	12%	9.5%	13%	12.5%	15%

WSEP's MicroLoan program, which provides individual loans to women who complete entrepreneurial training, is based on a model first developed by WomenVenture (formerly WEDCO) in St. Paul, Minnesota, which was among the first microenterprise programs in the United States.

PPEP/MICRO's program was designed for the particular needs of the local entrepreneurs but also drew on the methodology of its parent-affiliate, ACCION International, a well-known microenterprise agency that operates throughout Latin America. The PPEP/MICRO model requires that clients have demonstrated experience in their business, no matter how small that business is, and offers stepped-up loans with a view to growing businesses and creating jobs.

ISED's original program model was based on a training manual developed to aid rural Africans in starting businesses. At the core of its training approach is the philosophy that low-income people can learn to operate businesses using skills and talents they already have.

The North Carolina Rural Economic Development Center program, which began as a demonstration program, consciously tested two distinct methodologies: peer, or group lending, and institutional lending—larger sized loans to individuals through established institutions.

The program models share a number of commonalties but vary with respect to the emphasis that each places on group or individual responsibility and the services provided to clients. Commonalties include a commitment to providing clients opportunities to develop incrementally with credit risks increasing as skill, confidence and experience are developed. The programs also all share a non-charity orientation that emphasizes client responsibility and a business approach that utilizes market interest rates and enforced standards for repayment and program participation.

All programs provide some combination of credit and technical assistance but differ in the emphasis they place on training and technical assistance. The Good Faith Fund, REDC, and WSEP all have group lending programs as well as individual lending programs, and ISED instituted a small group lending program in late 1992.

In general, the evolving theory for the field has been that individual loans are larger in size and targeted to clients with somewhat larger businesses, more collateral and greater business experience. In contrast, group lending is directed to higher risk, poorer clients who do not have sufficient collateral and, instead, utilize guarantees from their other group members. Findings from this study reveal, however, that for all programs, it does not hold true that lower-income clients utilize group loans while less-poor clients utilize individual loans. From the sample of 302 clients, 128 are group loan borrowers, while 111 are individual loan borrowers (63 clients had no loans when interviewed). Of the group loan clients, 71 percent fall below \$18,000 per year in total income, while 66 percent of individual loan clients earn below \$18,000 per year in income.

Differences in training and technical assistance emphasis range from ISED's program which requires 84 hours of workshop participation to PPEP/MICRO which works with established businesses and has no formal training requirement. A significant difference between Third World models and U.S. models is this emphasis on training. U.S. programs have found that to succeed in the competitive and developed U.S. economy, new entrepreneurs need a greater level of ongoing technical assistance.

All programs recognize the importance of training and technical assistance, but diverge with regard to how it is provided. ISED, the Good Faith Fund and WSEP (in its individual lending program), seek to build participants' basic business skills directly. PPEP/MICRO and REDC, in efforts to streamline costs, are developing referral systems to other training organizations.

All of the agencies are continually adapting and modifying their methodologies to reach more clients more effectively and at a lower cost. Because the intervention of microenterprise is so new to the United States, programs are still actively experimenting, testing and discovering what works and what does not.

In an effort to assess the effectiveness of microenterprise development programs, we can conclude that the microenterprise methodology "works" in that it does successfully deliver credit to non-traditional, disadvantaged borrowers; it does create and support the development of very small businesses; and it does create or retain jobs for owner-operators and their employees.

There are no other programs that deliver the particular package of credit and technical assistance services that microenterprise programs offer. The Small Business Administration (SBA) makes loans above \$25,000 to larger, older and more securely collateralized businesses. In 1991, the SBA initiated a Microloan Demonstration Program that works through microenterprise

Statistics on Program Growth and Change

In 1992, these microenterprise programs experienced significant growth and change. In 1992, the numbers of clients served by the five programs grew by 89 percent, from 1,528 to 2,890 clients, and programs made 433 new loans to microbusinesses. Overall, loan volume in terms of numbers of loans grew 38 percent. During 1992, programs made loans worth \$1,566,319, a 68 percent increase over loans made as of 12/31/91.

In the second half of 1992, four programs—GFF, REDC, WSEP, and ISED—assisted 423 business start-ups, an increase of 62 percent from the previous 6 six-month period. On average, programs are making larger loans than before. The average loan size increased in 1992 by 25 percent, from \$3,051 to \$3,826.

Programs are gradually earning more revenue directly from the services they provide. For the four direct lending programs, interest earned on loans during the second half of 1992 increased 35 percent from the previous six months, an increase of \$30,662. Fees earned by MICRO increased 33 percent in the second six-month period of 1992 from \$45,097 to \$60,395.

As programs perfect their methodologies, they are able to serve more clients at a lower cost. For several programs, operating budgets decreased while offering increased services to clients. In 1992, their operating budgets decreased an average of 11 percent for three of the programs (a decrease of 2 percent for GFF, 11 percent for MICRO, and 20 percent for REDC), and increased for WSEP by 64 percent and ISED by 58 percent. During the 1992 period, capital funds varied in growth: REDC's capital fund increased 193 percent or by \$2,375,000; WSEP increased 100 percent or by \$240,000; ISED decreased 2 percent; MICRO decreased 28 percent; and, GFF remained the same.

At the close of 1992, the four direct lending programs participating in the SELP study have a total cumulative default amount of \$261,146 against loans of \$3,369,235 or a rate of 7.7 percent. Programs have been very successful at keeping default rates low. Program default rates can usually be traced to a specific incident, such as a loss of funding at the program level, which may have caused a cut-back in personnel, or a slow-down in collections. With relatively small portfolios, even one or two defaulted loans can cause the default rate to grow quickly. To date, the four direct lending programs in this study have been very successful at managing events which may cause problems in loan repayment.

This information is from the Program Profile component of the *Assessment of the Outcomes of Five Microenterprise Programs* and was collected from the five agencies participating in the SELP assessment.

assistance agencies, including three of the five agencies profiled here, but does not offer these services directly to microentrepreneurs.

Small Business Development Centers (SBDCs) and Small Business Development Technology Centers (SBDTCs) do not traditionally work with businesses that are as tiny as those described here, although in some states, SBDCs and SBDTCs are partnering with microenterprise programs to provide services to these clients. The North Carolina Rural Center and PPEP/MICRO are both currently designing programs now for such partnerships.

The Potential of Microenterprise and Self-Employment in the Current Economy

The SBA refers to the increase in self-employment in the United States as one of the most dramatic small business developments in recent years.¹ In 1987, there were 8.2 million self-employed workers, an increase of almost 20 percent over 1980. In particular, the number of self-employed women increased dramatically, by 35.5 percent, or by 728,000 over 1980. This increase in the number of female self-employed is almost three times the 13 percent increase reported for male self-employed during the same period.²

In the 1992 report, *The State of Small Business: A Report of the President*, the authors discuss the role small business plays in helping the economy to adapt to major structural changes, and refer to the "safety net" role of small business and self-employment during lay offs from larger firms. While large firm employment in the leading ten industries dropped by nearly 2 million jobs from 1977 to 1987, small firm employment rose by over 4 million.³ More recently, from 1988 to 1990, small firms have created all of the net new jobs in the economy and *most of this growth has occurred in firms with fewer than 20 employees.*⁴

New information pointing to the critical role that very small businesses play in economic development has significant policy implications. To the extent that very small businesses are excluded from commercial credit sources and technical assistance services, we are ignoring a potentially major contributor to job creation and local economic development. The role of very small businesses in disadvantaged communities is even more important, given that other employment and economic development opportunities are even scarcer in poor communities than in the economy at large.

Conclusion

Microenterprise development is at once human development, economic development and community development. Towards all of these ends, measurable results have been observed: this

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1. U.S. Small Business Administration, *The State of Small Business: A Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1986).
 2. U.S. Small Business Administration, *Small Business in the American Economy* (Washington, D.C.: U.S. Government Printing Office, 1988), p.119.
 3. *Ibid.*, p. 90.
 4. *Ibid.*, p. xvii.

sample of 302 businesses represents 563 jobs that were created, stabilized or retained, and at least 150 profitable businesses are documented here who bring new wealth to disadvantaged communities. As a human development strategy, 62 percent of respondents report a significantly higher self-esteem in business and personal areas.

The preliminary findings reported here raise several important issues about the field of microenterprise development. One important area to clarify further is related to the wide range of clients served by these programs. This underscores the fact that microenterprise assistance programs will realize different results for different types of populations. For some clients, the clear goal is poverty alleviation, while for others, it is more traditional local economic development, with the goal of business and job creation.

A compelling issue to address further is the possibility that some of the more established microentrepreneurs may be able to graduate to commercial credit providers after a period of time with a microenterprise agency. After establishing a good credit record, more stable personal finances, and a viable business, many of the entrepreneurs profiled here should not be excluded from services from neighborhood banks. While microenterprise graduation has not met with much success in the developing world, we may find that it is more appropriate and feasible in the U.S. context.

Recent interest in microenterprise development on the part of the Clinton Administration presents interesting opportunities and poses important questions with regard to the potential expansion of the approach. In looking at the methodology as a job creation tool, it is important to remember that the numbers of self-employed or very small business owners will always represent a small portion of the overall work force (estimated at 15 percent), and that most Americans will be wage laborers. However, microenterprise does create jobs in economically troubled communities, and any methodology that does achieve these ends should be supported as one part of a comprehensive set of initiatives.

As a community revitalization and local economic development tool, the creation of new businesses is a key part, and the inclusion of microenterprise as a programmatic component towards these ends is appropriate in both rural and urban disadvantaged communities. Any federal initiative should recognize the expertise that resides in the hundreds of community-based institutions that are already successfully practicing microenterprise, and should investigate ways to channel support to them directly as well as support the development of linkages with commercial credit providers and other existing technical assistance organizations.

Other critical areas that subsequent SELP reports will address are documentation of the tracking of clients and their businesses over time to determine what happens to people's incomes and to business profits, rigorous analysis of the costs and benefits of these programs in relation to other programs with the same ends, and assessment of which program strategies seem to be more effective for particular client groups.