CHAPTER 1

Little Businesses, Large Hopes

I wouldn't work for someone else if they offered me $100,000, another house and a car. No way, no how. I like being self-employed. I like the meaning of it, the whole connotation. Being independent. Not having someone else tell me what do to do. . . . I love having my own business, and I know that one day . . . all the dreams that I had for it are gonna manifest, sooner than later.

–Lessie, hairstylist

Working for someone else, you don't have to worry as much. [You] still have to worry about the bills, but you don't have to worry as much because you know you are going to have a check to spend. Working for yourself, you have to worry about the bills and whether you are going to have any income.

–Diane, homemade crafts

Lessie was trained as a beautician and had been working in other people's hair salons for many years. When she finally opened her own business, she had trouble managing it on a day-to-day basis. But she did make some profits, which she was able to reinvest in the business. Despite two family crises that set back her business, she believed that it had a promising future. Highly committed, she drew enormous satisfaction from doing people's hair and making them feel good about themselves.

Diane, a single mother with one child, was also excited about opening her crafts business. Unhappy with her job, she looked forward to working full-time designing and creating the small figurines that had earned praise among friends and acquaintances. Unfortunately, her plan, to sell at craft fairs and later through magazines and catalogs, never materialized. She found the production work, marketing, and business accounting more draining than she imagined.

Even with support and loans from the microenterprise development program, she lost her motivation to continue, closed her business, and took a low-wage job. Even though her job paid only a little over $12,000 a year, she felt more secure financially and emotionally than she had in business.

This book is about Lessie and Diane and other low-income microentrepreneurs who took part in a new approach to fighting poverty. Microenterprise development programs (MDPs) around the United States assisted these microentrepreneurs in building businesses that hopefully over time would generate enough income to support them and their families. Microenterprise is a sharp departure from traditional approaches to poverty alleviation. Since President Roosevelt's New Deal, the principal approach to supporting the poor has been through providing income subsidies to help families make ends meet, month-to-month, through a variety of support, such as monthly income, food and housing subsidies, health coverage, and jobs programs. A turn to microenterprise represents a major change toward "capitalism for the poor" (Peirce & Steinbach, 1987; Stoesz & Saunders, 1999). Does it work?

Estimates suggest that there are upward of two million very small businesses, known as microenterprises, in the United States (FIELD, 2000). Hundreds of microenterprise development programs spend between $70 and $100 million a year to provide loans, technical assistance, and other support services to new and expanding microenterprises (AEO 2002b; Walker & Blair, 2002). Still, relatively little is known about how well microenterprise works, for whom, and under what circumstances.

Only recently has policy promoted microenterprise as a way to build the economic foundations of poor families in the United States. Policy has traditionally focused on entrepreneurs with more resources, leaving low-income microentrepreneurs to cope on their own (Balkin, 1989). Moreover, historically, people of color, especially African-Americans, have faced discrimination and other enduring barriers in developing businesses (Butler 1991; Oliver & Shapiro, 2001). Several changes in the 1980s and 1990s encouraged community development analysts and practitioners to wonder whether microenterprise might be an effective method to combat poverty in the United States. Successful microenterprise efforts abroad and rapid growth of new small U.S. firms in the 1980s and 1990s, further encouraged microenterprise development (Devine, 1994; Dennis, 1998; Manser & Picot, 1999). Would it be possible for public policy to generate and support growth of successful businesses among the poor?

Advocates proposed that microenterprise could build on the strengths of the poor while bringing them into the economic mainstream. This book analyzes the results of these efforts through the eyes and experiences of low-income microentrepreneurs who participated in one of several microenterprise programs across the United States. With data from in-depth interviews and with data from surveys conducted over a five-year period, this book addresses the potential of microenterprise as an anti-poverty strategy. Who are they and what motivates them to open businesses? Where do they get help? How do their businesses fare? How do they evaluate their experiences as microenterprise owners? What role do the microenterprise development programs play in helping them? What are the implications for the expansion of microenterprise as anti-poverty policy?

Development of the Microenterprise Strategy

Community development advocates, intrigued by the idea of promoting microenterprise as an anti-poverty strategy, began to look overseas at apparently successful microenterprise programs like the Grameen Bank in Bangladesh, Bank Rakyat Indonesia, and BancoSol in Latin America that assisted the very poor in opening microbusinesses (Balkin, 1992).[1] Arguing that poor people in the United States are faced by many of the same problems as the poor in developing nations, they borrowed principles and design ideas from these international programs (McKee, et al., 1993). This model resonated among Americans. Building on the ingenuity and resilience of the poor, and perhaps reminiscent of "rags to riches" legends that are part of the fabric of the American Dream, microenterprise captured the imaginations of growing numbers of policymakers, practitioners, and potential microentrepreneurs.

Microenterprise also emerged at a time when U.S. policymakers were searching for alternatives to welfare and other poverty programs. A model of self-reliance, local government control, and private sector responsibility gained momentum and throughout the 1980s, policymakers chipped away at the welfare state, citing high costs and "dependency."

In the face of budget cuts, policy analysts, social service beneficiaries, and social welfare practitioners defended income supports and social services, but they also recognized that the rules of some social welfare programs actually prevented or discouraged full and equal participation in the economic mainstream (Friedman, 1988). For example, public assistance programs for the poor reduced assistance based on take-home pay, thus creating disincentives to work.

For some, the challenge in this new era was to make sure that less-politically powerful groups could capture a fair share of resources and access to economic rewards in the new global economy. The "New Democrat" President, Bill Clinton, "ended welfare as we know it," giving further momentum to welfare-to-work initiatives that had begun in 1988 with passage of the Family Support Act. But the focus on "self-sufficiency" made it imperative to create more progressive models for assisting the poor. Some policy analysts suggested that microenterprise might be a way to lend a hand to the poor in this new era, assisting them in entering the economic mainstream and increasing the numbers of jobs in low-income communities (Friedman, 1988; Boshara, et al., 1997).

On the scholarly front, asset theory and social capital theory contributed to the debate about microenterprise. Asset theory proposes that accumulation of assets in low-income and low-wealth households would yield an array of positive social and economic effects, especially over the long term (Sherraden, 1991). Underlying this approach is the idea that asset accumulation builds opportunities and changes perceptions about the future in ways that income does not. As Michael Sherraden writes, assets are "hope in concrete form" (1991, 156). Sherraden proposes that asset accumulation, in addition to income support, should be a cornerstone to anti-poverty and community development efforts. One of the ways to increase asset ownership among the poor is through business development (Friedman, et al., 1995; Boshara, et al., 1997).

Until recently, however, social policy excluded the poor from systems of asset accumulation, while subsidizing middle and upper classes (Sherraden, 1991; Howard, 1997; Seidman, 2001). A middle-class person, for example, can save for retirement through an employment-based 401(k) plan or can buy a home with a generous subsidy from government in the form of a mortgage-interest tax deduction. In contrast, the welfare poor cannot save without risking the loss of welfare benefits, including cash, health care, or housing assistance. Therefore, welfare policy guarantees a month-to-month financial existence.[2] Moreover, the working poor rarely have jobs that include asset accumulation features, such as retirement savings plans (Orszag, 2001).

For minorities, especially African Americans, asset accumulation has been systematically restricted (Oliver & Shapiro, 1995; Conley, 1999). Striking findings show that over two-thirds of Blacks own no net financial wealth, compared to less than one-third of Whites who own no net financial wealth (Oliver & Shapiro, 2001, 225). Furthermore, home ownership rates among Blacks are 20 percentage points less than among Whites (Oliver & Shapiro, 2001, 225). Lack of assets has been demonstrated to have an impact on African American entry into self-employment (Fairlie, 1999). Net worth in Hispanic households is also very low in comparison to White households (NCLR, 2001), although the effects on the Black community are the most persistent (Oliver & Shapiro, 2001, 227).

Accumulating wealth in businesses has been particularly challenging for African Americans for historical reasons (Butler, 1991). Systematic and enduring discrimination—from slavery to lynchings of black business owners, to the bombing of Tulsa, Oklahoma's Greenwood business community, to lack of access to business loans—has resulted in lower rates of business ownership among African Americans. Constrained by racism to operate only within the African American community, while other businesses could operate virtually anywhere, Black businesses have suffered (Bates, 1989; Butler, 1991).[3]

In addition to recognition of the importance of asset accumulation and the structural barriers to business ownership among the poor, the other theoretical development that contributed to microenterprise was social capital theory (Putnam, 1993). As a resource that has "economic and noneconomic" value, Coleman and others make the case that social capital, like financial and human capital, "is productive, making possible the achievement of certain ends that in its absence would not be possible" (S98). In other words, business success cannot be viewed only as a result of the presence of financial capital and human capital, but has to take into account the structure of social relations that facilitate productivity. Social capital theory provides a theoretical rationale for linking social and economic development that lead to different ways of thinking about poverty, including the microenterprise approach.

For development to occur, therefore, analysts emphasized the importance of integrating economic and social approaches and increasing individual, family, and community capacity and capabilities (Midgley, 1995; Sherraden & Ninacs, 1998; Sen, 1999; Rubin & Sherraden, forthcoming). Potential strategies include home ownership, microenterprise and business incubators, savings and investment opportunities, financial education and services, training and technical assistance, along with support services. This book addresses only one of these strategies—microenterprise.

Promoting microenterprise among the poor appeals to groups across the political spectrum (Taub, 1998). Consistent with values of self-reliance and personal responsibility, it provides economic opportunity for poor families and encourages development "from below." Microenterprise is attractive because it is an "American solution" that balances individualism and community (Peirce & Steinbach, 1987; Stoesz & Saunders, 1999). Viewing the poor as fundamentally resourceful and motivated (Solomon, 1992), advocates suggest that, with adequate access to resources and training, a significant number of poor people should be able to be successful in business (Balkin, 1992). Moreover, because a large share of new jobs are in full- and part-time small businesses (SBA, 1999), microenterprise might be able to create new jobs in poor communities. Successful microentrepreneurs, the thinking goes, might not only move themselves and their families out of poverty, but also eventually build a platform for community-building (Servon, 1998). Finally, some also argue that microenterprise helps poor families build financial assets, human capital, and social capital (Clark & Kays, et al., 1999).

Microenterprise is also viewed as a viable economic strategy for women. Microenterprise could be a viable alternative to traditional employment (Raheim & Alter, 1998) for women who experience disadvantage in the labor market, such as unequal pay, occupational segregation, and limited future opportunity (Abramovitz, 1996; Bernstein & Hartmann, 1999). Assistance and support from an MDP might also help overcome disadvantages experienced by women in self-employment. Furthermore, self-employment could offer a flexible work option that could meet more of women's daily needs and accommodate multiple family and community roles (Stoner, Hartman, & Aurora, 1990; Novogratz, 1992).

During the 1990s, microenterprise took on characteristics of a social movement (Bhatt, 2001). First Lady Hillary Rodham Clinton, an unabashed supporter of microenterprise, initiated annual White House awards for the best microenterprise development programs in the United States and authored the foreword to the *1996 Directory of U.S. Microenterprise Programs* published by the Aspen Institute. She wrote,

> Over the past decade, President Clinton and I have watched with pleasure as the microenterprise movement has grown and developed in this country. At home in Arkansas, and in our travels around our nation and the world, we have heard the dramatic and inspiring stories of low-income women and men who have used small amounts of credit and business training to build businesses that provide needed income and assets for their families. We have tried, through our efforts to publicize the effects of microenterprise development, to recognize the leading programs in the nation, and to call for improved federal support of microenterprise programs, to support the growth of this important movement. (Severens & Kays, 1997, ix)

A "Microcredit Summit" promoted microenterprise in a global initiative designed to reach one hundred million of the world's poorest families by the year 2005 (Microcredit Summit Secretariat, 2001). Since the 1980s, influential foundations, such as the Ford and Charles Stewart Mott foundations, actively promoted microenterprise development. Federal budget increases for microenterprise demonstrated a growing public policy commitment to microenterprise (Else with Gallagher, 2000).

Some, however, raise a note of caution about the promise of microenterprise. Suggesting that targeting the poor for microenterprise assists political movements in shredding social safety nets and makes the poor responsible for generating their own resources (Balkin, 1989), they worry that a "neoconservative" model of self-reliance and self-sufficiency will replace New Deal and War on Poverty programs. Other skeptics argue that providing business loans to the poor cannot reduce poverty substantially. In fact, easier access to credit could contribute to already large debt among people with low incomes. Low self-esteem, lack of skills and education, social isolation, and discrimination and racism may contribute to problems of the poor who choose or are forced to turn to self-employment (Neff, 1996). Others have suggested that seldom does microenterprise alone support a household (Spalter-Roth, et al., 1994), or, worse, microbusinesses support low-paying jobs that further ensnare individuals in poverty (Bates & Servon, 1996; Bates, 1997; Ehlers & Main, 1998), in part because of lack of benefits (Devine, 1994).

Public enthusiasm for microenterprise may exceed its potential to do good, according to others (Buntin, 1997; Taub, 1998). Based on a case study of one of the nation's oldest microenterprise programs, Richard Taub (1998) suggests that programs modeled after the Grameen Bank will not alleviate poverty in the United States. The requirements for capital and skills are much greater in this country than in less developed countries and may be beyond the capacity of MDPs (Schreiner & Morduch, 2002). Furthermore, Taub argues that microlending will not help those who rely heavily on social safety nets and is more likely to help those who are already in a position to take some risks—such as households with at least one secure income. Mark Schreiner (1999a) concludes that microenterprise programs may work well for a few, but are unlikely to help a large number of people in the United States, perhaps especially those transitioning off welfare.

Microenterprise Policies and Programs

Microenterprises are sole proprietorships, partnerships, or family businesses with fewer than five employees (Severens & Kays, 1997; see Appendix A). They are typically launched as part-time, self-financed operations, although some receive small loans, ranging from several hundred to a few thousand dollars, for start-up or expansion. Sometimes loans are secured from banks; however, entrepreneurs often turn to microenterprise development programs because their businesses are too small and/or lack collateral for traditional loans. Microenterprises typically start out in homes, garages, or open air or street markets.

Because microenterprises are often opened by people with little or no business experience, low levels of resources, and other barriers, "the structure of a microenterprise program must account for the attendant problems facing its borrowers" (Solomon 1992, 216). For this reason, many microenterprise development programs combine *economic development components* (pre-loan education and training, business training, financial education, and loan pools and guarantees) with *social development components* (peer support, mentoring, personal effectiveness training, and counseling). The full range of services is difficult for one agency to deliver; therefore, MDPs typically partner with a variety of public and private organizations.

Microenterprise development programs commonly target people with low-incomes but they also serve people with more economic resources (Langer, et al., 1999). Those targeting low-income entrepreneurs, in particular, have been influenced by policy and program innovations in other countries.

Policy Development in Microenterprise

In the 1960s, the International Labor Organization (ILO) suggested that the informal sector, which employed half or more of the population of poor countries, should be examined for its potential to provide better jobs for the poor. Access to credit for microenterprise was viewed as a way to mobilize indigenous resources and to create development from below, especially in areas where there were not enough jobs to support large sectors of the population. Drawing inspiration from Mahatma Gandhi's movement for self-sufficiency through cottage industry, Mohamed Yunus, economics professor and founder of the Grameen Bank, maintains, "microcredit views each person as a potential entrepreneur and turns on the tiny economic engines of a rejected portion of society. Once a large number of these engines start working, the stage can be set for enormous socioeconomic change" (1999, 119).

In 1976, Yunus and his students initiated a groundbreaking project to provide credit to poor women. It was based on the philosophy that if poor people receive small amounts of credit, they could become self-employed by starting and/or enlarging small businesses.[4] The Grameen Bank, or "Village" Bank, is now among the world's largest rural credit institutions with 3.1 million mostly women borrowers in 43,681 villages served through more than 1,100 branches (Grameen Bank, 2004). Participating women repay their loans, increase their household income, develop assets, and are more likely to use family planning, in addition to other positive indicators (Balkin, 1989, 102–3; Hashemi, 1997; Grameen Bank, 2002). Microcredit programs have proliferated in the last twenty years, including the well-known ACCIÓN International and FINCA International (Ashe, 1985; Balkin, 1989).[5] Even organizations like U.S. Agency for International Development (U.S. AID), the World Bank, and the Inter-American Development Bank promote and study microenterprise.

While microenterprise was promoted in poor countries as "development from below," wealthier European nations began to examine microenterprise as a way to handle unprecedented high rates of unemployment in the 1970s. Viewed as a way to put people back to work, policymakers made it possible to use transfer payments to fund microenterprise. In France, Chômeurs Createurs (Unemployed Entrepreneurs) enabled any citizen who became eligible for unemployment compensation or welfare to collect the cash benefit in one lump sum to help start a business (Bendick & Egan, 1987). The one-year survival rate for the businesses was 84 percent. In 1982, Britain introduced the Enterprise Allowance Scheme (EAS) which also allowed individuals to claim unemployment compensation during the time of their business start-up. The program created jobs at a rate of 68 full- and part-time jobs for every one hundred businesses created (Balkin, 1989, 105; Parker, 1996). Start-up firms generally were small, drew on small amounts of start-up capital, and had low earnings. Marc Bendick and Mary Lou Egan (1987) conclude that the British and French experiences tended to generate small incomes and unstable employment, and the most disadvantaged entrepreneurs were least likely to succeed.

In the United States, as early as 1964, the Small Business Administration (SBA) had created a business development program called the "Equal Opportunity Loan Program" (EOL) as part of the War on Poverty (Balkin, 1989). Loans of up to $25,000 for fifteen years at low interest and with no required collateral were directed to the disadvantaged. Timothy Bates and William Bradford (1979) argue that high-loan default rates (50 percent of all loans and 70 percent of new business loans) resulted from investing in too many poor credit risks, including small retail operations in inner-city minority communities. Support for microenterprise, according to Balkin, "was quickly abandoned in favor of those who operated larger, more sophisticated businesses" (1989, 82). In the years that followed, small business development for the poor was attempted through a variety of programs in the Economic Development Administration, through Community Development Block Grants, and through a small program within the Comprehensive Employment and Training Act (CETA) (1989).

Meanwhile, borrowing from Western European examples, government officials proposed microenterprise as a possible solution to unemployment (Balkin, 1989; Meyerhoff, 1997). The States of Washington and Massachusetts were sites of the first two federally sponsored self-employment pilots, known as the Unemployment Insurance Self-Employment Demonstrations (U.S. Department of Labor, 1994, 1995). Results were mixed. Some researchers suggested that these programs were cost-effective reemployment programs (Benus, et al., 1995), while other researchers contended that overall impacts were small (Schreiner, 1999b). In 1991, the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration explored the effectiveness of self-employment programs in community development for dislocated workers (Drury, et al., 1994). In 1993, states began to offer self-employment assistance (SEA) to the unemployed (U.S. Department of Labor, 1994, ix; U.S. Department of Treasury, 2001). And by the mid-1990s, five states had passed enabling legislation permitting use of SEA funds for the unemployed (Benus, et al., 1995; U.S. Department of Labor, 1995), although actual use was limited (Vroman, 1997).

In the 1980s, as word of microenterprise successes in poor countries began to reach across the globe, demonstration microenterprise programs were initiated. Borrowing heavily from international examples, programs tended to emphasize anti-poverty objectives and were aimed especially at women of color. Most were funded by private foundations (Meyerhoff, 1997).

The first national microenterprise demonstration project implemented in 1986, the Self-Employment Investment Demonstration (SEID), was designed to help poor single women with children on welfare (Doolittle, et al., 1991; Raheim & Alter, 1995; Boshara, et al., 1997). Local SEID projects provided direct loans (or assistance in obtaining a loan), business training and technical assistance, and counseling. Welfare regulations were temporarily waived for participants, enabling them to retain benefits through the first year of business start-up.

By the late 1990s, funding for microenterprise came from several sources (Table 1.1). The Small Business Administration administered the largest programs, including The Microloan Program, which currently provides up to $35,000 loans to microentrepreneurs (U.S. Department of Treasury, 2001, footnote 64). The SBA also operated Women's Business Centers and an Online Women's Business Center that provided assistance with loan packaging, business training, marketing, government procurement, mentoring, and networking (Meyerhoff, 1997). The Program for Investment in Microentrepreneurs (PRIME) Act, passed in 1999, supported training, technical assistance, and capacity-building for low-income entrepreneurs (U.S. Department of Treasury, 2001). Although funding for Women's Business Centers were fully refunded in 2002, other SBA microenterprise programs suffered substantial cuts in the aftermath of September 11, and are threatened in the 2005 budget (AEO, 2004). The Department of Treasury also funds Community Development Finance Institutions (CFDI's) to expand and leverage the availability of credit in distressed communities (CDFI Fund, 2003).

Within the U.S. Department of Health and Human Services a few microenterprise programs provided support to the poor. One of the more promising, the Office of Refugee Resettlement (ORR) microenterprise program, provided over $3 million for business loans between 1992 and 2002, along with support for training and technical assistance, to over 800 microbusinesses with business survival rates of 89 percent (ORR, 2002). Between 1991 and 2001, ORR spent almost $20 million helping refugees start, expand or strengthen a business (Else, et al., 2003).

The U.S. Department of Housing and Urban Development (HUD) also funded a number of microenterprise initiatives. The Self-Employment Demonstrations for Public Housing Residents provided $2 million in Community Development Block Grant funds to support thirteen demonstrations in 1991 (Drury, et al., 1994). Additional funding from HUD for microenterprise development included the Comprehensive Grant Program (CGP) and the Comprehensive Improvement Assistance Program (CIAP), which were used by various housing authorities to support self-employment through lending and technical assistance among public housing residents (Raheim, et al., 1996). HUD Community Development Block Grants directly funded microenterprises in federal entitlement communities and through state grants (U.S. Department of Treasury, 2001).

Microenterprise opportunities for people with low incomes received a modest boost with passage of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). With this legislation, states were permitted to regard training for and operating a microenterprise as an allowable "work" activity under the new requirements. Some states responded by providing funding for microenterprise programs, permitting self-employment as an allowable training and work activity, providing more generous income disregards, exempting loans from income calculations, and providing child care,

Table 1.1
Funding for Microenterprise in the United States (1983–1999), in millions of dollars[1]

	Period	Yearly Average	Total Dollars
PRIVATE FOUNDATIONS			
Ford Foundation	1983–1999	$ 1.7	$ 28.9
Charles Stewart Mott	1985–1999	0.8	12.1
FEDERAL GOVERNMENT			
Small Business Administration	1992–1999	26.2	209.2
U.S. Department of Health & Human Services			
Job Opportunities for Low Income Individuals	1990–1998	4.0	23.8
Demonstration Partnership Program	1987–1992	0.8	3.3
Office of Refugee Resettlement	1991–1996	1.2	5.9
U.S. Treasury			
Community Development Finance Institutions	1996–1999	6.5	25.8
U.S. Housing and Urban Development	1996–1998	8.1	20.1
U.S. Department of Agriculture	1997–1999	5.3	15.8
U.S. Department of Labor	1994–1997	2.6	5.1
TOTAL FUNDING		$57.0	$350.1

Source: Adapted from Else, J., with Gallagher, J. (2001). An overview of the microenterprise development field in the U.S. In Else, J., Doyle, K., Servon, L., & Messenger, J., *The Role of Microenterprise Development in the United States* (1–42). A Research Report. Arlington, VA: Association for Enterprise Opportunity, March, p. 13.

[1]Includes all funding (program operations, loan pool funds, grants, and loans to programs).

health care, and transportation (Plimpton & Greenberg, 2000). The opportunity to choose self-employment may be more illusory than real, however, as some states hesitated to include microenterprise as a work activity because of an emphasis on getting people into jobs quickly in order to reduce welfare caseloads (Greenberg, 1999). Furthermore, William Dennis argues that the new rules put up barriers to self-employment because it did not allow for *unsupervised* work activity "inherent in the process of forming a business" (1998, 267).

Most microenterprise programs are non-profits, according to John Else, who estimates that a total of $70 to $100 million a year is available for microenterprise (2001, 9). This is comprised of approximately two-thirds federal funds, with the rest from local and state governments and private foundations.

Microenterprise Development Programs in the United States

The *2002 Directory of U.S. Microenterprise Programs* lists 650 microenterprise programs in the United States, including 554 "practitioner" programs, or MDPs that provide loans, training, and technical assistance, and 119 support organizations, which provide funding, advocacy, networking, program planning, design assistance, training, research, and evaluation (Walker & Blair, 2002). Most programs target low-income individuals, women, and/or minorities (Walker & Blair, 2002). Other programs focus on other population groups, including refugees, immigrants, veterans, and people with disabilities (Else, 2000). In the most recent survey of microenterprise, a total of 31,268 businesses were assisted in 2000. Of these, half were start-ups and half were existing businesses (Walker & Blair, 2002).

Core MDP elements are outreach and recruitment, training, technical assistance, and microloans. But because of the complexities of operating a business in the United States programs have also added other components, such as saving, case management, technology services, insurance, tax preparation, legal and accounting services, business incubators, and market support (Mustafa, 1998; AEO, 2000; Walker & Blair, 2002). Currently, the majority of MDPs (63 percent) offer lending and training, 33 percent offer training and technical assistance only, and four percent offer lending only (Walker & Blair, 2002), although optimal levels are debated.

Among MDPs that offer loans, approximately 18 percent offer *peer group lending* (Walker & Blair, 2002). In peer group lending, an approach made famous by the Grameen Bank, all of the members of the group assume liability for loans. In other words, each member is responsible for payment of all members' loans and additional loans are not disbursed until payments are made (Balkin, 1992). Moreover, proponents of peer group lending argue that while providing access to needed capital, peer lending also builds social capital (Light & Pham, 1998). Group members play tangible and emotional support roles for each other. Many programs also use peer group meetings to teach business skills. When capital requirements increase, business owners are assumed to be eligible for conventional lending. Although peer group lending is credited with high loan repayment in poor countries (McGuire & Conroy, 1997), Richard Taub (1998) argues that this approach is not well-suited to the U.S. context. Group members, who may not know each other well, do not consistently monitor each others' loans (Hung, 2002), and may not have much reason to view the peer group as important (Schreiner, 2002).

In the 1990s, programs moved toward *individual lending*.[6] By the end of the decade, 92 percent of the programs offered individual lending (Walker & Blair, 2002), using subjective and objective factors such as history of employment and steady payment of rent and utilities to determine credit risk (Schreiner, 2003). Average loan size in individual lending programs tends to be larger than in peer group lending programs. The average size of individual loans in 1997, for example, was $10,631 (Langer, et al., 1999).

The challenges of operating a successful microenterprise in the United States have led some MDPs to emphasize *training and technical assistance*. Many programs offer a standard set of business classes in such areas as business planning, financial statements, cash flow, marketing, credit management, and personal goal setting. Some offer more individualized training, counseling, or mentoring programs. These are the most expensive types of services offered by microenterprise programs.[7]

Many programs target women entrepreneurs, building in certain features and specialized support. By providing training services that include empowerment principles, programs aim to reduce barriers to microentrepreneurship, increase the potential for success as business owners, and facilitate economic self-sufficiency (Johnson, 1998). While Tracy Ehlers and Karen Main (1998) argue that typical microenterprises provide poorly paid jobs with little chance of success, Salome Raheim and Jacquelyn Bolden (1995, 149) argue that women are empowered as a result of increased access to credit and capital, flexibility to care for family, and increase in self-esteem.

Microenterprise from the Eyes of Entrepreneurs

This book asks several key questions of microentrepreneurs. What are their goals? What facilitates or hinders business performance? What kinds of support do they receive? How do businesses contribute (or not contribute) to the household, both economically and otherwise? Finally, how do entrepreneurs assess their microenterprise experience?

This study of low-income entrepreneurs is part of a larger study conducted by the Aspen Institute's Self-Employment Learning Project (SELP). SELP, a five-year study of microenterprise funded by the Charles Stewart Mott and Ford foundations (Appendix B), included a longitudinal assessment of 405 randomly selected microentrepreneurs, including 133 with low incomes (Clark & Huston, 1993; Clark & Kays, 1995, 1999). In years one, two, three, and five of the study, SELP evaluators conducted telephone surveys with the entrepreneurs.[8] A separate analysis of the 133 low-income entrepreneurs (33 percent of the total group) was also conducted by SELP (Clark, & Kays, et al, 1999). The focus of annual surveys was on participants' businesses, households, earnings, and experiences with the microenterprise program. The central research questions concerned changes in business and household economic well being-over time. Annual surveys also included some open-ended questions, although they had not been analyzed.

This book focuses on data collected in the fourth year of SELP. We designed and conducted in-depth interviews that would capture the experience of creating and operating a microenterprise from the participants' perspectives (see Appendix A for a complete description of the research approach). The in-depth interviews encouraged the entrepreneurs to discuss their motivations for business ownership, earlier entrepreneurial activities, how they interpreted their business successes and challenges, how they handled business and household finances, and what they believed were the outcomes of owning a business. In these ways, the interviews provided description, explanation, and help in interpreting data collected in other years of the project. Of the 133 low-income entrepreneurs in SELP, we conducted in-depth interviews with 86.[9] Information for this book is also drawn from published and unpublished data from the four years of surveys and program case studies conducted at the Aspen Institute (Clark & Huston, 1993; Edgcomb, et al., 1996; Clark, et al., 1999).

The entrepreneurs interviewed for this study were participants in seven MDPs; most were among the very first established in the United States (Table 1.2). Although not representative of the field of microenterprise, these programs vary in size, approach, target population, and geographic location:

- WomenVenture, created in 1983 as Women's Economic Development Corporation (WEDCO), was established to assist unemployed and underemployed women to transition into self-employment. Later, WomenVenture expanded to work with women on welfare and some men on business development and career planning (Balkin, 1989; McKee, et al., 1993; Edgcomb, et al., 1996).

- The Women's Self-Employment Program (WSEP) provided financing and training for low-income women for microenterprise (Bailey, 1993; WSEP, 1996). The Full Circle Fund of WSEP was based on the Grameen Bank model (Balkin, 1992; Solomon, 1992; Rodriguez, 1995). WSEP employed peer and individual lending, along with training and technical assistance (Edgcomb, et al., 1996).

- The Portable Practical Education Program/Micro Industry Rural Credit Organization (PPEP/MICRO) was formed to serve primarily Latino/a entrepreneurs along the U.S.-Mexico border. Using a slightly different model from other US programs, PPEP/MICRO

Table 1.2
Characteristics of Microenterprise Programs and Participants in SELP*

	CWED	GFF	ISED	PPEP-MICRO	REDC	WSEP	WV
Location	Los Angeles, California	Pine Bluff, Arkansas	Iowa City, Iowa	Tucson, Arizona	Raleigh, North Carolina	Chicago, Illinois	Minneapolis, Minnesota
Year created	1989 (now closed)	1988	1988	1987	1989	1986	1983
Program strategies	Peer-group lending	Peer-group lending	Training and TA	Individual lending	Peer lending	Peer lending	Individual lending
	Individual lending	Individual lending	Optional credit	Training and TA (optional)	Individual lending	Individual lending	Training and TA
	Training and TA	Training and TA			Training and TA (optional)	Training and TA	
Mandatory training	51 hours	18 hours	90 hours	TA optional	Classes optional	30 hours	1 hour
		(72 hours for welfare program)				(222 hours for welfare program)	(80 hours for welfare program)
Number of participants[1]	213	206	721	313	312	349	113
Women served (%)[1]	81	67	65	51	53	100	96
Minorities served (%)[1]	84	83	19	85	38	86	29
Participants under poverty (%)[1]	26	31	64	36	19	49	32
Recipients of welfare (%)[1]	6	9	51	9	3	38	21
Number in SELP study	38	39	54	51	83	86	54
Number in SELP poverty sample	14	12	40	24	23	16	9
Number in in-depth interview study	4	8	29	11	17	9	7

*Adapted from Edgcomb, et al., 1996, 7, 13, 15–18.

[1]Six-month period ending 12/31/96.

formed large business associations of twenty to thirty entrepreneurs that operated as peer lending and training groups for businesses that had been operating for at least one year (Edgcomb, et al., 1996).

- The Institute for Social and Economic Development (ISED) offered counseling, training, and technical assistance, and provided assistance in obtaining (and in some cases guaranteeing) loans through its partnerships with banks (Raheim & Friedman, 1999). ISED focused on promoting self-sufficiency through self-employment for people with very low incomes, especially women moving from welfare to work (Edgcomb, et al., 1996; Kantor, 2000).
- The Coalition for Women's Economic Development (CWED), incorporated in 1988, offered training, technical assistance, and credit to low-income women with diverse levels of business experience (NEDLC/CWED, 1999). Although for a short time the CWED expanded to include an SBA microloan program, it drew back to its original focus on training and lending for the poor, and finally closed its doors in 1996 (NEDLC/CWED, 1999).
- The Good Faith Fund (GFF) was established in 1988 with the help of then-Governor Bill Clinton and Hillary Clinton as a subsidiary of the Southern Development Bancorporation. Originally proposed as a replication of the Grameen Bank model, it served mostly low-income women and minority entrepreneurs (Mondal & Tune, 1993; Buntin, 1997; Surgeon, 1997; Taub, 1998).
- Finally, using a more decentralized form of service delivery, the Rural Economic Development Center (REDC) of North Carolina, created in 1989, was comprised of a network of agencies that offered group and individual lending and training services funded by the state legislature (Edgcomb, et al., 1996).

The seven programs varied in their approach to assisting entrepreneurs. Tables 1.2 and 1.3 provide descriptions of the programs in the second half of 1996 and indicators of program performance in 1994 (Edgcomb, et al., 1996). Regarding type of service, ISED provided only training and technical assistance and assisted entrepreneurs in obtaining loans for other sources, while the others also directly provided loans. ISED and WSEP served high proportions of the poor, while REDC and CWED served the lowest proportion of poor participants. GFF served the fewest participants, while ISED served the most in 1994. The majority of participants in WSEP, Women Venture, and CWED were women, and the majority of participants in WSEP, MICRO, CWED, and GFF were minorities. In 1994, costs per participant ranged from $841 at ISED,

Table 1.3
Program Performance in Seven Microenterprise Programs (1994)*

	CWED	GFF	ISED	PPEP/MICRO	REDC	WSEP	WV
Number of participants	508	206	978	340	312	349	1,274
Cost per participant[1]	$1,300	$2,691	$ 841	$1,437	$1,511	$2,257	$1,913[2]
Cost per business	$2,110	$4,698	$2,716	$1,437	$1,904	$3,355	$4,903
Loans made	27	43	41[3]	200	98	103	36
Average loan size	$3,474	$4,879	$7,404[3]	$2,161	$4,772	$2,173	$8,059
Number of business starts	52	55	66	50	74	76	70
Number of business expansions	94	63	237	290	148	148	23

*Adapted from Edgcomb, et al., 1996, 34–36, 38–41, 57. (For number of business starts and expansions, where data for graphs are different from those in the tables, we report data from the tables).

[1]Although not reported, costs per participant may be lower than cost per business because some participants do not open businesses.

[2]Intensive services only.

[3]ISED helps participants prepare loan applications and it monitors payments, but does not directly disburse loans.

which offered only training and technical assistance, to $2,691 at the Good Faith Fund, which offered extensive services. Average loan sizes ranged from a low of $2,161 at MICRO to a high of $8,059 at WomenVenture. There was relatively little variation in number of business start-ups, but expansions were emphasized at ISED and MICRO.

Summary of the Book

In chapter 2, we review the theoretical work on microenterprise that suggests reasons why people choose microenterprise and explanations of business outcomes. We also summarize key findings of existing studies on microenterprise.

Chapter 3 is an introduction to the microentrepreneurs, their businesses, their motivation for starting a business, and their business goals. The chapter describes the ways in which many microentrepreneurs occupy a disadvantaged space in the work world and why they decided to open a business. Chapter 4 discusses resources that the microentrepreneurs brought to their businesses. Their accounts underscore relatively low levels of financial, human, and social capital. This chapter also addresses the role of MDPs in supporting business start-up, including lending, training, technical assistance, and other support.

In chapter 5 we focus on how well the businesses performed economically by presenting data on business earnings and business assets. Although the range is wide, microentrepreneurs in this study earned modest financial income from their business on average. The analysis also shows that boundaries between business and household are often blurred, compounding the challenges of sorting out financial success of business and other income-generating strategies. We detail the strategic importance of microenterprise as entrepreneurs and their families patch together income from several sources, including self-employment, wage and salaried work, and public assistance.

In chapter 6 we examine factors that influenced business performance. According to the entrepreneurs, the most important factors contributing to business profits were business skills and experience, family support, and availability of business infrastructure and capital. Except for family support, these were also important factors contributing to business losses. In addition, the economy and various life events and personal factors, such as illness in the family, also contributed to losses. MDPs helped with some of these problems, but typically were unable to offer enough support over the long term to provide an effective counterweight.

Chapter 7, where we examine the multiple outcomes of microenterprise, may be the most important chapter. Low-income people go into business for a variety of economic and non-economic reasons, and the rewards of self-employment vary. The breadth of these factors suggests the potential of microenterprise for development of poor households. We also examine outcomes identified by participants in relation to financial outcomes addressed in chapter 5.

Chapter 8 revisits the question of microenterprise as an anti-poverty strategy. Our analysis suggests that microenterprise provides some income for economic survival, although in relatively few cases does it elevate families much above poverty. It is the lion's share of household income for a few, but for most microentrepreneurs the business provides only one source of income among others. Nonetheless, entrepreneurs say they reap substantial rewards over and above income. These include opportunities for personal growth and learning, autonomy and control, and various benefits to their family. These benefits help to explain high levels of enthusiasm for self-employment. Theoretically and practically, these results suggest that microenterprise can best be advanced from a human and household development perspective.

Notes

1. Balkin (1989, 13–14) points out that there is a difference between being an entrepreneur (a risk taker, "bold and imaginative," who wants to make money) and being self-employed (a simple description of employment type). All the participants in this study were self-employed (they had opened a business on their own), but many were also "entrepreneurial," striking out against the odds and on their own, to build a business. In the end, we acknowledge the difference, but use both to describe the individuals in this study.

2. To continue receiving public assistance benefits, the Aid to Families with Dependent Children (AFDC) program disallowed accumulation of family assets beyond $1,000 and a vehicle worth more than $1,500.

3. Butler adopts the term *economic detour*, coined in the 1930s, to describe a situation where hostility and government policy has historically forced African American-owned businesses to operate in very restricted circumstances. Black businesses could not compete with businesses that could operate, relatively unconstrained, in the larger market (1991, 75, 323).

4. A great deal has been written on the Grameen Bank (see *www.grameen-info.org/bank/biblio.html* for a bibliography on Grameen), although few publications are based on independent empirical research.

5. For more information see the ACCIÓN International website (*http://www.accion.org/about/*) and the FINCA International website (*http://www.villagebanking.org/about/index.htm*).

6. Several programs offer more than one kind of loan. Moreover, very few programs deviate from the credit idea by providing outright grants to businesses. Trickle

Up, a New York-based organization, grants $100 to $700, along with training and support, to start businesses (Foderaro, 1997; *http://www.trickleup.org/*). The seed money reportedly helps businesspeople get their small business off the ground and then they can turn to other microenterprise programs or to conventional lenders for more capital.

7. Costs of providing microenterprise services vary widely depending on the intensity of training, technical support and support services, and the experience, age, and size of the program itself. Some estimates, however, have been attempted. A Mott Foundation study of 31 microenterprise programs (1985) estimated costs ranging from $500 to $39,000, with an average cost per business start-up or expansion of $10,521 (Klein, 1994). SELP estimated costs ranging from $1,437 to $4,698 per business for all types of assistance (Edgcomb, et al., 1996, 37). The cost-per-business-start-up ranged from $7,400 to $8,000 in two of the SELP agencies that tracked these data (Edgcomb, et al., 1996, 43-44). The Office of Refugee Relief spent an average of $11,836 per business (Else & Clay-Thompson, 1998). The Association for Enterprise Opportunity (AEO) estimated that the rising costs of training and technical assistance range from $630 to $12,000 per participant, and the median cost per loan, including training and technical assistance is $7,300 (AEO, 2000). According to Edgcomb and her colleagues (1996), the costs per job created in a microenterprise ranged from $4,114 in one program to $6,155 in another. This compares to costs per new job ranging from $3,469 to $7,000 in job training and placement programs working with similar populations (Edgcomb, et al., 1996, 43). In recalculations of published data, Schreiner (2002) estimates costs of about $2,000 per participant, and asks if benefits per participant are likely to exceed the costs.

8. SELP evaluators made these data available to the authors allowing a longitudinal perspective on many of the research questions. SELP evaluators had not previously analyzed open-ended questions.

9. Of the original 133 (out of 450) low-income participants, 89 had been resurveyed the year before (Wave Three) of SELP.