

Structure of the Project

INTRODUCTION

The microenterprise strategy made its way to the forefront of the U.S. policy agenda in the Clinton administration's first term because of the President's and the First Lady's personal interest in the matter. The establishment of the Community Development Financial Institutions (CDFI) Fund in 1994, the President's "Excellence in Microenterprise" awards in 1996, and the Microcredit Summit in 1997 helped boost its familiarity among Washington policymakers. Policymakers and the media tout the microenterprise strategy as a way to alleviate poverty and create jobs in both the United States and developing countries. We know little, however, about the effectiveness of microenterprise development in combating economic distress. *Should EDA encourage microenterprise programs to help alleviate structural economic problems?* This research provides a more solid understanding of the value of microenterprise development programs for EDA and other agencies and examines how, specifically, the microenterprise strategy can complement EDA's existing tool kit of policies and programs.

Access to credit and training—key ingredients in the creation, stabilization, and expansion of small businesses—is lacking in economically distressed areas of the United States. Microenterprise programs, which provide these two ingredients, have quickly multiplied in response to this need. The Aspen Institute's 1996 Directory of U.S. Microenterprise Programs profiles 328 programs in 46 states that assisted in the creation and growth of more than 36,211 businesses in 1995 alone, mostly among low-income people. Many microenterprise programs also specifically target geographic areas suffering from economic distress—such as those in which EDA works. Beyond basic similarities in mission, methodology, and target population, microenterprise programs differ enormously depending on the economic context in which they operate. This study illustrates the ways in which programs are tailored to the people and places they serve.

Economic distress occurs for a variety of reasons and manifests itself differently in different places. Regions that relied on defense-related industries have had to arrive at conversion strategies—often with EDA's help—in the wake of base closings. Resource-dependent regions,

such as Appalachia and the Pacific Northwest, cope with resource depletion, international competition, and/or a shift to substitute products. Older industrial regions, particularly the Northeast and Midwest, suffer from the movement of industry to the South and West. The cities of these regions have also witnessed the exodus of people and jobs from central cities to the surrounding suburbs and exurbs. EDA's economic adjustment programs are designed to facilitate adjustment to the adverse changes in regions' economic situations that are causing or threaten to cause serious structural damage to the underlying economic base.

Changes in national and global economic relations have made the traditional path of getting and keeping a job for an entire career less of a reality for most people. Economic restructuring toward flexible specialization and a small-firm economy has left many people without stable jobs that pay a living wage and provide necessary benefits. Programs and policies designed to alleviate economic distress need to take these changes into account. The old model of training programs was geared to a labor market that no longer exists for many job seekers, particularly the low-skilled urban poor.

The great surge in self-employment that is occurring in the U.S. is in some ways a reaction to these changes. Sometimes by choice, and sometimes out of necessity, people are exploring the option of self-employment in increasing numbers. Viewed from this perspective, microenterprise programs are one of the few types of programs dealing with economic distress that respond to the constraints and opportunities posed by today's economic reality. Unlike most strategies designed to help people become economically self-sufficient, microenterprise programs help many people do a better job of something they are already doing to survive—starting small businesses. These programs teach those with an interest in and inclination for self-employment how to strengthen their entrepreneurial skills and stabilize their businesses.

Unlike traditional training programs and other strategies designed to address the problem of economic distress, microenterprise programs consider both the old-order problem of how to mobilize people and the more recent problem of economic restructuring and its effect on the labor market. These programs motivate people who are interested in taking responsibility for their own lives and futures and provide them with the tools they need to make that happen. The relational skills that these programs develop, particularly during the borrowing process, enable participants to take advantage of other programs and to create critical support networks. By helping people start and stabilize businesses, microenterprise programs also help prove to individuals that, with access to the right resources, they can do something useful.

Thus far, little work has been done to study the outputs, outcomes, and impacts that these programs produce in economic development terms. Existing research on microenterprise programs tends to focus on their effectiveness as social welfare programs rather than as economic development programs. These studies (Clark and Huston 1993; Raheim and Alter 1995; Spalter-Roth et al. 1994) also tend to evaluate programs at the level of the individual rather than considering the larger view of place-based outcomes. This research helps to fill that gap. We focus on the relationship between the microenterprise strategy and the local economy in order to determine whether and how microenterprise programs can help to alleviate economic distress.

Although most media attention has cast the microenterprise strategy in a positive light, wider debates surrounding this endeavor have become polarized. For supporters of the microenterprise strategy, the popularity of these programs stems from their foundation of bipartisan support, the high payback rates of existing lending programs, and the appeal of a strategy that, in theory, can pay for itself. Proponents of these programs also claim that they provide disenfranchised populations with an entry point into the mainstream economy through self-

employment. Creation of new businesses and the jobs that subsequently result can also help to revitalize distressed communities.

Critics, on the other hand, argue that microenterprise programs perpetuate existing power structures by keeping these entrepreneurs marginalized in an economic fringe. They also claim that the businesses started are too small and vulnerable to revitalize distressed communities and provide a source of stable jobs. In reality, both positions contain some element of truth.

CHOICE OF PROGRAMS AND AREAS

Case studies of the following six microenterprise programs constitute the core of this research: Institute for Social and Economic Development (ISED) in Iowa; Northeast Entrepreneur Fund (NEF) in northeastern Minnesota; West Company (West) in Mendocino County, California; Women Entrepreneurs of Baltimore (WEB); Women's Economic Self-Sufficiency Team (WESST corp) in New Mexico; and Working Capital's Lawrence, Massachusetts project. The areas chosen for study represent the range of types of economically distressed areas that EDA targets. Two (West Company and NEF) are based in rural areas, two (WEB and Working Capital) operate in urban areas, and two (ISED and WESST corp) serve entire states. The programs chosen are representative of mature microenterprise programs currently operating in the United States.

The microenterprise literature distinguishes between credit-led programs (those that define their principal product as credit and focus on making loans) and training-led programs (those that focus on training and tend to have intensive and frequent interactions with their clients) (Burrus and Stearns 1997). Training-led programs tend to focus on microenterprise development as a way to help individuals living below the poverty line and on public assistance to achieve economic self-reliance. Of the programs studied here, ISED, West, WEB, and WESST are training led. ISED makes no loans directly, although it does help clients who need credit to access other sources. This focus on training is linked to programs' goal of serving low-income individuals, including persons living below the poverty line, who tend to require more intensive training than do participants at the higher end of the socioeconomic scale. Working Capital is the most credit led of all the case study programs, and Mary Mathews, executive director of NEF, calls her program a training-led credit program. Credit-led organizations tend to target a broader client base. However, according to Working Capital founder Jeffrey Ashe, "62% of Working Capital's poverty participants are at 125% of the poverty level, showing that a credit-led program can serve this population." They do serve individuals living below the poverty line, but also reach out to low- and moderate-income individuals who are self-employed and do not have access to conventional credit.

We chose programs that have:

- been in existence for at least five years, giving them a long enough track record to be studied;
- had relatively stable leadership, allowing for institutional memory; and
- maintained solid records since they began operations.

All of the chosen programs are in areas that have been hard hit by economic restructuring and/or are experiencing economic distress for some other reason. WEB is located in the central

part of Baltimore City, an area plagued by the exodus of people and jobs out of the city, as well as other forms of distress typical of older industrial cities. Working Capital Lawrence operates in a much smaller city, but one that has seen the departure of a large part of its manufacturing base. Lawrence is also home to a sizable immigrant population, mostly from the Dominican Republic, Puerto Rico, and Cambodia, whose job opportunities are limited. Both NEF and West Company operate in declining resource regions. The seven counties within which NEF operates have lost a large share of the mining jobs that previously provided the backbone to the regional economy. Mendocino County, where West Company operates, has not been able to sustain its timber and fishing industries. ISED and WESST, the two statewide programs, operate in a mix of rural and urban settings throughout Iowa and New Mexico, respectively. Poverty rates in New Mexico are extremely high, and the state has mostly been unsuccessful in attracting new jobs. Iowa recently suffered through the Farm Crisis and has also lost many manufacturing jobs in related sectors, such as farm machinery and meatpacking.

The profiles below provide more information on each of the programs studied.

WORKING CAPITAL

<i>Geographic area served:</i>	Lawrence, Massachusetts
<i>Mission:</i>	To revitalize poor and economically distressed communities through assistance to microbusiness owners
<i>Target population:</i>	Microentrepreneurs in low-income urban and rural communities
<i>Training and lending services:</i>	Training within peer groups; group lending
<i>Type of economic distress:</i>	Deindustrialization; movement of people and jobs out of central city

WESST CORP

<i>Geographic area served:</i>	State of New Mexico
<i>Mission:</i>	To assist low-income women and minorities in developing economic self-sufficiency by starting or growing their own businesses
<i>Target population:</i>	Low-income women and minorities
<i>Training and lending services:</i>	Training in classes; peer support; individual and group lending
<i>Type of economic distress:</i>	High poverty level and lack of economic base statewide

INSTITUTE FOR SOCIAL AND ECONOMIC DEVELOPMENT

<i>Geographic area served:</i>	State of Iowa
<i>Mission:</i>	To create new jobs by facilitating the growth and expansion of microbusinesses and to enable low-

<i>Target population:</i>	income Iowans to move toward economic self-sufficiency through self-employment Low-income individuals, welfare recipients, and economically distressed communities
<i>Training and lending services:</i>	Training in classes
<i>Type of economic distress:</i>	Declining agricultural and manufacturing industries

WOMEN ENTREPRENEURS OF BALTIMORE

<i>Geographic area served:</i>	Greater Baltimore metropolitan area
<i>Mission:</i>	To create innovative economic development strategies and provide entrepreneurial education and training services that assist in developing business and leadership skills, and result in the economic enhancement of women and communities in the region
<i>Target population:</i>	Women in the Baltimore area
<i>Training and lending services:</i>	Training in classes; peer support; individual and group lending
<i>Type of economic distress:</i>	Disinvested central city

WEST COMPANY

<i>Geographic area served:</i>	Rural Mendocino County, California
<i>Mission:</i>	To increase economic options for low-income people through ownership of microenterprises
<i>Target population:</i>	Low-income women and minorities
<i>Training and lending services:</i>	Training in classes; peer support; individual and group lending
<i>Type of economic distress:</i>	Severe decline of timber harvesting and milling industries

NORTHEAST ENTREPRENEUR FUND

<i>Geographic area served:</i>	Seven counties in northeastern Minnesota
<i>Mission:</i>	To foster an entrepreneurial spirit and encourage economic self-sufficiency through the growth of small business and self-employment opportunities in northeastern Minnesota
<i>Target population:</i>	Unemployed and underemployed men and women who reside in the target region

<i>Training and lending services:</i>	Training in classes; peer support; individual lending
<i>Type of economic distress:</i>	Declining resource region

RELEVANCE

The microenterprise strategy in its U.S. context has existed for about ten years, long enough to have produced a track record that allows us to assess whether and to what extent the strategy can help to accomplish the EDA mission to “generate new jobs . . . and stimulate industrial and commercial growth in economically distressed areas of the United States.” Assessing six microenterprise programs operating in distressed areas will enable EDA to decide whether and how to support these programs. In addition, the Clinton administration has expressed a great deal of interest in supporting microenterprise programs.