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Lessons from the Case Studies

INTRODUCTION

The findings presented in this chapter draw on the original research conducted for this project, including fieldwork at the six case study sites, a written survey of the entrepreneurs interviewed, and interviews with members of the advisory board and other field experts. The methodology of our study and a description of the specific research tasks performed can be found in Appendix A. In addition, we have supplemented our research with the findings of other recent investigations.

Few studies of the microenterprise strategy in its current U.S. context exist. Those that have been conducted vary greatly in their scope, emphasis, and quality; they tend to focus on either the programs, the entrepreneurs, or the businesses. These studies are useful for painting a broad picture of programs and the outcomes they produce because they pose questions and cover areas that complement the objectives of this project. The remainder of this chapter summarizes our findings from the case studies, presenting them in conjunction with findings from the most useful of the previous studies, which are: the Self-Employment Learning Project (SELP); the Self-Employment Investment Demonstration (SEID) evaluation; the Charles Stewart Mott Foundation's (Mott) Small Steps Toward Big Dreams series; and the Institute for Women's Policy Research Micro-Enterprise and Women report. A description of the scope and orientation of each of these studies appears in Appendix E.

THE FIELD

The number of programs, as well as activity within individual programs, is in a period of rapid expansion.

The field of microenterprise programs is growing dramatically in the U.S. Whereas a handful of programs was operating ten years ago, by 1996 the Aspen Institute's Directory of

Microenterprise Programs reported the existence of 328 programs, up from 195 in 1994 and 108 in 1992. This number reflects only those programs that responded to a survey sent out by Aspen; therefore, the actual number may be significantly higher. All of these programs offer technical assistance to entrepreneurs, and 67 percent do either individual or group lending. Of those that offer credit, 71 percent do individual lending only, 14.5 percent do group lending only, and another 14.5 percent do both individual and group lending.

Early programs such as Women Venture¹ and the Women's Self-Employment Project began to generate solid outcomes and then attracted national attention among policymakers, organizers, and philanthropic foundations. Growth in program activity expanded particularly rapidly between 1992 and 1994. The 31 programs surveyed by the Mott Foundation in 1994 reported a 35 percent increase in the cumulative volume of loans made and a 10 percent increase in the total capitalization of the loan funds in that two-year period. These same programs reported a 42 percent increase in the number of businesses financed since 1992 (Mott Foundation 1994, 3). Joyce Klein, who prepared the most recent Mott Foundation report, attributes the rapid expansion of the microenterprise field to both "growing need at the local and grassroots levels and increasing government interest at the state and federal levels" (Mott Foundation 1994, 16). According to Malcolm Bush of the Woodstock Institute, the "unbelievable" rate of expansion "speaks to the fact that there is a sector of economic problems we are not touching with regular economics."

The microenterprise field has begun to mature.

The programs that have existed the longest, including most of those studied for this project, have entered a mature phase. They are stable; they have begun to diversify and are much more precise about what their missions are and how they plan to fulfill them than they were even five years ago. This maturity has also created a group of people who in many cases have been working in the field for more than ten years and who have begun to recognize and fill different needs. Some microenterprise programs, such as West Company, have worked to create state-level organizations to do policy work. Others have cultivated state-level intermediaries to raise and leverage funds for microenterprise activity, removing some of the burden of fund-raising from the programs. These intermediaries also make decisions about the distribution of funding. Because the people involved in these organizations know the field, they are better equipped than most funders to determine where support should go. They also monitor programs receiving support in order to ensure that they are properly accountable. Because the intermediary originated in the field rather than with the funding agencies, the theory is that intermediaries will be more likely to employ evaluation techniques and monitoring processes that the programs can live with.

In general, microenterprise program staff know more about what sorts of outputs and outcomes they are producing, how to advocate for money from funders, and how they should be evaluated. At the same time, the field is diversifying, with different programs specializing in different activities. This diversification will be discussed at greater length below.

1. Formerly WEDCO.

PROGRAMS

Microenterprise programs respond to the economic context in which they operate.

One element of this responsiveness has to do with recognizing and working with the skill set of the target population. According to Clark and Kays, “‘client-effective’ programs will have strong links to communities and a close knowledge of microentrepreneurs and the economy in which they operate and will tailor particular services (various kinds of training and/or technical assistance, and different sizes of loans) to specific target groups based on their needs” (1995, 4). Programs that operate in an area with a low-skilled population are likely to spend more resources on training than programs in which the target population has greater skills. This is particularly true of inner-city programs and those serving clients who have depended on public assistance for a long time, such as WEB and ISED. In Lawrence, Working Capital must recognize and work within the context of the Dominican culture in which most of its entrepreneurs operate. This group tends to be very entrepreneurial but must learn about operating a business in the United States. Programs that operate in remote rural areas must focus on the problem of access to markets, whereas this tends not to be an issue in more urban areas. In addition, programs continue to respond to changes in the economic and political landscape. For example, many programs have created innovative responses to welfare reform. West Company runs business resource groups specifically for very low-income women, to help them use self-employment as a strategy to exit welfare. ISED is in the process of developing a program that would link potential employers with welfare recipients who have gone through the ISED program but are not ready for self-employment.

Microenterprise programs are learning organizations.

The microenterprise strategy is new in its U.S. context, and programs must negotiate a steep learning curve. In its 1993 Update, the Mott Foundation found that 61 percent of the programs surveyed had changed their lending standards since they began (1993, 5). These changes might involve implementing stricter, more “banklike” procedures, adding peer lending, requiring participants to borrow in “steps” from smaller to larger loans, or narrowing or expanding the target market. In some areas, clear trends exist. For example, all of the programs studied for this research have strengthened the training aspect of their activities. All have increased their focus on data collection and evaluation (often at the behest of funders). In other areas, there are no clear trends in terms of the actual changes programs have made. For example, West Company started out doing peer lending but has since dropped it, while WEB has added peer lending to the menu of loan products it offers.

Programs are also increasing the variety of financing tools they offer to their clients and broadening the range of noncredit services they provide in order to better serve their customers (Klein 1994, 7). West Company has added a very small loan program for clients who need to test out an idea or construct a prototype of their product. Working Capital Lawrence recently formed a partnership with a group of seven area banks in order to provide larger loans to customers who are ready to borrow greater amounts than the program currently allows. Many programs start out modeling themselves after other programs. However, each context is different, and programs are

wise to tinker with existing models. The amount of change that programs are implementing implies that U.S. microenterprise programs are learning as they go, and that it may be several years before we can gauge the true potential of the strategy.

In many ways, studying microenterprise programs is like trying to shoot at a moving target. Even the most mature programs continue to grow, experiment, and change. Sometimes we would contact programs several months after our fieldwork was completed in order to get clarification on some point, only to learn from staffers that they were making changes—sometimes in part because of conversations that had taken place during our time there. For example, we remarked during our fieldwork at the West Company in March 1998 that this program seemed to do a significantly greater amount of individual consulting than many other programs. West Company has since decided to provide some of its basic training to groups rather than individuals.

TABLE 2.1
Characteristics of Case Study Programs

	<i>ISED</i>	<i>NEF</i>	<i>WEB</i>	<i>West</i>	<i>WESST corp</i>	<i>Working Capital*</i>
1995 operating budget	\$1,200,000	\$550,000	\$358,000	\$173,000	\$505,000	\$1,367,129
Program start date	1988	1989	1989	1989	1988	1990
Target population	Low-income, welfare recipients, & distressed communities	Unemployed, underemployed men and women in region	Low-income Women	Low-income women and minorities	Low-income women and minorities	Micro-entrepreneurs in low-income urban and rural communities
Geographic area served	State of Iowa	Northeast Minnesota	Baltimore area	Mendocino County, CA	State of New Mexico	MA, ME, NH, VT, DE, GA, RI, Russia
Lending offered	None	Individual lending to \$25,000	Individual and peer lending	Individual lending	Individual lending to \$5,000	Peer lending
Percent women/men	63/37	46/54	100/0	94/6	70/30	66/34

* The statistics in this column refer to the entire Working Capital program, not just Lawrence.

Source: 1996 Directory of U.S. Microenterprise Programs

Programs are extremely diverse.

This diversity, due in part to the economic, social, and political context within which programs work, is expressed through the size of the program, program mission, type of lending, and target population. In order to illustrate this diversity, the most recent Mott Foundation Update contrasts one program established in 1987 that has made more than 800 loans totaling \$1.39 million with another established in 1986 that has made 241 loans totaling \$345,000.

The diversity that exists both within and among programs reflects the diversity of goals that programs pursue. Even though the basic goal of providing credit and training to entrepreneurs characterizes all programs, the emphases range from working mostly on self-esteem to poverty alleviation to more traditional economic development goals of job creation and business expansion. In a recent study based on current SELP findings, Joyce Klein claims that “there are three dimensions which, taken together, explain the range of diversity among American programs. These are mission and anticipated outcomes, target population, and methodology” (1994, 3). The first dimension, mission and anticipated outcomes, differentiates between two types of programs—one that uses microenterprise as a development strategy, and another that uses microenterprise as a method of providing business development services. The second

dimension, target population, will be discussed below. The third dimension, methodology, consists of three main categories: 1) credit-led individual loan programs; 2) training-led programs; and 3) group lending programs (Klein 1994, 4). While these dimensions provide a useful framework, the categories within each are not mutually exclusive. For example, Working Capital is a credit-led group lending program, blurring the categories established within the methodology dimension.

Table 2.1 illustrates some of the important characteristics of our case study programs. All of the programs we studied claim to be targeting a disadvantaged population or populations, yet each program defines this somewhat differently. Three of our six case study programs specifically target women. Three target low-income individuals, and one targets low-income communities. NEF has never specifically targeted low-income individuals, yet a fair number of their customers meet such criteria. Geographically, each program serves a different scale. Both ISED and WESST corp are statewide programs; NEF and WEB could be considered regional in their scope; and West Company serves a single county. As a result, we see a wide range of budgets across our case study programs. However, even those with similar geographic scope often have very different budgets. This is largely due to the different training and lending services each program offers, which are fully discussed in each case study chapter.

Most programs do some form of targeting and/or directed outreach. While nearly all microenterprise programs gear their services to low-income entrepreneurs, the vast majority also target or emphasize serving specific populations ranging from women (the most common) to displaced workers to migrant farm workers.² Programs that target do so in recognition of structural problems that make it difficult for certain groups to gain access both to employment in the formal economy and to resources such as credit and training. They also seek to counteract regional employment problems. For example, West Company targets unemployed timber and fishery workers, Working Capital targets Latinos, and ISED targets welfare recipients. Many of these programs incorporate other kinds of assistance relevant to their target population into the basic business training. The Lakota Fund, for example, helps Native American participants cope with the problem of alcoholism on their reservation. Accion New York assists borrowers with immigration and legalization problems.

Clark and Kays (1995) maintain that effective targeting makes for more client-effective programs. Arguing that U.S. programs require measures of success that go beyond the size and scale indicators often applied to similar programs in less-developed countries, these authors assert that the success of U.S. programs will depend partly on their ability to create and implement “client-effective” service delivery mechanisms (1995, 3-4).

All of the programs studied for this research target disadvantaged people in the sense that they all target individuals who cannot obtain credit through other channels. Within this broad category of “disadvantaged,” targeting differs markedly from program to program.

The transaction cost of loans made by microenterprise programs is high.

The high cost of making these loans arises because virtually all programs provide training as well as lending, recognizing the fact that many poor entrepreneurs are not immediately ready to borrow. A recent study by Mt. Auburn Associates found that “successful group lending models tend to have lower costs than the individual models due to both higher repayment rates and less

2 . The Aspen Institute’s ongoing Self-Employment Learning Project (SELP) is tracking 405 entrepreneurs from seven programs over five years. While seven is a small and not completely representative sample, 79 percent of the 405 entrepreneurs followed are women.

staff time required per borrower, but the costs remain high and even those programs that charge market interest rates and boast enviable repayment records require subsidies” (1994, 2-12). Mary Mathews of NEF notes, "There are very few people who walk through the door and are ready for a loan."

The most recent SELP report (1996) shows that the average cost per client served was \$1,707 in 1994, with a range between \$841 and \$2,691.³ On the low end, Working Capital estimates that it costs less than \$800 per year to assist a single business in Lawrence. The cost per welfare client was \$2,535 for ISED and \$6,487 for Women Venture's SETO Program. The cost per assisted business—that is, the total program costs divided by the number of businesses in which clients are engaged—ranged from \$1,437 to \$4,698 in 1994, with an average of \$3,018.

NEF was able to provide us with similar data for its program, citing an average cost per business⁴ of approximately \$8,800. On average, its customers' businesses create or retain 1.8 actual jobs, so the program estimates a cost per job of \$4,900. NEF's average financing per business is \$9,000, which yields a cost per job for financing of \$5,000.

Two of the seven SELP programs collected data sufficient to compute the average cost per job. For ISED that figure was \$4,114, and for Women Venture it was \$6,155. As shown in Table 2.2, these results compare well with other publicly funded job creation strategies. EDA's Revolving Loan Fund has a cost of \$4,411 per job created or retained—roughly equivalent to both the ISED cost in the SELP study and the data reported by NEF for this project. Due to data constraints, none of our other case study programs have computed costs.

TABLE 2.2
Cost per Job for Microenterprise and Other Business Lending Programs

<i>Organization</i>	<i>Client type</i>	<i>Cost per job</i>
Women Ventures Business Development Services	Low/moderate income	\$6,155 per new, full-time job
ISED	AFDC and low income	\$4,114 per new job, full- and part-time
NEF	Under/Unemployed people in region	\$4,900 per actual job created or retained
Community Development Block Grant	Varies	\$2,718 average per job created or retained
Business Loans Entitlement Program	Varies	\$3,556 for minority-owned firms
Small Cities Program	Varies	\$3,469 per job created or retained
Economic Development Administration Revolving Loan Funds	Varies	\$4,411 per job created or retained

Source: 1996 SELP Report and data provided by programs

3. These costs are the ratio of total self-employment program costs to the total number of clients served.

The cost per loan in the latest SELP study averaged \$1.47 per dollar loaned in 1994. In other terms, it cost the SELP programs between \$1,688 and \$15,329 for each loan made. On the surface, this lending activity appears to be very expensive. The programs studied for the Mott Foundation evaluation claim an average cost per loan of \$10,521 (1994 Update, 8). These high costs occur for several reasons. First, the average loan size of most programs is extremely small—\$3,034 for Mott-funded programs (1994 Update, 5).⁵ Therefore, even though most microenterprise programs use market interest rates,⁶ the return is very low. At the same time, the amount of paperwork is at least as great. And where many commercial banks have begun to automate their services, approving loans over the telephone, for example, microenterprise programs' low default rates depend on forming strong relationships between lenders and borrowers. The creation and maintenance of these relationships takes time, which in turn costs money. See each case study for a description of the particularities of the relationships formed between client and program.

Delinquency and default rates are higher than originally anticipated in the field.

According to Klein (1994, 6), faulty early evaluation efforts coupled with high expectations due to the precedents set by programs in developing countries erroneously suggested that delinquency and default rates would be relatively low. However, 1993 data from the Mott Seed Capital Assessment showed an overall delinquency rate of 19.2 percent (using a portfolio risk measure) and an annual default rate of 9.5 percent (Update 1994, 6). The range of program results is quite broad, though, and depends on such factors as type of businesses served (i.e., start-up vs. existing) and type of lending model employed. The research conducted by the Mott Foundation has also shown that default rates have risen slowly over time and that older programs tend to have higher default rates. Joyce Klein, author of the most recent Update, explains these trends as follows: "First, as programs mature and adopt stricter portfolio management practices, they typically become more aggressive about writing off bad loans. Second, programs that are more established tend to have a higher percentage of older loans...; these programs will have higher default rates simply because it takes time for a loan to go into default" (1994, 6). Many programs have toughened standards as they have evolved.

Microenterprise programs have little trouble raising capital for their loan funds, but covering operating costs (including training) continues to be a struggle.

Funders, particularly public funders, like to think of microenterprise programs as low-cost ways of helping the poor. Because they provide loans, the implication is that the funds can be repaid. The connection between credit and opening a business is stronger in people's minds than is the connection between training and entrepreneurship. According to a board member at WEB:

4. Computed as the program's total budget divided by the number of businesses. This includes the operating budget (training, technical assistance, loan fund administration, and other overhead), but no loan capital.

5. Average loan sizes range from \$300 to almost \$12,000 (Mott Update 1994, 5).

6. The range of interest rates charged is quite broad, however. Interest rates of the seven programs included in the SELP study range from 6.25 percent to 14 percent (Clark and Kays 1995, 5).

Policymakers and funders need to recognize that a training program is slower at producing outcomes than a credit program. We believe that providing training produces more durable and longer lasting results.

Barbara Johnson, executive director of San Francisco-based Women's Initiative for Self Employment, claims that, "No one is willing to invest in the hard stuff. Credit is easy."

A Mott Update found that, on average, microenterprise programs cover only 5.9 percent of their operating budgets through revenues from internally generated sources, including program revenue and investment income (1994 Update, 6). The remainder must be raised from public and private sources. This is partly because the cost per loan in microenterprise programs is quite high and the average loan size is small. Programs expend a great deal of resources getting clients ready to borrow and holding their hands throughout the process. Programs also expend resources taking clients through a process that might lead to not borrowing and perhaps not even starting a business. Most programs consider these alternative outcomes successes. No program anticipates being able to continue to pursue its mission and cover these costs. The need for greater operating support is a topic all of our case study programs, and many of our advisory board members, felt strongly about.

Mary Mathews, president of NEF, notes that her program has increasingly moved toward public funding sources, with contracts with the City of Duluth and St. Louis County to provide entrepreneurial training. Additionally, NEF is expanding its lending activities in an attempt to raise more revenues with larger loans.

WESST corp hosts the New Mexico Women's Business Conference, an event targeted to businesswomen throughout the state. The event also serves as a fund-raising opportunity for WESST corp, with anticipated proceeds of \$75,000 to \$100,000 in 1998.

Virtually all programs provide training as well as lending.

Some programs, such as ISED, do no lending. Nearly all programs require borrowers to undergo some basic business training in sales, marketing, and finance, and many require would-be entrepreneurs to write a business plan. A 1991 report generated by the Mott Foundation found that programs spent between \$110 and \$2,000 per client on technical assistance (1994 Update, 4). This wide variation in costs reflects differences in quantity and quality of training. At the high end, WEB borrowers must complete 108 hours of classroom training in order to graduate. At Working Capital, which is at the low end of the training spectrum, most of the training occurs informally in groups. Variations in the amount and kind of training programs require also reflect differences in target population, as well as differences in emphasis. WEB, which targets very low-income women, has found that this population requires more intensive training in order to become ready to pursue self-employment. Working Capital emphasizes efficiency and cost, and therefore screens out the neediest clients. According to SELP data, programs allocate between 21 and 88 percent of their total budgets to training activities. Overall, 75 percent provide workshops, 33 percent provide mentors, and 66 percent do classroom training (1994 Update, 5).

As programs have begun to mature, field experts have started emphasizing training at least as much as lending. Jack Litzenberg, a funder with the Charles Stewart Mott Foundation, claims that:

As we learn things, microenterprise has not become a capital access strategy, it has become a community education program. They provide an entry point

into understanding how the economy works. They learn by doing, they experiment with money, with buying and selling.

Microenterprise programs often catalyze networks of social service providers and community groups.

In addition to business training and credit, low-income entrepreneurs often need social and professional services such as legal advice and child care. This constellation of needs that tie into business ownership has generated cooperation and collaboration within communities. More and more, programs are formalizing this kind of cooperation by creating partnerships, affiliates, and consortia as a means of reaching scale and reducing their direct costs (Klein 1994, 8). Most U.S. programs were initiated at the local level, and the microenterprise strategy recognizes and builds upon local institutions. Working Capital, for example, works with existing community development organizations to deliver its services, and obtains most of its loan fund capital from area banks. Programs administered through existing community organizations have the added advantage of targeted access to a constituency of potential borrowers (Mt. Auburn Associates 1994, 2-13).

All of the six programs studied for this research have forged important relationships with other organizations and institutions. The kinds of organizations and institutions vary; typical ones are local banks, local government agencies, and other community-based organizations. In all cases, the inception and maintenance of critical relationships is dependent upon the presence and investment of a key individual. For example, both ISED and West Company have formed relationships with their local SBDCs. In the case of ISED, the SBDC initially felt threatened by ISED and became protective of what it perceived to be its turf. Only after a great deal of negotiation have the two agencies managed to craft a working relationship. West Company and its local SBDC crafted a complementary relationship quite easily. There is one office for both programs, and West staff determine whether individual clients should be assigned to a West business consultant or someone from the SBDC. The two agencies have segmented the market, with the SBDC focusing on larger and more advanced businesses. For the most part, clients do not recognize that there are two different programs.

Some of the programs studied belong to critical regional associations designed specifically to work on economic development problems. In Minnesota, NEF belongs to the Arrowhead Growth Alliance, an informal group of all agencies in the region engaged in economic development. In California, West Company belongs to a group called Mendocino Works, which is a consortium of 86 organizations ranging from the local community college to the California Conservation Corps to the Private Industry Council. Together these organizations work on issues related to economic development and employment in Mendocino County.

Banks are among the most important of the organizations with which microenterprise programs form relations. Banks typically receive Community Reinvestment Act (CRA) credit for the work that they do with microenterprise programs. Programs get access to greater funding for their loan funds. These relationships differ from place to place. The model of the approachable, small-town banker is rapidly disappearing in much of this country, making it even harder for high-risk entrepreneurs to obtain access to business credit. In some of the rural areas studied, it is still possible (although exceptional) for someone with an idea and no money to get capital from a bank. One West Company client, who needed a very small loan to buy supplies in order to produce a large order of her greeting cards, approached her banker and met with success:

I live in a small town, and my banker knows I have had an account at the bank for all these years....I didn't have a business plan, but I showed him my orders, and I showed him what I had sold so far driving around in my car, and here's my orders, and what they owe me once I fill them, but I need the money for the paper....On paper it wouldn't have looked good at any other bank. But he knew me as a person, and I had credibility.

In some ways, microenterprise programs have taken over doing this kind of character lending, both by making loans directly to entrepreneurs who “do not look good on paper” and by vouching for them with banks that respect and trust the work they do.

Microenterprise programs often provide entrepreneurs with access to credit they cannot obtain elsewhere. In some cases, even after having borrowed and repaid a loan, these entrepreneurs face difficulty in the mainstream credit market. A West Company client used her initial West loan of \$2,500 to buy supplies and equipment for her pottery studio. West then helped her to obtain a bank loan of \$5,000. Even with letters from the West loan fund manager and the bank manager, she could not obtain a line of credit, because she had too little in the way of collateral. Similarly, WESST corp collaborates with the New Mexico Community Development Loan Fund (NMCDLF) to help clients who have larger capital needs than the \$5,000 maximum available from WESST. This successful partnership between WESST and NMCDLF has led to the creation of a joint field office in Roswell, New Mexico, where the two organizations do joint training.

The community development element of what microenterprise programs do—which involves connecting people to each other and to critical organizations, training residents, and helping them to access resources—is often overlooked, perhaps because this aspect is more difficult to see and evaluate. Our case studies illustrate the collaborative nature of microenterprise programs as well as programs' emphasis on relationship-building. This work functions to build social capital, making microenterprise programs important facets in community development (Servon 1998).

Scale and sustainability are two of the biggest problems facing microenterprise programs.

Given their small loan sizes and high operating costs, it will be difficult, if not impossible, for many programs to make enough loans to achieve sustainability. Respondents to the Mott survey estimate that nearly 88 percent of their operating budgets will need to be generated from external sources in the future; programs currently obtain 94 percent of their operating expenses from the outside. Credit-intensive programs are more likely to approach self-sufficiency than training-intensive programs because of the former type's overall lower operating costs and higher levels of revenue. Nearly all programs will continue to depend on external funding and will therefore need to work on forging long-term commitments from funders, both public and private. The growing demand for the services provided by microenterprise programs will require a commensurate investment in the field by the institutions that currently use and support them. At the same time, it is important to recognize that programs vary in their pursuit of scale.

TABLE 2.3
Loans Made by Case Study Programs

	<i>ISED*</i>	<i>NEF</i>	<i>WEB</i>	<i>West</i>	<i>WESST</i>	<i>Working Capital</i>
Number of loans made (year)	30 (1997)	20 (1997)	62** (1993 to 98)	17 (1997)	28 (1997)	793 (cumulative)
Average loan size	\$27,350	\$9,885	\$1,182	\$2,650	\$2,502	\$1,215

* ISED does not make direct loans. Reported are loans obtained by ISED clients from other sources.

** Two significantly larger SBA loans are not included, as they skew the average loan size.

Source: Individual programs

Table 2.3 illustrates the various lending activities of our case study programs. The number and average size of loans vary greatly. Recall that ISED makes no direct loans, but through its relationships with local banks and the Iowa Self-Employment Loan Program, it can provide its clients with an avenue to credit. WESST corp makes loans only up to \$5,000, but its connection to the New Mexico Community Development Loan Fund allows its clients to access larger loans. Some, such as WEB, are more interested in empowering women to make sound economic choices than in making a high volume of loans, whereas others, such as Working Capital, are in the midst of an aggressive expansion that will lead to greater program self-sufficiency. Clark and Kays (1995) make the case that scale and sustainability are appropriate success paradigms in the less-developed-country context, but that U.S. programs require a different paradigm. The U.S. paradigm may include indicators such as the ability to graduate clients to the formal banking sector, the ability to deliver cost-effective technical assistance and training, and the ability of programs to find cost-effective and client-effective service delivery mechanisms (1995, 3-4).

Program directors and advisory board members told us that programs vary in their pursuit of scale. Some focus on efficiency and sustainable funding rather than self-sufficiency. According to Christopher Sikes, an advisory board member:

Sustainability is bogus. It will never be that way. Even if you look at microenterprise development as a contained program, it will never be self-sustaining. Especially if it's a poverty program. It's more important to focus on efficiency and impact than on sustainability.

Welthy Soni, who runs Business Start, asserts the following:

[Many funders] expected these programs to be sustainable after a few years. Banks don't get to be sustainable until they have a lot of assets. To be sustainable with such a small portfolio is almost impossible. You can decide not to serve the hard-to-serve clients. You can work higher up the socioeconomic scale and serve less-expensive clients, but many programs do not want to do that.

Other programs have begun to pursue related activities to generate income that will support the microenterprise activity. Soni's program has diversified its loan portfolio. Although the primary focus is the microenterprise fund (which has \$1 million lent out and another \$1 million available to lend), the program has created another larger fund in order to make money. Funded with state monies, this larger fund targets tourist activities and therefore complements Business Start's mission of promoting economic development in the region. Other programs, such as WESST corp, have pursued more modest ways of generating capital, such as hosting the aforementioned New Mexico Women's Business Conference. According to executive director Agnes Noonan, "Corporations are comfortable supporting conferences—they seem to be more willing to buy into it." In addition to raising money, the conference also benefits WESST's clientele. The above examples illustrate that, when microenterprise programs do engage in additional revenue-generating activities, they tend to pursue those that help to forward the program's mission.

Programs obtain funding from a mix of sources.

Many funders specify whether monies are to be used for operating activities or lending activities. Data compiled by the Mott Foundation shows that foundations contribute the largest amount to program loan funds, at 42 percent. Other contributors are the federal government, at 24 percent; state governments, at 19 percent; and other local and intermediary sources. Foundations also make the largest contributions to operating activities, giving 42.7 percent of the total. The federal government contributes 29.5 percent, state government contributes 11.4 percent, and local government gives 2 percent (1994 Update, 6). The mix of funding has changed as policy has changed and as the microenterprise strategy has grown in popularity. Some programs have shifted to public funding as it has become more available. Others, such as West Company, have chosen to pursue private sources because the paperwork required for public funding is overwhelming.

TABLE 2.4
Public and Private Sources of Funding in Case Study Programs

	<i>ISED</i>	<i>NEF</i>	<i>WEB</i>	<i>West</i>	<i>WESST</i>	<i>Working Capital</i>
Private sources	95%	40%	41%	46%	34%	NA
Public sources	5%	45%	52%	52%	54%	NA
Interest, fees, and other revenue activities		15%	7%	2%	12%	NA

Source: Individual programs

Mary Mathews of NEF reflects on the funding shifts in her own organization:

It used to be totally private foundations: the NW Area Foundation, Mott, and Ford. The government sources have grown over time—like the contract with the City of Duluth. We're diversifying our income base.

The contract mentioned with the City of Duluth utilizes Community Development Block Grant (CDBG) money for entrepreneurial training. In Albuquerque, WESST corp has a similar contract to provide Spanish-language entrepreneurial training in targeted neighborhoods, again utilizing CDBG repayment proceeds. ISED, while remaining strongly tied to public funding sources, has expanded the number and size of these contracts in recent years.

The 1996 SELP Update also reflects this shift toward greater public-sector funding sources by microenterprise programs. Public funding for the microenterprise strategy has increased as local programs and state-wide coalitions of programs have successfully advocated for support for the strategy and have been able to exhibit positive results in order to further that process. The support from President Clinton and Hillary Rodham Clinton has also operated to give the strategy visibility and legitimacy. Many of the SELP agencies initially operated largely—or in some cases exclusively—with private-sector support, primarily from foundations. In 1991, more than half of the SELP agencies derived one-quarter or less of their operating funds from the public sector. Just three years later, in 1994, all of the agencies received at least half of their funding from public-sector sources (1994 Update, 72).

BUSINESSES

Most microbusinesses are home-based sole proprietorships operating in the service sector, and most are less than five years old.

A home-based business allows the entrepreneur to combine managing the business with other responsibilities such as formal wage labor or child care. As illustrated in Figure 2.1, nearly half (48 percent) of the businesses surveyed for this project were in the service sector. It should be noted that we have made Art/Crafts a distinct category, since there are manufacturing, retail, and service components to the business activities that artists engage in. We also observed a large number of self-employed artists in two of our case study programs—West and WESST corp.

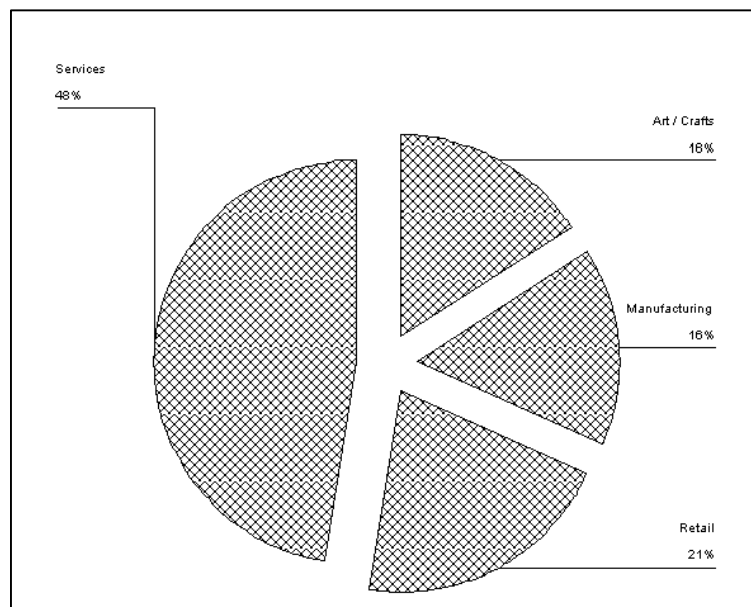


Figure 2.1 Sectoral breakdown of businesses of microentrepreneurs interviewed

Source: Client survey

Fifty-three percent of the businesses of self-employed former welfare recipients and an even higher percentage of the businesses of self-employed current welfare recipients operate in the service sector. Service businesses require little start-up capital, gain easy entry into the market, and often require little in the way of overhead, equipment, and space. Self-employment is very labor intensive. Twenty-nine percent of the microentrepreneurs surveyed for the SELP study report working more than 60 hours per week, and the majority of these (58 percent) devote between 76 and 100 percent of their time to their business (Clark and Kays 1995, 20).

Self-employment by itself does not sustain the majority of microentrepreneurs' households.

Slightly less than half of the entrepreneurs SELP interviewed reported making a profit on a monthly basis (Clark and Kays 1995, 28). Slightly more than half (56 percent) reported relying on their businesses as their primary source of income. Forty-nine percent reported depending on at least two other sources of income. Of the 96 SEID participants with businesses that were still operating when the survey was conducted in 1993, the median gross income per business was \$8,000; the mean net income was \$4,446. Twenty-six business owners reported taking an owner's draw with a mean value of \$574 per month, and eight reported paying themselves a regular wage with a mean value of \$798. The IWPR study found that the businesses of self-employed former welfare recipients paid an average hourly wage of \$4.38, while self-employed current welfare recipients made only \$2.63 on average. These same populations earned average hourly wages of \$6.98 (former recipients) and \$4.00 (current recipients) for wage or salary employment.

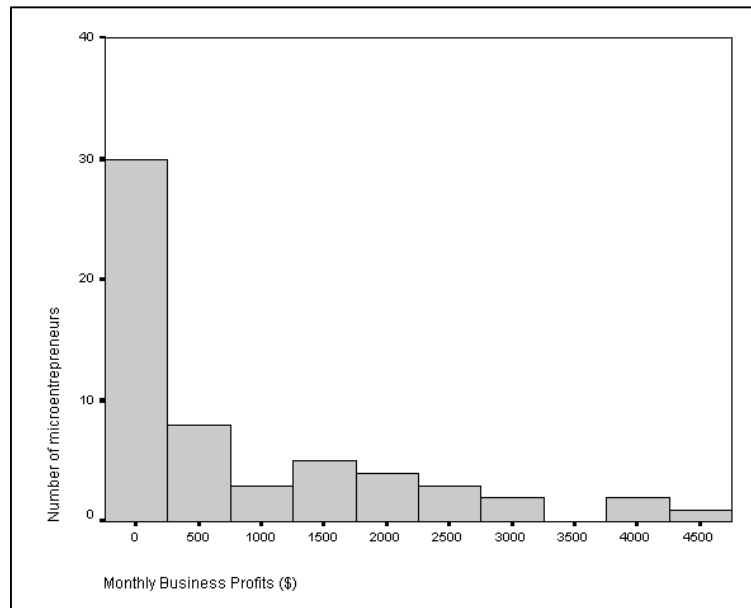


Figure 2.2 Monthly business profits for microentrepreneurs interviewed
Source: Client survey

Monthly business profits of the firms interviewed for this project range from zero to \$4,600, with a median value of \$200. Figure 2.2 illustrates the distribution. Thirty-eight percent reported no business profits for their businesses.

Although the majority of microentrepreneurs have not become self-sufficient through their businesses, the business income that they contribute in many cases raises the household over the poverty line. In addition, the second- and third-order outcomes that programs produce, which include increased self-esteem and increased potential for earnings in the mainstream labor market, seem to indicate the value of these programs.

The majority of these businesses fail to provide benefits, such as health care and child care.

Of the entrepreneurs interviewed, only three of the 17 businesses with employees said they provided benefits for those employees. Only 6 percent of microbusinesses surveyed for SELP provide health insurance. The IWPR study found that self-employed former welfare recipients were covered by health insurance an average of only 2.5 out of 12 months, drastically less than for the other groups studied for that research. Given the lack of health insurance among these “successes,” the authors conclude that “without universal health care benefits, self-employment is risky for women and their families” (Spalter-Roth et al. 1994, 35).

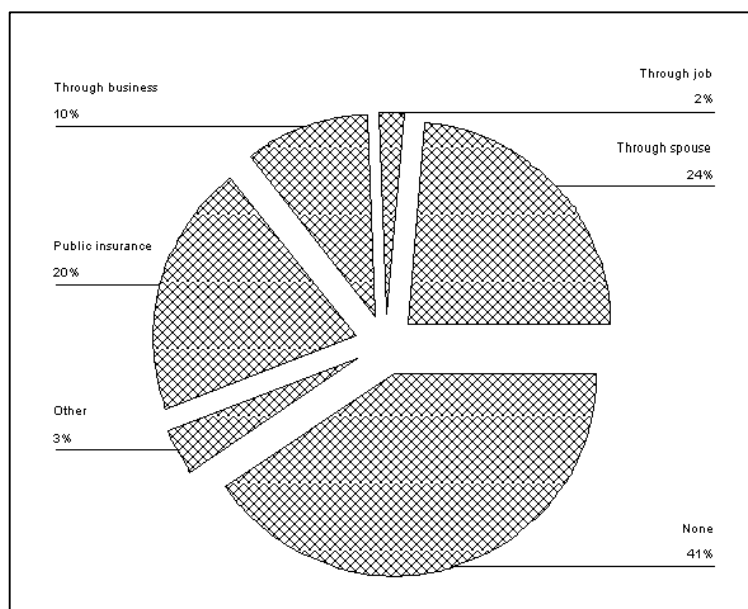


Figure 2.3 Sources of health insurance for microentrepreneurs interviewed

Source: Client survey

Figure 2.3 illustrates evidence from our survey that supports this other research. Of all microentrepreneurs interviewed for this project, more than 40 percent have no health insurance. Of those that do have insurance, the majority obtain that insurance from a spouse's job or through public insurance. Just 10 percent of those interviewed reported having health insurance through their business.

Our survey also revealed that the majority of microentrepreneurs do not have any retirement savings provisions—a common benefit offered in full-time waged employment. Sixty-six percent of respondents do not have *any* retirement savings plan. Only 8 percent offer such a plan through their business, yet an equal number have established independent savings plans, like an IRA, outside of their business. Twelve percent have such savings through a spouse, again an important means of access to income and benefits within a household (Figure 2.4).

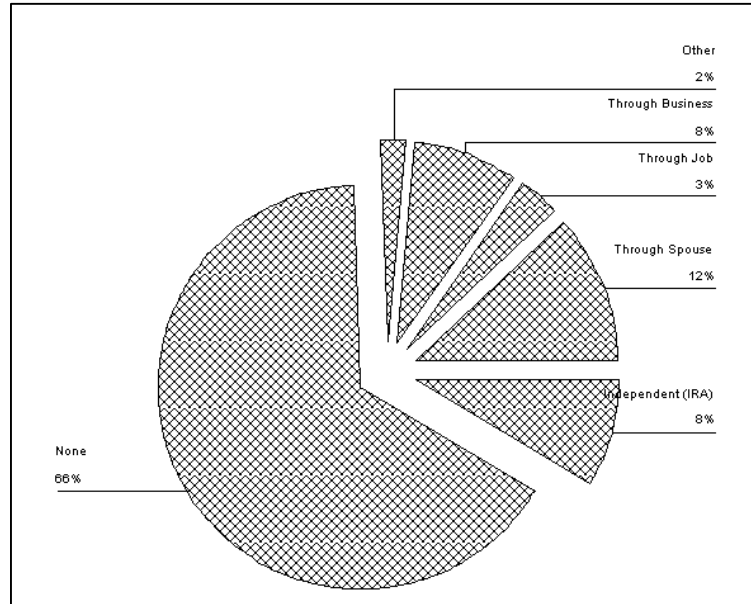


Figure 2.4 Retirement savings plans for microentrepreneurs interviewed
Source: Client survey

More than half (56 percent) of those surveyed by SELP claim that their business provides them with their primary source of income (Clark and Kays 1995, 20). Many microentrepreneurs do some form of income packaging, which involves piecing together income from a business with income from other sources such as wage labor or welfare. We found that the microentrepreneurs we interviewed tended to package within households. Although 81 percent of all respondents said that their businesses contributed to the monthly expenses of the household, 77 percent of those individuals have at least one additional source of income (a waged job, another household member, public assistance). Table 2.5 shows the responses by category.

TABLE 2.5
Sources of Income for Monthly Household Expenses

<i>Source</i>	<i>Citing Source</i>
Income from your business	76%
Income from your job	21%
Income from others in your household	48%
Income from child support	9%
Income from AFDC / TANF	9%
Income from Food Stamps	14%
Income from Medicaid	3%
Income from SSI	10%

Source: Client survey

Note: Total is more than 100% due to multiple responses

Sixteen percent of SELP participants receive public assistance as a primary or secondary income source (Clark and Kays 1995, 5). In addition, 37 percent of the sample reported that they hold down at least one outside job while running their businesses. These findings are complemented by results of the IWPR study:

Welfare recipients who reported self-employment hours include this income source as part of a more diverse income package that includes wage or salary employment as well as other sources of income. These recipients had at least one business plus 1.4 wage or salary jobs for a total of 2.4 “jobs,” on average, during a 24-month period. . . . Even “successful” former welfare recipients continue to be packagers of self-employment with wage or salary work. This is due to the fact that neither their businesses nor their jobs provide ample income to support families (Spalter-Roth et al. 1994, 24).

The fact that wage labor does not adequately provide for many families’ needs reflects the growing phenomenon of working poverty. Given that many current jobs offer only temporary or part-time employment, some entrepreneurs may vary the energy they put into their business depending on the other opportunities available to them at a particular time. Conversely, microentrepreneurs may retain formal wage labor in order to ensure adequate income while their business is stabilizing. However, the IWPR study found that “hourly earnings from self-employment are substantially lower than hourly earnings from wage or salary work...[suggesting] that wage or salary work is a better financial option, if such work can be obtained steadily” (Spalter-Roth et al. 1994, 23-24).

The IWPR study portrays businesses that are barely able to sustain households. As a result, nearly all microentrepreneurs are “income packagers.” Spalter-Roth et al. define income packaging as combining paid employment, receipt of means-tested welfare benefits, and income from additional sources.⁷ According to IWPR research on this subject, “those women who combined work and welfare were more likely to bring their families out of poverty than those who did not, and they were also more likely to have health care for their families than those who cycled off welfare to low-wage jobs” (Spalter-Roth et al. 1994: 4).

IWPR found that “self-employment provided smaller annual earnings than did wage or salary work, and that of the 10 percent of women who were self-employed, half engage in self-employment in combination with other wage and salary jobs or a second self-employment job” (Spalter-Roth et al. 1994, 4). This same study found that, among employed women, self-employed women were the most likely group to be married to a full-time, full-year working spouse (Spalter-Roth et al. 1994, 4). This finding suggests that self-employment may not provide the most reliable, stable source of income. The researchers conclude that self-employment is probably “not, by itself, a likely means for bringing about the self-sufficiency of poor women, but it could be a part of an income package for a motivated group of AFDC recipients if certain public policies are changed” (Spalter-Roth et al. 1994, 5).

Critics of the microenterprise strategy often claim that self-employment provides the opportunity for a lateral move but fails to help people gain access to the mainstream economy. However, it may take several years for a business to become stabilized and provide its owner with a living wage. This stabilization process is a fact of life for all small business owners and should not be used to argue against the usefulness of the microenterprise strategy. At the same time, this

7. Spalter-Roth, Hartmann, and Burr cited in Spalter-Roth, Soto, and Zandniapour 1994, 3.

strategy may not be suitable for everyone, particularly the most vulnerable populations who could lose their safety net if they pursue self-employment. It is important to recognize, though, that jobs in the mainstream economy are now less likely to come with benefits than they were previously.

Microenterprises create few jobs.

Aside from the owner/operator, the 386 SELP businesses created a total of 332 jobs for an average of 1.2 jobs per business. Sixty-six percent of SELP businesses employ only the owner; therefore, the remaining 34 percent are responsible for all of the job creation. Businesses involved in SEID created an average of .53 jobs per business. Neither of these studies differentiates between full-time, part-time, and seasonal jobs. The industrial sectors that are responsible for the most job creation are: restaurants; custodial firms; retail sales; and manufacturing (Clark and Kays 1995, 31).

Our results are similar. In our study group, only 29 percent of the businesses interviewed reported having any employees. Those 17 businesses reported a total of 41 part-time and 28 full-time employees. While a number of full-time jobs were reported, as shown in Figure 2.5, the benefits provided to those employees are not as one would hope, as is discussed above. Firms in the retail sector tended to employ part-time help almost exclusively, given that the micro-entrepreneur is generally the only full-time employee. One woman who owns a restaurant with her sister employs four part-time high-school-aged employees; this example typifies our findings. In the manufacturing and service sectors, there is a greater potential for full-time employees.

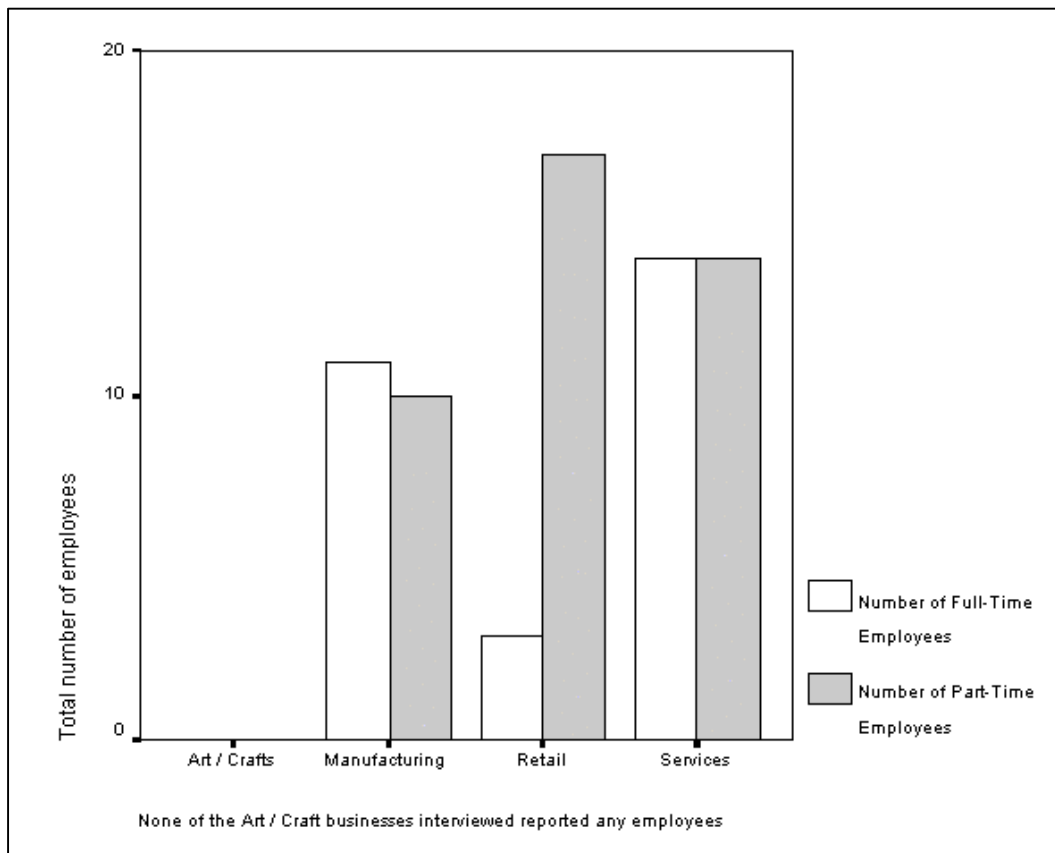


Figure 2.5 Total number of employees in microbusinesses interviewed, by sector

Source: Client survey

None of the studies examines possible causes for the small size of businesses, but the potential reasons are multiple. Most microenterprises are less than five years old and are therefore in the start-up or stabilization phases rather than the expansion phase. Some microentrepreneurs are not interested in growing their businesses but would rather maintain them at a manageable level. Indeed, many of the entrepreneurs we interviewed had made conscious decisions not to grow their businesses beyond a certain point. Some value their time to pursue other interests or spend with their families. Others wanted to focus on the activity that led to their self-employment in the first place; they did not want to become managers.

Another explanation is that these businesses are undercapitalized. In a critique of the SEID evaluation, Timothy Bates (1996) contends:

Microenterprise programs frequently provide loans of only a few thousand dollars, and these loan amounts are woefully inadequate to finance most types of business start-ups. Underfinancing of borrowers, I believe, is the main cause of the poor outcomes of the firms started by SEID loan recipients.

Several of the entrepreneurs interviewed for this study believed that they had been undercapitalized from the start-up phase and had therefore never been able to grow to a larger scale. Others said that they had sufficient access to capital for their business. These differing results seem to correlate with the different programs. Those programs that either make or have access to larger loans have clients with greater business debt, but also less of an expressed need.

We also found that the overwhelming majority of these microenterprises have very few assets. Three-quarters (74 percent) of our survey respondents valued their business assets at under \$25,000; half were under \$10,000, and one-quarter were under \$4,000. While a number of our microentrepreneurs have business-related debts (as discussed in the next section), those debts do not necessarily relate to business assets.

Most microentrepreneurs have some business-related debt. Of all the microentrepreneurs interviewed for this project, 76 percent had some business debt. These ranged from loans from family members for a few hundred dollars to tens of thousands of dollars in home equity or commercial loans. Loans were used for all purposes, from operating capital to purchases of specialized equipment to obtaining inventory and supplies. And while some microentrepreneurs obtained financing only from a microenterprise program, most list multiple sources of financing, including "traditional" credit sources such as commercial bank loans, credit unions, and vehicle-financing agencies.

Across all programs, certain kinds of business debts were common. One was financing costs for a vehicle—be it a van used for deliveries or a personal automobile used to visit customers. Many microentrepreneurs listed a car/truck loan as a primary business debt. Another common loan was for a computer for the business—usually from the electronics store where the computer was purchased. Both of these sources tend to have lower lending standards than commercial banks.

We also observed a large number of microentrepreneurs who used personal credit cards to finance their businesses. The amount of debt varied from a few hundred dollars to tens of

thousands of dollars used to buy equipment and inventory. One program, NEF, has considered offering line-of-credit loans to their customers in order to meet this need. Other fledgling entrepreneurs used credit cards to pay for personal expenses—groceries, for example—until their businesses could generate income for them. More than one microentrepreneur interviewed said that they just couldn't catch up with their personal credit card debt, even though their business was generating income for them.

ENTREPRENEURS

Microentrepreneurs need more than just credit.

Access to credit and business training are the most obvious and needed services provided by microenterprise programs to their clients. Both theorists and practitioners have recognized these needs for years. New research documents this claim from the point of view of poor entrepreneurs and potential entrepreneurs. Entrepreneurs interviewed for the SELP study ranked lack of capital and lack of business knowledge and skills as the top two barriers they faced in becoming self-employed. At the same time, there are many less obvious, but arguably equally important, ingredients that separate disenfranchised entrepreneurs from those who are better off. Participants in the SELP study claimed that support from relatives, education, and training all encouraged self-employment. Other inputs cited as contributing to success include personal and professional networks that middle- and upper-class entrepreneurs commonly access in order to reach potential suppliers and buyers as well as to obtain start-up and expansion capital for their business. Entrepreneurs who are better off are also more likely to have access to child care, health care, and other necessary social services than are poor entrepreneurs.

Consistent with the above, the IWPR study found that self-employed current welfare recipients are most likely to emulate the successes of self-employed former welfare recipients if they “receive additional training, access to financial and educational resources, and work more hours” (Spalter-Roth et al. 1994, 35).

We found that only 22 percent of the microentrepreneurs we interviewed had any prior business training. Those with such experience most often attended one-day seminars at community colleges, or participated in other stand-alone sessions. Thirty-two percent listed some job-related training received. Most of this training was in specific sectors. Artists often reported that they took classes in ceramics, pottery, jewelry making, and the like to learn new techniques. Also, a few of our respondents had businesses under state regulations for continuing education (child care, mortgage lender, social work). In general, however, most microentrepreneurs interviewed had little significant job or business training before contacting the microenterprise program. Many, however, had critical experience in their line of business. The owner of a machine shop in Iowa had worked as an employee in a machine shop. A self-employed masseuse in California had done massage as a spa employee. The owner of a television repair shop had learned to repair electronics from his parents when he was a boy.

Microentrepreneurs can be found across a broad socioeconomic spectrum.

The microenterprise strategy was imported to the U.S. as a way to serve low-income potential entrepreneurs—in part because this is the group the strategy serves in the developing world. Research completed thus far shows that the group using program services includes the poor, but also serves a much wider group. According to the most recent SELP data, 42 percent of

program participants earn less than \$18,000 per year; 15 percent earn more than \$30,000. Individual programs vary widely depending upon their missions and target markets. The participants in the SELP study reported a median annual income of \$29,054. The range is quite dramatic, however, with 20 percent reporting annual incomes below \$6,000 and 15 percent reporting annual incomes above \$30,000. The size of this range indicates that income level is not the only factor impeding access to credit and training. This range also implies that client pools within any given program are incredibly diverse, and therefore probably difficult to serve uniformly. Income level is a tricky indicator to use to gauge a population. The income data reported by SELP do not take household size into account, nor do they distinguish between households in which the entrepreneur is the only earner and households in which another earner is present.

Our research was able to make such distinctions. Of the entrepreneurs interviewed who reported monthly income figures (about half), the mean income was \$2,615 per month—slightly more than \$31,000 per year. However, the distribution of those incomes, shown in Figure 2.6a, reveals a large number of families with monthly incomes below \$1,500. The *median* income in our study group was \$1,838 per month, or \$22,000 per year

The number of microentrepreneurs (45 percent) who have other household income, generally from a spouse or partner, causes this wide distribution. When we examine only those cases where the microentrepreneur provides income for the household, a different picture emerges. For this subset, the mean monthly income falls to \$1,749, with a median income of \$1,500 per month. This translates to an annual income of between \$18,000 and \$21,000 for those single-income households that rely solely on their business. For these individuals, the share receiving public health insurance jumps from the 20 percent observed in the general survey population to 32 percent. See Figure 2.6b.

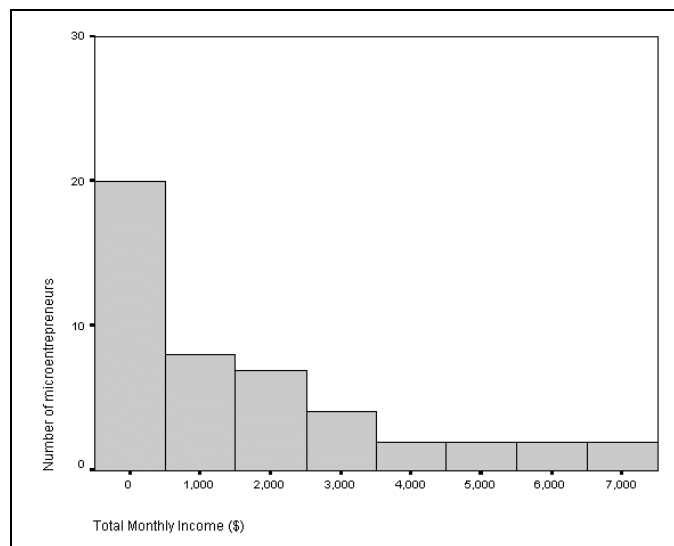


Figure 2.6a Total monthly household income for all microentrepreneurs responding

Source: Client survey

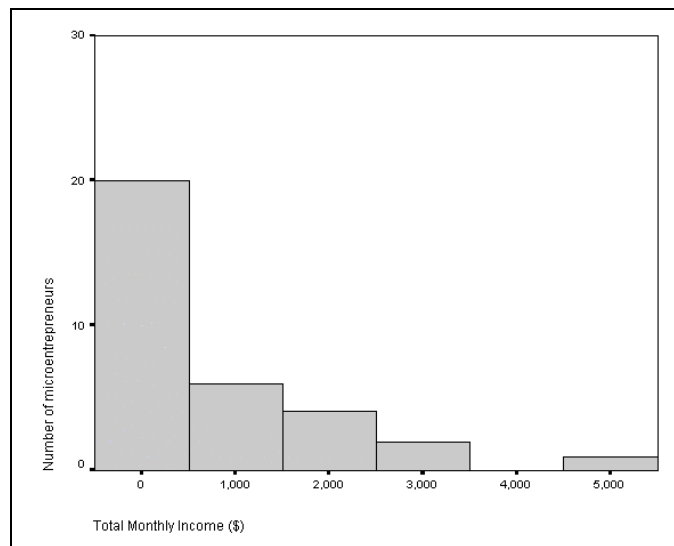


Figure 2.6b Total monthly household income for micro-entrepreneurs with no other income sources

Source: Client survey

Survey data can provide only a snapshot, whereas change over time is much more telling. The SELP study is longitudinal and will look at these changes once it is completed. Other questions that need to be addressed include: Does current low income reflect chronic poverty, or has the potential entrepreneur left a lucrative position in order to pursue a dream of self-employment? Our pool of interviewees included both types. Also, if an entrepreneur's income falls after moving from wage labor to self-employment, does this indicate failure, or is she actually happier, spending more time with her family, participating in the community? Does a drop in profits reflect inadequate business training, or a downturn in the economy?

Most microentrepreneurs have had some college education and some experience in their business.

While many program participants are low-income, nearly all existing data show that the typical microentrepreneur is an educated, skilled worker who pursues self-employment in order to increase her income or improve her life. In addition, microentrepreneurs are relatively well educated. As shown in Figure 2.7, 96 percent of the microentrepreneurs interviewed for this research have completed high school or have obtained an equivalency degree. In Lawrence, where the majority of the client population consists of immigrants, 49% had less than a high school education. This is a somewhat stronger finding than the 83 percent of SELP participants who have a high-school-level education or better. Forty-six percent of our study respondents have some college or a technical degree—again, stronger findings than the 39 percent in the SELP group. Twenty-four percent of our participants have a college degree, and 10 percent have completed some postgraduate work. The SELP study found identical results for these categories (Clark and Kays 1995,17).

Sixty percent of SEID respondents had prior experience related to their business (Raheim and Alter 1995, 33). In the current economy, *some* college education no longer translates reliably into a stable, well-paying job with benefits that can sustain a family. This data tells us what we might expect about any population of entrepreneurs: self-employment is serious business and requires time, skills, experience, and some kind of financial safety net.

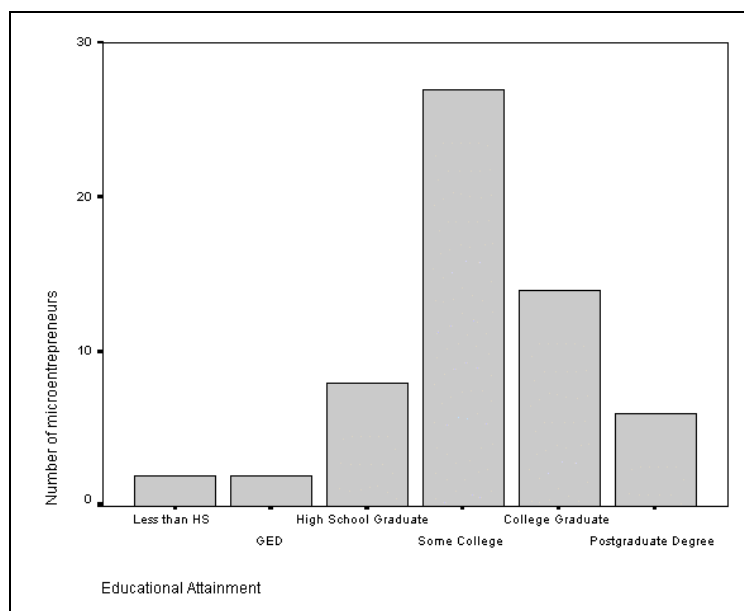


Figure 2.7 Educational attainment of microentrepreneurs interviewed

Source: Client survey

Nearly half of all SELP respondents own their homes, and most households (63 percent) have three or fewer members. Sixty percent of microentrepreneurs surveyed have no children under the age of 12 living with them (Clark and Kays 1995). Of the microentrepreneurs we interviewed, nearly all (97 percent) had three or fewer children living in the household; 42 percent reported having no children living with them. Sixty-two percent of the SELP respondents are from a minority ethnic group, 78 percent are women, and more than two-thirds are between the ages of 30 and 49. Our interviewees reflected somewhat similar characteristics. Two-thirds of our respondents were also ages 30 to 49, with 50 percent between the ages of 36 and 49 (see Figure 2.8). The only significant difference between the SELP respondents and our respondent pool was that only 39 percent of our interviewees were from minority ethnic groups, compared with the 62 percent reported in the SELP study.

While many microenterprise programs set out to bring entrepreneurship to the most disadvantaged populations, the portrait of the average entrepreneur that has emerged makes sense given the demands involved in running a business. Perhaps the emphasis should not be placed on the recognition that programs are not serving the market they set out to serve, but rather on the reality that credit and training gaps exist much higher up the socioeconomic scale than might have been expected. Skilled, educated people are not being served by traditional financial institutions. Forty-six percent of SELP respondents attempted to obtain business loans from other institutions; of these, 53 percent were denied credit. This finding does not imply that the

microenterprise strategy is failing, but it does shed some light on the population that is best equipped to access the self-employment option. Interviews with borrowers in the six programs studied for this research support SELP findings. The participants in these programs are at the least very highly motivated; often they are relatively well-educated, experienced in their line of business, and have a support network of family and friends that provides them with a kind of safety net. The microenterprise strategy, although generally targeted toward disenfranchised populations, is not meant to attract “victims.” Rather, it is a magnet for potential community leaders, people who are in a position to use these programs to help them help themselves and their businesses. The self-employment option is clearly best suited to a very specific niche population, one that includes elements of—but does not encompass—the persistent poor.

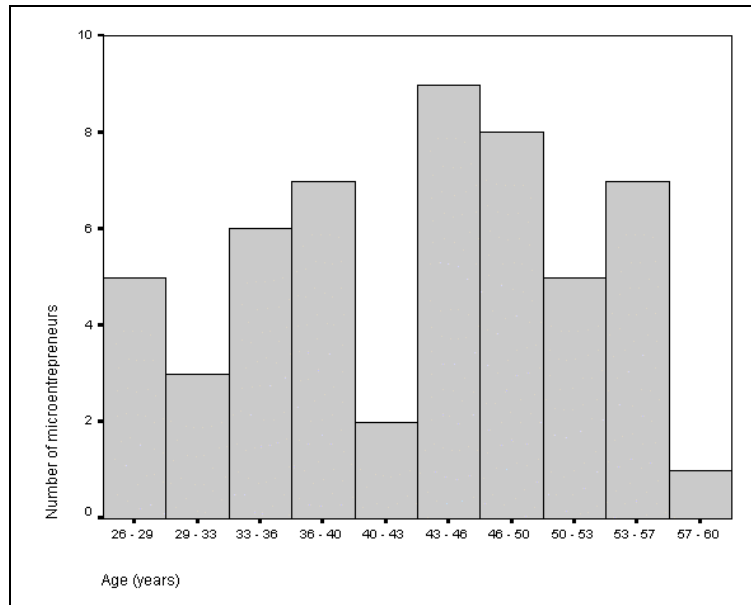


Figure 2.8 Age distribution of microentrepreneurs interviewed

Source: Client survey

Most microentrepreneurs are women.

Of the microentrepreneurs interviewed for this project 80 percent are women. Even though only two of our programs directly target women, Table 2.6 shows this to be consistent across all programs. Considering a larger sample of programs, 78 percent of SELP participants are women. While many programs specifically target women, even those that do not find that the majority of their clients are women. Interestingly, women are also the primary users of LDC-based programs. This finding implies that mainstream institutions—economic, financial, and educational—do not meet women’s needs adequately. Increasingly, women are charged with ensuring the economic and social stability of their households. Their use of microenterprise programs is evidence of their willingness to experiment with alternative ways of achieving self-sufficiency.

TABLE 2.6
Gender of Microentrepreneurs Interviewed, by Program

<i>ISED</i>	<i>NEF</i>	<i>WEB</i>	<i>West</i>	<i>WESST corp</i>	<i>Working Capital</i>	<i>Total</i>
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Female	77.8%	50.0%	100.0%	87.5%	92.3%	83.3%	79.7%
Male	22.2%	50.0%		12.5%	7.7%	16.7%	20.3%

Source: Individual programs, client surveys

The feminization of poverty has created a population of women who need new strategies to help them provide for themselves and their families (Pearce 1989; McLanahan and Garfinkel 1990; Spalter-Roth et al. 1994). This phenomenon is generally understood to be the result of demographic and economic changes that have placed women in a double bind of sorts, wherein they are required to perform both economic and household duties. Shifts in the structure of the global economy, the increasing number of female-headed households, and the continued segregation of available jobs have changed women's position within both the household and the larger economy (Hartmann 1987).

According to Robert Friedman, executive director of the Corporation for Enterprise Development, the microenterprise movement in the U.S. began as a response to the needs of women who found themselves the head of their households. Minneapolis-based Women Venture, founded in 1983 by Kathy Keeley, a woman field experts have called the mother of the microenterprise movement in its U.S. context, explicitly combined economic development and social welfare goals from the outset. According to Friedman, "When you're dealing with low-income women, the kids are there, right? So Kathy [Keeley] had them write child care into the business plan.... The more holistic, more flexible view always combines business and financial skills on the one hand, and is also concerned with family and personal development."

Microentrepreneurs pursue self-employment for two sets of reasons.

The SELP study found that the majority of respondents, 53 percent, sought self-employment because they needed more money or because they were unemployed. These people may have viewed self-employment not as a real choice but rather as their only economic option. It is increasingly difficult to find jobs that pay a family wage and come with benefits. Further, the microentrepreneurs surveyed generally possessed a skill or love for a particular activity that could serve as the basis for starting a business. Twenty-eight percent reported that "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" (Clark and Huston, 1993, 7).

There appear to be two main categories of people who pursue self-employment: 1) "true entrepreneurs," who would always prefer to work for themselves even if this does not appear to be an economically rational decision (i.e., they may work for lower wages and for longer hours in self-employment than they would in a regular job); and 2) those for whom self-employment is their best available option.

True entrepreneurs. True entrepreneurs pursue self-employment because they do not seem to fit into the mainstream economy. Several of these entrepreneurs, we found, had had training in a variety of areas, but were unable to settle into a regular job. Before starting her day-care business, Grace had worked as a nurse's aide and had obtained her cosmetology license. She continues to do hair for a couple of regular clients, which supplements her income from public assistance and from her business. Dwight decided to open his own machine shop after being unable to resolve conflicts with his former employer. Sangeetha and Dan had also both had conflict with past employers. Asked why they preferred self-employment to work in the formal economy, Dan said:

It's calling your own shots. You know, you do good work for someone else, show care and commitment, and they walk on you. Making them money and them showing no respect. I think entrepreneurial people really feel the shackles. This was our last shot.

They, like other true entrepreneurs interviewed, also decided to pursue self-employment because they believed in their product or service and got a great deal of satisfaction out of making customers happy.

Best available option. Several subcategories exist within this category, including those who would gladly work for wages if they could make enough to support their families, and those whose life paths were interrupted by an unexpected event such as an unplanned pregnancy, a job layoff, or the dissolution of a marriage. In Iowa, three of the entrepreneurs interviewed turned to self-employment after losing well-paid factory jobs. They did not consider low-wage work without benefits to be an option, largely because it did not pay enough to allow them to afford child care and did not provide medical benefits for their children. Self-employment offered more hope and opportunity than did low-wage, unstable jobs. Angie, a single mother of three, lost her ten-dollar-an-hour job with a meat-packing company in a small, industrial Iowa city when the plant where she worked closed in 1986:

I worked for a while as a school associate but it wasn't enough to carry the load. I went on welfare and I had three kids at home at the time. I was in the middle of buying a house when the plant closed, and my bills got to the point where without a college degree I couldn't get a job that would support us, so it was kind of sink or swim. My kids' fathers were absent and I wasn't getting any child support.

Angie went through the ISED program and opened a consignment clothing store, which helped her to exit welfare. Still struggling to make ends meet each month, Angie claims that she could not have made the transition without the waiver, ISED, or her mom, who has "been here from the word go." Self-employment has enabled Angie and her family to survive without public assistance, but the road has been rough. She does not make nearly what she made at her previous job, and her family has sacrificed a great deal. Asked what advice she would give someone who is where she was ten years ago, Angie said:

I'd tell her to go to school, don't necessarily go into business. Your family makes more sacrifices this way than if you work a 40-hour week. It's nice to be self-employed but it's also nice to have a paid vacation. It takes more dedication to do this. I felt like self-employment was really my only option. If I could have gotten another job that paid well, I would have taken it.

Others pursue self-employment because of their family situation. Jim, one of two single fathers interviewed for this study, has two daughters. After his wife abandoned the family, he left his job at a battery company because he could not spend the time required to make out-of-town deliveries and still care for his daughters. In February 1995, he quit his job, went on public assistance, and began a television repair business in his basement. After working with ISED, he moved to a storefront. Having a business, he says, allows him to take better care of his children.

He is closer to home and can get away more easily if one is sick. Jim has also relied on Iowa’s waiver program, as well as a critical network of support from family and ISED, to start his business.

Like the true entrepreneurs, many of those who originally pursued self-employment because of an unplanned event claim that they much prefer self-employment to working for someone else. The advantages they cite include flexibility, control, pride in what they do, and freedom. The disadvantages include long hours, unreliable income, and lack of benefits.

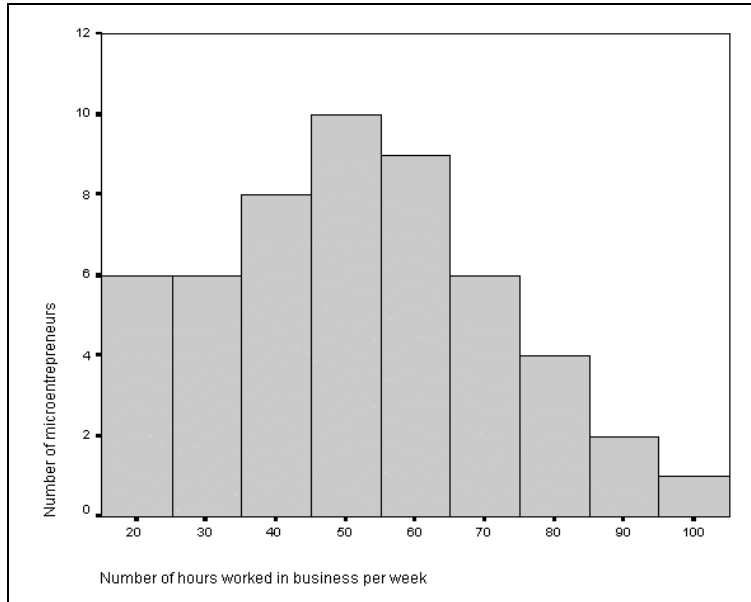


Figure 2.9a Hours worked in business per week (all respondents)

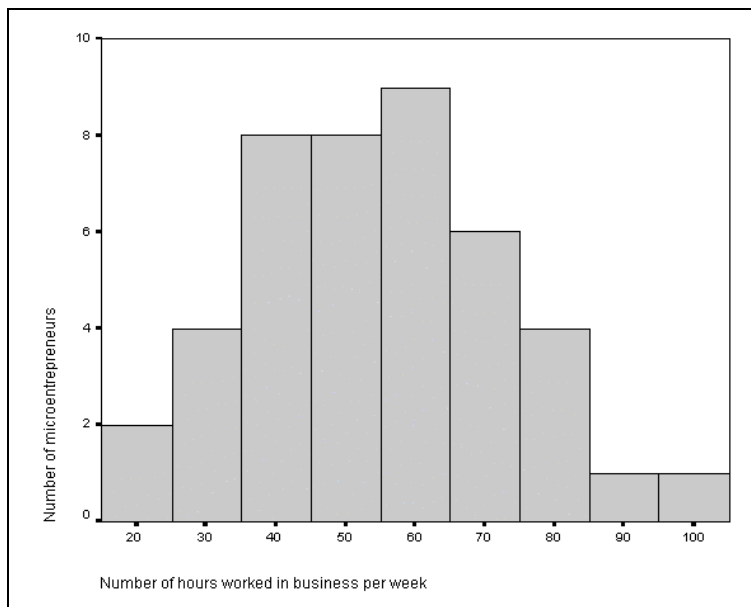


Figure 2.9b Hours worked in business per week

(microentrepreneurs with no other job)

Source: Client survey

Most microentrepreneurs have strong support networks and are fiercely determined to succeed.

For many of these entrepreneurs, self-employment allows them to more easily fulfill their household and economic obligations. At the same time, most have a solid support network of family and friends. Angie's mother and Jim's brother watch their stores when they need to be elsewhere, and Grace's sister helps her with financial planning and bookkeeping. Dwight's parents and Jim's father watch their children after school. Others had help from family and friends with renovations to their storefronts and donations of other necessities.

Microenterprise programs clearly add to and strengthen these networks. Many of the entrepreneurs interviewed spoke of the importance of the relationships they had forged with the business consultants and trainers at microenterprise programs. These relationships function to boost self-confidence and to get entrepreneurs to a place that enables them to seriously pursue their businesses. Most of the successful entrepreneurs maintain these relationships after graduation, continuing to use them as a resource to obtain access to information, funding, and other resources.

Examples of entrepreneurs' resourcefulness and ability to start a business on a shoestring abound. Dwight could not afford to buy much of the equipment he needed for his machine shop, so he improvised by building his own using cast-off equipment that he salvaged. He was able to get a bank loan for \$15,000, which he used to buy plumbing supplies for the system he installed himself and machinery he could not make. His workshop, in a shed next to his house, is heated with only a wood-burning stove.

Successful entrepreneurs work very long hours and invest enormous amounts of energy in their businesses. Sangeetha recalled that:

In the first few years, when [our son] was very little it was very hard. I was working until late at night, coming home with blisters on my hands. We have just put so much energy in this business. Sometimes I thought I could not do this anymore. But the next day you go again.

The entrepreneurs interviewed for this study work well in excess of a standard 40-hour week. The average amount of time they invested in their business was about 50 hours a week. Of those who relied solely on their business for income and had no additional waged work, the average was almost 55 hours. Most worked between 35 and 70 hours a week (Figures 2.9a and 2.9b). These numbers are consistent with other studies. And when times get tough, they work harder, either putting more energy into their businesses or picking up extra side work to supplement their income.

CONCLUSION

The findings in this chapter illustrate the great diversity that exists across microenterprise programs and the entrepreneurs and businesses served by these programs. At the same time, clear trends have emerged across all of these categories. We use these trends as the basis for the policy recommendations we make in Chapter 4 of this report.