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The Microenterprise Strategy Compared with Other Economic Development Tools

INTRODUCTION

This chapter examines the microenterprise strategy in the context of a range of other economic development tools. We begin by examining the policy context in which the microenterprise strategy exists and follow this with a comparison of the microenterprise strategy with EDA revolving loan funds and other economic development strategies. An exploration of the ways in which microenterprise program staff and field experts view their economic development work follows, and we conclude the chapter with findings.

POLICY CONTEXT

While the microenterprise strategy is presented here as a new kind of program, lending and business training programs have appeared sporadically throughout the history of local economic development. During the late 1960s, the Model Cities program attempted to establish businesses that would employ poor people, although there was no requirement that they be run by the poor. At approximately the same time, the Small Business Administration (SBA) extended many thousands of Economic Opportunity Loans (EOLs) to poor people, "few [of whom] possessed the necessary skills, education, or work experience that successful business operation commonly requires" (Bates unpublished, 3). These programs, which routinely granted loans of up to $25,000, failed to provide much training or to address the needs of these entrepreneurs for assistance beyond mere credit. As a result, rates of loan delinquency and default were very high.

The urban economic plan of the current administration recognizes the need for capital and training in U.S. inner cities. The key components of the Clinton plan include: funding for Enterprise Communities (ECs) and Empowerment Zones (EZs); a strengthening of the

Community Reinvestment Act (CRA); and the creation of a national network of microenterprise programs and community development banks. The implementation of these strategies is still in the works, which makes it too soon to evaluate their effectiveness.

Although federal funding for the microenterprise strategy has been increasing steadily in recent years (see Chapter 2), this funding is currently fragmented, and program officers and field experts have expressed dissatisfaction with the ways in which microenterprise development is supported at the federal level. The Small Business Administration (SBA) is the agency that has provided support for the longest time. Other limited support is available through the Community Development Financial Institutions (CDFI) Fund, the Office of Refugee Resettlement, the Job Training Partnership Act (JTPA), and the Job Opportunities for Low-Income (JOLI) program.

The explanation for the creation and rise in popularity of microenterprise programs in the United States lies partly in the strategy's integration of social welfare and economic development goals. This blending did not occur spontaneously, however; microenterprise programs encapsulate critical shifts that have taken place recently in both areas.

Economic development theory and practice at the federal, state, and local level has evolved over recent years, including: a shift from business attraction to business generation; decentralization of the responsibility for economic development, with greater activity occurring at the local level and through private nonprofit organizations; and increasing creativity of government. Given the new orientation of economic development, the logic by which the microenterprise strategy has emerged and gained in popularity seems relatively straightforward. Microenterprise programs focus on business generation rather than business attraction. In addition, programs are usually conceived and operated at the local level by grassroots organizations. Finally, most microenterprise programs began as private nonprofit organizations, bringing in local, state, and/or federal government partners at a later stage. This structure has enabled both the programs and their public partners to behave in a more entrepreneurial fashion.

The shifts in approaches to poverty alleviation, which are admittedly more theoretical than practical, include: universal programs with a targeted component rather than strictly targeted programs; increased use of asset-based strategies (such as the Earned Income Tax Credit) as opposed to income-based strategies (such as Unemployment Insurance). The microenterprise strategy clearly makes sense in light of these changes when considering how best to alleviate poverty. Programs exist in both targeted (WEB, ISED) and universal forms (Working Capital, WESST corp). In addition, the microenterprise strategy is clearly based on a philosophy of asset building. The goal of most microenterprise programs is to provide people with access to the resources they need in order to attain economic self-sufficiency.

The microenterprise strategy compared with EDA revolving loan funds.

Revolving Loan Funds are currently EDA's closest cousin to the microenterprise strategy. A revolving loan fund (RLF) utilizes a fixed or working capital investment that is repeatedly loaned as prior loans are repaid. Distinct from conventional financing mechanisms, RLFs, apart from the need to remain operationally viable, are not predicated on a profit motive. Rather, RLFs are often established to meet a credit need in sectors or for investors where conventional financing is not available in furtherance of one or more public purposes, i.e., job creation, business expansion, or new business start-up.

EDA stipulates that Revolving Loan Funds must be part of a larger strategic economic adjustment process for the particular region. The strategies developed by applicant communities may not include targeting among the population those most appropriate for microenterprise programs: lower-income women or others lacking access to jobs with adequate wages and benefits. Of course, microenterprise development could be a sector targeted by the economic adjustment strategy, but so far it has not been the choice of EDA applicants. Military base closings provide one example of where RLFs are incorporated into a larger package of EDA financing. A locality decides to develop a particular sector of its economy in response to the shutdown. EDA can provide grants to convert the physical military base for other uses and to establish an RLF to provide gap financing to new firms in this sector.

EDA Revolving Loan Funds are used to make loans to businesses in a particular sector in a distressed economic region. They are established with a grant of public funds that must be matched with local (private) support at a 2:1 ratio—that is, $2 of other funds per $1 of EDA RLF grants. A key component of EDA RLFs is that they cannot be used in lieu of conventional sources of financing; they are intended to meet the financing needs of firms that cannot access other forms of credit.

Given that the EDA RLF is a structural adjustment tool, loans tend to be large and to concentrate in manufacturing sectors. The Arrowhead Regional Development Commission (ARDC) in northeast Minnesota—where NEF operates—has made 51 loans between $25,000 and $100,000 (as of March 1998) with its EDA RLF. Of those 51 loans, only four have been written off. A fourth capitalization of the loan fund is underway with a $500,000 grant from EDA, which will leverage $20,000,000 in private capital, according to the loan fund manager. While most of the loans made have been in the manufacturing sectors, some loans have been in the tourism/resort sector, another targeted sector of the ARDC.

Because EDA RLF loans are required to be subordinate to other creditors[1] (such as traditional banks), borrowers come to an RLF with a well-established business plan, often an ongoing business, and the experience of having dealt with lenders before. Microenterprise clients often share none of these characteristics. They tend to be in start-up businesses, and often have no formalized business plan. And although microentrepreneurs may have experience with traditional credit institutions, their credit needs are far smaller than those of RLF borrowers.

The most striking difference between microenterprise programs and RLFs, however, is in the realm outside of lending. Microenterprise programs spend the bulk of their resources on training and technical assistance (see Chapter 2). Many clients do not obtain financing through the microenterprise program, and those that do are carefully coached throughout the borrowing process. Some programs, such as West Company, require that borrowers continue to engage in technical assistance throughout the term of the loan. For these individuals, the knowledge they obtain about running a business is as important as—if not more important than —the financing they obtain.

Although EDA economic adjustment grants can include funding both for RLFs and technical assistance, RLFs do not generally offer technical assistance. At the ARDC, clients who need specialized technical assistance (a rare occurrence, according to the RLF administrator) are referred to another agency, such as a Small Business Development Center (SBDC) or a community college, for help. This RLF maintains no staff to provide technical assistance. It simply provides the crucial gap financing for firms in targeted sectors.

[1] The marketplace requires EDA to take a subordinate position to other creditors; this is not an EDA requirement.

The microenterprise strategy compared with other job creation strategies.

Microenterprise programs rarely see themselves as strictly job creators. As a result, microenterprise program goals include job creation as only one of the range of outcomes to be produced. As discussed elsewhere in this report, most programs focus on self-sufficiency through self-employment for the particular microentrepreneur, but also consider decisions not to pursue self-employment or obtaining a regular job as successes. Despite this, microenterprise programs perform well when compared with other job-creation strategies.

The most traditional forms of economic development fall under the broad heading of industrial recruitment. Such strategies attempt to attract new (or maintain existing) firms to a particular region. The primary stated goal of such programs is to create (or retain) jobs. The mechanisms for such development are well-known and include tax credits and abatements, worker training programs, infrastructure investments, and site preparation.

Timothy Bartik (1992) found that state and local taxes have a significant negative impact on local business activity, contrary to the commonly held perception that local taxes are such a small part of firm expenses that they have no impact on business activity. He computes the annual cost per job created by general business tax reductions as "probably in the range from $1,906 to $10,800." That is, for a single job to be created, tax cuts in this range would have to be engineered.

Milward and Newman (1989) examined a number of recent incentive packages assembled for automobile plants in the Midwest. They discovered a wide range of incentives offered, including those mentioned above. For the six "deals" they examined, they found a cost per factory job created ranging from $11,000 to $50,580. What is revealed in these two analyses is the wide range of costs per job created in the traditional industrial recruitment economic development strategy.

Another popular economic development tool has been business incubation. In a 1997 study funded by EDA, Molnar et al. examined the seven-year results of business incubators. Their findings reveal a public subsidy per direct job created of between $1,500 and $2,000. Other monies have been leveraged against this public support, so the actual total cost per job created is likely higher, although it is not revealed in this study.

EDA, through its Public Works Program, supports infrastructure investment as a job creation strategy. In a May 1997 performance evaluation of the Public Works Program, Burchell et al. (1997b) found that $3,058 in EDA funds were spent per job created or retained. The total cost—including leveraged private capital—was $4,857 per job created or retained. A later study by Burchell and Robison finds that the EDA cost per job created—including multiplier effects—is $1,119 in a typical county (as compared to the $3,058 of EDA money per direct job created).

TABLE 3.1
EDA and Total Cost per Job, Defense Adjustment Program

	Completed Projects	*Total Jobs*	*EDA Cost per Job ($)*	*Total Cost per Job ($)*
Defense Construction	49	30,870	8,052	12,045
Capacity Building (TA only)	31	1,952	13,633	19,393
RLF (complete)	16	7,977	3,312	3,822
RLF (in process)	21	3,772	4,079	5,439

Source: Burchell et al. (1997a, 28)

Another EDA program, the Defense Adjustment Program, provides capacity-building, infrastructure investment, and revolving loan fund (RLF) money for military installation conversions to assist communities in recovery from the economic impacts of base closure. As shown in Table 3.1, Burchell et al. (1997a) found that the total cost per job created ranged from $3,822 in the completed RLFs to $19,393 in the capacity-building programs. It should be noted that RLFs become increasingly less expensive over time as the initial capitalization is repaid and funds are re-lent.

Microenterprise development has a comparable cost per job created to these more traditional forms of economic development. One of our case study programs (NEF) was able to provide us with appropriate program data. Their cost per business[2] is approximately $8,800. On average, their 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 financed 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 3.2, these results compare closely with the traditional economic development strategies discussed above.

TABLE 3.2
Cost Per Job for Various Economic Development Strategies

Type of Economic Development	*Cost per Job*
Industrial Recruitment	
Tax cut only	$1,906 to $10,800
Automobile Plant Attraction	$11,000 to $50,580
Business Incubation	
Business Incubation Works	$1,500 and $2,000
EDA-Sponsored Programs	
Public Works Program	$4,857
Microenterprise Development	
NEF	$4,900 to $5,000
ISED	$4,114
Women Venture	$6,155

Sources: Bartik (1992); Milward and Newman (1989); Molnar et al. (1997); Burchell et al. (1997b); program data.

More important than the actual cost per job created is the appropriateness of a particular economic development strategy for a region. In rural regions dominated by small communities, industrial recruitment strategies are simply not appropriate. Renay Robinson-Scheer, executive director of the Northeastern Nebraska Development District (an intermediary organization for municipalities) notes this particular problem in her region:

> Ninety percent of the communities I represent have populations of less than 500, so industrial development is not going to happen. In the rest, they just aren't distressed places. So Nebraska in general has been really unable to use that recruitment of big industry approach.

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

Jenne Rodriguez, head of the Community and Rural Development Division of the Nebraska Department of Economic Development, voiced similar concerns:

> If you look at the economy, job generation, self-employment is a big part of it in an agricultural state. It doesn't have the sexy status that industrial recruitment has. More and more resources are going into serving these smaller businesses.

This sentiment was expressed by many of the local economic development officials we interviewed in our case study regions.

It should also be noted that microenterprise development is a long-term strategy for a region. Unlike industrial recruitment—where a plant will open with 1500 jobs—microenterprise programs take time to start and develop successful businesses. Across our case study programs, we found that a microentrepreneur will work with a program for several months before starting his or her business; it will then take additional time to nurture that business into a successful enterprise. Because even the oldest microenterprise programs have existed for only ten years, we cannot access the true potential of this strategy as a regional economic development tool.

In addition to being an economic development tool, microenterprise is a personal development strategy, which should factor in to our comparison of other employment and training programs. Practitioners have also suggested that individuals who complete entrepreneurial training, even if they do not start businesses, are better employees. Both issues fall beyond the realm of this work, but are important aspects of microenterprise development. Practitioners and field experts comment on their economic development work in the next section.

How microenterprise program staff and field experts view their economic development work.

Case study program staff and advisory board members discussed with us how they view their work in the context of economic development. Most felt that parts of their programs fit into traditional economic development definitions, but they also believed that the scope of what the microenterprise strategy does presents a challenge to the standard conceptions of economic development. According to June Holley of ACENET:

> We certainly do economic development. We are in an area with high unemployment rates and we are trying to stabilize out-migration. One of the things we are geared toward is having our small businesses capture dollars from other parts of the nation.

Another advisory board member said:

> Those of us doing grassroots community work don't want that [traditional definition] imposed on us. But I am not sure the answer is to redefine that, or saying we need to expand the measurement.

Yet another asserted that:

> Traditional measures miss accounting for any network the entrepreneur is in, and how that begins to change communities.

We also asked advisory board members and program staff what they thought government officials needed to know about the microenterprise strategy. One member said that she has used the following strategy to deal with the economic development officials in her region:

> What we have done is built a relationship with economic development language, and then after a few years, they see what is happening. You begin to help people think more complexly about these things, and you find the most innovative thinkers, and talk to them.

Another described her approach:

> First we find the folks who understand the complexity of any kind of development. Telling them this is not the silver bullet is a relief to them, because they don't think you are trying to sell them the magic cure. What we put in is the vehicle, the approach, and the self-employment is the burning in of the practices.

For the most part, those that have worked to create good relationships with their local economic development officials have benefited from some luck because the officials in their area have been responsive and willing to try a new strategy. For example, some of the programs we studied had good relationships with their regional EDA officers, while others found EDA to be unresponsive to their requests for funding for microenterprise development in their area. In all cases, program staff have had to educate public officials about how the microenterprise strategy contributes to economic development. Programs that are younger and stretched thin in terms of resources are less likely to be able to devote time and energy to the education of public officials.

FINDINGS

The microenterprise strategy does not fit cleanly into the economic development lexicon.

Gaining a more complete understanding of what occurs in these programs requires recognizing that the microenterprise strategy operates between the traditionally separate fields of economic development policy and antipoverty policy. The characteristics that define the microenterprise strategy blur the line between traditional economic development, which is based on working with economic conditions, and poverty alleviation, which is often based on "reforming" individual and family characteristics.

The results of our case studies show that, both through the process by which programs provide access to credit and through the outcomes that are achieved, these programs accomplish goals that marry traditional economic development and poverty alleviation objectives. The fact that these programs fail to fit neatly into either policy sphere causes them to risk poor performance ratings using traditional evaluation techniques. We discussed this problem in Chapter 2 and make recommendations regarding how to remedy it in Chapter 4.

The microenterprise strategy is neither strictly people-based nor place-based.

The debate over whether economic development strategies for distressed areas should focus on people or on places also reinforces the split between economic development and social welfare: economic development strategies generally target places, whereas social welfare programs tend to focus on people. Strategies that target people often categorize individuals according to attributes such as socioeconomic class and education/skill level. These strategies also look at broader characteristics that are correlated with weak attachment to the labor force, such as gender and race. Spatially oriented programs, on the other hand, target specific places. Usually these are areas in which a range of factors have impinged on a particular place to put it at a disadvantage relative to its environs.

Interestingly, microenterprise programs focus on individuals in addition to being deeply rooted in the context of the places in which they operate. This inherent dualism helps microenterprise programs avoid many of the typical problems of strictly place-based or people-oriented strategies. Microcredit programs neither restrict people's economic and residential mobility, as some place-based programs do, nor do they attempt to reform so-called aberrant behaviors.

The microenterprise strategy must be seen as one part of a larger economic revitalization plan for distressed areas.

In states where the microenterprise strategy has already been integrated into the larger economic development plan, critics at the local, regional, and/or state levels have recognized the existence of a gap in business development services for very small businesses and disenfranchised groups. Program staff and members of our advisory board repeatedly emphasized that the microenterprise strategy is not *the* solution, it is one part of a solution. According to Christopher Sikes of the Western Massachusetts Enterprise Fund:

> If EDA is looking at this as an employment strategy it is no good. If they're looking at it as economic revitalization it's good. It is one strategy. It is part of a much larger piece. When it is used well, it works well. When it is used as a panacea, it works poorly.

Jack Litzenberg, at the Charles Stewart Mott Foundation, added to this sentiment, describing the microenterprise strategy as a tool to be employed during a difficult economic time until the economy improves:

> Microenterprise is not going to provide the wage income of a job in areas where people are hunting for a job and the jobs aren't there. It can provide some income and an alternative to work activity rather than a lot of jobs. The way I would position it in distressed areas is to ask, "Can we use this process to gain work experience, as a way to have a positive educational experience, to ride out the bad economic time." It's a patching strategy for when people are out of a manufacturing job and may later be employed in a non-manufacturing job.

The following examples illustrate how two states—Nebraska and Iowa—and one county—St. Louis County, Minnesota—have incorporated the microenterprise strategy into their larger economic development plan.

Example #1: State of Nebraska

Microenterprise in Nebraska began as a strictly rural development program. However, as the field has matured and support institutions have evolved with the state, microenterprise has become a key part of the statewide economic development strategy. Nebraska presents an example of how coordinated efforts within the microenterprise community, along with a responsive state government, have worked together to provide cohesive support for micro-enterprise development.

Gene Severens began working for the Center for Rural Affairs (a policy organization) in 1978 on issues of credit opportunities for small farms. During the Farm Crisis of the 1980s, he started to design a model of business development particular to small rural communities. He notes that for towns of 1,000 people, traditional economic development strategies do not apply. His efforts spawned the Rural Enterprise Assistance Project (REAP), at the time a strictly rural micro-enterprise program.

As the prominence of REAP began to grow, it attracted the attention of lawmakers in Lincoln, particularly a newly elected governor who wanted to refocus economic development activities on rural communities. When asked whether REAP could be made into a statewide program, Severens saw the need for a separate organization. He recalls:

> The Center for Rural Affairs focused exclusively on farm-based issues. As a result, our constituencies were very small. To become statewide would have meant moving from rural affairs. We needed to put together an effective coalition of programs—urban and rural. Microenterprise transcends both urban and rural, and I thought it would be important to start some urban programs. From that legal structure we began the process of public education. Raising funds from other sources, we started the Nebraska Microenterprise Partnership Fund.

The Nebraska Microenterprise Partnership Fund is primarily a financial intermediary that supports local microenterprise programs with state, federal, and private funds. Federal funds are available from the Treasury Department's CDFI program, of which the Partnership is an approved intermediary.

Support for microenterprise at the state level began at about the same time. Maxine Moul, director of economic development, recalls her involvement:

> In 1990 I headed up a rural development commission. It was 13 members, all living and working in small towns, on farms and ranches. They had been concerned that other economic development had focused on larger communities and bigger projects—the smokestack chasing types. We needed to focus on our own, and take the entrepreneurial spirit in Nebraska, and help them get started, and start to grow, then move to the main street, and employ more.
>
> The state's effort in venture capital field had also been targeted to the larger efforts—the $1 million loans, not the small entrepreneur who needed $5,000 or $25,000.
>
> From looking at other microenterprise that was going on in the state, we thought that this would be a model that would work. We started supporting it through the CDBG program, and through various other avenues, which eventually culminated in the legislature appropriating money for microenterprise.

Part of the funding philosophy for microenterprise in Nebraska is the matching of funds with local support. Moul notes that this forces the community to be dedicated to a project, and that generally leads to greater success. As an example, state funds are granted to the Partnership Fund, where other funds are combined before grants are made. The Northeastern Nebraska Development District receives a grant from the Partnership Fund. The Development District requires a local match from its member cities for any loans and grants it makes. The final recipient of microenterprise funds, then, has received money that has been leveraged several times. This not only increases the available funds, it adds community participation at multiple levels.

Such leveraging can be successful only where intermediary organizations are able to package funding from multiple sources. The Nebraska Enterprise Partnership Fund plays this crucial role. Additionally, Severens' personal experience with microenterprise development adds to the strength of the funding intermediary. Moul notes that since the governor is leaving in January (and she presumes that she will as well), a new administration may have other priorities in economic development. She does feel, however, that microenterprise has enough of a constituency that it will continue to be a strong part of statewide economic development. The existence of a statewide organization with performance standards for its grantees, she feels, will encourage continued state support for microenterprise

Example #2: State of Iowa

In Iowa, ISED first received contracts to provide entrepreneurial training to welfare clients. Over time, as the program evolved, ISED won contracts with the Iowa Department of Economic Development to provide entrepreneurial training in rural communities. While this led to some initial resistance from the state's Small Business Development Centers (SBDCs) (see Chapter 4), the relationship between the state DED, the SBDCs, and ISED has evolved.

David J. Lyons, director of the Iowa Department of Economic Development, sees his agency's role as providing service for all possible business ventures in the state:

> What we try to do in Iowa is to ensure that the proper spectrum of support is in place, from small business to Fortune 500 status. From programs of loan funds, of training programs, we guarantee that whatever a business could need is incorporated somewhere in our spectrum of services.

In addition to the entrepreneurial training provided through contracts, the State runs the Self-Employment Loan Program (SELP), which provides loans to self-employed residents. Started in 1987 as part of the JTPA program, SELP makes loans up to $10,000 to self-employed residents. Again, Lyons sees SELP as part of the continuum of economic development programs in the state. He notes that a strong economic development agency must have the tools to help all of those it serves:

> Here we have a very broad definition of economic development, so our tool set has broadened. Our mission statement tasks us with improving the quality of lives of Iowans through economic opportunity. For some people that will be the opportunity to get a job at the new company that has located in their community. And other people, it's going to be the ability to start their own business. For other people, it's going to be the ability to get off of welfare and into work. Our goal is to be a mirror. If someone says to themselves, I really want to do this, and I think it makes economic sense to get off of welfare and start my own business, they should turn around and say the Department of Economic Development is just what I need. And a CEO, who needs to build a 250,000 square foot addition, he should look at us and find exactly what he needs. If we are going to be that kind of virtual agency, we need extremely broad tool sets.

Example #3: St. Louis County, Minnesota

In St. Louis County, in northeast Minnesota, CDBG monies are used to fund microenterprise development projects. Two organizations—NEF and the Arrowhead Community Economic Assistance Corporation (AECAC)—have been the recipients of contracts with the County. NEF, as discussed fully in Chapter 6, operates a loan fund, in addition to providing training and technical assistance. The contract between the County and NEF is for technical assistance only. Connie Christenson, who works on economic development for the county's planning office, notes:

> With them [NEF], our support is primarily for their technical assistance programs, and not the revolving loan fund. We've found that the greatest leverage for our support is in the technical assistance part of it.
>
> In terms of small business development, I see that we have a wonderful entrepreneurial spirit here in northeast Minnesota. With this [micro-

> enterprise] as being one tool we have to use in economic development, it can be a very strong tool…Organizations like NEF that provide the technical assistance provide something to help that happen.
>
> We've also found that people that receive that technical assistance and don't make it in business do better, too. What they bring to a new employer is a greater understanding about the big picture, about how that business works. And that often makes them a better employee.

The other beneficiary of CDBG monies in the county is AECAC. With this organization, the County chose to support only the loan fund. The results were less than what had been hoped for—40 jobs created over five years. Christenson said that without proper screening and training, lending is bound to fail.

In the County's overall economic development program, microenterprise plays a major role. This is generally due to the fact that the funds available to the County have a job-creation requirement. Christenson said that given the scale of funds, the only proven job-creation strategy appropriate for St. Louis County is microenterprise:

> [In addition to a juvenile correctional facility] we've also got some storefront renovation projects going on. But up until this point, it's been primarily microenterprise, because of the requirement of the Feds on new job creation.
>
> Most of the job creation comes from small business. In our region, a handful of firms employ more than 50 people. Mining has always been an important employer, but we all saw the need to diversify the economy about ten years ago, when the last bust hit. Taconite has made a bit of a comeback of late, but we all know that it just is a cyclical industry.

These three cases illustrate how microenterprise development has been integrated into larger economic development programs. In all cases, a lead organization—be it a microenterprise program like NEF or ISED, or a statewide intermediary like the Nebraska Enterprise Partnership Fund—was crucial in coordinating and leveraging public support for microenterprise development. In both Baltimore and Albuquerque, public loan funds for small business had been started; both failed and are no longer operating. As one person from the City of Albuquerque noted:

> Public agencies shouldn't get involved with direct lending to businesses. It's way too political. We've found it far better to support proven programs, and let them decide which businesses to support. They know what it takes to succeed, far more than we do.

The City of New Brunswick, New Jersey, also runs a small microloan program. However, it has been fairly unsuccessful. According to Glen Patterson, only a handful of loans have been made, and most of those businesses have either closed or been bought out. New Brunswick has an insufficient advertising budget for its economic development programs, so the loan fund is virtually unknown in the community. And without a strong advocate—as illustrated in the above cases—public support for microenterprise is not nearly as successful.

The second- and third-order outcomes the microenterprise strategy

produces have critical economic development ramifications.

In Chapter 2 we discussed the fact that microenterprise programs do not often produce jobs beyond that of the proprietor and noted that many people choose not to pursue self-employment after learning about it in the training component of programs. These findings contribute to the perception that microenterprise development is not effective as an economic development strategy. However, field experts and program staff relayed significant anecdotal evidence that the microenterprise strategy produces important second- and third-order outcomes that contribute importantly to the economic health of a region. According to Sikes:

> Even if the person doesn't start a business, there is a substantial increase in income or other things that you can't measure one to one but they're definitely linked—abuse, drugs, violence problems. People go through training and pick up basic life skills in training courses that they didn't have before.

Barbara Johnson, executive director of Women's Initiative and a member of our advisory board, emphasizes the population of people microenterprise programs tend to serve:

> Who is the economic actor? Who owns the business? You are opening up to very low income women in some cases and that is very interesting. We need to look at changed relationships and who is relating to markets. We do count noses and dollars and hours, and yet our focus is on women changing their relationship to the market. So if you looked only at quantity rather than trajectory. . . you are really missing the boat.

The field experts we interviewed believe that people become better employees by going through the training component of microenterprise programs. Many programs have found that during their training, participants often realize that they are not ready to start businesses or that self-employment is not the best option for them. The training, however, provides them with a broad range of skills that are transferable to other arenas. Those who do not choose to pursue self-employment obtain the skills and self-confidence to use other routes, such as mainstream employment, to achieve self-sufficiency. Writing a business plan—which the majority of programs require—calls for research skills, writing skills, and the ability to work with numbers in order to forecast costs and sales. Programs also help participants learn to present their ideas, verbally and on paper, clearly and convincingly. If nothing else, the experience of going through microenterprise training appears to give people who are disconnected from the labor market a critical jump start. Asked what she would be doing if she had not gone to ISED, one entrepreneur replied:

> I'd be sitting at home…It changed my whole state of mind, my mental and physical attitude. It makes you get up, get the kid off to school, go to the library and do the research for the business…It was kind of like therapy.

Those who do not pursue self-employment often look for a regular job, and these skills can make the difference between success and failure in the job market. Jack Litzenberg, director of the Charles Stewart Mott Foundation and a longtime supporter of the microenterprise strategy, calls microenterprise programs “the best adult education programs in the country.” Most programs do not track the paths of participants who do not finish programs or who do not pursue self-employment. The extensive anecdotal evidence in this area makes it a ripe topic for research.

Staffers at all six of our case study programs also believe that those who go through training but do not start businesses bring valuable skills with them to the workplace. ISED is currently considering how to help clients who have been through the program but are not ready to become entrepreneurs use the skills they have learned in the program. Jason Friedman has begun to conceptualize the creation of a network comprised of employers who would be willing to interview those who have completed ISED’s training. ISED would effectively provide a screen for these employers.

Whether or not clients start businesses, many of the low-income interviewees claimed that they were attracted to self-employment training because—unlike welfare-to-work programs and traditional job training programs—microenterprise programs prepare people for work that offers them hope. Microenterprise programs train them to think critically, prepare for jobs they want to do, and perhaps most importantly, help them to think about themselves and their careers in a long-term way.

Programs do not perform well using traditional evaluation techniques.

Microenterprise programs’ integration of aspects of economic development and poverty alleviation strategies makes it difficult to evaluate them. Indicators used to evaluate economic development programs are generally quantitative and include categories such as jobs created, income generated, and the number of businesses within a given area. Indicators used to evaluate poverty alleviation strategies or social welfare programs, on the other hand, often consist of more qualitative categories such as changes in self-esteem and changes in family stability.

Microenterprise programs are particularly difficult to evaluate because they tend to incorporate both kinds of goals. In addition, the weight that program missions accord one function as opposed to the other, which is often manifested in the resources it devotes to training versus lending, differs greatly from one program to the next. The wide variety of positions programs take make it extremely difficult for funders—public or private—to evaluate and compare programs.

Microentrepreneurs tend to have a strong attachment to place.

Although the economic literature views labor as a mobile input to production, many of the entrepreneurs we interviewed are very attached to the places in which they live, regardless of how poor the economy is. Often they pursue self-employment because they perceive it to be the best available option for making some money while continuing to live where they live. The segment of the population that is attracted to the microenterprise strategy is a segment that does not want to move. The businesses that they create are also unlikely to be footloose. Therefore, although they are small and may take a long time to develop, these businesses should be perceived as resources and nurtured.

CONCLUSION

The microenterprise strategy works if it is well-integrated into the larger economic development plan of a region. Making this happen requires expertise on the program side and an understanding of the role that the microenterprise strategy can play from those who create economic development policy at the state, local, and regional levels. According to Malcolm Bush of the Woodstock Institute, “the microenterprise strategy is creative and relatively cheap.” The risk of trying it, therefore, is not especially great. Because the microenterprise strategy does not fit easily into traditional notions of what constitutes economic development, some vision and imagination, as well as the willingness to experiment, are required in order to implement it. Chapter 4 lays out specific policy recommendations for how to pursue the implementation of the microenterprise strategy.