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Policy Recommendations

INTRODUCTION

This chapter sets forth recommendations for microenterprise support based on the fieldwork, analysis of census data, and literature review described in the earlier chapters of this report. We divide our recommendations into two categories: support efforts that would most likely be undertaken at the federal level, and those that are more appropriate for the local or program level.

RECOMMENDATIONS AT THE FEDERAL LEVEL

□ Educate Economic Development Planners and Policymakers

Economic development policy and program officials fall into three categories in relation to microenterprise. The first group includes those who are working with the microenterprise strategy and understand both its potential and its limitations. A second group is comprised of those who know nothing or very little about the microenterprise strategy and have not tried to use it; this is probably the largest group. Finally, there are those who claim to have tried to use the strategy but believe that it was a failure. The latter two categories exist because of insufficient education about the microenterprise strategy—particularly confusion about the distinctions between U.S. microenterprise programs and their counterparts in the developing world. The microenterprise strategy in this country is young relative to most traditional economic development strategies, and understanding among policymakers is uneven at best.

All of the program directors we interviewed who have crafted strong relationships with government officials have done so by educating these officials. EDA can help in this area by publishing reports and sponsoring workshops that teach local and regional officials how the microenterprise strategy can be a part of a larger economic development plan. The public officials we spoke with who put little stock in the microenterprise strategy tended to relay to us the same myths that program staff and field experts are working to debunk. The most common misconception is that microenterprise development is primarily about making loans. Other myths

include the notion that the microenterprise strategy is the answer to the welfare reform problem; the idea that microenterprises grow into large businesses and employ lots of people; and the belief that the microenterprise strategy is a solution for a host of economic ills. Welthy Soni, director of Business Start, claims that it is time for policymakers to catch up to practitioners in terms of their understanding of what the microenterprise strategy can and cannot do:

The field as a whole has come to recognize that not everyone is cut out to be an entrepreneur. The field is more pragmatic. But there are a lot of trends in this country with downsizing and changes in the way the workplace looks. There is a great deal of entrepreneurship so microenterprise development is on the cutting edge. But there is a lag in terms of funders and policymakers in realizing this. Practitioners are always first. Legislators like to have successes and like to have endings. When they don't see change immediately, they want to cut it.

Policymakers need to be educated about what specifically the microenterprise strategy can do, then use that knowledge appropriately in their larger visions for economic revitalization.

□ Integrate the Microenterprise Strategy into a Larger Economic Development Solution

As discussed in Chapter 3, microenterprise programs will not solve the problems of economically distressed regions alone. These programs are, however, one key piece of a larger puzzle. This research shows that the microenterprise strategy produces positive results in different types of distressed regions. To be effective, this strategy must be packaged together with other complementary programs specific to the region and its problems. Coordination among these programs is extremely important. Jack Litzenberg of the Mott Foundation believes that the ideal microenterprise program is:

one that has adapted to its own culture, and that connects with people who lend at higher amounts. It is one that understands that there needs to be a continuum of capital in low-income communities. It is sustainable even if it is not self-sufficient. It should also have a feature of providing a support system to the client, and it should collaborate well with the community. Successful programs do not try to do everything themselves.

Some programs, such as ISED, work closely with their state departments of economic development. Others, such as West Company and the Northeast Entrepreneur Fund (NEF), participate in regional economic development organizations that help to coordinate these sorts of efforts. We found that the quality of relationships between state- and local-level officials and microenterprise programs varied, depending greatly on how receptive local officials were. As part of the education effort that we urged in the previous section, federal officials can help to broker relationships between programs and the local officials who can provide support. Forming state intermediaries is one way, but not the only way, to do this.

Another way to integrate the microenterprise strategy into the economic revitalization plans of distressed regions is to encourage regions to use a portion of their EDA revolving loan fund for microenterprise development. As we discussed in Chapter 3, RLFs generally target

particular business sectors. A plan might identify a particular sector to target and also recognize that growth in the target sector will likely be accompanied by a need for the kind of small service and retail businesses that microentrepreneurs often start. The plan could specify that a portion of the RLF funds be reserved to support the growth of these new microbusinesses.

□ Support for Operating Expenses

Program directors and field experts across the board expressed the need for more funds for general operating support. The program directors interviewed stated that microenterprise programs are often as much about training as they are about credit; it has taken policymakers and funders longer to realize this. Most microenterprise programs have had little trouble raising funds to make loans. They face much more difficulty generating dollars to support their training activities and general operations. Many field experts believe that the federal government could provide critical help in this area. According to Welthy Soni:

The ideal place for the federal government to help is in the whole area of capacity building, helping programs to be sustainable. Getting loan money does not seem to be a significant problem. Banks are willing to lend money. Sustainability money, capacity money, is critical and it's a relatively small investment.

Some funders and policymakers are more interested in making grants or loans to programs' loan funds than in supporting the training, one-on-one, technical assistance, and mentoring programs that are critical to helping people become successful entrepreneurs. Policymakers who want to support the microenterprise strategy for welfare recipients must invest in the training side of programs. Nat Barnes, a trainer at WEB, says:

First and foremost, it's education and training, and then TA [technical assistance] support for a long time. Something that took me ten years to get the expertise can't be done in 12 weeks. The clients need time to look at what they're doing, measure it, etc. They need to reflect on their goals and objectives and whether they made them or not.

Some of the focus on credit and failure to recognize that programs need operating support comes from the confusion between U.S. microenterprise programs and the developing world models that motivated the microenterprise movement in this country. The microenterprise strategy in the U.S. is more expensive for several reasons. First, there is a less-developed culture of entrepreneurship here than in many other countries. Second, it is generally more expensive to operate businesses here. Third, U.S. entrepreneurs must work in the formal as opposed to the informal economy, and the formal economy has higher barriers to entry. Policymakers need to recognize the differences between their developing-world cousins and U.S. programs and provide each with appropriate kinds of support.

The programs that serve very low-income people require even greater funding for training and support than do programs serving less economically constrained populations. A recent conference session ("Working with AFDC Recipients") at the Association for Enterprise

Opportunity conference¹ confirmed this finding. Participants may be lacking in basic skills or in self-esteem and self-confidence. Some programs, like WEB, have a staff person devoted to helping participants deal with the issues that act as barriers to their ability to successfully pursue self-employment. The trainers and business consultants in these programs spend an enormous amount of time both in the classroom and one-on-one with participants during training and after they have graduated. Program staff and field experts expressed frustration regarding policymakers' lack of understanding about this need for operating support. Any new federal initiative must address this need.

□ Support Proven Programs and Models

Although the rapid growth in the number of U.S. microenterprise programs is exciting on one level, it also represents a wide range in terms of quality and experience. The attention this strategy has received in policy circles and in the media, coupled with the push for new solutions that welfare reform has motivated, has spurred the creation of many microenterprise programs in places where expertise about the strategy is lacking. Indeed, several of the field experts we interviewed expressed concern about wasted resources. Christopher Sikes of the Western Massachusetts Enterprise Fund explains the problem as follows:

The microenterprise strategy is hot right now, especially with welfare reform happening. But federal programs are trying to mold the microenterprise strategy to what they already have and they're usually inappropriate. There is the potential to waste a colossal amount of resources.

The successful programs we studied started out as grassroots, indigenous responses to a perceived lack of credit and training at the low end. According to Sikes, "A local structure is important. There needs to be a local connection. If I see no connection I'm skeptical." All of these programs have succeeded because a key individual or set of individuals has assumed ownership of the program and because they understand the context they are working in. In places where the microenterprise strategy is well-integrated into the economic development vision for the region, these individuals tend to exist both on the program side and on the policy side. We know of at least three cases (discussed in Chapter 3) in which halfhearted, publicly sponsored attempts to create a microenterprise program failed, largely because of a lack of understanding of, and commitment to, the microenterprise strategy on the part of those in charge.

At the same time, the fact that the microenterprise field has been in existence for more than ten years in this country means that there is now a sort of "brain trust." Regions that do not currently employ the microenterprise strategy should rely on this expertise to guide the creation of new programs.

Further, we are convinced that cookie-cutter programs will not work. This research demonstrates the importance of context-specific programs. All of the programs analyzed for this study are headed by people who know the regions in which they work very well. In many ways, the differences among programs are what make them successful. If the federal government is to create new programs, it must work both with microenterprise field experts and with people who are very familiar with the problems of the particular targeted regions.

1. AEO is the trade association for U.S. microenterprise programs. The conference took place in April 1998 in Washington, D.C.

Government should work with programs. In Iowa, ISED has a contract to provide entrepreneurial training to welfare recipients as part of the state's welfare reform program. As a result of its relationship with the Division of Human Services, ISED is better positioned to connect clients with other needed social services. ISED and the State of Iowa work together to help public assistance recipients move toward self-sufficiency.

□ Coordinate Policy

The situation of microenterprise programs illustrates how a lack of policy coordination can diminish a strategy's potential effectiveness. While public-sector financial support will certainly aid the viability of these programs, other policies actually work against microcredit, making it difficult for poor people to view self-employment as a viable option. Until the Temporary Assistance to Needy Families (TANF) legislation was passed in 1996, federal welfare regulations constituted one of these barriers, placing a \$1,000 ceiling on the assets AFDC recipients could accumulate without risking losing their benefits. Additionally, many programs intend for the borrower to begin working with mainstream financial institutions after borrowing successfully from the microcredit program. In addition, despite CRA, discrimination based on gender, race, and class continues to exclude people. Therefore, the policy infrastructure that is needed to make microcredit a stepping-stone rather than a permanent haven is nonexistent.

Further, the recent spate of attention for the microenterprise strategy has generated many fragmented sources of support (see Chapter 2). EDA support must complement existing support, and that calls for coordination. Program organizers are scrambling to keep up with changes in legislation and new sources of funding. Greater coordination and support for intermediaries would make the process more efficient from both the funder and the program perspectives.

The Small Business Administration (SBA) is the federal agency that has been involved with microenterprise development the longest. Reactions from program staff and field experts regarding SBA's role were mixed. Most agreed with one advisory board member who asserted that: "SBA doesn't do a very good job of capacity building." Another advisory board member complained that the SBA system amounted to "an initiative on high that is not informed from below." Yet another complained that SBA "defines everything by numbers." Barbara Johnson, executive director of Women's Initiative, recommends that any new federal agency that becomes involved with the microenterprise strategy should:

try to coordinate with SBA and don't duplicate what they're doing but do better what SBA is not doing. Another agency could provide equity capital to help with the fact that loan funds for these businesses are taking on more risk and they need more of an equity base. EDA could also support training, which SBA does not do. SBDCs don't work with low-income people even though they are supposed to provide technical assistance. It would be great if EDA were able to respond to what organizations like us really need, which is operating support to provide training, build access to markets, and an equity base to help take on risk.

In 1992, the SBA began to make loans to microenterprise programs. Programs were required to make relatively large loans to entrepreneurs and to repay these loans to the SBA. Both of these requirements were new to many of the microenterprise programs. The agency now also gives grants of approximately \$125,000 to microenterprise programs that do not make loans.

According to Jason Friedman of ISED, “the SBA is the main federal agency for small businesses, yet it hasn’t really legitimized microenterprise as a function or priority.” Most federal support for the microenterprise strategy has been tacked on to existing programs and has not taken into account other kinds of support offered by different agencies. New federal support must work to eliminate existing gaps in funding and respond to needs expressed by program officials.

□ Support State-level Intermediaries

State-level intermediaries are a relatively new form of organization in the microenterprise field. These intermediaries are state-level organizations that raise federal funds to support the microenterprise strategy, use that to leverage state funds, and channel these resources to local microenterprise programs throughout the state. Intermediaries are new players in the microenterprise field and are as yet unproved². Early lessons from Montana and Nebraska (the states with the most mature intermediaries) suggest that this type of organization provides several benefits. First, it relieves some of the pressure to raise funds from the local microenterprise program. Intermediaries do not compete with local programs for funding but instead pursue sources that the local programs have trouble accessing. Intermediaries also relieve the funder of the burden of evaluation. According to Gene Severens, who helped to create the Nebraska intermediary:

We make performance-based grants. Some programs get a lot more money than others and it’s based on objective performance criteria. We have designed our evaluation techniques in a way that does not penalize programs that deal with a very hard-to-reach constituency, such as our program in inner-city Omaha that works with the welfare population.

Intermediaries distribute funds from a wide variety of sources. As an illustration, the Nebraska intermediary has money from the Small Business Administration (SBA), the U.S. Department of Agriculture (USDA), the Nebraska Investment Finance Authority, the Nebraska State Legislature, and a range of private sources. The programs that receive funding from the intermediary do not necessarily know where the money came from. Another advantage to funders is that they do not have to become experts on the microenterprise strategy in order to fund it. Severens explains it as follows:

A state-level foundation might get interested in microenterprise but doesn’t know which program works best. We offer an answer to that problem because we are a fiduciary agency. They don’t have to make the decision about who gets it. Not only do we bring new money in but we bring it in in a much more rational way.

CDFI has already begun to fund intermediaries, and SBA has expressed interest in this tool. One potential role for the federal government would be to create and/or support such intermediaries at the state or regional level.

2. The intermediary as an organizational type has grown in the community development field. The Ford Foundation, the Local Initiatives Support Corporation (LISC), and the Enterprise Foundation all support city-level intermediaries that monitor and fund local CDCs, as well as raise and leverage funds for these organizations.

□ Support the Design and Use of Appropriate Evaluation

In Chapter 2 we examined the diversity of microenterprise programs, and in Chapter 3 we discussed how challenging it is to evaluate the microenterprise strategy. This diversity of programs makes generalization difficult, even though it attests to the useful flexibility of the overall strategy and the ways in which local programs have adapted themselves to the contexts in which they operate. It also should serve as a warning that all programs are not equal and should not be judged by the same standards.

An appreciation of the flexibility and resulting variety of program types must be built into evaluation. Given the fact that microenterprise development is a long and complex process that is not yet fully understood, evaluation that tracks program clients over time is critical. Further, techniques must be devised that will track the second- and third-order economic development outcomes discussed in Chapter 3, as well as the specific connections between these outcomes and more traditional economic development achievements. Finally, given the anecdotal evidence suggesting that program clients who do not start businesses also receive significant benefits from the training component of programs, it will be necessary to follow this group and gain an understanding of how the experience of participating in the microenterprise strategy affects them. Program staff and field experts have made it clear that they want to take a lead role in the design of appropriate measurement. Sikes asserts that:

We need the federal government to accept a standard of performance nationally. But we don't want the government to provide it. We want to provide it. They don't have the experience to create those standards. Practitioners do.

The Aspen Institute's Self-Employment Learning Project has been engaged in evaluation work for many years—primarily the SELP longitudinal study of microentrepreneurs discussed throughout this report. In 1997, the Aspen Institute initiated a major evaluation effort for the entire microenterprise field called MICROTTEST. Recognizing the continued development and increasing diversity of programs in the field, microenterprise experts are now seeking to clarify and define what is to be considered a high-quality microenterprise program through appropriate performance measures.

Microenterprise, in the MICROTTEST concept paper, was defined as "training, technical assistance, and credit in small amounts to disadvantaged entrepreneurs in order to boost their incomes, to create or grow businesses, and to support the broader growth of their communities." From these basic ideas, six key areas for performance measures have been identified:

- Reaching Target Groups
- Program Scale
- Program Costs and Cost Efficiency
- Program Performance (Credit Portfolio and Training Program)
- Program Sustainability and Internal Cost Recovery
- Outcome and Impact

The stated purpose of MICROTEST is to establish a working group of microenterprise practitioners and researchers who will develop and test a set of performance measures for the microenterprise field. Over the long run, this process should improve microenterprise services by encouraging programs to measure performance regularly.

In the first year of MICROTEST, a core group of 15 member programs was chosen. A larger group of associate groups was also asked to participate in discussions but was not expected to use and test these new performance measures. To date, measures for the first four areas above have been developed, tested, and refined; work continues on the remaining two areas. Two training workshops have been held for core members, and a newsletter is published regularly. Most importantly, an e-mail discussion group has been implemented for the open discussion of these measures by the core and associate members.

RECOMMENDATIONS AT THE PROGRAM OR REGIONAL LEVEL

□ Encourage Entrepreneurs to Pursue Emerging Business Sectors

Although the data from our survey does not clearly support this, we believe that microenterprise programs should offer specific training to prepare prospective entrepreneurs to enter emerging business areas. In many cases, this kind of training fits with programs' goals of removing discriminatory obstacles. Programs focused on women, for example, could help them enter such traditional male fields as the skilled trades. A few select programs are beginning to experiment with this kind of focused training. These programs should be supported and followed closely in their early stages. Enabling women to enter emerging fields that are more likely to fully support households is particularly critical given the increasing numbers of low-income, female-headed households and welfare reform's push to move women off welfare and into work. At the same time, microenterprise programs cannot be expected to single-handedly turn disadvantaged people into successful entrepreneurs. Many microenterprise programs—including those studied here—have begun to network with related organizations and institutions, building community and fostering the creation of social capital in the process (Servon 1998).

Along with encouraging microentrepreneurs to enter emerging sectors, programs should also steer entrepreneurs away from narrow, low-income, minority markets. It is particularly important for women on welfare, who will be very dependent on their business for household income, to assess the feasibility of their business idea carefully. Research shows that entrepreneurs who do business with a narrow, low-income population become ghettoized and limit their growth and profitability (Aldrich et al. 1985). Business stabilization and growth are more likely when the entrepreneur reaches a broader market. Microenterprise programs must help entrepreneurs establish firms geared to emerging markets.

□ Help Qualified Entrepreneurs Secure Larger Loans

Complaints of undercapitalization and the fact that emerging, more profitable business sectors require greater capitalization merit recognition from program organizers and policymakers concerned with making self-employment more accessible to disenfranchised groups. Larger loans must be available to those who have the expertise to use them to build strong businesses. The model developed at Working Capital's Lawrence, Massachusetts, project may work for other programs. The microenterprise strategy is most successful in places where it has been embraced

as part of a more comprehensive economic development plan to encourage business development. Specific examples of regions that have done this are provided in Chapter 3.

CONCLUSION

The microenterprise strategy can play a critical niche role in the larger economic development plan for distressed regions. There is ample room at all levels for government to do important work that would help maximize the microenterprise strategy's potential effectiveness. These areas of involvement include funding, coordinating policy, educating key players in the economic development process, and brokering relationships. As discussed, there is great opportunity for EDA to play a leadership role in these areas.