

5

Institute for Social and Economic Development (ISED)

INTRODUCTION

The Institute for Social and Economic Development (ISED), with headquarters in Iowa City, provides entrepreneurial training throughout the state of Iowa. Regional offices are located in Cedar Rapids, Davenport, Des Moines, Sioux City, and Waterloo (Figure 5.1). While each of these cities suffers its own particular form of economic distress, general macroeconomic trends throughout the state have played a significant role in all of these locations.

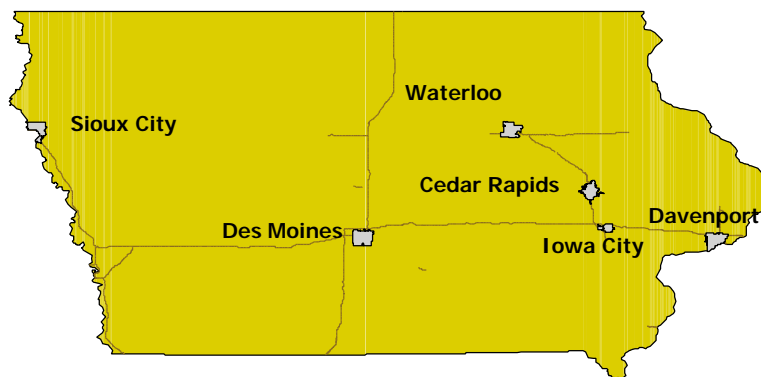


Figure 5.1 ISED branch offices

Note: ISED is headquartered in Iowa City.

DEMOGRAPHIC AND ECONOMIC BACKGROUND

The Iowa economy is dominated by agriculture and related industries. In 1992, 88 percent of all land within the state was farmland. The Farm Crisis of the early 1980s (or depression, as one local banker called it) devastated the statewide economy. More importantly, the crisis had a significant impact on family-owned farms. Between 1982 and 1992, the total farmland across the state only declined from 91 to 88 percent, yet the number of individual or family farms decreased from 97,610 to 81,127 — a drop of 17 percent. During the 1980s, the rural farm population decreased from 391,070 to 256,562, a 35 percent decline.

While a greater number of people are employed in manufacturing than agriculture, most of that manufacturing employment is in agriculture-related industries. John Deere, for example, is one of the larger employers in the state. Similarly, the retail component of the economy is directly tied to the rise and fall of the agricultural sector.

An examination of unemployment trends in Iowa reveals a rough correlation to U.S. national trends (see Figure 5.2). The early 1980s, when Iowa's unemployment rate topped the national averages, was the height of the Farm Crisis. However, Iowa has been able to stage a moderate recovery, and was not as acutely impacted by the 1990–1991 recession as the rest of the nation.

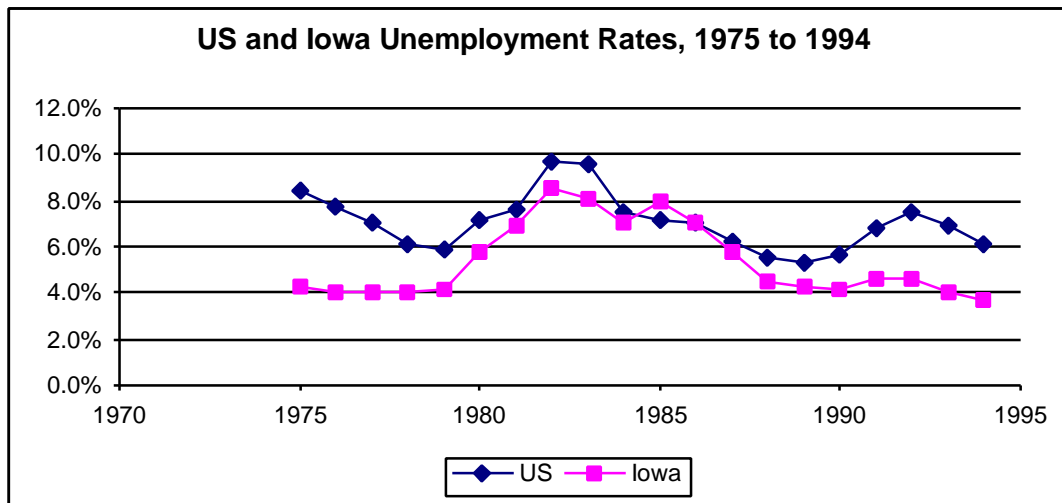


Figure 5.2 U.S. and Iowa unemployment rates, 1975 to 1994

DESCRIPTION OF CASE PROGRAM

History, Mission, and Philosophy

ISED is comprised of two distinct components. The Research and Evaluation Division performs program evaluation and policy analysis. Many of its current projects focus on the effects

and impacts of welfare reform. This activity complements the work of the Economic Development Division, which is charged with providing microenterprise development services. This study looked exclusively at the Economic Development Division.

According to ISED's 1996 Annual Report, the mission of its Economic Development Division is "to help low-income, unemployed, or underemployed individuals start businesses to become economically self-sufficient and enter the mainstream economy. ISED also targets distressed urban and rural areas seeking to revitalize commercial areas and create new businesses and jobs."

John Else, founder and president of ISED, sees microenterprise as an economic development, human development, and community development strategy. "We started it because we wanted self-employment as an option for people to get themselves out of poverty."

Jason Friedman, vice-president and director of the Economic Development Division of ISED, adds a different slant. He feels that "[ISED is] here to fill a gap. The gap is that in the broad range of what you would call economic development, people who are in the bottom end of the economic spectrum don't have the resources to start small businesses."

Methodology

Application and Screening Process

ISED has a three-pronged recruitment strategy, which is oriented toward attracting public assistance recipients and other economically and socially disadvantaged populations:

- Targeted mailing to welfare recipients: through its contract with the Iowa DHS, ISED direct mails twice a year a flyer to nearly 20,000 families receiving assistance through the Family Investment Plan (FIP). The flyer describes ISED's services and lists an 800 number to call in. The mailing typically generates about 500 calls each time.
- Neighborhood outreach; ISED distributes flyers to community-based organizations, churches, neighborhood associations, local businesses, and the like to advertise upcoming classes.
- Orientation sessions: staff also conduct 90-minute orientation sessions in public libraries, community centers, and other public venues, in advance of the 13-week class.

When a potential client contacts ISED — either through his/her own initiative or referral by another service agency — program staff determine whether ISED is the most appropriate service provider. According to program staff, initial client queries are often referred to a small business development center or a similar "help desk" in cases where the client has just a few specific questions. Jason Friedman noted, "People who walk in here and say, 'I'm starting this business, tell me how to do my taxes,' we'll refer them to an organization that can give them those quick answers."

Beyond that point, an initial screening at ISED is based on income. ISED defines low income as a family earning 185% of the federal poverty line and will serve only clients that meet

this criterion. Some of ISED's grants and demonstration projects are targeted at lower-income subsets of this population: participants of one particular program must be below the actual federal poverty line, and another serves only welfare recipients.

Once clients pass the income screen, they begin one of ISED's 13-week courses. The first three weeks of the classroom curriculum consist of a number of self-evaluation exercises that focus on self-esteem and self-confidence issues. The first session is mostly an orientation, where clients learn about the program and meet with the instructors. In the next week, personal money management, time management, and other self-assessment tasks are covered. At this point, the client begins to research his/her business idea. In the third week, the feasibility of the business is discussed, as well as the time commitments necessary to pursue it.

After three weeks, the client must decide whether or not to enroll. If an individual concludes that self-employment is not for them, or that ISED is not the best program for their needs, they may choose to leave. Before enrollment, each client meets one-on-one with the trainer. After enrollment, clients are expected to make a significant effort in the class and toward their potential business.

The ISED staff is quick to point out that the client makes the determination of enrollment, not the trainers. In speaking with trainers, this appeared to be generally true. One trainer, however, noted that "significant encouragement" is given to help the client reach that decision, and that the opinion of trainers, given their experience, was an integral part of the process. Essentially, trainers try to help potential clients reach the decision that is right for them, given the point they are at in their lives. The first three weeks, and one-on-one consultations, are geared toward helping clients determine their own business readiness.

Target Population

All of the program staff interviewed were quick to note that there was no such thing as a "typical" client. John Else categorizes ISED's service population into four broad groups:

1. Those that have recently come on public assistance, be it [due to] a divorce or other significant life event. They'll see a flier about the program, and they grab the opportunity, and we're a resource for them.
2. Those who have been on public assistance for a long time. Across the state about 11 percent of Family Investment Program (FIP) recipients have been on for over two years. When we did our pilot, 66 percent of our clients had been on that long, which is one definition of long-term. They're older, and the idea of working for someone else doesn't appeal to them. They have work experience, and have a reasonable idea as to what they want to create, and have a stronger work ethic.
3. Non-welfare recipients. The working poor or dislocated worker. A higher percentage [of these] are men, who need to create some kind of job for themselves.
4. People who most people think don't have much to give. They're not employed, and couldn't think that they could ever be employed. For them,

there's a certain hope in being self-employed. They don't fit any kind of categories.

Jason Friedman notes that ISED started out serving welfare clients. Although the program has broadened its definition of low income (185% of the federal poverty line), staff continue to see their mission as one to serve all kinds of low-income individuals, including disabled persons and refugee populations; to this day, one-third of ISED's clients are FIP recipients. Many of the program's clients are women; over the past five years, slightly over 60 percent of clients were women.

Lending

ISED, unlike many microenterprise programs, does not make loans directly. It is strictly a training-led organization. John Else, while recognizing the strength of program components such as peer lending, remarked that ISED's history and funding made such programs impossible. "We started with public funds with welfare recipients, with one-year waivers. That put the pressure on us that those folks had to be self-sufficient in a year. That means that they couldn't learn by doing [as in peer-lending groups]."

Else also noted that business starts were never ISED's only goal. As a result, a "client" was not defined narrowly as an individual who got a loan. "If someone decides after going through all this that they are not going to start a business, then that in one way is a success."

However, ISED does a significant amount of work with its clients in helping them secure credit. Jason Friedman notes the connections that ISED staff have made with local lenders, as well as with State loan programs, as crucial elements of their success.

Jim Mollenhour is a vice president with Farmer's State Bank and has worked with ISED clients in the Cedar Rapids area. He describes a good relationship with ISED:

[If they met our lending criteria] I would meet with the client, and the ISED representative, and we would talk about their goals. What I liked about ISED is that they would have worked with them already, and there would be a business plan put together. So many people come in and see us, and they don't have the background and experience to know whether or not their idea will be a viable business.

The experience of going through the ISED program, therefore, provides clients with access to credit that they would not otherwise be able to obtain.

Another major resource available to ISED clients is the Iowa Self-Employment Loan Program (SELP). Started in 1987, SELP was originally designed to help participants in the Job Training Partnership Act (JTPA) program. It was later expanded to include participants in other self-employment programs, including ISED. This program serves individuals at or below 125% of the poverty line. The former manager of this program, Burt Powley, notes that "for the past ten years, the State of Iowa has put considerable resources into self-employment."

Powley further noted that Iowa was progressive in promoting self-employment out of necessity, as much as out of choice. “For many, self-employment was the only option for people during the depression that followed the Farm Crisis. There weren’t any jobs.”

One requirement of the SELP program is that each prospective borrower must have a local sponsor, which could be a Small Business Development Center (SBDC) or a contracted agency like ISED. As a result of this stipulation, Powley noted that the loan loss for SELP has been between 30 and 35 percent. “When the State started this program, we thought it would be 70 percent.”

ISED, then, plays a key role in helping its clients access credit from both public and private sources. Table 5.1 illustrates the amount of capital that ISED has helped its clients access over the past five years. The majority of loans have been from commercial banks, which have provided more than half of the capital obtained.

TABLE 5.1
Capital Accessed by ISED Clients, 1993-1997

<i>Loan Type</i>	<i>Average Number Made Annually</i>	<i>Average Annual Total</i>
Commercial	25	\$543,725.40
SELP	14	\$111,860.00
Private	7	\$110,403.40
Grants	6	\$ 49,200.00
Other	2	\$ 47,260.00
Unknown	3	\$ 38,600.00

Source: Data provided by program.

Relationships with Other Organizations and Institutions

The two primary agencies responsible for small business development in the state of Iowa are ISED and the Small Business Development Centers (SBDCs). Historically, ISED has focused on low-income (including welfare) clients in the more urban regions of the state, while the SBDCs have served a broader range of small businesses throughout the state, including rural areas.

When Jason Friedman joined ISED in 1994, he saw (and continues to see) the need for ISED to act more like traditional community development corporations, providing service not just to isolated individuals but gearing that service to the needs of communities. As ISED began to pursue this strategy through its rural microenterprise program, however, it found itself serving clients and regions that were traditionally the bailiwick of the SBDCs. In the process, ISED inadvertently stepped on a few toes.

John Else notes that “whenever a new agency starts offering services that had been offered by an existing agency, and the more that constituencies start to overlap, the more threatening it becomes.” ISED, with its work in rural microenterprise, had begun to do just that.

As a result, Else and Friedman met with senior staff of the Iowa SBDC and hammered out a cooperative agreement between the two organizations regarding state funding from DED. “It was a watershed moment,” recalls Friedman. “We both affirmed that we target different markets, but that there was opportunity to work together.” In fact, the SBDC now supports ISED’s Rural Microenterprise Program, even though the program does not target low-income individuals. “SBDCs want to target businesses with more sophisticated needs. We knew that wasn’t our focus. So we work together and refer clients to each other,” Friedman said.

Another relationship ISED has recently fostered is between ISED and three utility companies: MidAmerican Energy Company; IES Utilities, Inc.; and Interstate Power. According to Stephen Dust, director of Economic Development for MidAmerican, “We identified that ISED could help us with our small-business start-up interests in rural and urban areas in our electric service territory.” As a result, MidAmerican paid half of the local match for entrepreneurial training in ten communities last year.

Changes in Mission and Methodology Since Inception

John Else does not think that the mission of ISED has changed much in its ten years, noting that, “Our focus is on empowering low-income people. It has been from the SEID pilot to our current programs.” Although ISED has maintained this focus on low-income individuals, it has also expanded its mission to serve distressed areas. The rural microenterprise program that ISED runs motivated this expansion.

Funding

City Funding

ISED receives some limited support from cities in its service region. In 1998, it was funded in both Iowa City and Sioux City with community development block grants (CDBGs) to work with low- to moderate-income residents and to provide entrepreneurial training. ISED plans to expand such programs in the future, and is seeking other local partners.

State Funding

The State of Iowa was involved with the first Self-Employment Investment Demonstration (SEID) program in the late 1980s. This program was designed to examine the possibility of self-employment as an option for welfare recipients. The State contracted with ISED to provide entrepreneurial training for this demonstration. In fact, this was ISED’s first contract. As described in detail above, a significant State resource is the Self-Employment Loan Program (SELP).

In the mid-1990s, the Iowa Department of Economic Development (DED) became more deeply involved with microenterprise. Attached to a larger appropriation for value-added agriculture was \$50,000 for a pilot project for rural microenterprise.

Despite some debate about funding, DED decided to continue funding the program because the economic development officials in the counties served by the program supported it and told DED that it provided a valuable service. However, DED stipulated that ISED and SBDC

would have to develop a Cooperative Agreement, the outcome of which was the acknowledgment that ISED serves both disenfranchised people *and* distressed areas.

According to the director of the DED, David Lyons, the State's economic development strategy:

moved from a “give a person a fish” type of economic development to a “teach a person to fish” kind of economic development. . . . If we could teach an individual the skills of business development and entrepreneurship, we would in essence be making a good economic choice, because we would be funding them once, at a low level of funds, and give them the skills so that we wouldn't have to fund them at a high level later, either as a welfare reform case, or as a failed business that we would have to help pick up the costs of.

So what we did was, we built tool sets that would reach earlier and earlier in the development process of communities and individuals. . . . So we have more tools than a state of our size and population would have, but then again, those tools are aligned across the entire continuum of service needs for a community to thrive and an individual to thrive. Depending on our economic times, the funds shift up or down and are allocated where they are needed from our strategic fund.

In addition to DED, the Iowa Department of Human Services (DHS) also provides entrepreneurial training as part of its FIP welfare-to-work program. DHS has contracted with ISED to provide this training. According to Deb Bingaman, contract manager for the Division of Economic Assistance, ISED has been involved with DHS since the SEID program ended in 1988.

Bingaman is quick to point out that entrepreneurial training is a very small part of the employment training programs offered to FIP clients. This year, there is a cap of 160 clients — out of a total caseload of 26,000 people — who can choose entrepreneurial training. She notes that there is a sense that individuals who start their own business may not become self-sufficient fast enough, and given the new five-year lifetime cap on cash benefits in the State's welfare program, this may not be the best option for most FIP clients. Still, ISED is serving a niche group of welfare-dependent Iowans and helping them to become self-sufficient through self-employment.

Federal Funding

ISED receives the majority of its funding (more than 60 percent) from federal sources. The largest single source is the Department of Health and Human Services Job Opportunities for Low-Income (JOLI) program, under which ISED has a \$500,000 grant to create low-income jobs through microenterprise. This grant is for a three-year period.

The next-largest grantor is the U.S. Department of Labor, Employment and Training Administration. Under the JTPA Microenterprise Demonstration Program, ISED is contracted for training for low-income displaced workers. This program is administered through a state agency called Iowa Workforce Development.

The third federal grant is from the Small Business Administration to help low-income women and minorities who are seeking commercial financing. This grant for \$125,000 is for ISED to help such individuals apply for SBA-backed loans offered through commercial banks.

Table 5.2 summarizes the ISED budget for 1998. As described above, ISED has connections to local, state, and federal funding sources. The program's 1998 budget is \$1.2 million and is almost entirely comprised of public money. In terms of private foundation support, the Chrysalis Foundation in Des Moines has given ISED a \$7,000 grant to work with low-income working women. The other major private supporter is the Mott Foundation, which recently awarded ISED a \$300,000 grant over three years for "innovative welfare to work projects." The rest of its funding is primarily from public sources. This funding has been typical throughout ISED's history; as noted elsewhere, the organization has its roots in serving welfare clients in their transition to self-sufficiency, and its first contract was from the State of Iowa.

TABLE 5.2
1998 ISED Budget

<i>Source</i>	<i>Targeted Clients</i>	<i>Amount</i>
FEDERAL		
U.S. HHS: JOLI	100% or less of federal poverty level	\$500,000 (3 years)
U.S. SBA: JTPA Microenterprise Demonstration	Low-income, dislocated workers	\$250,000
STATE		
Iowa DED: Rural Microenterprise Program	Small rural towns	\$75,000
Comprehensive Management Assistance	125% and below poverty line, needing assistance applying for SELP loans	\$15,000
LOCAL		
Iowa City CDBG	Low and moderate income	\$20,000
Sioux City CDBG	Low and moderate income	\$75,000
FOUNDATIONS		
Chrysalis Foundation	Low-income working women in Des Moines	\$7,000
C.S. Mott Foundation	Welfare-to-work project	\$300,000 (3 years)

Source: Program data.

Outputs

Number of People Trained

In the five-year period from 1993 to 1997, ISED recorded 6,604 initial contact forms on file. These initial contacts either are referred by another agency, read a newspaper ad, or hear about ISED by word of mouth. After the initial contact by the individual, an ISED staff member or contracted trainer conducts an interview with the prospective client in order to determine whether or not the program is appropriate for that individual. Of these 6,604 contacts, 3,666 enrolled.

When asked about this 45 percent drop in potential clients, ISED staff noted that a fair number of initial contacts are immediately referred to another, more appropriate agency. Individuals who possess significant business skills and contact ISED with a specific question are often referred to a local SBDC, for example.

Of the 3,666 people enrolled in training programs during this five-year period, 1,903 completed training. This figure represents slightly more than half of all enrolled individuals, and just under 30 percent of all those who contacted the agency. ISED staff noted that clients do not complete the training for many reasons, including changes in their personal lives, decisions to take other waged employment, or a decision that self-employment is simply not for them. According to trainer Mel Essex, it is better that someone who may not be cut out for starting a business learn that through the training, and not by failing in the business.

Number of Hours Spent on One-on-One Technical Assistance

ISED conducts both individual and classroom training. The classroom program meets weekly for a three-hour session over the course of 13 weeks—a total of about 39 hours. Individual training is roughly comparable in terms of time spent but varies according to the needs of the individual client.

Outcomes

Businesses Started, Stabilized, or Expanded

During the five-year study period, 549 clients were recorded as having started businesses, which corresponded to 511 business openings. The number of clients is greater than the number of businesses because sometimes two or more people — often family members — take the class and start a business together. Of those businesses, women owned 66 percent and minorities owned 16 percent. Welfare recipients started 42 percent of these businesses.

During the same period, ISED recorded 96 stabilizations, 72 percent of which were in women-owned enterprises. Additionally, 147 expansions were recorded, with roughly 60 percent in women-owned firms.

Job Creation

Table 5.3 below shows employment levels of the businesses served during 1997, before and after ISED intervention. These data are based on 139 start-up businesses, 38 business expansions, and 69 business stabilizations during 1997.

TABLE 5.3
Business Employment Levels

	<i>Before Opening or Intervention</i>		<i>After Opening or Intervention</i>		<i>Net Change</i>	
	Employees	# in Family	Employees	# in Family	Employees	# in Family
Full-time Employees	37	15	87	25	50	10
Part-time Employees	23	11	66	27	43	16
Seasonal Employees	1	1	2	3	1	2

Source: Program data.

While this is not an exact measure of job creation potential, it does show the positive benefits from program participation. ISED training led to 94 new jobs in these 246 businesses — in both new and existing firms. Since only 28 of these jobs were assumed by family members, this job creation success suggests a positive benefit to the local economy.

Types of Businesses Started

More than half of the businesses started were in the service sector, with an additional one-third in retail. Over the five-year period, 60 percent of the businesses were home-based. ISED did not provide a more detailed (i.e., SIC grouping) division of the types of businesses started. The clients interviewed for this study worked in the following sectors: restaurant, small manufacturing, beauty salon, child care, woodworking, retail. Below is a listing of the business types served by ISED in 1997.

ISED 1997 Businesses

Accounting & Bookkeeping	House Inspection
Animal / Pet Services	Internet Service & Sales
Antiques	Landscaping / Lawn Care
Arts and Crafts	Language / Translation Services
Automotive Repair/Body Shop/Welding	Locksmith
Auto Merchandise and Parts	Marketing
Automated Time & Payroll Service	Massage Therapy
Bakery	Mediation
Beauty Shop	Nature Sound Recordings
Bike Sales & Repair	Office Supplies
Books	Party / Event Planning/Supplies
Breast Feeding consultant	Pawn Shop
Business Brokerage	Photography & Framing
Catering	Piano Service
Child Care	Prize Packages
Chiropractor	Redemption Center
Cleaning	Research Services
Clock Repair/Sales	Restaurant/Lounge
Clothing Sales & Alterations	Safety & Health
Computer Sales & Repair/Electronics	Sign Making
Consignment Shops	Sports Equipment
Construction / Home Improvement	Tack & Leather
Desktop Publishing	Telescope/Lenses
D.J. Service	Telephone Services
Fire Extinguisher Business	Tile Making
Fishing Supplies	Travel Agencies
Fitness / Training	Trucking
Flowers / Gift Shops	Video Rental and Gifts
Food & Beverages	Watkins Distributorship
Furniture Manufacturing	Weight Loss
Literature	Windows & Doors Retail
Green House	Window Wash
Grocery / Errand Service	Woodworking - Products/Finishing
Household Accessories	

Findings from the Client Side

Typical Client / Range of Clients Served

Most of the program staff at ISED stated that there was no such thing as a typical client. Through our interviews, that claim was more or less confirmed. We interviewed single mothers trying to attain self-sufficiency for themselves and their children, as well as career professionals who wanted to work for themselves. The clients we spoke with had varying levels of resources, from no capital to significant personal savings, from no family assistance to access to large, family-run establishments.

As mentioned above, ISED clients must fall below 185 percent of the federal poverty line—the program’s definition of low income. Of all enrolled clients, fully one-half had monthly gross incomes below \$1,164, the federal poverty threshold at the time of enrollment (Census 1996).

The majority of ISED clients (60 percent) come from homes with four or fewer dependents. Only 10 percent of clients are in single-person households. Seventy percent of ISED’s enrolled clients are white in a state that is 96 percent white. ISED has done some work with South Asian immigrants, on grants from the Office of Refugee Resettlement. ISED has done fairly well in reaching minority populations and refugees. One of the clients interviewed for this project was an immigrant from Vietnam who recently opened a restaurant with his brother.

Definitions of Success / Client Goals

Due to ISED’s focus on serving welfare clients, the vast majority of those interviewed expressed that simply “getting by” was a top priority. Many business owners were not yet realizing any income from their businesses, like this woman who owns a clothing store:

In one year I’d like to be able to take an owner’s draw. I probably could now but I’d like to build it up. I’d like to hire someone so I could be here three days a week and be home writing the rest of the time. I thought I’d have more time to write by opening this business, but that hasn’t happened.

While many of the business owners were struggling with their businesses, most were optimistic that they would be able to support themselves and their families at some point in the future. As the owner of a consignment shop in a rural community noted:

I never thought that it would take so much money to get things off the ground. I love the store, and even though it’s only been open a couple of months, I see a future where me and my daughter could draw enough income from the business itself, without having to work the other jobs.

All those interviewed expressed similar sentiments about the amount of “hard work” it would take for them to succeed at their businesses. This woman, who runs a weight-loss center, perhaps said it best:

I feel that it's not going to come to you. You have to go and get it. It's like I tell my sales staff: the sky's the limit, you have to make a go at it. You have to love what you do. Business is not just opening the doors. You have a lot of hours of hard work that you won't be able to do it if you don't love it. Opening your own business is wonderful and scary. If you're determined, you can do it.

Some of those interviewed (e.g., an engineer, two nurses, a child-care worker) had previously worked as professionals. Their goals were not simply self-sufficiency. Rather, they hoped to regain a certain level of income and standard of living. One nurse noted:

Everyone says, well, open your doors and you're a success. You can look at this office, this professional-looking office, and you can say, oh, these people are successful, but I will not think that I am successful until I reach job replacement income. No, that's not really my definition of success. My definition of success is not being on the welfare rolls, and not depending on anyone else. As long as I have something to think with, and extremities to move around with, there is no reason...there are always \$6.00/hr. jobs out there, whether it's flipping hamburgers. That would be an awful comedown from being a professional making \$45,000 a year, but my feeling is that there are always things to do.

Reasons for Pursuing Self-employment

Most of the ISED clients interviewed saw self-employment as the only option left for them. Most, if not all, of the clients we spoke with had some experience with waged employment. And almost all of them had decided that self-employment was preferable for them at this point in their lives. While most stated that they *could* find another job if their business failed, that would be the least-preferable option, for a variety of reasons.

I can't see anything positive that would have happened if I hadn't done this. It would have cost me my home, I'm sure of that. I had nothing to lose, literally. That's really where we were at. . . 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.

The nurse mentioned above was injured on the job and faced a hostile environment when she returned to work:

It was a matter of survival. My partner and I, we both worked at the VA in Iowa City. We were both injured on the job a year apart. Once we got

injured, we were dumped. As soon as that happened, as soon as it was known that we were a liability, we couldn't find a job anywhere in the area. Even though we were both registered nurses, even though we both brought a combined 30 or 40 years of nursing experience, it didn't matter to the general population.... I don't know if we would have ever done this, had circumstances not forced us into this.

Many of the clients we interviewed cited child care as a prime factor in their decision to start home-based businesses. This woman was interviewed before her business opened, while she was taking classes with ISED. When asked why she would prefer to be self-employed, she said:

Basically not having to take orders from people that I consider to be low-life idiot scum. They hire people part-time or temporary and they don't want to pay benefits, but they want you to be around to clean up their messes. Being self-employed would allow me to keep my son with me while I worked. He could be at the store with me.

This machinist opened a shop at his house, so he could take care of his two small children:

I was working at a machine shop for about five years doing the same kind of work in town, but my boss never kept his promises, He was always saying I'd get a raise or a vacation and after five years that never happened, so we kind of parted ways. I went on unemployment and when that ran out I went on welfare. I had two kids who were two and three years old. My wife had run out on me. And then I heard about ISED.

Like this client, others of those interviewed had also had frustrating experiences with waged work and liked the idea of self-employment. One example was this client who recently opened his own shop:

The guy I worked for, he didn't know what to order. He saw that I knew what was going on, and he'd let me tell him what to order. Later, it got to the point where I'd be placing the orders. I was dealing directly with the vendors, and making good money in my section of the store, but it really wasn't my money. Then, when I wanted to take on more, he wouldn't let me, even though my one-eighth of the store was making as much money as the rest of the place all together. So I thought that I could do a better job for myself.

For others, opening a business was something that they had always wanted to do, but it took a life-altering experience to push them into self-employment. This woman, who worked for her father-in-law, needed to find other work after her divorce:

I was an unemployed mother of three, and didn't know what to do. This was the kind of business I always wanted to do. Needless to say, the divorce was

very stressful, and that's when my father-in-law let me go. I wanted to get back into the business. This is basically my baby. I love working with women, I love helping people, I like the idea of a natural food program with exercise on-site, and that's exactly what I was looking for. Cedar Rapids didn't have anything like that.

This educator had noticed a need for dinosaur-related projects while she was teaching. She had always wanted her own business, and with this idea, she decided to open a store:

When I was doing my student teaching, and we were doing the dinosaur unit, there was nothing available for the teachers, or myself, or the kids, so they could look at the dinosaurs and study them. So I started thinking in the back of my head, back in 1989, that I've always wanted a store. And I saw that this would be a great resource. And so when I graduated with my master's in '97, I started on it. . . . I've always had the desire to have my own store. I didn't always know what it would be. I thought maybe crafts or something for kids, something geared for children, because I love kids. I wanted someplace where kids could come over and have fun. I've always had the desire.

Advantages/Drawbacks of Self-employment vs. Mainstream Work

As mentioned earlier, child care was one of the most commonly cited advantages to self-employment — particularly in home-based businesses — cited by the ISED clients interviewed. Many single parents who want to be home with their children see self-employment as the only solution. One single father said:

I like the flexible hours. I'm raising two kids on my own and I've been doing it for ten years. I can take care of them this way, be here in the morning and when they get home from school. That's why it helps to have it at home like this. If they're sick, I don't have to miss a day of work. The shop is right here on the premises.

Another parent notes the flexibility of her home-based bookkeeping business, and how that lets her participate in her children's lives:

I definitely like working for myself. It's more flexible, so like with this broken hand I haven't had to take time off. I'm home for my son before and after school, and if he has games he's playing in after school I can go and watch for an hour and make it up at night or on the weekend.

Others cited flexibility of schedule as well. This woman operates a retail clothing store, and cites not only the ability to make her own hours, but the fact that she can help out those in need:

I like my own ideas. I've always been creative and I enjoy making the store look the way I want it to look. I also like the flexibility, that I can make my own hours. And I like the people, meeting all the people that come in. But I think I give away too much.... If someone comes in and they want something and they don't have the money, it's hard. I may give it to them, because I've been there, and I believe every kid has a right to decent clothes.... I just feel so sorry for them, and so I try to help.

Control of the environment where they work was mentioned by more than one client interviewed. After working for many years in a VA hospital, this nurse likes being able to set her own high-quality standards:

I like the autonomy of it. I like to dictate the policies and procedure, and how we are going to run our business. That is more important to my partner and me, that we maintain professionalism, and we maintain control of what the policy is.

Many clients, however, also note the uncertainties of being in their own business, as compared to having a waged job. The educator mentioned above says:

I guess that on a daily basis as a teacher I knew that I was getting another paycheck in two weeks. I know that I'm going to get a paycheck with the business, but it's more on my mind, like, "How much did I make today." When I was teaching, I would just teach, and I would think about how much income the school was generating. I just knew that I was going to get a check.

Relationship with Microenterprise Program

What is striking about ISED is the strong relationship that develops between clients and individual trainers. In most of the interviews conducted, the client identifies most closely with the individual who worked with him or her, and not necessarily with ISED as an organization.

I learned how to do a business plan, and it helped me to get the financing to expand to this location. And [my trainer] gave me encouragement, a lot of encouragement. She's just a wonderful person. She's very professional and dresses very well, and carries this nice leather purse, so I was worried when she first came to see my store at the old location. But she was just a real person, not pretentious. And she's turned into a personal friend.

Part of the type of relationship has to do with the way in which the client comes in contact with the agency. Several of those interviewed recalled that a loan officer at a bank had told them to contact a particular trainer at ISED who could help them obtain other kinds of funding. This is evidence of the successful networks that trainers have developed with local banks.

Another factor is the nature of entrepreneurial training itself, especially the personal contact that ISED's trainers make. One client, when asked about the assistance she received from ISED, remarked:

Oh, [ISED trainer] was such a help. She gave me so much information. She got me to think about the questions I didn't know to ask, or even think to ask. She would call, maybe once a week, just to follow up, you know, "How are things going," and she'd always be supportive and give a compliment.

Rather than speak of assistance from the agency, this client thought first of the trainer. Such a response was not uncommon.

An obvious concern with this kind of relationship is the reliance of the agency on a small number of highly skilled trainers. When such individuals are no longer with the agency, the trust established with the trainer may not readily transfer to another staff member. In certain interviews, clients who had been on their own for a while were disappointed to hear that one trainer had left the organization.

When asked about this issue, one trainer likened it to being saved from a sinking ship. "Sure," she said, "you know it's the Coast Guard who is driving the boat, but you're really thinking about the guy at the other end of the rope." Jason Friedman notes that those relationships are characteristic of microenterprise programs in general where the trainers spend a lot a time with individual clients. This was illustrated in the comments of the educator mentioned above.

I got my business plan together, and started working with [my trainer]. She pulled a lot of my loose ends together with the business plan, marketing, financing, and networking with other people in the community. I guess it was something I was supposed to do, because everything just came together...The people I met there really believed in me. They believed in my ability to run a business, and they just believed in me. They were the first people that I spoke to that believed that I could run the business. ISED was very personal, you know. They asked me, "Tell us about yourself." I had to verify who I was, and they helped me out tremendously. [My trainer] was very personal, and that was what I needed.

ISED also seems to have significant success in guiding clients with few resources. Those that spoke most highly of ISED were those who had no previous business training and very little in terms of resources. One such client was a woman in a rural town who started her own home-based business. She had worked at her trade for many years but needed to be at home to take care of her ailing mother. She had very little capital and no previous business training. ISED was able to provide her with the necessary training and help her apply for SELP funds, enabling her to get her business started. Currently, her business is doing well and providing necessary income for her mother and her.

Another client, a nurse, put it this way:

We were nurses, not marketers. We didn't have the foggiest idea of how to go out and sell your business to people. And that's where [my trainer] came

in. She said, “Okay, where’s your business plan?” And I said, business plan, what’s a business plan. We had applied to the SBDC for assistance, but they just blew us off. And then ISED came in. She showed us how to write a business plan, how to target our area. She just took us by the hand and helped us do it.

Another woman, who had no previous exposure to business, took the class and said:

I didn’t know anything about business. No one in my family has any business background. And it was free, so it seemed unintelligent not to go and take whatever information I could get out of it. I just really wanted desperately to get out of the job I was doing. I wanted something else to do for a long time. And this just gave me enough experience to get started.

We also interviewed several clients with professional backgrounds and significant personal resources who found ISED to be a good asset, but not indispensable. We interviewed an electrical engineer whose former employer paid for his MBA. After he was laid off, he wanted to start his own business. He wrote his own business plan and was able to secure some financing. He came to ISED when he needed additional operating capital, and he wanted to take part in the SELP program.

Clients also mentioned the encouragement and support they received from ISED staff. “I gained a ton of knowledge from the class. I was lacking some self-confidence, and they really helped me realize that I could do this,” notes an owner of a consignment shop.

One concern expressed by a few clients was that their trainer was not knowledgeable enough about their particular business. The nurse, who opened a drug-testing business, didn’t attend the classes. “We never went to any of those training classes, because we were really a kind of unique operation.” Another client in a specialty shop said:

The thing that’s a bit frustrating is that they’re not too up to speed with this kind of stuff. They aren’t young enough. I’m telling them about this, and they’ll say, well, can’t you get this at Wal-Mart. They don’t have a feel for it, it’s kind of frustrating that no one knows. It’s basically retail, but it’s kind of different. I tried to educate them on it, but it didn’t really help.

What Makes ISED Unique

When asked about what makes this program unique, Director of Economic Development Jason Friedman noted four factors, which were in evidence throughout our fieldwork:

1. *The historic focus on serving welfare clients*, and the continued attention to low-income families.
2. *The lack of a loan fund*: “We use existing mechanisms and develop networks with bankers. To meet a need, ISED developed a loan guarantee fund—designed to back

50 percent of a loan, up to \$10,000—so that clients may obtain commercial credit. And the fact is that the State of Iowa has a public policy commitment to serving low-income entrepreneurs with a Self-Employment Loan Program.”

3. *Follow-up with clients:* “We have high survival rates because we are dedicated to tracking our businesses and providing follow-up assistance.”
4. *Holistic approach:* “We focus on business planning but are always aware of the whole person. We help out with other barriers in people’s lives — not by directly providing those services, but through our networks with other agencies in the state.”

Although the last two points tend to characterize many microenterprise programs, ISED has made its mark in specifically serving the welfare community. As a result of its historic focus on the low-income client, ISED has been able not only to refine training for this population, but to establish and develop significant networks with other social service agencies that serve the welfare population. These connections have strengthened the service that ISED can provide its clients.

Program Challenges/New Directions

ISED faces two related challenges for the future. First is the evolution of its relationship with the state’s Small Business Development Centers (SBDCs). As both work together with the state Department of Economic Development to serve rural populations, the details of their arrangement need to be refined and improved. The ISED staff interviewed agreed that this particular relationship needs attention. More generally, relationships with other service providers in the state need to be further developed.

Jason Friedman identified a second area that ISED is working on: developing community networks for self-employed individuals.

Self-employed people will get nowhere unless they get involved with the networks in their communities that you and I take for granted. Create those support groups so that people who go through our training program have access to a network of people, which will become mentors that will open doors for them. That creates the potential for more jobs, more income . . . that’s where we’re taking the program.

He further notes that microenterprise programs need to think more about community economic development and not just serving individual clients. Instead of helping everyone who “walks in the door and meets the income requirement,” he feels that ISED needs to target the specific needs of particular communities.

To achieve this new goal of “acting more like a CDC” (as Friedman put it), ISED will inevitably run into the domain of other service providers. Before such interactions become conflicts, as was the case with the SBDCs, ISED needs to develop mechanisms to manage and direct such relationships.

