

At the Five-Year Mark:

**Outcomes Reported by
U.S. Microenterprise Clients**



Citi Foundation



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MicroTest is a project of FIELD

For additional information about MicroTest and data collected on the microenterprise field see: <http://fieldus.org/MicroTest/pubs.html>.

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Introduction

The last year and a half has been a time of crisis and opportunity for the U.S. microenterprise field. The twin financial and economic crises have challenged microentrepreneurs and the programs that serve them. As demand has grown for technical assistance and financing, microenterprise development programs (MDOs) have found raising the funds for these services from traditional philanthropic sources more challenging. At the same time, the Obama Administration's support through the U.S. Small Business Administration (SBA) and the CDFI Fund, using stimulus dollars, has offered an alternative source of funding, but one that has increased the always high expectation for results. Whether stemming from a challenge or opportunity, new funding or old, programs require clear information on what happens to clients who receive training, technical assistance or a microloan from a microenterprise program. As awareness of the importance of small businesses to the U.S. economy grows, supporters of microenterprise must be able to clearly describe what happens to aspiring entrepreneurs, and use this information to improve program services.

For the last six years, FIELD (the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination) at the Aspen Institute has helped MDOs collect and report data on their clients' outcomes after participating in services. In most instances, those reports document the changes clients report an average of a year and a half after program entry. Produced annually, they shed light on the intermediate outcomes clients experience after receiving program services. Drawing on the extensive database of client surveys collected since 2004, there is now data to explore the longer-term outcomes clients experience three or five years after first entering an MDO. This document will summarize the outcomes experienced by clients who have engaged with MDOs over a five-year period. It is hoped that this summary will help illuminate the longer-term experience of entrepreneurs who stay connected to programs over an extended period of time, and demonstrate the type of results that these entrepreneurs can achieve.

Focus of This Report

MicroTest is the national data collection initiative of the FIELD program, which has helped MDOs document the outcomes their clients report using a common methodology and survey instrument. Respondents include clients who received services over varying lengths of time: the average (or mean) time with the program is 1.52 years, while the median is roughly one year. The range of time spent with the MDO is quite broad, from less than a month to a maximum of almost 17 years. From 2004 to 2009, MicroTest assembled a set of 7,046 client interviews from 52 microenterprise development organizations.¹ This large dataset allows for a closer look at the outcomes of specific subsets of clients.

This report will focus largely on the subgroup of 240 clients reporting their outcomes approximately five years after program entry, and look at changes they report in business status, revenues, employment generation, and the contribution of the business to household income.

¹ The overall sample from which these interviews were drawn was 12,953. Each year, MicroTest staff provided standard protocols to MDOs to enable them to draw a random sample from clients who participated in program services during the period under study. Program response rates ranged from 23 percent to 100 percent over these years. For more on survey methodology, see Appendix 2.

Because this set of clients is largely borrowers, the data will provide special insight into the experience of microloan recipients, a group that has not been the special focus of previous MicroTest data reports.

This report also will compare the outcomes of longer-term program clients to clients with shorter-term program engagement and generally less business experience. It will compare the experience of borrowers with non-borrowers, and that of full-time business owners with that of part-time business owners. This analysis looks largely at the five-year group but also explores the one- and three-year groups. The report concludes with thoughts for practitioners to consider based on these findings.

Who the Study Respondents Are

As the companion box indicates, the respondents examined in this document include all clients surveyed across a period of six years who reported on their outcomes approximately five years after program entry. They were included in the samples drawn by each participating MDO because they had received some significant² service (financial or non-financial) in a given study year. Within each organization's sample, then,

MicroTest Outcomes Survey

Methodological Summary:

- Only clients -- individuals who received significant services from the MDO (such as in-depth training or technical assistance services, microloan, grant) -- are eligible to participate in the MicroTest Outcomes Survey.
- Clients who received services between 2002* and 2007 and responded to surveys between 2004 and 2009 were included in the study.
- Surveys were conducted in person, by telephone, by mail, and on-line.
- While this report presents longitudinal information on changes achieved by clients and businesses, there are no claims of causality or reporting of the net benefits of the microenterprise development organizations, because there is no comparison group data. Quantitative and qualitative survey responses regarding client satisfaction, ongoing participation with a program and high rates of program completion indicated that clients found value in program participation, and that the information and skills they received were used in running their businesses. As a result, it is likely that at least some of the changes observed are attributable to the services they received.

Diagnostics:

- Two hundred and forty completed interviews (60percent response rate) in the five-year group, 710 (58percent response rate) in the three-year group and 3,536 (54percent response rate) in the one-year group. For a discussion of the methodology used to construct the one, three- and five-year groups see Appendix 2.
- 36 participating MDOs in the five-year group, 45 participating MDOs in the three-year group and 52 in the one-year group. For a complete list of participating programs by year, please see Appendix 1.

Major Indicators:

- Business start and survivability rates
- Business growth
- Job creation from business
- Contribution to household income

*Clients may have first received service as early as 1998.

² MicroTest defines a significant service as one an MDO believes can be tracked to a client's business or personal outcome(s) after the client exits the MDO. Specifically, this includes those clients that had an active, outstanding microloan or other microfinancing product with the program during the fiscal year, and/or received at least 10 hours of microenterprise related training and/or technical assistance from the MDO during the specified fiscal year.

clients varied in their length of time with the program, and longer-term clients were often those who remained connected to the programs because they were borrowers. It is important to emphasize that the survey and the sample were not originally designed to examine client experiences after five years of service. Thus the study cannot address the experience of clients who entered the program at the same time as this study group, but did not have a relationship with the program at the five-year point. It could well be that the experience of individuals with a shorter-term engagement with the MDOs might vary from that of clients still engaged with the program at the five-year mark.

It is also important to note that clients in the five-year group may have differing levels of experience with their MDOs. Some clients may have been engaged with the MDO continuously throughout the five-year period. Others may have come to the program five years prior, received a significant service and then come back to the program periodically for additional service. The survey did not collect detailed participation data from each individual surveyed.³

The Five-Year Group, from Intake to Survey

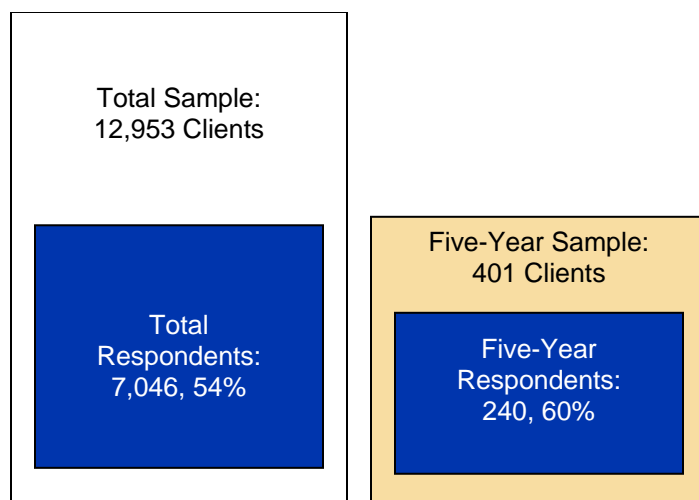
This section of the report first examines the 401 clients in the five-year sample to understand their characteristics when they first enrolled in MDOs, and the services they received. It then summarizes the outcomes reported by 240 of these clients five years after program intake.

At Program Entry, Clients in the Sample Were Likely to be Female, Minorities, and Operating a Business

Clients report information on their personal and household characteristics when they first enter a microenterprise program. This data indicates that the majority of the five-year sample was female and people of color, or other ethnic and racial minorities. See Figures 2 and 3. At least 23 percent of the clients were at the poverty level or among those described as the “working poor” (that is, with

incomes at or below 150 percent of the HHS poverty guidelines). Just over one-fourth of the sample reported household incomes between one and one-half and three times the federal poverty line, and almost one-fifth of the clients reported household incomes more than three times the federal poverty line. Median household income for the five-year sample was almost \$34,000, with mean household income at just over \$38,000. All dollar values in this study are in 2008 dollars. See Tables 1 and 2 for more details.

Figure 1: Total Sample and Completed Surveys for MicroTest Database and Five-Year Group



³ Some clients may have been interviewed more than once if they received services in multiple years. Their survey responses could be included in both the one- and five-year groups.

Figure 2: Gender of Five-Year Sample at Intake

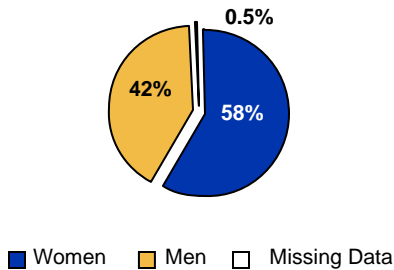


Figure 3: Minority Status of Five-Year Sample at Intake

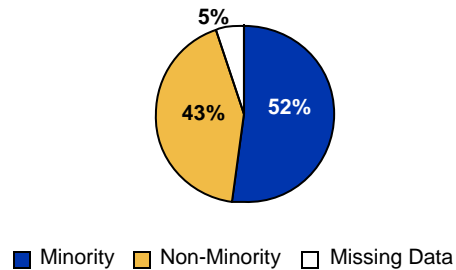


Table 1: Clients in Poverty at Intake, Five-Year Sample

	# of Clients	% of Clients
= <100% HHS	48	12%
100% - 150% HHS	45	11%
150% - 300% HHS	106	26%
Above 300% HHS	78	19%
Missing Data	124	31%

Table 2: Household Income at Intake, Five-Year Sample

Median	Mean	Minimum	Maximum	n	MD ⁴ %
\$33,873	\$38,180	\$0	\$193,845	287	28%

Almost 60 percent of the five-year sample was operating a business when they entered the MDO, and more than a third had been operating their business for at least 12 months at program entry.⁵ See Table 3.

The median revenues of these existing businesses were almost \$50,000, and the mean was just over \$100,000. Almost 50 percent were working at their businesses full-time (at least 35 hours per week) and at least 40 percent were taking an owner’s draw when they came to the program for services.⁶ Including the clients who were taking \$0 in owner’s draw, the median draw was almost \$10,000. See Tables 4 and 5.

⁴ Missing Data (MD) indicates the number of clients who did not provide an answer to a question. When looking at intake data, missing data may be because the MDO did not collect the data when the client entered the program; the client may not have known the answer, or not have had records with them when they completed intake forms, or they may have refused to answer the question.

⁵ 15 percent had either an unknown business status or unknown business age. Prior to 2007, the data collected did not distinguish between the unknown age and unknown business status. Therefore, figures reported include clients with unknown business status for years 2007-2009 and clients with unknown business status and unknown business age for years 2004-2006.

⁶ Owner’s draw is the amount of personal money the business owner takes out of his or her business to cover household or other personal expenses. These funds may be taken regularly as a salary or in lump sums.

Table 3: Business Status and Age at Intake. Five-Year Sample

	#	%
No Business	105	26%
In Business	234	58%
Unknown Business Status	62	15.5%
Total	401	
Business open less than 12 months	91	23%
Business open 12 months or more	143	36%

Table 4: Revenues and Draw, Five-Year Sample

	Median	Mean	Minimum	Maximum	n	MD		N
Revenues at Intake	\$49,658	\$100,909	\$0	\$937,725	153	81	35%	234
Draw at Intake	\$9,969	\$15,473	\$0	\$71,808	130	104	44%	234

Table 5: Hours at Business, Five-Year Sample

	Full - Time		Part- Time		MD		N
	#	%	#	%	#	%	
Hours at Biz at Intake	114	49%	37	16%	83	35.5%	234

Finally, 75 percent had received at least one loan from the MDO, and 69 percent had received training and/or technical assistance.

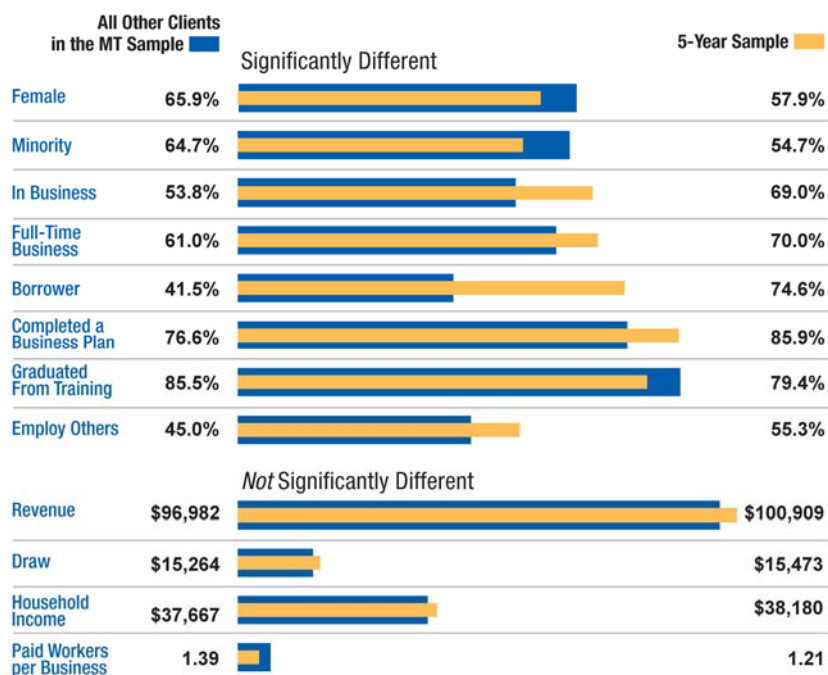
This five-year sample differs in some significant ways⁷ from the others in the MicroTest sample. Clients in the five-year sample were more likely to be male, and less likely to be people of color, or a racial or ethnic minority.

Members of the five-year sample were also more likely to have a business at intake, be operating that business full-time and have employees. In addition, they were more likely to be borrowers, more likely to have completed a business plan, and less likely to have graduated from a long-term training course.

On the other hand, their businesses were not significantly different in terms of their revenues, draw, the number of employees they had, or household income. (See Appendix 2, Table 2 for the detailed numbers.)

⁷ The results of Chi-square and T-tests can be found in Appendix 2 and 3. Tests are performed on valid cases.

Figure 4: Comparison between the Five-Year Sample and the Rest of the MT Database



Thus, this five-year sample is uniquely constructed of a large percentage of borrowers. This may not be surprising: fewer training and technical assistance clients may seek continuing services for this length of time, while borrowers naturally stay connected to a program for the life of the loan. The fact that the five-year sample group is more likely than the rest of the sample to be male and white is also important to consider, as white males historically have faced fewer barriers in starting and growing businesses.

Further, while the data suggest that the businesses of the five-year sample and the remainder of the sample were alike in scale, the fact that businesses in the five-year sample were more likely to be full-time may suggest a level of income-earning potential, or commitment by the business owner, that the other businesses did not share. These differences are important to keep in mind when exploring the outcomes the five-year respondents achieved.

What Have Clients Achieved after Five Years?

After five years of either a periodic or continuous relationship with an MDO, almost 60 percent of the five-year clients, or 240 of the sample, responded to a survey requesting information on the status of their businesses and households.

Businesses Generate Strong Revenues and Many Report Growing Revenues

At survey, a full 84 percent of five-year respondents were operating a business. Of the 152 respondents who entered the program with a business, 88 percent were still operating a business

five years later. Seventy-two percent, or 44 clients, who did not have a business at program entry, operated one during the survey period. (See Figure 5.) And, 70 percent of the respondents reported operating their businesses full-time. The majority (91percent) of those who had full-time businesses at intake continued to operate their businesses full-time at survey. Only 30 percent of those who operated their businesses part-time at intake had taken their businesses full-time. For a detailed breakdown of part-time and full-time business operation, see Figure 6.

Figure 5: Business Start and Survival Rates for the Five-Year Group

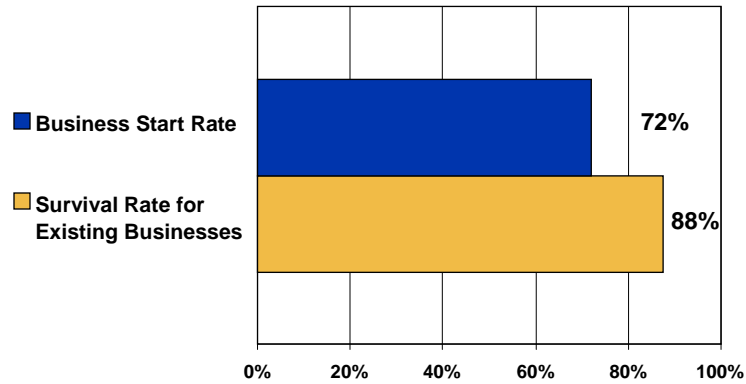
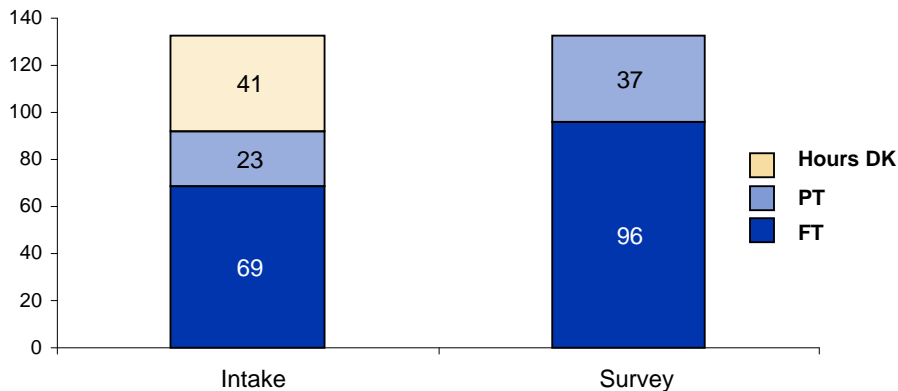


Figure 6: Movement between Part-Time and Full-Time Business Operation for Five-Year Respondents



Respondents who were in business at survey also reported strong business revenues. The median revenue was almost \$64,000, and the mean was \$170,249 (Table 6).

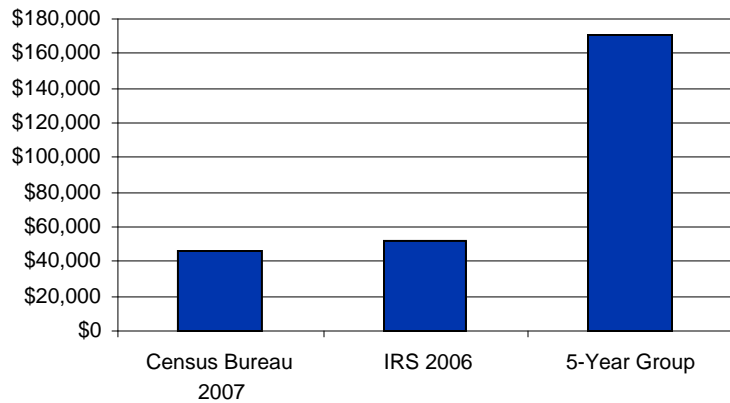
Table 6: Revenues in Survey Year, Five-Year Respondents

Median	Mean	Minimum	Maximum	n	MD ⁸	% MD	N
\$63,947	\$170,249	\$0	\$5,339,850	164	38	19%	202

⁸ Missing Data (MD) indicates the number of clients who did not provide an answer to a question. While MDOs attempt to provide advance notification to clients of the survey, try to arrange appointments, and encourage them to have their financial data available for the survey, not all entrepreneurs have access to documentation at the time of the interview.

As a point of comparison the Census Bureau reported that non-employer firms in 2007 had mean revenues of \$45,688.⁹ The IRS reported that in 2006, the mean revenue of non-farm sole proprietorships in the U.S. was \$51,959.¹⁰ Eighty percent of these non-farm sole proprietorships had receipts under \$50,000 and 34 percent had receipts under \$5,000. This illustrates that these microbusinesses are substantially larger in terms of revenues when compared to others in the economy.¹¹ (See Figure 7.)

Figure 7: Mean Revenues of U.S. Small Businesses



Longitudinal data (that is, intake and survey data on the same data point) were available on 72 out of 133 clients with businesses at both intake and survey. Their median revenues increased 60 percent from a little over \$50,000 at intake to just over \$82,000 at survey. Figure 8 shows the movement from lower- to higher- revenue categories.

Table 7: Change in Revenues (Had Businesses both at Intake and in Survey Year)

Median at Intake	Median in Survey Year	% Change	Mean at Intake	Mean in Survey Year	% Change	n	MD	% MD	N
\$51,638	\$82,664	60%	\$102,984	\$243,274	136%	72	61	46%	133

⁹ U.S. Census Bureau: Nonemployer Statistics. Available online at:

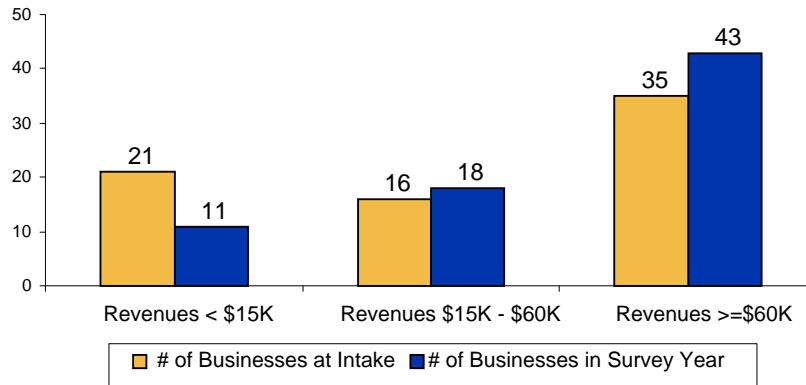
<http://www.census.gov/epcd/nonemployer/2007/us/US000.HTM>.

¹⁰ Internal Revenue Service: SOI Tax Stats, Historical Data, Tables 10 and 12. Available online at:

<http://www.irs.ustreas.gov/taxstats/article/0,,id=188060,00.html>.

¹¹ Even after removing outliers (business with revenue greater than \$1,083,197, the mean is approximately \$132,000, still much larger than comparison data from the Census and IRS.

Figure 8: Change in Revenues, Five-Year Respondents



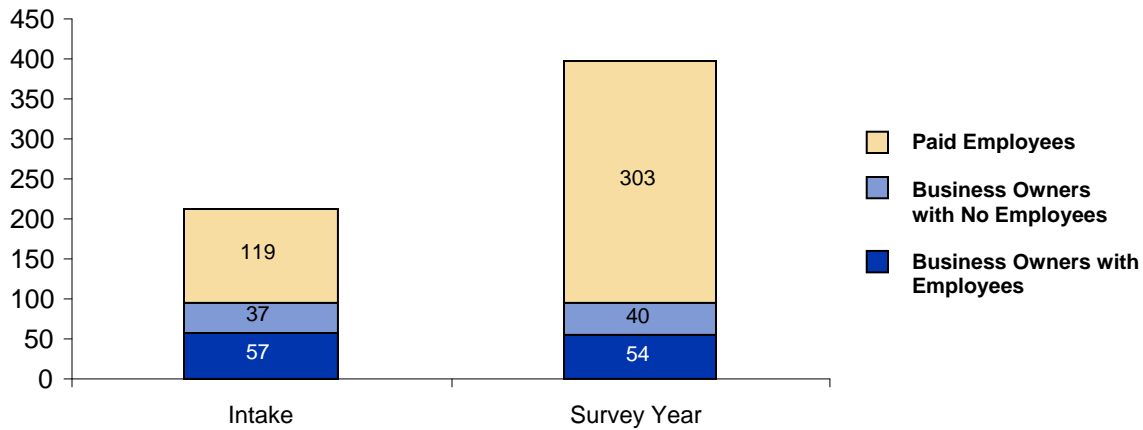
Microenterprises Create Paid Employment for Others

One of the most important outcomes for businesses in the five-year respondent group was the paid employment they generated for others. Across the 196 businesses included in the five-year respondent group, there were 2.5 paid workers per business not including the owner (a total of 498 jobs), or 3.5 including the owner (a total of 694 jobs). Two hundred and six of the 498 paid positions were full-time and 292 were part-time.

The majority of the businesses provided employment only for the owner. Among the businesses that survived from intake to survey, the percent employing paid workers remained relatively stable (43 percent at intake, 41 percent at survey). However, the number of paid jobs supported by these businesses increased considerably over time: at intake there were 119 paid workers not including the owner (or 2.1 paid worker per business) and at survey there were 303 paid workers (or 5.6 paid workers per business).¹² (See Figure 9.) New jobs were also created by businesses that started after intake. Fifty percent of all start-ups were paying people to work for them. There was an average of two paid workers per business, excluding the owner, in start-up businesses.

¹² Including owners, surviving businesses were responsible for 213 total jobs at intake and 397 total jobs in the survey year. For surviving businesses (regardless whether they had paid employees or not) this translates to 1.3 jobs per business at intake and 3.2 jobs per business at survey if owners are not counted. (Including the owners, the figures are 2.3 jobs per business at intake and 4.2 jobs per business at survey.)

Figure 9: Jobs at Intake and Survey Among Existing Businesses



Owner’s Draw Increases, but Proportion Taking a Draw Remains Fairly Level

Owner’s draw, or the amount a business owner takes out of his business for personal compensation, can be an important indicator of business success. Especially in the early years, owners may choose to delay taking a draw in favor of reinvesting all proceeds back into their businesses. However, by the time a business has been open several years, it is assumed that most owners expect remuneration for their efforts.

At survey, the majority of respondents report taking a draw from their business (at least 51percent¹³). Including those who did not take a draw, or a \$0 draw, the median draw was \$17,000 at survey (mean of \$23,648). Among those who took a draw, the median was \$25,631 and the mean was \$29,757.¹⁴

Table 8: Draw in Survey Year, Five-Year Respondents

Median	Mean	Minimum	Maximum	n	MD	% MD	N
\$17,000	\$23,648	\$0	\$106,797	151	51	25%	202

Fifty-two percent of business owners who started their businesses after intake reported taking an owner’s draw. And 65 percent of those who had businesses when they entered the program reported taking a draw.

¹³ Fifty-one clients or 25 percent did not provide information on whether or not they were taking an owner’s draw during the survey period. This does not rule out the possibility that they had taken a draw in earlier years not covered by the survey period.

¹⁴ Out of 151 clients with valid data, 120 took a non-zero draw and 31 reported zero draw in the survey year.

Although three quarters of respondents answered the question regarding draw at survey, intake data was absent on many of them. Data results on owner’s draw were missing for 76, or 57 percent of the 133 clients with businesses at intake and at survey. The lack of intake data may stem from the MDO not collecting data on owner’s draw at the time the clients entered the program, or to clients’ refusal to answer. The number of missing cases limits the value of any findings regarding change over time. However, among those who did report longitudinal data, the percent taking a draw was relatively stable: 79 percent reported taking a draw at intake and 86 percent at survey, with the net increase attributable to four additional owners taking a draw. For these respondents, the median value of the draw increased -- from just over \$11,000 at intake to \$25,000 at survey.

Table 9: Change in Draw (Had Businesses both at Intake and in Survey Year)

Median at Intake	Median in Survey Year	% Change	Mean at Intake	Mean in Survey Year	% Change	n	MD	% MD	N
\$11,888	\$25,000	110%	\$17,008	\$24,915	46%	57	76	57%	133

For respondents who take an owner’s draw, this income plays an important role in the overall household economic portfolio.¹⁵ The median percent of contribution to household income is 45 percent. One third of the group report that at least 50 percent of their household income comes from their owner’s draw. For these business owners, the microenterprise is a critical source of household income. However, those who rely the most on owner’s draw are not necessarily drawing more from their businesses than others in the sample. They are simply relying on fewer sources of household income. (See Table 10.)

Table 10: Business Contribution to Household Income in Survey Year, Five-Year Respondents

Owner's Draw as % of HH Income	#	%	Draw		HH Income	
			MEDIAN	MEAN	MEDIAN	MEAN
< 25%	44	22%	\$0	\$3,298	\$57,637	\$61,188
25-49%	27	13%	\$25,631	\$31,213	\$68,534	\$83,397
50-74%	21	10%	\$40,120	\$45,601	\$71,554	\$77,114
>=75%	44	22%	\$30,380	\$32,106	\$30,900	\$33,199
Missing Data	66	33%				

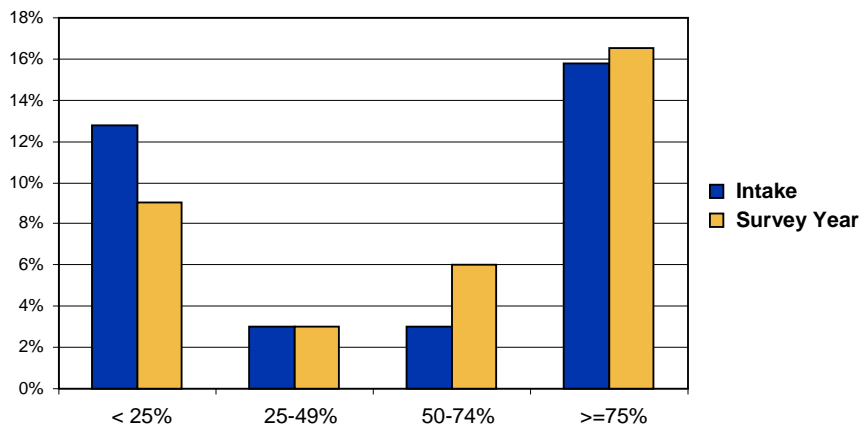
¹⁵ A household economic portfolio can be defined as “a) a set of household resources (including human, physical and financial), b) the set of household activities (including consumption, production and investment), and c) the circular flow of interaction between household resources and household activities.” Within the portfolio, households “rearrange over time their mix of resources, labor and economic activities to cope with changing economic and social objectives or contingencies.” This conceptualization of a household’s economic life was developed by Martha Alter Chen and Elizabeth Dunn for the U.S. Agency for International Development- funded AIMS Project (Assessing the Impact of Microenterprise Services), and was applied to the examination of low-income households engaged in microenterprise development in developing countries, and helped to both describe their activities and understand the complexity of joint and individual economic decision-making and juggling that enabled these low-income families to survive. For more on this model, see Chen and Dunn, *Household Economic Portfolios*. Washington, D.C.: U.S. Agency for International Development, AIMS, 1996; available from http://www.microlinks.org/ev02.php?ID=7179_201&ID2=DO_TOPIC; Internet.

Table 11: Business Contribution to Household Income in Survey Year, Five-Year Respondents

Median	Mean	Minimum	Maximum	n	MD	N
44.90%	41.90%	0.00%	100.00%	136	32.70%	202

The lack of more complete longitudinal data on owner’s draw also limits information on the changing role of owner’s draw in the household economic portfolio. The partial data that are available suggest that owner’s draw has become an increasingly important component of household income for respondents. For the 45 respondents on whom longitudinal data on draw and household income are available, the median contribution of draw to household income increased from 52 percent at intake to 71 percent at survey. Figure 10 graphs this changing contribution. As the chart illustrates, the percent of the group reporting that owner’s draw comprised less than 25 percent of their total household income dropped from 13 percent to 9 percent. At the same time, the number of those reporting that draw contributed at least 50 percent of household income increased.

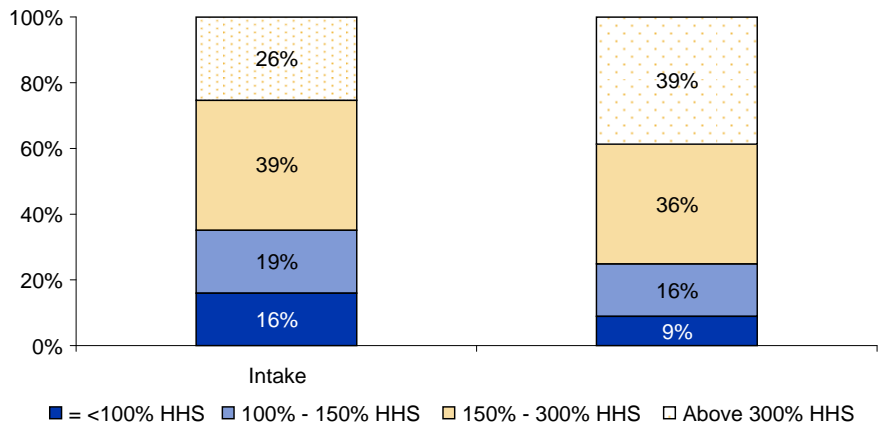
Figure 10: Owner's Draw as a Percent of Household Income



Movement to higher income

Respondents also reported increases in household income levels. One hundred and thirty-seven respondents reported household income at intake and survey. At intake, just over 15 percent were below the federal poverty guideline. At survey, slightly less than 10 percent

Figure 11: Movement Among Income Categories



had incomes below that level. At the other end, the proportion of respondents above 300 percent of the poverty guideline grew. At intake, just over one quarter of the clients was above that line; at survey, almost 40 percent had passed it. (See Figure 11.)

Clients Highly Assess the Value of MDO Services

This report has detailed a number of positive trends in the business and household economic status of the five-year respondents. How important were microloans and other services to achieving these outcomes? The answer cannot be known in the absence of a control group. However, what is clear is that clients provided largely positive responses when asked to rate whether their expectations had been met by the MDOs.

Beginning in survey year 2006, respondents were asked to assess if their expectations for service were met by the program. Half of the five-year respondents indicated that their expectations were completely met; another 23 percent responded that they were mostly met. Only seven percent indicated that their expectations were mostly not met or not at all met.¹⁶

How Does the Experience of the Five-Year Respondents Compare to That of Respondents with Shorter Program Engagement?

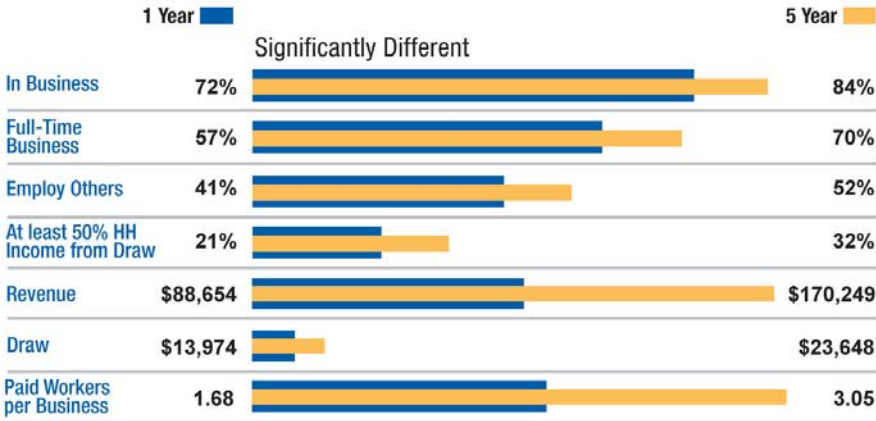
While this report focuses on a group of clients who engaged with MDOs over a five-year period, to better appreciate their outcomes, it is useful to compare their experiences with those surveyed after one year of experience with an MDO. In all major areas, the five-year group reported significantly stronger results.

The five-year respondents were more likely to own a business, operate their business full-time,¹⁷ generate higher revenues and higher owner's draw, employ others, and on average, reported a higher number of paid workers per business. They were also more likely to report that owner's draw contributed at least half of their total household income. (See Appendix 3, Table 2.)

¹⁶ Twenty percent did not answer the question, which includes those not responding in 2006-2009 surveys, and 2004-2005 survey respondents who were not asked this question.

¹⁷ Full-time is defined as at least 35 hours of work per week.

Figure 12: Comparison between the Outcomes of the One-Year and Five-Year Groups



It is important to note that longevity of experience may not be the only reason for the differences detected in the two groups. The five-year sample differed demographically from the one-year sample at intake: respondents were more likely to be white and male. They were also more likely to be in business at intake, and among those who had businesses at intake, their revenues were higher and they were more likely to have paid workers. (Appendix 3, Table 3.)

Figure 13: Comparison between the One-Year and Five-Year Groups at Intake



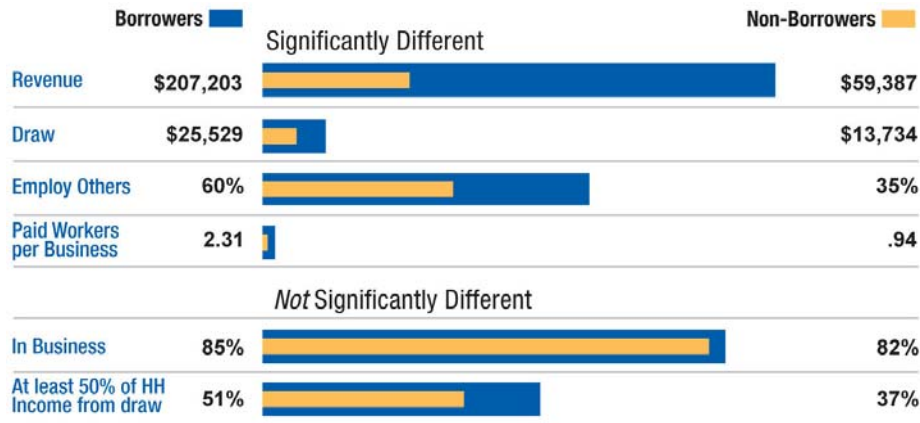
Still, the stronger relative outcomes of the five-year respondents illustrate the progress that some microentrepreneurs are able to achieve over time, based on their own capacities and their ability to take advantage of microenterprise services.

How Do Borrowers in the Five-year Group Differ from Non-Borrowers?

A loan can be a significant factor in the success of a business. Not only does a loan enable the client to make important investments in their business, but readiness to receive a loan is an important indicator of the development and soundness of a business. The majority of clients in the five-year sample had received at least one microloan by the time of survey (75 percent).

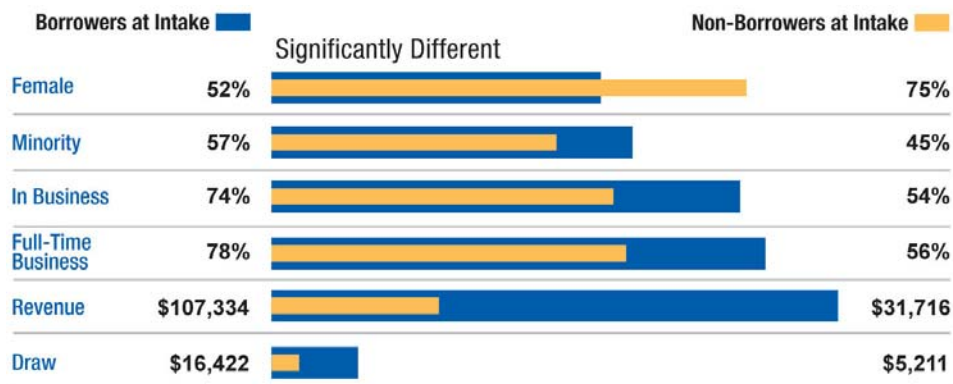
At survey, borrowers reported stronger results than non-borrowers on a few key indicators. Borrowers were more likely to report higher revenues and owner’s draw than non-borrowers. Additionally, they were more likely to have paid workers, and have more paid workers than non-borrowers. In other areas, having a loan did not appear to make a crucial difference. There were no statistically significant differences between the borrowers and non-borrowers in terms of business ownership rates and the proportion of their household income comprised of owner’s draw. (See Appendix 3, Table 4.)

Figure 14: Comparison between the Outcomes of Borrowers and Non-Borrowers



Here again, it is important to note that the borrowers differed from the non-borrowers at intake. Borrowers were more likely to be male, in business, more likely to be operating their businesses full-time; and they reported higher revenues and owner’s draw at intake. In all instances, the differences between the borrowers and non-borrowers were statistically significant. This is not surprising since it is likely that those with stronger businesses would seek, and be successful candidates for, microloans. (See Appendix 3, Table 5.)

Figure 15: Comparison between Borrowers and Non-Borrowers at Intake

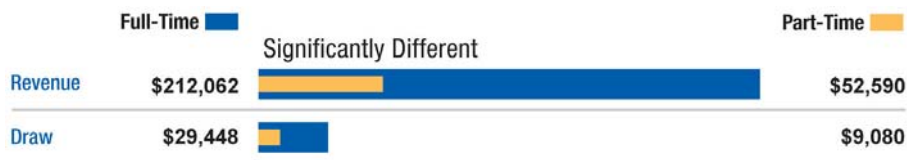


What are the Differing Experiences of Full-Time and Part-Time Business Owners?

While the majority of clients among the five-year respondents were full-time business owners at survey (70 percent), the group also included a number of part-time business owners, and the different outcomes between the groups were striking.

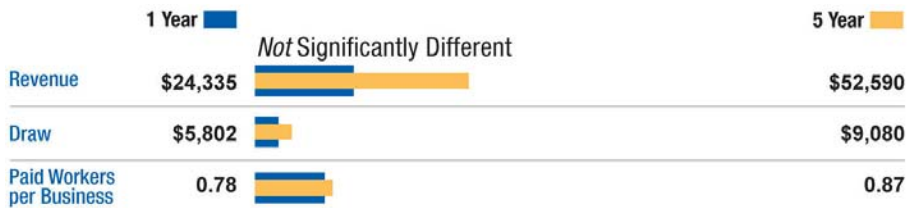
Owners of businesses operated full-time at survey reported significantly higher revenues and owner’s draw. Mean revenues for full-time businesses were over \$212,000, while the mean for part-time businesses was not quite \$53,000. And while mean owner’s draw for the owners of full-time businesses was almost \$30,000, the mean for part-time businesses was just over \$9,000. (See Appendix 3, Table 6.)

Figure 16: Revenue and Draw for Full-Time and Part-Time Businesses in Five-Year Group



A look at the full- and part-time businesses owned by respondents surveyed approximately a year after intake (the one-year respondents) shows that differences between full-time and part-time business owners are equally pronounced for that group as well. Further, the part-time businesses among the one-year and five-year respondents were quite similar to each other. While the revenues, owner’s draw and paid workers of the five-year respondents are numerically higher, in fact there is no significant difference between their size and that of the one-year respondents. On the other hand, the full-time businesses in both respondent groups are much larger than the part-time businesses. And the five-year full-time business owners have significantly higher draws, are more likely to have paid workers, and have more paid workers than the full-time businesses of the first-year respondents.¹⁸ (See Appendix 3, Table 7 for more detail.)

Figure 17: Comparison between Part-Time One-Year and Five-Year Businesses



¹⁸ Please note that two unique groups of respondents are being compared. The data should not be misconstrued as “longitudinal” data, which follows the same group of clients over time and looks at the way the results for those same clients change.

Figure 18: Comparison between Full-Time One-Year and Five-Year Businesses



What is the trajectory of part-time businesses? The data suggest that between one-quarter and one-third of entrepreneurs with part-time businesses grow their businesses into full-time operations after receiving program services. Appendix 3, Table 1 illustrates that this is the case for the one-, three-, and five-year clients in the data set.¹⁹ The data suggest that a limited number of MDO clients who come in as part-time business owners will grow their businesses to full-time, and that although full-time businesses appear to demonstrate the potential for growth, only a limited number of part-time businesses have that potential. The reasons for this are not clear, but can be hypothesized to relate to goals of the entrepreneur, the industry in which the business operates, and market conditions.

What are the Implications of This Analysis for Practitioners?

These findings suggest several considerations for practitioners:

- There is evidence that microloan recipients experience strong outcomes. The data indicate that loan recipients who remain connected to microenterprise programs have solid outcomes in terms of business survival, revenue and employment growth, and growth in owner’s draw. While these individuals exhibited greater advantages at intake in terms of business characteristics, and were more likely to be male (and therefore perhaps face fewer barriers in terms of business ownership), they appear, compared to non-borrowers, to have used microloans to their advantage, and to have grown businesses that produce greater returns to their households and to their communities. These findings may be useful in advocating for continued investment in microenterprise lending. Practitioners also may want to consider why women may be less likely to take out or receive loans.
- Longer-term tracking of client outcomes yields important information and should be expanded. The data in this document was reported by clients directly to microenterprise programs that implemented follow-up surveys. Given the methodology used (based on interviewing a random sample of clients who received services in a given year), the respondents included individuals with varying lengths of experience with the program. The

¹⁹ The three-year respondents were business owners interviewed approximately three years after program intake.

longest-term clients receiving services in a given year tended to be borrowers. What would the results look like if the sample were drawn from all those who entered the program in a given year? If all clients five years from program entry were included in the sample frame regardless of their recent engagement with the program? It is likely that the results would not be as strong given that the sample might include a wider variety of clients. However, that information would be important for programs to know.

- Examining outcomes data through the lens of the products and services clients received can help programs to better understand their various clusters of clients and the pathways they take. This report, focused primarily on the results of borrowers who had been in a relationship with a program for five years, found strong outcomes. Understanding the characteristics and outcomes of other client cohorts -- those in longer-term training, those who largely receive business consulting services, or engage in membership programs, could help a program assess its own program performance and effectively allocate program resources. Developing a clearer sense of client groups and their pathways also could help MDOs to more accurately present client results to external audiences.
- More information on the goals of entrepreneurs, the natural constraints of certain business types, and the effect of market conditions, might yield insights regarding how to work more effectively with a range of business owners. This report highlights fairly stark differences between the outcomes of businesses operated full-time versus those operated part-time. While part-time business owners may well receive qualitative benefits not captured in this data (such as flexibility, autonomy and reduced commuting costs, and others associated with paid employment), it would behoove MDOs to think about ways to offer services efficiently to part-time business owners. A more efficient allocation of services might allow part-time entrepreneurs to benefit from services, while enabling MDOs to devote more intensive resources to businesses with greater potential for growth and job creation.

Appendix 1: MDOs Contributing Surveys in Each Survey Group

	1 YEAR	3 YEAR	5 YEAR
ACCION New Mexico	119	111	28
ACCION New York	290		
ACCION San Diego	107	68	23
ACCION USA	256	14	17
Acre Family Day Care	5	4	5
Business Investment Growth, Inc (BiG AUSTIN)	102	16	6
Business Outreach Center Network	25	72	8
C.E.O. Women	43	2	
Center for Rural Affairs	46	13	5
Community Development Corporation of Long Island, Inc.	65	8	1
Community Financial Resource Center	249	20	6
Community First Fund	83	33	14
Detroit Entrepreneurship Institute	88	6	
Enterprise Development Group (EDG)	17	19	3
First Step Fund	169	6	1
Georgia Micro Enterprise Network (GMEN)	37		
Goodwill Industries of North Georgia, Inc.	189	2	
Grand Rapids Opportunities for Women	99	1	
Hebrew Free Loan Society (HFLS)	37	8	
Institute for Social & Economic Development (ISED)	30		
Jefferson Economic Development Institute (JEDI)	154	37	22
Justine Petersen Housing & Reinvestment Corporation	282	96	15
Lane MicroBusiness	81	7	1
Latino Economic Development Corporation (LEDC)	135	24	1
Lenders for Community Development	123	65	15
Maine Centers for Women, Work and Community (MCWWC)	26	1	3
Mercy Enterprise Corporation	67	51	10
Micro Business Development Corporation	70	12	
Mountain BizWorks	153	6	
Native Americans for Community Action (NACA)	30		
Nebraska Microenterprise Partnership Fund	301	67	22
Northeast Economic Development	4	8	5
Northern Initiatives	15	15	1
Philadelphia Development Partnership	109	49	16
PPEP Microbusiness and Housing Dev. Corp.	81	100	33
Renaissance Entrepreneurship Center	136	15	1
South Carolina Business Initiative (SCBI)	60	5	1
Southern Good Faith Fund (SGFF)	408	15	1
The Abilities Fund	11	10	6
The Edge Connection	77	14	6
Trickle Up Program	183	7	
Utah Microenterprise Loan Fund	77	67	53
Washington Community for Self-Help (CASH)	210	64	27
Women Entrepreneurs of Baltimore, Inc. (WEB)	308		

Women's Economic Development Center, Inc (WEDC)	61	1	
Women's Self-Sufficiency Team (WESST Corp)	145	30	8
West Company (WEST)	27	16	10
Wisconsin Women's Business Initiative Corporation	87	19	16
Women's Economic Ventures	396	16	7
Women's Initiative for Self Employment	545		
Women's Opportunities Resource Center	147		
Women's Rural Entrepreneurial Network (WREN)	14	6	4
Total	6579	1226	401

Appendix 2: Survey Methodology

This document discusses several clusters of clients drawn from MicroTest's large dataset of all client outcomes surveys collected from 2004 to 2009. Clients responding to surveys reported their experiences in the calendar year ending before the interview date; i.e. clients reported their 2008 experiences when surveyed in 2009.

Appendix 2, Figure 1: Client Interviews in 2009



Each year, a random sample was drawn of clients who received significant services during the specified fiscal year. Clients may have received service from the MDO for multiple years, i.e. these were not all new clients. So while a client might have first entered the MDO in 2005, if they received a significant service²⁰ during the MDO's fiscal year 2007, they could have been interviewed in the 2009 survey. Figure 1 provides a graphic of how this process worked in 2009.

The same timeframe and process was used each year from 2004 to 2009.

Although the sample of clients in the entire MicroTest outcomes database is 12,903, subgroups were created to examine the experiences of clients who had interacted with programs over one, three or five years. For instance, for 2004, the sample of clients to be interviewed was 1,691. Of

²⁰ MicroTest defines a significant service as one an MDO believes can be tracked to a client's business or personal outcome(s) after the client exits the MDO. Specifically, this includes those clients that had an active, outstanding microloan or other microfinancing product with the program during the fiscal year, and/or received at least 10 hours of microenterprise related training and/or technical assistance from the MDO during the specified fiscal year.

that group, 39 clients had first entered the program 5 years prior; 118 had entered 3 years prior; and 976 had entered 1 year prior. Five hundred and fifty-eight additional clients did not meet the parameters for inclusion in any of the groups.

These groups were constructed according to the following parameters for the 2004 survey year (the same method was applied to survey years 2005-2009):

- **1 Year Out** = clients who enrolled between January and December 2002 and were interviewed about 2003 experiences
- **3 Years Out** = clients who enrolled between January and December 2000 and were interviewed about 2003 experiences
- **5 Years Out** = clients who enrolled between January and December 1998 and were interviewed about 2003 experiences

This report focuses largely on the 401 clients who met the parameters of the five-year group. Two hundred and forty clients or 60 percent responded to surveys administered by MDOs. The purpose in focusing on this group is to explore the outcomes clients experience after a longer service relationship with an MDO. Although 240 responses for the five-year group is a much smaller number than the 710 completed surveys in the three-year group, the response rate for the group is as high as any other cohort. Relevant data on the one-, three-, and five-year cohorts is included in these appendices.

Appendix 2, Table 1: Survey Sample for One-, Three- and Five- Year Groups, by Enrollment Year and Survey Period

Enrollment Year	Survey year						Total
	2004	2005	2006	2007	2008	2009	
	(2003 Exp)	(2004 Exp)	(2005 Exp)	(2006 Exp)	(2007 Exp)	(2008 Exp)	
1998	39						39
1999		22					22
2000	118		30				148
2001		119		125			244
2002	976		98		89		1163
2003		747		408		96	1251
2004			855		299		1154
2005				1587		184	1771
2006					1385		1385
2007						1029	1029
Total	1133	888	983	2120	1773	1309	8206

401	5 year
1226	3 year
6579	1 year

Appendix 2, Table 2: Key Differences between Services Received and Characteristics at Intake for Five-Year Sample and the Rest of the MicroTest Sample

	5-Year Group	All other Clients in the MT database	Test ²¹	n	MD		N
Household Income (Mean)	\$38,180	\$37,667	-0.259 (0.796)	9121	3832	30%	12953
Had a Loan	74.6%	41.5%	173.331 (0.000)*	12893	60	0.5%	12953
Graduated	79.4%	85.5%	3.845 (0.050)*	7576	645	8%	8221
Completed a business plan	85.9%	76.6%	7.736 (0.005)*	5903	899	13%	6802
Gender (% of Females)	57.9%	65.9%	11.044 (0.001)*	12852	101	1%	12953
Minority	54.7%	64.7%	14.741 (0.000)*	10339	2614	20%	12953
Business at Intake	69.0%	53.8%	30.735 (0.000)*	11075	1878	14%	12953
Business- FT	70.0%	61.0%	6.595 (0.010)*	5267	742	12%	6009
Business Sales (Mean)	\$100,909	\$96,982	-0.187 (0.852)	3590	2419	40%	6009
Business Draw (Mean)	\$15,473	\$15,264	-0.096 (0.924)	3208	2801	47%	6009
Had Employees	55.3%	45.0%	7.053 (0.008)*	4554	1455	24%	6009
# of Employees	1.21	1.39	1.381 (0.169)	4458	1551	26%	6009

* Indicates statistical significance, which implies that the differences are not due to chance.

²¹ We performed Chi-Square tests on categorical variables (except when in 2x2 tables, one or more cells have observed frequencies less than 5, in which case Fisher's exact test is performed) and T-tests on continuous variables. P-values are reported in parenthesis.

Appendix 3: Detailed Comparative Data

Appendix 3, Table 1: Hours of Business Operation at Intake and Survey for One-, Three-, and Five-Year Groups

		At Survey						
		Full-Time		Part-Time		Hours DK	All	
1 YEAR	At Intake	Full-Time	612	83%	116	16%	9	737
		Part-Time	131	31%	283	68%	5	419
		Hours DK	238		152		6	396
		All	981	63%	551		20	1552
3 YEARS	At Intake	Full-Time	179	83%	33	15%	4	216
		Part-Time	18	25%	54	74%	1	73
		Hours DK	78		33		0	111
		All	275	69%	120		5	400
5 YEARS	At Intake	Full-Time	63	91%	6	9%	0	69
		Part-Time	7	30%	16	70%	0	23
		Hours DK	26		15		0	41
		All	96	72%	37		0	133

Appendix 3, Table 2: Key Differences between Outcomes of One-Year and Five-Year Respondents

	1 Year	n=	5 Year	n=	Test
In Business	72%	3531	84%	240	17.496 (0.000)*
Operating Business FT	57%	2485	70%	201	11.146 (0.001)*
Operating Business PT	41%		30%		
Revenue (mean)	\$88,654	2164	\$170,249	164	-2.262 (0.025)*
Draw (mean)	\$13,974	1963	\$23,648	151	-4.859 (0.000)*
FT Draw (mean)	\$20,131	1119	\$29,448	108	-3.422 (0.001)*
Had paid workers	41%	2487	52%	196	10.571 (0.001)*
Employees per Business	1.68	2487	3.05	196	-2.313 (0.022)*
At least 50% of HH income from owner's draw	21%	1173	32%	136	18.596 (0.000)*
* Statistically significant					

Appendix 3, Table 3: Key Business Intake Characteristics for One-Year and Five-Year Samples

	1 Year	n=	5 Year	n=	Test
Female	69%	6520	58%	399	19.630 (0.000)*
Minority	68%	5136	55%	344	27.192 (0.000)*
In Business	47%	5733	69%	339	64.673 (0.000)*
Revenue (mean)**	\$74,664	1550	\$95,404	152	-2.029 (0.043)*
Had paid workers	44%	2040	54%	166	6.906 (0.009)*
*Statistically significant **Outliers removed					

Appendix 3, Table 4: Key Differences between Outcomes of Borrowers and Non-Borrowers Among Five-Year Respondents

	Borrowers	Non-Borrowers	n=	Test
In Business	85%	82%	240	0.229 (0.633)
Revenues (mean)	\$207,203	\$59,387	\$164	2,930 (0.004)*
Draw (mean)	\$25,529	\$13,734	151	2.845 (0.005)*
Had paid workers	60%	35%	196	8.918 (0.003)*
Employees per Business**	2.31	0.94	191	3.210 (0.002)*
At least 50% of HH income from owner's draw	51%	37%	136	1.910 (0.167)
*Statistically Significant **Outliers Removed				

Appendix 3, Table 5: Key Differences between Intake Variables of Borrowers and Non-Borrowers Among Five-Year Sample

	Borrowers at Intake	n=	Non-Borrowers at Intake	n=	Test
Gender (% female)	52%	297	75%	102	17.404 (0.000)*
Minority Status (% minority)	57%	280	45%	64	2.767 (0.096)^
In Business	74%	257	54%	82	11.948 (0.000)*
Business- FT	78%	133	56%	18	4.393 (0.036)*
Revenues- Mean	\$107,334	140	\$31,716	13	4.421 (0.000)*
Owner's Draw Mean	\$16,422	119	\$5,211	11	3.881 (0.001)*
Had Paid Workers	58%	146	38%	24	2.579 (0.058)*
*Statistically significant ^Statistically significant difference at 90%					

Appendix 3, Table 6: Key Differences between Outcomes of Full-Time and Part-Time Businesses

	FT	n=	PT	n=	Test
Revenue (mean)	\$212,062	121	\$52,590	43	-3.059 (0.003)*
Draw (mean)	\$29,448	108	\$9,080	43	-5.615 (0.000)*

*Statistically significant

Appendix 3, Table 7: Outcomes for One-Year and Five-Year Respondents for Full-Time and Part-Time Businesses

FT in the Survey Year						
	1 Year	5 Year	n=	MD	N	Test
Revenue (mean)	\$135,673	\$212,062	1370	14%	1585	-1.590 (0.114)
Draw (mean)	\$20,131	\$29,448	1227	23%	1585	-3.422 (0.001)*
Had paid workers	52%	66%	1566	1%	1585	9.469 (0.002)*
Employees per Business (not including the owner)	2.35	4.01	1566	1%	1585	-1.994 (0.048)*
PT in the Survey Year						
	1 Year	5 Year	n=	MD	N	Test
Revenue (mean)	\$24,335	\$52,590	937	15%	1101	-1.263 (0.213)
Draw (mean)	\$5,802	\$9,080	870	21%	1101	-1.127 (0.266)
Had paid workers	28%	27%	1090	1%	1101	0.074 (0.785)
Employees per Business (not including the owner)	0.78	0.87	1090	1%	1101	-0.286 (0.775)

*Statistically Significant

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