

**Enabling Entrepreneurship:  
Microenterprise Development  
in the United States**

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**Baseline Year Report of the  
Self-Employment Learning Project**

by

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## EXECUTIVE SUMMARY

The following report by the Self-Employment Learning Project (SELP) presents findings from the first year of a five-year study of seven leading microenterprise programs. SELP is a participatory outcome assessment that utilizes several different methods of data collection to produce information on the new field of microenterprise assistance in the United States. At the core of the study is a longitudinal assessment of 405 micro-entrepreneurs who are receiving services from the seven microenterprise programs.

Many of the findings from our first year of inquiry are primarily descriptive rather than analytic; that is, they tell us clearly who microentrepreneurs are, what microbusinesses are like, and the range of services that microenterprise programs offer. These descriptive findings lead us to critical analytical questions about who microenterprise programs are reaching, the goals of the microenterprise strategy, and the results we can expect from microenterprise development. This report presents results from the first year of the survey of 405 microentrepreneurs from seven leading programs. These entrepreneurs were interviewed by telephone in 1992, when they responded to questions regarding their household and business status during 1991.

A subsequent report will describe entrepreneur and business change over the three years covered by the survey to date and will answer the critical questions of whether, and to what extent, client incomes and microbusiness profitability improve over time. An additional SELP report, due to be published in December 1995, presents results from in-depth studies of each of the seven participating agencies in order to illuminate microenterprise program methodologies and institutional growth. In addition, we will publish a special monograph on microenterprise as a poverty alleviation strategy.

### **What Issues do the Findings Raise About Microenterprise Assistance in the United States?**

*While most clients are poor, programs serve clients from a range of income levels.* While the majority of clients fall below or are near standard definitions of the poverty line, most programs also serve clients who earn moderate incomes. This points to the possibility that programs in fact operate two distinct tracks within the microenterprise program: one for which the goal is the alleviation of client poverty through self-employment, and the second which is designed to promote very small businesses or fulfill the needs of underserved clients in disadvantaged communities. The latter goal is similar to traditional small business development strategies, but differs in that it reaches clients who cannot find loans or technical assistance elsewhere, perhaps because they are minorities or women, or because their businesses are too small or are located in an area without services.

*The majority of microbusinesses in this study are profitable or break even on a monthly basis.* Contrary to conventional wisdom that might assert that microenterprises are too small, too young and therefore fragile and generally unprofitable, 46 percent of businesses in this study are profitable on a monthly basis and an additional 17 percent break even. Further, a substantial percent seem to be growing and adding employees, thereby creating jobs in communities where jobs are desperately needed. While most are very young (under 3 years old), a significant percentage are 5 years old or older. This points to the possibility that there are a large number of established, productive businesses in low-income communities that may be underserved by traditional financial institutions and business assistance centers.

- *Training and technical assistance are critical to microbusiness success.* Microenterprise programs all offer some combination of credit and technical assistance to potential or established entrepreneurs, but they differ markedly in the kinds of technical assistance and type of lending program they offer. Programs are tailored to meet specific community needs as well as the needs of the particular client group the program is targeting. While there are similarities among microenterprise programs, it is important to recognize that there are distinct differences in methodology. Over time, specialized microenterprise strategies within the field may become apparent: for example, today, a specific subset of programs targets welfare clients, another subset aims to promote the growth of established businesses in an isolated rural community, yet another subset develops minority women entrepreneurs through a program which integrates self-esteem building into a business development curriculum.

*There is a need to search for a new paradigm for program success that goes beyond scale or size of programs alone.* Microenterprise programs in the United States are somewhat overshadowed by the tremendous scale of older microenterprise programs in the developing world that have become legendary: The Grameen Bank of Bangladesh which reaches almost a million borrowers, Banco Sol in Bolivia and the Bandan Kredit Kecamatan in Indonesia. While the scale of programs is a critical measure of any program's performance—it is not necessarily the most important indicator. There is a vast difference between the size of the self-employed sector in the developing world, which can represent 50 to 60 percent of the working population, and that of the self-employed population in the United States, which is generally between 10 and 15 percent of the working population. The effectiveness of microenterprise programs in the United States may come to be judged by a broader array of success indicators than solely that of the scale or size of programs in terms of numbers of clients reached. Other possible indicators of success in the United States may include the following:

1. *The ability of U.S. programs to graduate clients to the formal banking sector.* This goal has proven to be difficult to attain in the developing world because of the great gulf between informal sector microentrepreneurs and the banking sector. In the United States, we are seeing more microbusinesses that are

established and profitable and operate as formal sector businesses. These features, coupled with new attention to Community Reinvestment Act compliance that encourages increased bank lending in poor communities, may lead to the ability of more microentrepreneurs to obtain loans from traditional banks, with assistance from microenterprise programs.

2. ***The ability of programs to deliver cost-effective technical assistance and training.*** Most U.S. program operators agree that technical assistance is critical to the success of the microentrepreneurs they serve. It is much more difficult to operate a successful microenterprise in the U.S., given the complexity of the economy and the stiff competition that even very small businesses face. In the developing world, the “minimalist” model of microenterprise assistance, meaning, in essence, cost effective credit only, has become the most respected model. In the U.S., even the most cost-effective programs also offer training and technical assistance along with credit. Given the observed need for technical assistance in the U.S., it is expected that programs that can design effective, low-cost training programs will prove to be the most successful.
3. ***The ability of programs to find cost-effective, and “client-effective” service delivery mechanisms.*** Given the relatively limited volume of microenterprise clients some U.S. programs may have in relation to the expenses they will carry for technical assistance and training, programs need to find ways to deliver services cost-effectively. One way that may gain prominence is “piggy-backing” with other local service providers, such as other community-based organizations who have a presence in the community, or other skilled technical assistance providers such as Small Business Development Centers or community colleges. “Client-effective” programs will have strong links to communities and a close knowledge of microentrepreneurs and the economy in which they operate and will tailor particular services (various kinds of training and/or technical assistance, and different sizes of loans) to specific target groups based on their needs.

**Key findings from the baseline year of data collection include the following:**

#### **Who are the Programs Reaching?**

- Programs work in communities that are experiencing economic challenges either with high unemployment rates, high poverty rates, or low median income.
- 62% of microentrepreneurs in the study are members of a minority ethnic or racial group; of the total sample, 42% are African-Americans and 18% are Hispanic

78% of all respondents are women

58% of survey respondents have some education past high school (83% have completed high school)

- 30% of respondents stated that they started their microbusiness because they needed additional income or they needed a job
- 69% of respondents are between 30 and 49 years old

### **How do Microenterprises Contribute to Household Economic Stability?**

- The majority of clients, 56%, rely on their microbusiness as their primary source of earned income
- Many microentrepreneurs utilize a "patchwork quilt" approach to income, "patching" from more than one earnings source to earn enough to maintain a household. 49% of respondents report at least two different sources of individual income
- 37% of these "income patchers" work at a part-time or full-time job as well as running their microbusiness; 16% receive some form of public assistance as a primary or secondary income source
- For those clients who consider their microbusiness their primary source of earnings, but who hold a second job as well, 95% earn above the minimum wage in the second job

### **What are the Characteristics of Microbusinesses? Are Microbusinesses Profitable?**

- 66% of the 386 businesses in the study employ the owner-operator alone, while the remaining 34% employ an additional 332 people
- 27% of surveyed businesses are 4 years old or more, while 22% are less than one year old, 17% are one year old, and 18% are 2 to 4 years old
- 46% of the businesses earn a profit in a normal month, and an additional 17% break even
- 47% of firms report gross sales of less than \$1,000 a month, while 25% report gross sales of \$2,500 or more; 21% take in \$1,000 to \$2,499 a month in gross sales

### **What are Some Key Features of Microenterprise Programs?**

- Loan funds of programs in this study range from \$137,000 to \$4.1 million
- Programs charge market rates of interest on loans, ranging from 6.25% to 14%

Average loan sizes range from \$2,265 to \$9,005 and terms range from 6 months to 60 months

- All programs offer some form of training and/or technical assistance ranging from a minimum requirement of participation in an orientation session to enrollment in a highly structured set of classes on business development, personal development and financial management.

## INTRODUCTION

In the spring of 1992, we asked a group of directors from five of the most mature microenterprise programs what they wanted the world to know about their programs. Without exception, they responded that they wanted to communicate the *range* of impacts they have observed as a result of their program services. The impacts they cited were: increases in client incomes, greater household self-sufficiency, "empowerment" of clients, support of viable small businesses in disadvantaged communities, upgraded business skills of participants, and for programs targeting welfare recipients, the ability of some clients to get off of welfare.

At that time, only a few evaluations of microenterprise development in the U.S. had been undertaken. The field was very young—a handful of programs were started in 1986 and 1987 and were experimenting with offering small-scale credit and technical assistance to microentrepreneurs. Program practitioners expressed concern that they were being judged by economic development indicators alone, such as the number of business start-ups. They believed that evaluations framed solely around these indicators did not accurately measure the full impacts of their programs.

Program practitioners and funders were searching for ways to evaluate this very new field fairly. What would be the key indicators of success? Numbers of businesses created or sustained? Performance rates of loan portfolios? The numbers of low income people who escaped poverty or increased their incomes? Empowerment impacts in participating clients? Community development effects in targeted communities?

Microenterprise development seemed to show results in at least three broad areas: **economic development**, as seen in numbers of businesses and jobs created or sustained; **human development**, as evidenced in dramatic improvements in participants' self-esteem and in acquisition of marketable skills; and **community development**, measured by increased community-organizing activities. But questions remained: At what cost were these results attainable? What could we expect in terms of the numbers of people in a targeted area who could be or were successful entrepreneurs? What contribution has microenterprise assistance made in disadvantaged communities? Where did it fit in the range of other efforts such as job training, social services and larger scale business development? Would low income entrepreneurs pay back loans? Was microentrepreneurship a secure path out of poverty? What were the weaknesses of the microenterprise assistance approach?

Through the Self-Employment Learning Project, we have been conducting a participatory learning assessment of seven leading microenterprise programs since mid-1992. This report describes the findings from the baseline year of data collection. It presents information on who microentrepreneurs are, what microbusinesses are like, and what kinds of services microenterprise programs provide. It should serve as a basis for further research and to inform program practitioners about what is and is not working in their programs. As Harold Williams writes in an article entitled *Learning vs.*

*Evaluation*, "We tend to over-evaluate and under learn." To counter this, we believe that evaluations can serve as learning tools only if they are used, particularly by program practitioners. We hope that this report and others to follow will help to inform the emerging practice of microenterprise assistance and to help to make a positive difference in the lives of entrepreneurs across the country.

## SELP METHODOLOGY

To create knowledge on the new field of microenterprise development in the U.S., the Charles Stewart Mott and Ford Foundations established the Self-Employment Learning Project (SELP) at The Aspen Institute in 1991. In 1992, the Ms. Foundation joined SELP, bringing two of its programs from the Collaborative for Women's Economic Development to the SELP project. At the core of SELP's work is a five-year outcome assessment of seven of the most established microenterprise programs in the U.S.

This report is based on findings from several components of the SELP assessment: the baseline year of data collection from an intensive, interview-based study of 405 borrowing entrepreneurs served by seven microenterprise agencies; the SELP Program Profile which aggregates data on all program clients from each of the participating programs; data from a set of case studies completed in 1992 and again in 1994 on each of the agencies; and a survey undertaken to produce the *1994 Directory of U.S. Microenterprise Programs*.<sup>1</sup>

The Self-Employment Learning Project's over-arching goals are to produce new information and encourage dialogue on the field of self-employment and microenterprise as a poverty alleviation and employment creation strategy. Study results are intended to provide much-needed information on the application of self-employment programs for other potential practitioners and investors.

The seven agencies participating in SELP operate in a variety of settings—rural Arkansas, urban Chicago, Los Angeles and St. Paul, the border towns of Arizona, and several counties in Iowa and North Carolina. Agencies work with a wide range of clients with varying degrees of business experience. Clients include established small business owners, welfare recipients trying to get off of public assistance, single mothers who work in the home, isolated rural residents attempting to revitalize their communities through local business creation, displaced factory workers, and unemployed inner city minorities. Some of these clients have years of small business experience while many have none. Consequently, the non-profit agencies tailor self-employment programs to meet the requirements of their client base and local context by providing various forms of training, technical assistance, organizational support, and credit. Despite differences in economic context, client base, and techniques employed,

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<sup>1</sup> Unless otherwise noted, all of the information reported here is from the baseline year of data collection from the interview-based study.

these nonprofit agencies share a common vision and purpose: self-employment is viewed as an important strategy that advances the economic and social development of low-income people in the United States.

The SELP analytical framework is the product of a collaborative decision-making process that took place during the period of January 1991 to December 1991 among the following parties which make up the Self-Employment Learning Project (SELP):

- the five original practitioner agencies:
  - Good Faith Fund, Arkansas
  - Institute for Social and Economic Development, Iowa
  - PPEP/MICRO Project, Arizona
  - Rural Economic Development Center, North Carolina
  - Women's Self-Employment Project, Illinois
- the donors:
  - The Ford Foundation
  - Charles Stewart Mott Foundation
  - Ms. Foundation
- a technical team of evaluation practitioners
- a core unit of project staff, who planned and managed the activities of the design year as well as subsequent assessment components

Because the field of self-employment is young, dynamic, experimental and still relatively small in terms of numbers of clients reached, SELP employs a methodology of outcome monitoring that is both quantitative and qualitative. The evaluators on SELP's technical assistance team feel that the outcome monitoring methodology developed by the SELP design group provides a credible and appropriate approach that will yield considerable new information on these seven programs. Although this assessment will not be able to directly prove causal links between program services and client and business outcomes, trend monitoring can indicate probable causality and can yield important, useful information on program outcomes.<sup>2</sup>

The assessment is occurring from January 1992 to December 1996. It is hoped that through the assessment process, participating agencies will be strengthened as a result of having access to information on program performance, thereby increasing their capacity to monitor and evaluate their programs. During this time period, eight key questions (listed in the following box) will be addressed:

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<sup>2</sup> A control group methodology is not used for two reasons: 1) the existing client base is relatively small and it would be inappropriate to deny services to potential clients; and 2) the costs of an evaluation with a control group are prohibitive given the limited size of total funding in the field at this time.

## SELP Key Questions

- Who are these programs assisting?
- What are the program designs, components and characteristics? How do they change, develop and grow over time and what influences these changes?
- What are the range of environments in which programs operate? How does the social, cultural and economic context affect programs?
- What are the costs of:
  - a) various program strategies, designs and components?
  - b) the lending component?
- What can we learn about program scale, measured in terms of numbers of clients served, in the U.S. context?
- What are the outcomes and dynamics of assistance over time to businesses and individual clients? In particular:
  - a) what happens to individuals' income and economic status over time?
  - b) what happens to businesses in terms of sales, profitability and other business measures over time?
- What can we learn about qualitative changes and improvements in people's lives over time in terms of:
  - a) individual clients?
  - b) clients' families?
  - c) clients' communities?
- What are the obstacles that prevent change or growth for businesses and individuals?

## Assessment Components

The assessment has three components. Together, they provide a comprehensive picture of client and business change over time, program status and growth, and a description of program context, methodology and outcomes.

The three components are designed to benefit from a combination of the objective insights of an external evaluation partner, the in-depth knowledge of practitioners, and the overview perspective of the SELP staff. This assessment has two objectives: to produce data that policymakers will find credible, and to help practitioners to produce and use data to inform practice. Consequently, it utilizes external evaluators, agency staff, and SELP staff for different aspects of documentation and analysis.

The first component, the **Program Profile**, is intended to give a broad, quantified overview of the performance of individual SELP agencies as well as a picture of the field as it is represented by the subset of the seven SELP agencies. An important element of the Program Profile is that it builds upon and boosts agencies' internal data collection systems. Agencies collect and report on demographic and economic data of clients and their businesses as clients enter microenterprise assistance programs. Additionally, programs provide data on numbers of clients, loan information, portfolio information, and other indicators. Profiles are updated bi-annually in June and December.

The second component, **In-depth Client and Business Case Studies**, forms the heart of the SELP assessment framework. This is a longitudinal survey following the progress of 405 clients and their businesses. Data collected includes both quantitative and qualitative indicators. This component is intended to answer the core key questions that relate to changes in client income and economic status over time and business changes over time. This baseline report details the findings of the first wave of data collection in 1992. Subsequent waves were conducted in Fall 1993 and Fall 1994, and additional waves are scheduled for Fall 1995 and Spring 1996.

The third component, the **Agency Case Studies**, describes each agency over time as a distinct operation in a discrete economic and political context. Data gathered describes agency mission, institutional features, operations, methodology, and outcomes. The first round of Agency Case Studies was completed in late 1992. The second round was completed during 1994 and 1995.

## Microenterprise Programs Participating in SELP

The seven agencies participating in the SELP study operate in a wide variety of settings. Within these diverse contexts, all of the programs target their services in economically disadvantaged communities where unemployment rates range from 4.2 to 27 percent and poverty rates from 8.1 to 23 percent. These programs have found that within these economically marginalized areas there is a vibrant sector of very small businesses,

called microenterprises, that are generally excluded from traditional credit markets and other forms of business assistance.

The programs in the study offer varying combinations of credit and technical assistance to microentrepreneurs. All programs offer small loans and some form of technical assistance, generally including business plan preparation, financial statement preparation, and marketing. The average size of loans ranges from \$2,265 to \$9,005, they carry market rates of interest (from 6.25 to 14 percent), and they are short term (averaging 6 to 60 months).

Programs use innovative methods to secure loans—the “peer lending” or “group guarantee” method, pioneered by the Grameen Bank of Bangladesh, is used by four of the seven programs (Good Faith Fund, North Carolina Rural Economic Development Center, Women's Self-Employment Project, and the Coalition for Women's Economic Development) to group borrowers together who “guarantee” each other's loans. Another program, the Institute for Social and Economic Development, provides a guarantee fund to encourage a participating bank to make loans directly to welfare recipients and others who have been through a training program and are starting businesses. Some programs use creative methods to collateralize loans—allowing bicycles or other non-traditional household items to serve as collateral or guaranteeing less than the full value of a loan with collateral. Programs also offer other forms of support to entrepreneurs such as requiring their participation in various training and technical assistance programs and/or lending groups. The following are the seven programs participating in the study.

**The Good Faith Fund (GFF)**, located in Pine Bluff, Arkansas, is in the heart of the delta region. Created in 1988, the Good Faith Fund is a nonprofit program of the Southern Development Bancorporation, a federally regulated bank holding company dedicated to rural economic development in the state. Southern Development Bancorporation was created by the founders of South Shore Bank in Chicago, one of the first community development banks in the country, at the behest of the Winthrop Rockefeller Foundation and then-Governor Clinton.

As one of the non-profit arms of Southern, the Good Faith Fund was a pioneer effort to replicate the peer lending approach of the Grameen Bank of Bangladesh in the U.S. In its five years of operation, GFF has continued to administer its innovative peer lending program, but has also added an individual lending program that works with more traditional collateral requirements. As a program of a bank holding company, Good Faith Fund's role is to widen the profile of potential entrepreneurs to include women, minorities and other dislocated workers. Operating in a sparsely populated, rural and poor region, GFF has assisted 403 entrepreneurs and made 185 loans totaling \$594,450 in the period from May 1988 to December 1994.

**The Institute for Social and Economic Development (ISED)**, headquartered in Iowa City, Iowa, provides intensive technical assistance to low-income individuals who are interested in starting a business. The Institute was founded in 1988 with a

demonstration program to offer services to women who were interested in self-employment as a route off of welfare. Since that time, the Institute has grown to serve nascent entrepreneurs in 33 counties in Iowa and 3 counties in Illinois. The Institute differs from the other programs in the SELP study by not offering credit directly, but by delivering an intensive technical assistance package that includes business planning and self-esteem building. The programs then link some entrepreneurs with banks for loans, some of which are partially guaranteed by the Institute. Until recently, ISED served only very low-income entrepreneurs, in particular, women on welfare. The Institute has served 2,043 clients, 307 of whom started businesses and 76 who expanded their businesses, in the period from 1988 to December 1994. In that same period, ISED assisted entrepreneurs to obtain 161 loans totaling \$1,131,477.

**The Rural Economic Development Center's (REDC) Microenterprise Loan Program**, based in Raleigh, North Carolina, operates statewide through 15 local community development organizations. The program was initiated in 1989 as one part of a comprehensive enterprise development initiative supported by the North Carolina legislature. Created as a demonstration program, the Microenterprise Loan Program was designed to address several questions, the key ones being: "Is there a demand for very small amounts of credit and does the delivery of this credit lead to improvements in the local economy?" And, "Is there a cost effective way to deliver this credit?" The program implemented two methodologies: the group lending model and the institutional, or individual lending model.

Central to the structure and philosophy of this program is the use of a "piggy-backing" approach—entering into partnerships with local community organizations which add microenterprise to the array of services they already offer. This approach keeps transaction costs low and helps to support a close relationship between lender and borrower while still allowing state-wide program coverage. From September 1989 to December 1994 the Rural Center served 543 clients, 155 of whom started businesses and 251 who expanded the businesses they already had. In the same period, REDC disbursed 357 loans with a total value of \$1,962,163.

**The Women's Self-Employment Project (WSEP)** was founded in Chicago, Illinois in 1986 with the mission of raising the level of economic self-sufficiency of low and moderate income women in Chicago through self-employment. The program utilizes two techniques of credit and technical assistance delivery: group lending, based on the Grameen Bank model, and a more traditional individual lending program. WSEP also runs a program that is targeted specifically to women on welfare. WSEP's programs provide a range of support services to entrepreneurs, emphasizing participatory approaches to training and technical assistance which are designed to bring out the talents and skills of individuals, and give women the self-esteem needed to succeed in business. From June 1986 to December 1994, WSEP served 1,397 clients. In the same period, WSEP disbursed 468 loans for a total value of \$883,769.

**Portable Practical Education Program / Micro Industry Rural Credit Organization (PPEP/MICRO)**, was founded in January 1987 to serve entrepreneurs in the border towns of Arizona and California. As one of the first microenterprise programs in the United States, it drew from the experience of ACCION International, a successful microenterprise organization with experience in Latin America. Rather than utilizing the group lending approach, PPEP/MICRO chose to use the concept of business associations, or groups of 20–30 microentrepreneurs, who meet regularly and assist each other's businesses. Differing from the other programs in this study, PPEP/MICRO specifically targets businesses that have been in operation for at least a year and does not fund start-ups. PPEP/MICRO places a great value on encouraging its entrepreneurs to expand their businesses and create jobs for new employees.

Serving a predominately Hispanic population, PPEP/MICRO supports businesses in the poor but economically active area of Arizona's border with Mexico. Many PPEP/MICRO businesses sell to Mexicans who come across the border to shop or acquire services. In the period from January 1987 to December 1994, PPEP/MICRO served 720 clients and disbursed 1,418 loans totaling \$2,670,200.

**The Coalition for Women's Economic Development (CWED)** was founded in Los Angeles, California in 1989 with the mission to assist low-income women to achieve self-sufficiency through self-employment. Since then CWED has expanded its outreach to include male entrepreneurs; men currently make up approximately 25 percent of all clients served. CWED's guiding philosophy is based on providing peer support and encouraging greater self-confidence among business owner clients. The microbusiness development methodology employed by CWED is a combination of the Grameen Bank model and the Solidarity Circle model pioneered and used by ACCION International in Latin America. Both Solidarity Circles and CWED's Micro Business Workshops (MBW) assist entrepreneurs in accessing its Revolving Loan Fund. Through MBW programs, CWED provides basic entrepreneurial training to microbusiness owners who are starting or expanding businesses.

CWED serves five low-income areas including South Central Los Angeles, East Los Angeles, San Pedro/Wilmington, Long Beach, and West Hollywood, with a very large client base of African-Americans and Hispanic-Americans. From 1989 to December 1994, CWED served 2,394 clients, assisted in 629 business starts and 1,430 business expansions, and disbursed 199 loans for a total of \$585,602.

**WomenVenture (WV)** was formed in St. Paul, Minnesota through the merger of WEDCO (the Women's Economic Development Corporation) and CHART, a women's career and employment services agency. WEDCO was founded in 1983 to provide microenterprise development assistance directly to low-income women, CHART dates to 1978. WomenVenture provides the Minneapolis-St. Paul community's most comprehensive services to women in the areas of career and business development. WomenVenture's mission is to secure a stronger economic future for women through employment, career development, business development, and financial responsibility. WV's basic services are available to any woman, regardless of income, but most clients

are low- to moderate-income women. Men are eligible to receive services, but as of December 1994, few had participated.

WomenVenture programs seek to help women build the personal and professional skills needed to effectively manage their businesses. WomenVenture also offers clients access to loan funds which provide capital for business start-up and expansion.

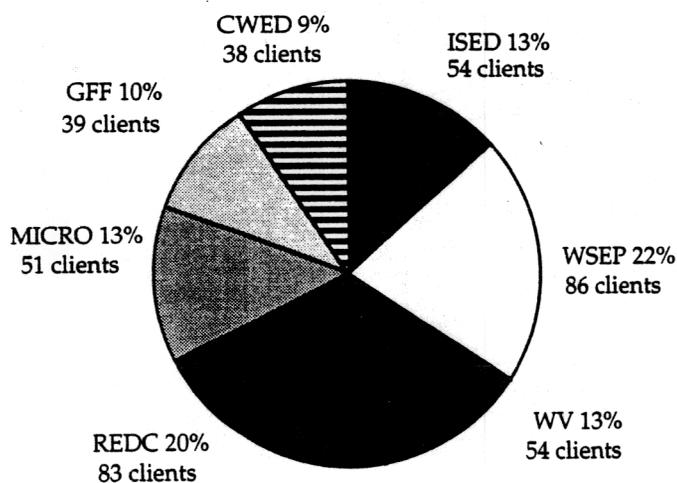
### Program Participation in Baseline Year Data Collection

A sample of 517 microentrepreneurs was drawn from active clients participating in the seven programs. Participants were contacted for possible selection if they had taken out a loan through a credit program of one of the agencies participating in the study since January 1, 1990 or if they met program participation requirements and were likely to seek business credit during the study period. Clients considered likely to take out a loan were those who had completed all training or other program requirements for loan eligibility. These selection criteria were used in order to generate a sample of participants with high levels of program involvement.

Of the 517 participants included on the original survey contact list, 103 did not meet the selection criteria and they were not interviewed. An additional nine were interviewed before it was determined that they did not meet the criteria. Thus 405 participants form the baseline year survey population. As waves two through five proceed, the SELP baseline population will be contacted again and re-interviewed. A large number of this original group have participated in subsequent surveys.

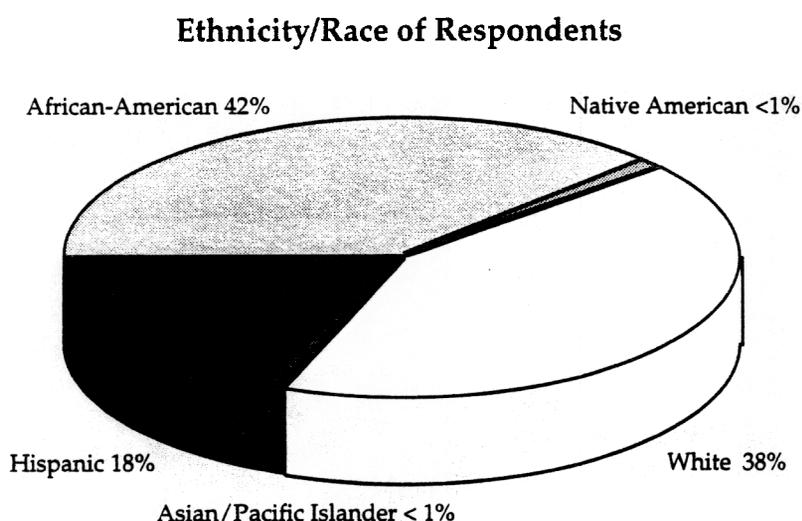
This baseline report details findings of 405 interviews conducted in-person and by telephone over the period Fall 1992 through Fall 1993. The following chart shows the numbers of clients from each program who were interviewed for wave one.

**405 Respondents Interviewed for Wave One**



## DEMOGRAPHIC PROFILE OF MICROENTREPRENEUR SURVEY RESPONDENTS

Across programs, a clear portrait has emerged of the typical microentrepreneur served by these non-profit agencies. Sixty-two percent of the microentrepreneurs interviewed are members of a minority ethnic group. African-Americans (42 percent) and Hispanic-Americans (18 percent) constitute the largest minority groups represented. Thirty-eight percent of the microentrepreneurs are white.



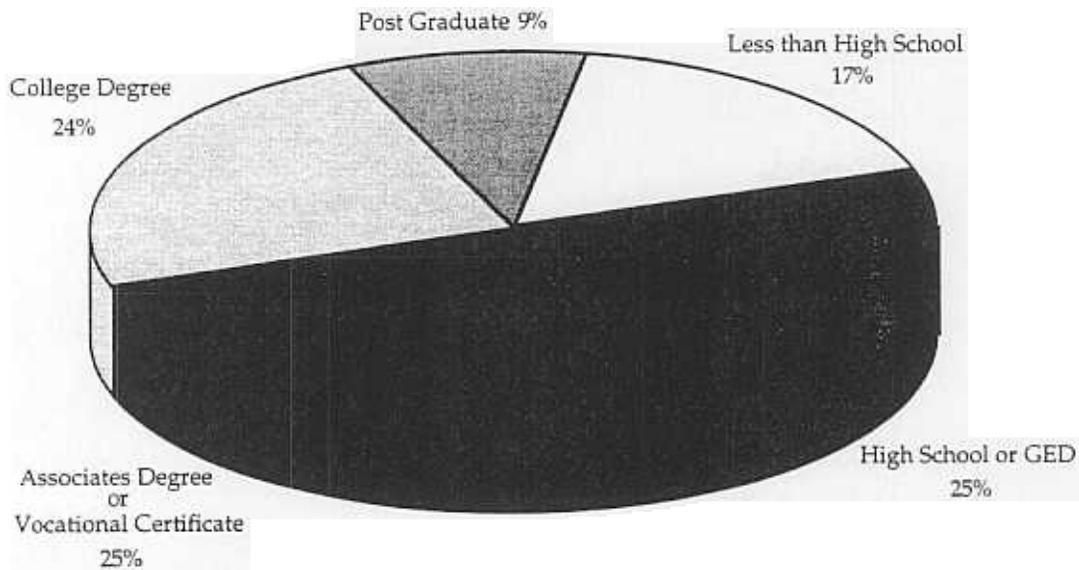
The racial and ethnic profile reflects both the demographics of the areas in which many microenterprise programs operate, as well as the mission of microenterprise development to advance the economic well-being of low-income and economically disadvantaged individuals living in poor communities. This finding also points to the possibility that some minority entrepreneurs turn to microenterprise programs because they are excluded from other conventional credit or business assistance sources, such as banks or business assistance agencies.<sup>3</sup>

Seventy-eight percent of all respondents are women. One microenterprise program, the Women's Self-Employment Project, serves women exclusively, while two others, originally established to advance female economic development, only recently extended services to men. Even for those programs not intended to target women, however, females consistently compose the majority of clients. The SELP Program Profile indicates that across all programs, 70 percent of the 2,227 total active clients in the six-month period ending December 1994 are women.

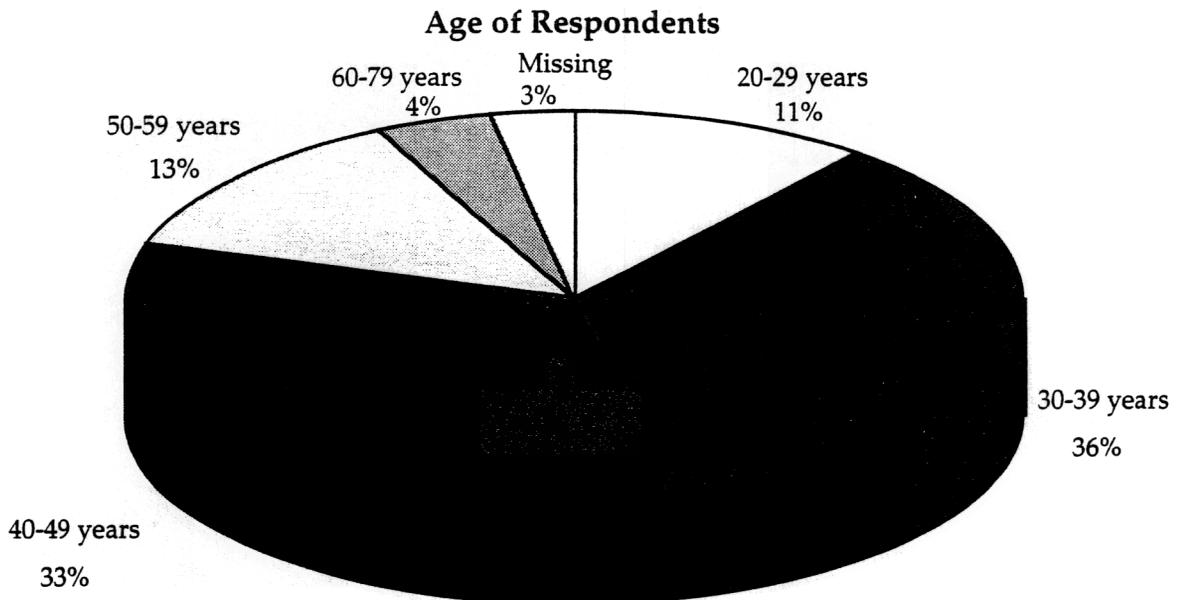
<sup>3</sup>As respondents are tracked in future data collection waves, this question will be addressed.

Eighty-three percent of survey respondents have attained a minimum of a high school education, while a full 58 percent have completed some level of education past high school. This compares to 74 percent of adult Americans who have received a high school diploma or general equivalency diploma, and 45 percent of adult Americans who have attended post-secondary school. This finding is important because education has always been seen as a key predictor for economic success. Structural changes in the economy have led to increasing unemployment and widespread low wages—trends not necessarily mitigated by a person’s education level. Many of the clients sampled, 30 percent, started their microenterprise because they needed additional income or they needed a job. This implies that many well educated respondents have turned to microenterprise out of economic necessity.

### Education Levels Achieved by Respondents



Microentrepreneurs interviewed for this study are generally between the ages of 30 and 49. Sixty-nine percent of the sample fall in this age group. Seventeen percent are 50 years old or older, while only 11 percent are under 30. The fact that the vast majority of respondents are at least 30 years old suggests that microentrepreneurs bring to their businesses previous work skills and life experience, and possibly personal savings or assets that may lessen business risk.



Most SELP households are fairly small—63 percent have three or fewer members. Sixty percent of microentrepreneurs surveyed have no children under age 12 living with them. Thirty-eight percent of households have no children under age 18. Twenty percent of all SELP households include three or more adults. ISED, which targets AFDC recipients, has respondents reporting the largest numbers of young children. Fifty-three percent of ISED households contain one or two children under age 12.

Small businesses are generally very labor-intensive. Many entrepreneurs in the sample count on family and friends to pitch in when extra hands are needed in the business. Overall, respondents report that family members are their greatest source of outside assistance (38 percent). More than 40 percent of MICRO, CWED and WomenVenture respondents report they receive the most assistance from family members.

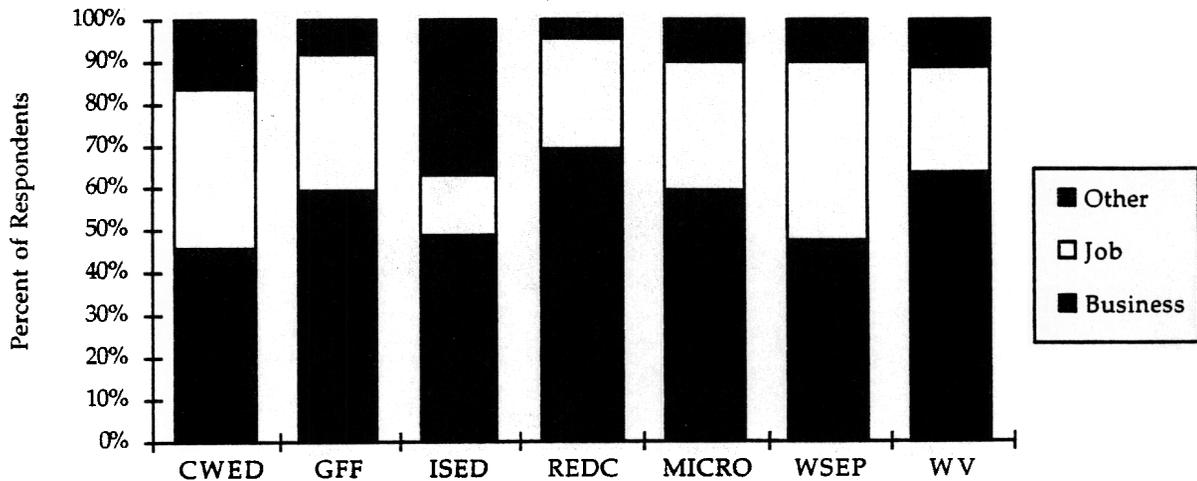
### **Individual and Household Income**

Many microentrepreneurs' individual incomes are made up of multiple sources. Rather than working at either a traditional 40-hour per week job or devoting all of their time to running a business, these respondents' incomes can be described in terms of a "patchwork quilt" approach to making ends meet. These microentrepreneurs "patch" from various earnings sources, including their business, to provide enough income for their families.

Forty-nine percent of all respondents report at least two different sources of individual income. Most commonly, a respondent holds down one or more jobs while also

running a business. Various sources of earnings are “patched” together in an effort to acquire an adequate amount of total income or critical medical or pension benefits. The earnings activities in which entrepreneurs engage vary according to the needs and circumstances of each individual. For instance, a microentrepreneur might count on a business as his or her primary source of income, but work in one or more part-time jobs to meet additional household expenses.

**Primary Source of Individual Earnings  
by Program**



Only six percent of microbusinesses provide health insurance for respondents. Thus some microentrepreneurs work in a full-time job that provides this benefit.

Sixty-three percent of the “income-patching” entrepreneurs work at a part-time or full-time job. Sixteen percent of patchers who have two or more income sources receive public assistance as one of the sources of income. Five of the microenterprise agencies in this study (CWED, GFF, ISED, WSEP, and WV) specifically target recipients of Aid to Families with Dependent Children (AFDC). A goal of these programs is to enable AFDC recipients to achieve self-sufficiency through microenterprise ventures.

The income-patching pattern we see among microentrepreneurs surveyed can be linked to the growing numbers of “working poor” in the United States today. Many workers find that they cannot provide for their families on one low-wage job—or even in some cases, two low-wage jobs. This trend underscores the limited economic opportunities that are available to the typical microentrepreneur and, conversely, to the resourcefulness with which they approach their economic lives. Microenterprises may serve as an important economic buffer, allowing households to have higher incomes than they would if members held only traditional wage employment.

When asked which earning source provides the most income to them, the majority of clients (56 percent) stated that they rely on their microbusiness as their primary source of earnings, while 31 percent of participants rely on a job for their primary earnings. For all programs, most clients rely on their microbusiness as their primary source of earnings, with WV, REDC and PPEP/MICRO having the largest percentages (63, 69 and 59 percent, respectively). Respondents from the WSEP and CWED programs make up the largest groups who rely on a job as their primary source of income (43 and 39 percent, respectively).

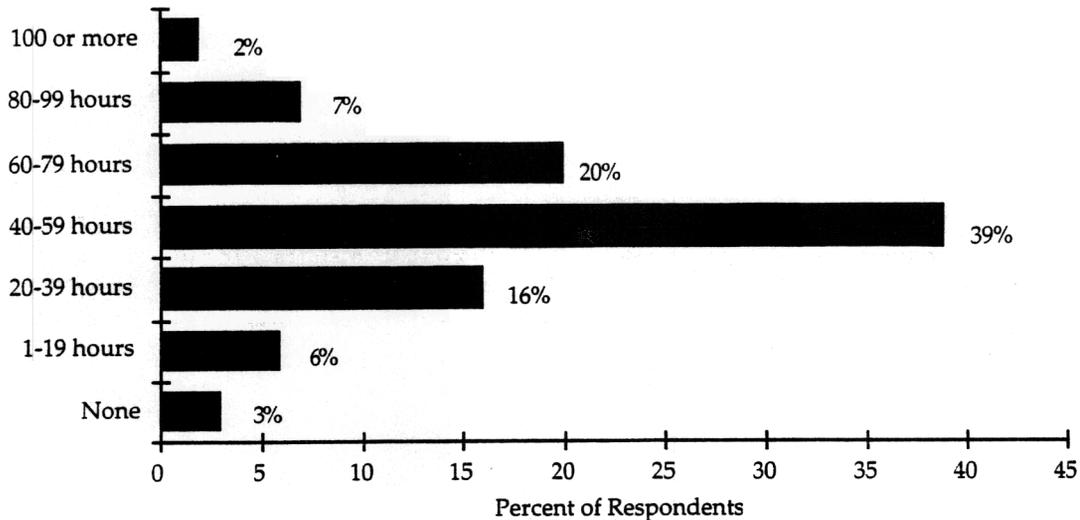
### **Respondent Work Patterns**

The patchwork quilt strategy of income-earning speaks to the ingenuity with which microentrepreneurs meet the challenge of surviving in today's fluid, often unstable economy. Patching usually means that respondents work long hours. A significant portion of microentrepreneurs (29 percent) work over 60 hours each week, illustrating both how low-wage jobs fail to keep up with rising costs of living as well as the time-consuming nature of running a business.

Overall, many survey respondents are generally full-time workers who work at least forty hours per week. Thirty-six percent of respondents spend some of their time each week in a regular wage job that is not their business. Twenty-seven percent report spending more than half their working hours in a job. The majority of respondents (58 percent) report that they devote 76-100 percent of their time to their business. For these individuals, self-employment is clearly a vital and integral part of their lives.

The flexibility that accompanies some forms of self-employment may be an important asset for microentrepreneurs. For people who care for children or elderly relatives, controlling when and where they work allows them to fulfill multiple responsibilities simultaneously. Home-based employment may provide a workable alternative to the expense of child care or elder care and may help to keep households economically viable or independent. In addition, entrepreneurs and would-be entrepreneurs with limited financial resources or business experience are apt to begin businesses which require low levels of capital, equipment, and space requirements. Sixty-three percent of entrepreneurs surveyed operate home-based businesses. CWED and WSEP respondents report the highest percentages of home-based businesses (87 and 81 percent, respectively).

### Hours Worked per Week by Respondents



### Respondent Income Levels

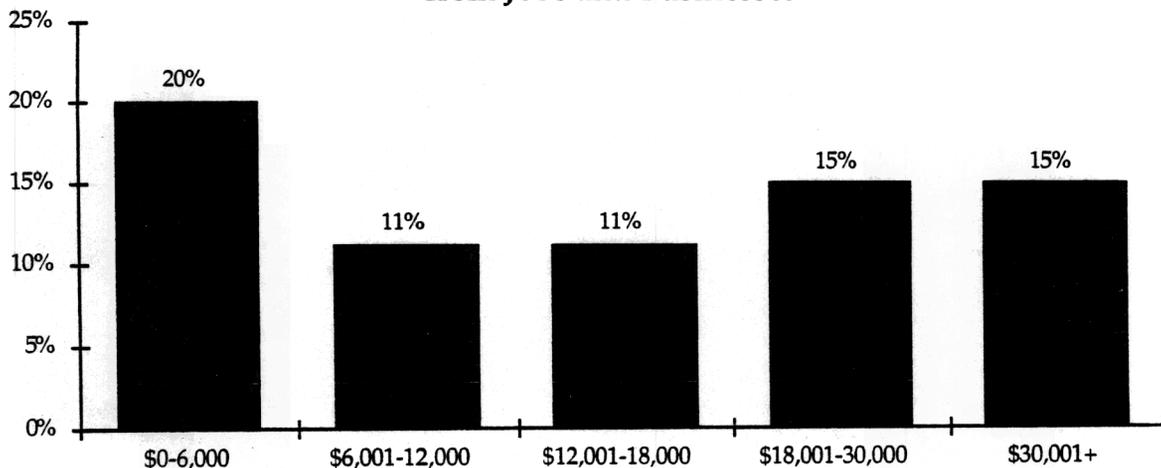
Respondent annual incomes, which range from under \$6,000 to over \$42,000, reflect the goals and location of the program in which the microentrepreneurs participate. Some programs operate several different microenterprise programs which target different types of clients. WSEP, for example, has a peer lending program in which services are provided to any woman who has not been able to get credit or technical assistance elsewhere. WSEP also runs a program specifically for very poor women who are interested in getting off of welfare through starting a microbusiness. The Institute for Social and Economic Development in Iowa until recently targeted only low-income people, and has a large program dedicated to women receiving welfare. Other programs target disadvantaged communities where unemployment and poverty rates are high. These programs, which include the Good Faith Fund, the North Carolina Rural Economic Development Center, and PPEP/MICRO serve all clients who qualify for services.

Most respondents (42 percent) earn less than \$18,000 a year. Twenty percent earn less than \$6,000 a year. The entrepreneurs at the lowest income-earning level are typically recipients of government assistance seeking a permanent way to survive without welfare. Sixteen percent of the total sample received Aid to Families with Dependent Children payments at some time during the wave one survey period. The programs which have the most clients receiving AFDC are the Institute for Social and Economic Development, the Good Faith Fund, and WomenVenture.

Eleven percent of respondents earn between \$6,000 and \$12,000 a year. These microentrepreneurs, as well as some respondents in the next income level, who earn between \$12,000 and \$18,000 annually, can be classified as “working poor.” They are generally looking to self-employment as a way to provide basic necessities for their families and to stabilize precarious financial situations. The objective of programs serving these clients is poverty alleviation. Programs strive to offer services to these clients and their microbusinesses to enable them to survive economically and to move out of poverty. The characteristics of self-reliance and initiative-taking that are required to successfully manage a business are important skills for this group to acquire. Programs help them to develop the determination and resources necessary to break the psychological hold of dependence that frequently accompanies welfare and poverty.

Fifteen percent of respondents earn between \$18,000 and \$30,000, and 15 percent earn over \$30,000 a year. These moderate earners generally participate in microenterprise programs either because they are members of economically disadvantaged communities where traditional sources of credit are inaccessible or because they have been denied credit from traditional financial institutions. Since finding start-up capital is difficult for very small and young businesses, entrepreneurs take advantage of the innovative lending approaches offered by microenterprise programs. Other explanations for the presence of clients with higher incomes may be revealed in future research. Analysis of longitudinal data will allow us to determine if these clients' incomes are higher because their businesses are more established and whether their incomes have grown since participating in microlending programs.

**Respondents' Annual Earnings  
from Jobs and Businesses**



As we have stated previously, programs appear to serve two discrete income groups of participants. Evidence based on household income data reported by respondents further strengthens this finding. While a large number of respondent households are

poor or “working poor,” there is also a sizable group whose household incomes are more reflective of the middle class. The following chart details the percentages of respondent households that fall into various income categories, from the eleven percent who are very poor (earning less than \$6,000 per year) to those earning \$30,000 or more (27 percent of the sample). It is important to note that in this report we do not examine household income as it relates to the number of people living in a household, or household size. The data presented here are preliminary in this respect. In an upcoming paper that looks solely at microenterprise as a poverty alleviation strategy, we will examine this important factor in great detail. In addition, cost of living varies dramatically from rural Arkansas and North Carolina (where GFF and REDC operate) to what is required to sustain a family living in Los Angeles or Chicago (where CWED and WSEP operate). This factor should also be kept in mind when reviewing the following table.

**Respondent Household Income\***  
1992

	All Programs	CWED	GFF	ISED	REDC	MICRO	WSEP	WV
\$0-6,000	11%	13%	10%	37%	6%	2%	7%	4%
\$6,001-12,000	7%	5%	8%	11%	6%	8%	10%	0%
\$12,001-18,000	10%	16%	3%	11%	6%	18%	10%	6%
\$18,001-30,000	17%	16%	20%	10%	18%	12%	21%	15%
\$30,001 +	27%	32%	26%	8%	23%	18%	35%	51%
Mean Household Income					\$29,054			
Median Household Income					\$23,332			

\*Percentages do not add to 100% due to missing data.

Across programs, the mean, or average, annual household income of respondents is \$29,054. Because respondents report great differences in income levels and our sample size is relatively small, *median* household income may be a better indicator of overall economic status.<sup>4</sup> Median annual income for all respondent households is \$23,332.

<sup>4</sup>Median income is the income level at which half of the respondents report earning more, and half report earning less.

In examining the range of income levels, the unique client groups of ISED and WomenVenture stand out. Even without accounting for household size, ISED households subsist at an economic level well below poverty thresholds. Forty-seven percent of households earn or receive less than \$12,000 in annual income (37 percent earn less than \$6,000 per year). Fifty-one percent of WomenVenture respondents report household incomes greater than \$30,000 per year. This wide disparity in findings reflects program missions at the time of the wave one survey (1992). ISED targeted AFDC recipients exclusively, while WV's goal was to facilitate female entrepreneurship regardless of economic status.

### **Self-Employment and Income from Public Assistance and Transfer Payments**

The welfare-to-self-employment strategy is a unique subset of the microenterprise field, employing a specialized set of interventions that are particularly appropriate for people on welfare. While providing the same general package of direct microenterprise development assistance that includes technical assistance and credit, these programs offer a tailored, participatory set of training workshops and technical assistance interventions that may include workshops and consultations on self-esteem building, setting goals, analyzing the viability of starting a microbusiness, balancing a budget, and other topics.

These programs have obtained state or federal waivers to allow recipients to maintain a certain portion of their benefits while they set up their businesses. They are also attempting to change other regulatory barriers that make it extremely difficult for a person on welfare to succeed at a new business. Examples of barriers include limitations on asset and income accumulation.

Respondents were asked whether they receive assistance from a number of public programs. Forty-eight percent report receiving assistance from Aid to Families with Dependent Children (AFDC), food stamps, Supplemental Security Income (SSI), government training allowances, or State General Assistance. Of those receiving public assistance, the largest share receive food stamps (23 percent). Sixteen percent receive support from AFDC, and another four percent receive general income support. Only six percent of respondents live in publicly subsidized housing.

The Good Faith Fund, ISED, and WSEP actively target welfare clients in an attempt to help them get off of public assistance by starting a microbusiness. Of these, the Good Faith Fund and ISED have significant numbers of people receiving government assistance relative to their overall portfolio of clients.

Means-tested public benefits to Good Faith Fund entrepreneurs, for the most part, include food stamps (18 percent), AFDC (13 percent), and SSI (8 percent). Sixteen percent of WSEP's clients receive food stamps. Means-tested public benefits to ISED entrepreneurs are AFDC (69 percent), general assistance (15 percent) and food stamps (74 percent). Fifteen percent of ISED clients live in publicly subsidized housing. Again,

this finding reflects ISED's mission to provide business assistance and training to welfare recipients.

### **Household Net Worth**

Overall, forty-nine percent of respondents own their homes. Three rural programs, the Good Faith Fund, Rural Economic Development Center and PPEP/MICRO, have high percentages of home owners (72 percent, 58 percent and 80 percent, respectively). For only one urban program, WomenVenture, do a large number (43 percent) report home ownership. The other urban programs, WSEP and CWED, report lower percentages of home ownership (38 and 26 percent, respectively). This finding may reflect differences in housing markets in these areas. Among respondents from the Institute for Social and Economic Development, which primarily targets low-income recipients of public assistance, 26 percent are homeowners.

Sixty-seven percent of total respondents report a positive personal net worth (not including business assets or liabilities). Twenty-three percent of respondents have more liabilities than assets, or a negative net worth. Of those who have a positive net worth, thirty-three percent of respondents have assets under \$5,000, eight percent have assets from \$5,000 to \$10,000 and 53 percent have total assets valued over \$10,000.

### **Sources of Start-up Capital**

The business owners surveyed have large personal stakes in the success or failure of their enterprises—regardless of size of business. A great majority of SELP respondents used their own money to start their businesses. With the exception of ISED, across programs, personal funds is the most frequently cited source of start-up capital (66 percent). Many microentrepreneurs also report obtaining money from relatives. Reflecting their program's strategy and focus, ISED participants reported receiving start-up funds from bank or credit union loans and government assistance in larger numbers than did participants of other programs.

Across programs, microentrepreneurs report that lack of money is the greatest obstacle to success in starting a business (41 percent). Lack of capital is also cited as the greatest barrier to business growth (47 percent). Almost one-quarter of entrepreneurs (23 percent) indicate that they would not have been able to start their businesses without the support they received from their microenterprise program. Twenty-five percent report that they were able to expand their businesses with the assistance of a microenterprise agency.

### **Reasons for Choosing Self-Employment**

Responses from the baseline sample offer insights into why respondents chose to pursue self-employment. Many were motivated by economic need. Thirty percent started their businesses because they needed income or they needed a job. Suggestive of an "entrepreneurial mentality," 21 percent simply stated that they wanted to work

for themselves. Another 20 percent started businesses because they enjoy an activity enough to want to devote more or all of their time to it. Related to this is the 8 percent indicating that possessing previous skills and experience was a natural avenue into business creation. Nine percent saw a need or market for their ideas or talents. Six percent reported needing the flexibility of self-employment to allow them to care for family members.

Of all respondents, only nine percent were not operating a microbusiness at the time they were interviewed. Some of these people were in the process of obtaining a loan to open a business, and others had secured traditional part- or full-time employment. Other entrepreneurs had closed businesses that were unprofitable.

## **BUSINESS CHARACTERISTICS: AGE, SIZE AND PROFITABILITY**

### **Ownership**

Most SELP entrepreneurs own 100 percent of their businesses. Across all programs, only 10 percent report that they are not sole proprietors. Shared ownership is most prevalent among GFF and REDC businesses. Twelve percent of GFF microentrepreneurs and thirteen percent of REDC microentrepreneurs own less than 50 percent of their businesses. Thirteen percent of WomenVenture respondents report that they own more than 50 percent but less than 100 percent.

### **Age of Microbusinesses**

While the majority of SELP businesses are less than five years old (65 percent), approximately one-fourth of respondents in three programs (WV, REDC and GFF) report that their businesses have been established for five years or longer. ISED has the largest percentage of very young businesses (72 percent are less than two years old). Across programs, 43 percent of businesses are between one and four years old, while 22 percent are less than one year old, and 19 percent have been established for longer than five years.

### **Numbers of Employees and Numbers of Jobs Created**

There are two commonly accepted indicators of a business' size—number of employees and gross sales. By any measurement, microenterprises are by their very nature the smallest of small businesses. Sixty-six percent of businesses in our sample employ the owner-operator alone. But a surprising survey finding is that among the remaining 34 percent of businesses, approximately 332 full- or part-time jobs have been created. Seventeen percent of business owners report that they have added full- or part-time jobs since participating in their microenterprise program.

The percentages of businesses with employees in addition to the owner-operator are small, but the fact that these smallest of small firms are creating jobs is important.

Twenty-three businesses in the sample population report employing five or more workers. Another 20 businesses have three or four employees. And the remaining 59 businesses with paid employees provide jobs for one or two workers. The following table details the number of full-time and part-time jobs created or retained that are in addition to the 286 owner-operator positions of the microentrepreneurs themselves.

A fundamental goal of microenterprise assistance programs is to assist in the start-up or expansion of microenterprises. One-quarter of SELP respondents who have expanded their businesses attribute their expansion to agency support. Twenty-three percent indicate that they would not have started their businesses without the assistance of their programs. Seventeen percent report having hired additional full- or part-time employees since they began participating in their program.

**Numbers of Jobs Created or Retained by Microenterprises  
(by size of firm)**

Size of Firm*	Numbers of Firms Reporting	Total Jobs Created or Retained**
Owner-Operator Only	286	286
1 Paid Employee	37	37
2 Paid Employees	22	44
3 Paid Employees	14	42
4 Paid Employees	6	24
5 Paid Employees	6	30
6 Paid Employees	6	36
7 Paid Employees	2	14
8 Paid Employees	2	16
10 Paid Employees	3	30
12 Paid Employees	1	12
13 Paid Employees	1	13
14 Paid Employees	1	14
20 Paid Employees	<u>1</u>	<u>20</u>
	<b>388</b>	<b>621</b>

\* Skips in firm size sequence indicate no firms in category.

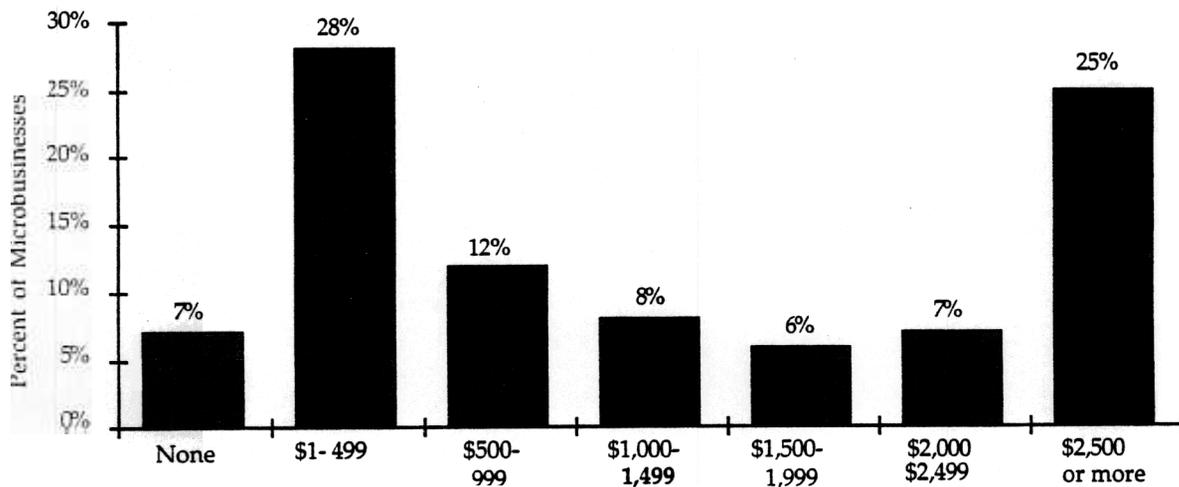
\*\* Includes full-time, part-time and seasonal employees.

## Microbusiness Sales

Monthly gross sales for most SELP businesses (in a normal month) are less than \$1,000 (47 percent of firms).<sup>5</sup> However, one-quarter report sales of \$2,500 or greater. The remaining 21 percent of businesses receive \$1,000-2,499 in gross sales in a normal month. Based on this indicator, REDC, MICRO and WV have the largest businesses. Between 35 and 37 percent of respondents from these programs report normal monthly gross sales of \$2,500 or more.

Thirty-nine percent of responding microentrepreneurs indicate that their business revenues increased in the year preceding the wave one survey. The largest number of firms reporting increases in revenues are REDC businesses (55 percent). Overall, 17 percent of firms report decreases in revenues. Decreases were most pronounced among CWED firms (47 percent reported declines in revenues). This finding may be attributable to the fact that many CWED businesses operate in areas of Los Angeles most affected by rioting during the period the survey examined.

**Normal Monthly Gross Sales for Microbusinesses**



## Microbusiness Profitability

Almost half (46 percent) of SELP businesses earn a profit in a normal month, and another seven percent break even. Respondents were asked to report detailed expenses that their businesses incur during a normal month, and these expenses were subtracted from total gross revenues to determine profitability. Using this method, 34 percent of

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<sup>5</sup> Data on gross sales and gross revenue are substantially the same. Most businesses surveyed did not report receiving income other than sales.

businesses appear to lose money during a normal month of operations. In waves two through five of this survey assessment component, respondents will be queried further. It is expected that information detailing change over time will offer more insights into enterprise profitability. Anecdotally, entrepreneurs report that profits can vary by large amounts from month to month.

<b>Monthly Gross Sales in a Normal Business Month (percent)</b>								
	<b>ALL</b>	<b>CWED</b>	<b>GFF</b>	<b>ISED</b>	<b>REDC</b>	<b>MICRO</b>	<b>WSEP</b>	<b>WV</b>
<b>None</b>	7%	5%	5%	15%	5%	4%	3%	11%
<b>\$1-499</b>	28%	37%	33%	35%	18%	22%	40%	11%
<b>\$500-999</b>	12%	11%	13%	13%	16%	10%	13%	9%
<b>\$1,000-1,499</b>	8%	8%	13%	11%	10%	6%	7%	6%
<b>\$1,500-1,999</b>	6%	11%	8%	4%	2%	4%	7%	7%
<b>\$2,000-2,499</b>	7%	5%	3%	2%	8%	10%	12%	2%
<b>\$2,500 or more</b>	25%	13%	21%	17%	35%	37%	13%	37%

Almost three-quarters (70 percent) of SELP businesses report a positive net worth (assets greater than liabilities). Of these, 38 percent have a net worth valued at between \$1 and \$5,000, and 32 percent report a net worth higher than \$5,000. Twenty-four percent of respondents own businesses with greater liabilities than assets. Of the entrepreneurs whose businesses have a negative net worth, two percent report liabilities that are at least \$5,000 greater in value than assets.

### **Types of Microbusinesses**

The 405 entrepreneurs surveyed operate a total of 386 businesses. Of these businesses, 227 (56 percent) provide the primary income source for the respondent. The additional 159 businesses were reported to provide secondary sources of income. Ten microentrepreneurs operate two businesses.

The variety of microenterprises in our sample reflects the diversity of experience, interests and capabilities of the individuals who run them. Although there are concentrations of entrepreneurs engaged in activities that seem to fill market niches or respond to unique community characteristics or circumstances, the range of businesses is broad. Microbusiness activities include desktop publishing, catfish farming, specialized high-volume embroidery, jewelry-making, and clothing sales. The wide inventory of businesses underscores the ingenuity with which the entrepreneurs apply their talents and resources to employ themselves doing something they enjoy or for which they see a potential market.

Because the variety of businesses is great and the sample size is relatively small, traditional methods of categorizing firms according to broad economic sectors of the

economy (agriculture, manufacturing, services, etc.) are not particularly illustrative. Therefore, in order to show as much detail as possible about the creativity of entrepreneurs while still organizing businesses into useful categories, the businesses are grouped according to general industry activities that are related to one another. Data on business type are displayed in the appendix along with their Standard Industrial Classification codes. It is hoped that by displaying business type in this manner the richness of activity remains clear while also allowing the interested reader to further examine broad economic sectoral representation.

The largest number of businesses, 81 firms, are engaged in activities relating to apparel and textile production, sales, and services. While many of the businesses in this group engage in the buying and selling of clothing, apparel production firms are also numerous. Some of these entrepreneurs have identified market niches for custom sewing, low-volume standardized production, or detail design for other manufacturers. Others sew for the general public. It is not surprising that clothing production accounts for a substantial number of all production firms in the total sample. Barriers to entry into apparel manufacturing are low compared with many other manufacturing activities. The equipment required for start-up is relatively inexpensive and easily acquired, many of the respondents possess special sewing and design skills, and markets for apparel are widespread and diverse.

The next largest business cluster is composed of varied retail and wholesale product sellers. The 78 entrepreneurs in this category sell an astonishing variety of goods. While retail operations make up the majority of these firms, surprisingly, there are eight wholesalers. This cluster also includes 14 entrepreneurs who work with "party plan" direct sales operations. Similar in concept to franchising, this type of business allows an entrepreneur to sell products with wide name-recognition, while typically receiving company support in the form of sales training, advertising and other areas.

Many microentrepreneurs possess professional skills and start their own businesses in order to have more independence or earning potential. In the survey sample, 66 businesses fall into this general category. Common professional services represented in the SELP sample include both personal and business services. Sixteen microentrepreneurs either operate their own hair care salon or provide hair care and cosmetic services from salons located outside of their homes. Nine microentrepreneurs offer their secretarial and administrative skills to the general public through microbusinesses.

Within this professional services group both traditional "main street" businesses as well as more recent "growth industry" activities are represented. The sample includes insurance and real estate agents, law offices, and accountants. It also shows that microentrepreneurs, with increased access to information technology, can perform functions once generally associated with much larger organizations, such as credit collection services and educational services. Two microentrepreneurs are in business to find jobs for others—they operate employment agencies.

There are a number of firms engaged in building services, construction, and the sale or distribution of supplies related to these activities. Various construction contractors account for 13 of the 27 firms in this category. An additional seven firms provide custodial services to commercial buildings.

Another large group (30 businesses) are classified in the food industry. Seventeen entrepreneurs prepare and sell food or drink in restaurants, in bars, as caterers, or from mobile units. Seven other enterprises are engaged in the production of bakery and other food items for general public distribution. There are two grocery retailers included in this group as well as a liquor store. As with the business services category, these businesses are often providing goods and services to communities in remote areas or in areas where large franchises and chain stores will not locate. Recent consolidation via mergers and acquisitions by large grocery retailers and other national service providers may have left important niches for innovative entrepreneurs to fill.

### **Jobs Created by Microbusiness Type**

It is interesting to examine the industries in which microenterprises have created jobs. The following table shows the numbers of jobs created by firms in the industries represented in the SELP sample. This table does not account for the jobs held by owner-operators. It is clear that restaurants, bars and catering services have been the most successful at generating jobs beyond the owner-operator (45 jobs). Several other business categories also employ workers in addition to the microentrepreneur. Building custodial firms employ an additional 21 individuals, and women's accessories retail sales also appears to be fairly vibrant in terms of job generation (22 jobs). Firms in the broad retail sales category employ 25 workers. Finally, two production firms report employing additional workers. Bakery products and precious jewelry manufacturing together employ 12 individuals beyond the owner-entrepreneur.

**Numbers of Employees in Addition to the 286 SELP Owner-Operators  
Full-time, Part-time and Seasonal**

<b>SIC Code</b>	<b>Industry Name</b>	<b>Number of Employees</b>
011	Agricultural Products / Farms	12
027	Aquaculture	4
078	Lawn & Garden Services	3
152	Residential Building Contractors	2
171	Plumbing & Heating / Air Conditioning	2
175	Carpentry & Floor Work	1
179	Special Trade Contractors (misc.)	3
205	Bakery Products	8
230	Apparel Production (misc.)	10
233	Misses/Junior Apparel Production	1
238	Apparel / Accessory Production (misc.)	6
239	Fabricated Textile Products (misc.)	1
356	Industrial Machinery Manufacturing	8
391	Precious Jewelry Manufacturing	12
396	Costume Jewelry Manufacturing	5
399	Manufacturing Industries (misc.)	9
472	Tour Operators	5
495	Refuse Systems	13
504	Computer Peripherals / Software (wholesale)	2
514	Groceries (wholesale)	1
519	Books / Flowers / Farm Supplies (wholesale)	4
543	Fruit & Vegetable Markets	2
549	Misc. Food Sales	1
554	Gasoline Service Stations	5
561	Mens & Boys Clothing (retail)	1
562	Women's Clothing (retail)	4
563	Women's Accessories (retail)	22
569	Misc. Retail (includes custom tailoring/design)	4
571	Home Furnishings (retail)	2
573	Home Electronics / Records / Tapes (retail)	2
581	Restaurants / Bars / Caterers	45
592	Liquor Stores	1
593	Used Merchandise (retail)	1
594	Sporting Goods / Stationery / Gifts (retail)	25
599	Flower Shops / Optical / Misc. (retail)	5

**Numbers of Employees in Addition to the 286 SELP Owner-Operators  
Full-time, Part-time and Seasonal, continued**

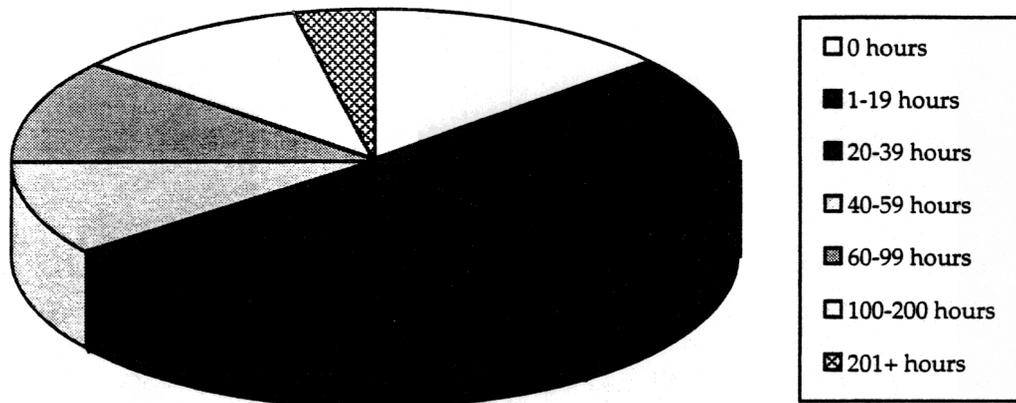
<b>SIC Code</b>	<b>Industry Name</b>	<b>Number of Employees</b>
641	Insurance Agents	6
653	Real Estate / Appraisals	6
721	Laundry Services (incl. cleaning & alterations)	1
723	Beauty Salons	4
729	Personal Services (misc.)	2
732	Credit Collection Services	6
733	Secretarial Services	1
734	Building Custodial Services	21
736	Employment Agencies	3
737	Computer Programming Services	3
738	Business Services (misc.)	4
753	Automotive Repair	1
754	Car Washes	7
764	Reupholstery / Furniture Repair	2
769	Repair Services (misc.)	3
799	Video Arcades	2
802	Dental Offices	2
824	Computer Schools	1
832	Adult Day Care	2
835	Child Day Care	12
872	Accounting / Bookkeeping / Auditing	2
874	Management / Business Consulting	2
899	Misc. Services	3
999	Unclassified Businesses	4
<b>Total Jobs in Addition to Owner-Operators</b>		<b>332</b>

## **TRAINING AND TECHNICAL ASSISTANCE**

A critical element of the microenterprise development strategy is the training and technical assistance that agencies provide to clients. Agencies vary dramatically in the type and intensity of training they offer. PPEP/MICRO, for example, is a credit-led program. Staff encourage clients who, for the most part, own existing businesses, to seek individual technical assistance consultations and to participate in associations with other micro-business owners. At the heart of the ISED program, on the other hand, is a comprehensive training model that focuses on the personal, professional, and social development of clients, many of whom are starting businesses for the first time. All of the other programs offer orientations to prospective borrowers, and many offer quite intensive training curricula. At some programs training is mandatory, and at others it is elective.

The following chart helps to illustrate this diversity of training experiences that participants receive by detailing the number of hours they have participated in formal classes offered by their programs. We will describe the details of the different training models in an upcoming paper, *The Practice of Microenterprise in the U.S.: Strategies, Costs and Effectiveness*, to be published in 1995. Based on data from our entrepreneur survey, it is clear that regardless of training model, respondents report participating in many hours of training classes. The majority (60.7 percent) have attended more than 20 hours of business and personal development training. Of these, 35 percent have been in classes more than 40 hours, and 13.9 percent have attended more than 100 hours of training:

**Number of Hours Classroom Training**  
(percentage of respondents by range)



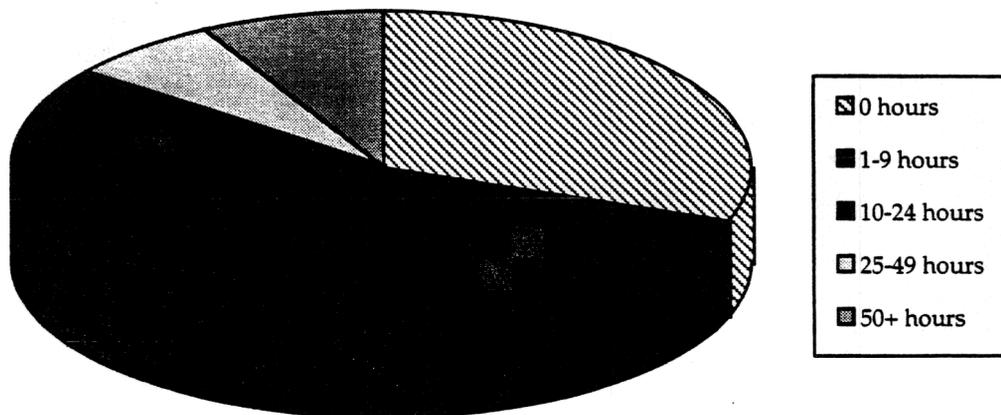
For three of the seven programs, the largest groups of respondents report that they have attended between 1 and 19 hours of training. These are the most "credit-led" of the programs and include MICRO, REDC, and WV. The largest groups from CWED, GFF, and WSEP have attended 20-39 hours of classes. For ISED, the largest group of respondents report that they have received 60-99 hours of training since they began participating in the program. The majority of respondents (56 percent) deemed the training provided by their programs as "very useful." An additional 20 percent viewed these services as "somewhat useful."

**Number of Hours of Classroom Training Reported  
(percentage of respondents by range and program)**

	All Programs	CWED	GFF	ISED	REDC	MICRO	WSEP	WV
0 hours	13.9	18.5	3.4	0.0	19.1	25.0	4.5	29.5
1-19 hours	25.4	7.4	20.7	4.9	26.5	57.1	24.2	38.6
20-39 hours	25.7	40.7	34.5	12.2	22.1	14.3	37.9	18.2
40-59 hours	10.2	18.5	13.8	9.8	11.8	0.0	13.6	2.3
60-99 hours	10.9	7.4	10.3	34.1	5.9	3.6	12.1	2.3
100-200 hours	10.6	3.7	6.9	26.8	14.7	0.0	7.6	6.8
201+ hours	3.3	3.7	10.3	12.2	0.0	0.0	0.0	2.3

All programs offer individual technical assistance to business owners in addition to more formal group instruction. Eighty-six percent of respondents report having taken advantage of this service and have received surprisingly large numbers of hours of one-on-one help. Across programs, 14.5 percent of respondents reported that they have received more than 25 hours *each* of individual technical assistance. The following chart illustrates the importance of this service to entrepreneurs by detailing the number of hours of technical assistance they have received from their programs.

**Number of Hours Technical Assistance  
(percentage of respondents by range)**



Number of Hours of Technical Assistance Reported (percentage of respondents by range and program)								
	All Programs	CWED	GFF	ISED	REDC	MICRO	WSEP	WV
0 hours	30.9	29.6	17.2	16.7	39.7	53.6	31.8	25.0
1-9 hours	35.5	29.6	37.9	35.7	32.4	32.1	40.9	36.4
10-24 hours	19.1	14.8	27.6	16.7	19.1	10.7	21.2	20.5
25-49 hours	6.6	7.4	17.2	14.3	1.5	0.0	1.5	11.4
50+ hours	7.9	18.5	0.0	16.7	7.4	3.6	4.5	6.8

## CONCLUSION

This baseline report provides basic information on microenterprise assistance in the United States as it is represented by the seven programs participating in the SELP study. While it is primarily descriptive, it does allow us to understand more clearly who microenterprise programs are serving and to identify the range of results we are beginning to see for program participants. Subsequent reports will look, in particular, at the key questions of what happens to clients and businesses over time. These questions are critical in helping us to understand to what extent we can look to microenterprise development as a poverty alleviation or small business development strategy.

## APPENDIX

### BUSINESSES OPERATED BY SELP MICROENTREPRENEURS

Description of Business	3-Digit SIC Code	Businesses Source of Primary Earnings	Businesses Source of Secondary Earnings	Total Businesses in Category
<b>Agricultural and Landscaping Businesses</b>				
Agricultural Products/Farms	011	1	0	1
Aquaculture Farms	027	0	1	1
Lawn & Garden Services	078	2	1	3
Farm Machinery Mfg.	352	1	0	1
Farm & Garden Machinery (wholesale)	508	1	0	1
<b>Building Services &amp; Construction Businesses</b>				
Residential Building Contr.	152	4	0	4
Plumbing/Heating/Air Cond. Contr.	171	1	0	1
Painting & Paper Hanging Contr.	172	1	1	2
Masonry/Tile/Plaster Contr.	174	1	0	1
Carpentry & Floor Work Contr.	175	3	0	3
Special Trade Contr. (misc.)	179	2	0	2
Steel Pipe Mfg.	331	1	0	1
Heating & A/C Supplies (wholesale)	507	0	1	1
Lumber & Building Materials (retail)	521	1	1	1
Hardware (retail)	525	1	0	1
Building Custodial Services	734	7	2	9
<b>Craft Businesses</b>				
Ornamental Metalwork (prod. & sales)	344	0	1	1
Pottery & Ceramics (prod. & sales)	326	2	4	6

Description of Business	3-Digit SIC Code	Businesses Source of Primary Earnings	Businesses Source of Secondary Earnings	Total Businesses in Category
<b>Medical-Related Businesses</b>				
Veterinary Services	074	1	1	2
Dentists	802	1	0	1
Chiropractors	804	1	0	1
Home Health Care Services	808	2	0	2
<b>Food Product Businesses</b>				
Bakery Products (prod. & sales)	205	5	1	6
Misc. Food Production (prod. & sales)	209	1	0	1
Candy Sales (retail)	544	0	1	1
Misc. Food Sales (retail)	549	0	1	1
Liquor Stores (retail)	592	0	1	1
Groceries (wholesale)	514	1	0	1
Groceries (retail)	541	1	0	1
Fruit & Vegetable Markets (retail)	543	1	0	1
Restaurants & Bars	581	6	11	17
<b>Textiles &amp; Apparel Businesses</b>				
Fabric Finishing (prod. & sales)	226	0	1	1
Misc. Textile Goods (prod. & sales)	229	1	0	1
Misc. Apparel Goods (prod. & sales)	230	1	0	1
Mens & Boys Apparel (prod. & sales)	232	1	0	1
Womens & Jr. Apparel (prod. & sales)	233	2	0	2
Childrens Apparel (prod. & sales)	236	0	1	2
Misc. Apparel & Accessories (prod. & sales)	238	4	1	5

Description of Business	3-Digit SIC Code	Businesses Source of Primary Earnings	Businesses Source of Secondary Earnings	Total Businesses in Category
Misc. Fabricated Textiles (prod. & sales)	239 3	1	4	
Mens & Boys Apparel (retail)	561	1	0	1
Womens Apparel (retail)	562	7	3	10
Womens Accessories (retail)	563	7	8	15
Childrens & Infants Apparel (retail)	564	1	1	2
Family Apparel (retail)	565	9	3	12
Shoes (retail)	566	1	1	2
Misc. Apparel (includes custom tailoring /sewing/design)	569	6	11	17
Laundry Services (includes cleaning & alterations)	721	6	0	6

#### Printing /Publishing /Multi-Media Related Businesses

Commercial Printing	275	1	1	2
Publishing	274	0	1	1
Rubber Stamps (prod.)	395	0	1	1
Photography Studios	722	1	1	2
Movie/Video Tape Production	781	0	1	1
Services Allied to Motion Picture Distribution	792		2	3

#### Industrial Manufacturing Businesses

Industrial Machinery Mfg.  
Misc. Manufacturing

Description of Business	3-Digit SIC Code	Businesses Source of Primary Earnings	Businesses Source of Secondary Earnings	Total Businesses in Category
<b>Jewelry Businesses</b>				
Precious Jewelry (prod.)	391	3	0	3
Costume Jewelry (prod.)	396	3	3	6
Jewelry, Watches, Precious Stones (wholesale)	509	2	0	2
<b>Tourism &amp; Amusement Businesses</b>				
Tour Operators	472	0	1	1
Video Arcades	799	2	2	
<b>Computer &amp; Telecommunications Businesses</b>				
Telecommunications Services	481	1	0	1
Computer Peripherals & Software (retail)	504	1	1	1
Home Electronics/Records/Tapes (retail)	573	2	0	2
Computer Programming Services	737	3	0	3
TV/AC Repair	762	2	0	2
Computer Schools	824	1	1	1
<b>Professional Services Businesses</b>				
Insurance Agents	641	2	1	3
Real Estate/Appraisal Services	653	1	0	1
Hair & Beauty Salons	723	11	5	16
Misc. Personal Services	729	4	3	7

<b>Description of Business</b>	<b>3-Digit SIC Code</b>	<b>Businesses Source of Primary Earnings</b>	<b>Businesses Source of Secondary Earnings</b>	<b>Total Businesses in Category</b>
Credit Collection Services	732	1	0	1
Secretarial Services	733	4	5	9
Employment Agencies	736	1	1	2
Misc. Business Services	738	1	2	3
Misc. Repair Services	769	3	2	5
Law Offices	811	2	0	2
Accounting/Auditing/Bookkeeping	872	4	1	5
Commercial Physical Research	873	1	0	1
Management/Business Consulting	874	3	1	4
Misc. Professional Services Businesses	899	1	4	5
Education Services/Instruction	829	0	2	2

#### **Varied Retail & Wholesale Product Businesses**

Books/Flowers/Farm Supplies/Misc. (wholesale)	519	7	0	7
General Merchandise (retail)	539	2	0	2
Used Merchandise (retail)	593	6	3	9
Sporting Goods/Stationery/Gifts/ Sewing & Hobby Supplies (retail)	594	8	9	17
Party Plan/Direct Selling (retail)	596	5	9	14
Optical/Artwork/Cake Decorating Supplies/misc. (retail)	599	16	12	28
Prescription Drugs & Drug Sundries Supplies (wholesale)	512	1	0	

<b>Description of Business</b>	<b>3-Digit SIC Code</b>	<b>Businesses Source of Primary Earnings</b>	<b>Businesses Source of Secondary Earnings</b>	<b>Total Businesses in Category</b>
<b>Furniture &amp; Home Furnishings Businesses</b>				
Furniture (wholesale)	502	1	0	1
Home Furnishings (retail)	571	7	2	9
Reupholstery/Furniture Repair	764	1	0	1
<b>Automobile Related Businesses</b>				
Gasoline Service Stations	554	1	0	1
Automotive Repair	753	3	1	4
Car Washes	754	3	2	5
<b>Adult &amp; Child Care Businesses</b>				
Child Day Care	835	9	3	12
Adult Day Care	832	1	0	1
<b>Other Businesses</b>				
Refuse Collection & Disposal	495	1	0	1