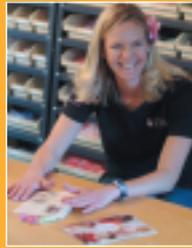


# FIELD Funder Guide



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## Microenterprise: Making a Difference

Many struggle to find their place in the American economy. Consider, for instance: 37 million people in the United States live in poverty. In 2005, the unemployment rate hovered at 5 percent. An estimated 22 million people are “unbanked,” making saving money and building assets a struggle. Those at the bottom 60 percent in terms of income own less than 5 percent of the nation’s wealth.<sup>1</sup>

Such figures seem daunting even to those working on poverty alleviation and community economic development issues. Searching for solutions, some funders are finding that microenterprise development offers opportunities to reach the economically vulnerable, to spark business activity, and to encourage local community change. But exactly how does microenterprise connect to key funder agendas? What do we know about its value with respect to poverty alleviation, asset development, increasing financial security and local economic development? FIELD’s review of program performance and client outcome data from an array of sources provides a look at the answer.<sup>2</sup>

### Poverty alleviation and increased economic security

A microenterprise can be an important component of a household’s economic portfolio – contributing to overall economic well-being and self-sufficiency, while providing the entrepreneur with a chance to develop and control a source of earned revenue. Recognizing this, microenterprise development programs assist the economically vulnerable and those who have experienced barriers to economic opportunity. A substantial proportion of their clients live at or below the poverty line, or are among the working poor when they enter programs.

Studies of clients surveyed after receiving microenterprise program services indicate that participants report increased incomes, and that the percent of individuals living in poverty is reduced. A five-year study of clients found, for example, that median household income increased by 91 percent and that 72 percent of 133 low-income entrepreneurs reported income growth. Moreover, for a set of entrepreneurs, the increase in family income was sufficient to take them above the poverty line. A study of participants in a welfare to work demonstration found that the percentage of respondents living above 100 percent of the federal poverty line increased from 20 percent to 56 percent over a two-year period.

#### At program entry, microenterprise program clients are:

- 60% women,
- 50% persons of color, ethnic and racial minorities,
- 60% low to moderate income,
- 30% at or below poverty line,
- 11% TANF recipients.

#### After program services, studies find:

- median household income increases (91% in a five-year study of 133; 78% in a two-year study of 595 welfare recipients).
- movement out of poverty (by 36% after two years in one welfare to work demonstration; by 42% after 18 months in a women’s focused training program).
- significant and positive effect on the likelihood of being employed for 1,369 program participants.

Participants also appear more adept at sustaining employment, as they can move between self- and wage-employment, focusing on whichever is more remunerative and appropriate given local economic conditions and their family situation. Importantly, the impact study of an unemployment insurance demonstration documented a significant and positive effect on the length of employment for 1,369 participants.

It's important to note that in many instances, increases in other forms of household income also contributed to the improvement in household circumstances, but the business was an additional financial resource. Also, some individuals who move out of poverty remain low-income, suggesting that they would benefit from additional policy supports, such as those extended to individuals working in low-wage jobs, including access to health care, child care and transportation assistance.

## Economic development

More and more states are recognizing that economic development depends on home-grown businesses as much as on the attraction of external corporations through tax and other recruitment incentives. Healthy communities have businesses of all sizes and types employing community residents, contributing needed products and services and making the community an attractive place to live. Microenterprises increasingly are being recognized as an important part of the picture, providing jobs, enabling people to stay in their communities in spite of structural changes in local economies, and contributing to local flavor.

Both experimental design and longitudinal studies found that rates of business ownership increase after participants received microenterprise assistance. Longitudinal studies also found that the businesses survive at rates comparable to other small businesses, and that most businesses grow over time.

Microbusinesses create employment for the owners and sometimes for others. While most businesses remain small, generating 1.5 jobs on average, some grow substantially, producing greater economic development benefits. For example, among businesses supported by Ms. Foundation-funded programs<sup>3</sup>, a set of 15 high-performing businesses reported median sales of \$127,000, and employed a total of 95 people.

Studies also document less tangible benefits, such as personal empowerment and overall family well-being. Specifically, clients report that self-employment provides flexibility to support family roles, and results in a greater sense of workplace control, autonomy, personal development and self-esteem.

### FIELD outcomes data on 813 program clients of 17 programs found that:

- 61 percent of the clients who enrolled in programs without a business reported being in business one year after receiving program services.
- 651 businesses employed 953 full- and part-time workers, including the owner.
- Total employment increased by 111%.
- Clients who had businesses at program entry experienced a median business revenue increase of 26% – from \$19,866 to \$25,000.
- 560 of these businesses reported total revenues of \$43,844,178. Included were a mix of small and high volume businesses.

Survival rates of microenterprises in a five year study were 49%, comparable to the survival rates reported by the Small Business Administration for all non-employer firms.

## Asset development and ownership

Households do not achieve economic security based on income alone. Assets play a key role in building financial security, mitigating risk and launching family members up the economic ladder through education and other career opportunities. Microenterprise development supports asset development within the business and the household. One study of program participants who were welfare recipients documented that median business assets, business net worth and personal assets each increased by over 240 percent over a two-year period. Research further documents both poor and non-poor program clients reporting increases in household assets.

Some studies have captured the growth in specific types of assets. One found, for example, that wage workers were less likely than self-employment program participants to acquire a home over a four-year period. Another key asset for all households is cash savings, which can be used to ease a household crisis or contribute to longer-term asset building. FIELD has collected data on client savings from 17 programs. More than one-third of clients (37 percent) reported increased savings one year after program services; median savings were \$2,000. Many microenterprise programs support savings accumulation by incorporating Individual Development Account programs among their offerings – at least 90 did so in 2002, helping clients generate additional financial resources to strengthen their businesses. Another 28 provided other savings services to clients.

Findings on net worth are less clear. One study found that households accumulated median net worth of \$2,055, while welfare recipients in another study reported declines in net worth, suggesting that microenterprise programs and others who work with low-income individuals may need to help clients understand how their choices affect personal debt.

## Increased access to financial services for the excluded

As many as 22 million individuals in the United States are unbanked; many others, even with bank accounts, use alternative, and higher priced, service providers for many financial transactions. Lack of access to appropriate financial services reduces savings capacity and limits the ability to build assets. Many microentrepreneurs are among the excluded either because of their lack of credit history, poor credit history, or their resident status. Even if they use banking services for their personal finances, their ability to access bank financing may be restricted because of the age or type of business, their lack of financials, or their personal credit score. Microcredit programs are designed to offer financial services to these individuals, reaching those few banks would consider.

**After two years, welfare to work demonstration program participants reported:**

- median business assets of \$4,800.
- median business net worth of \$4,000.
- a median increase of \$4,875, or 1,219% in household assets for those working full-time at their businesses.
- a median increase of \$1,155 or 226% for those working part-time at their businesses.
- an increase in home ownership – from 14 to 22% among business owners.

**A five-year study found:**

- median household assets grew by \$13,140 for all program participants.

**Outcomes studies of 17 programs found:**

- 37% reported increased savings one year after program services.

**Microloan programs lend to borrowers with credit scores as low as 525.**

**Banks participating in Small Business Administration 7A guarantees lending to borrowers with scores of at least 650.**

**45 microcredit programs at the end of fiscal year 2003 reported:**

- median portfolio at risk rates of 11%.
- median restructured loan loss rates of 9%.
- median loan loss rates of 7%.

Successful participation in a microcredit program can help repair a poor credit record and open the door to formal financial sources. Microcredit programs have demonstrated that they can help most clients successfully repay their loans and build a better track record. Many microcredit programs combine credit with financial literacy training and credit repair counseling to help strengthen clients' overall financial position. Some combine this with credit repair loans designed specifically to improve a borrower's personal credit score. Recognizing that personal and business financial matters are intertwined, and that education and financing are equally important, microenterprise programs work with clients holistically to position them for future advancement.

It's important to recognize that not all microenterprise development programs produce these benefits equally. FIELD research has found that poverty reduction and job creation effects, in particular, vary among programs depending upon their target market, goals and the services offered. Funders interested in specific development goals need to ensure that their aims and the capacities of the programs they support match closely.

### For more information

Elaine L. Edgcomb and Joyce A. Klein. *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. Washington, D.C.: The Aspen Institute/FIELD, February 2005. Pages 31-77 provide detailed supporting data for many findings cited here. Available from: <http://www.fieldus.org/publications/FulfillingthePromise.pdf>.

David Black. *Monitoring Client Outcomes: A Report from the MicroTest 2004 Data Collection*. Washington, D.C.: The Aspen Institute/FIELD, September 2005.

### Endnotes

1. Poverty data: <http://www.census.gov/prod/2005pubs/p60-229.pdf>; unemployment data: <http://www.bls.gov/cps/home.htm>; data on the unbanked: Katy Jacob, *Utilizing Partnerships to Test Emerging Market Strategies: A Case Study of H&R Block Initiatives in Five Cities*, Center for Financial Services Innovation, July 2005, [http://www.cfsinnovation.com/managed\\_documents/blockpaper.pdf](http://www.cfsinnovation.com/managed_documents/blockpaper.pdf); data on asset ownership: Ray Boshara, Reid Cramer and Leslie Parrish, *Policy Options for Achieving an Ownership Society for All Americans*, New America Foundation. Asset Building Program, Issue Brief #8, February 2005, [http://www.newamerica.net/Download\\_Docs/pdfs/Doc\\_File\\_2224\\_1.pdf](http://www.newamerica.net/Download_Docs/pdfs/Doc_File_2224_1.pdf).

2. Data are drawn from a set of studies completed by FIELD and other researchers. Most of the findings on program performance are drawn from descriptive surveys of the microenterprise industry and detailed data gathering from organizations participating in FIELD's MicroTest program. Findings on client outcomes are largely drawn from longitudinal studies that report the status of participants before and after receiving services. Among the seven studies cited in this piece, one used an experimental design using a control group, and one used a quasi-experimental design based on matched comparison groups and repeated measures. Because most studies did not use an experimental design, the findings should be understood as describing the benefits that clients perceive that their microenterprises contribute to their lives, and not necessarily confirming the net benefits produced by program participation alone.

3. The Ms. Foundation for Women coordinates a Collaborative Fund for Women's Economic Development with investments by donors interested in women's economic empowerment. The Fund invested in nine microenterprise programs between 2001 and 2004.

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