MICROENTERPRISE ASSISTANCE:

WHAT ARE WE LEARNING ABOUT RESULTS?

Key Findings from the Aspen Institute's Self-Employment Learning Project

May 1997

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Highlights From The 1996 Directory

- ✔ The 1996 Directory documents 328 U.S. microenterprise programs located in 46 states and the District of Columbia.

- ✔ The number of programs listed in this Directory has increased 68% since publication of the 1994 Directory, when 195 programs were listed.

- ✔ The *Practitioner Agency* section of the 1996 Directory contains 266 practitioner programs. These include programs which provide loans and/or technical assistance and training directly to microentrepreneurs.

- ✔ The *Practitioner Support* section of the 1996 Directory contains 62 programs. These include public and private funders; organizations which provide training, program consulting, or evaluation to practitioners; regional networks and trade associations; and research organizations.

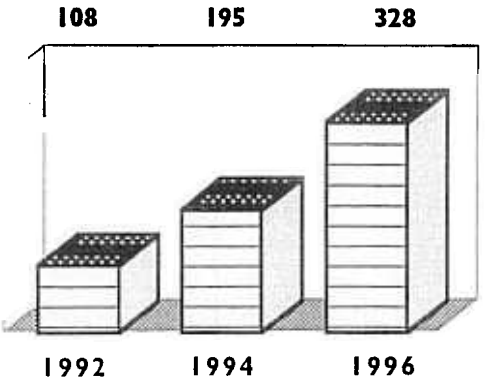
- ✔ 254 practitioner agencies (95%) provide technical assistance and training services to entrepreneurs. 193 practitioner agencies (73%) provide credit services.

- ✔ 181 practitioner programs (68%) provide both lending and training services. 73 practitioner programs (27%) do not have loan funds and provide only training and technical assistance to microentrepreneurs.

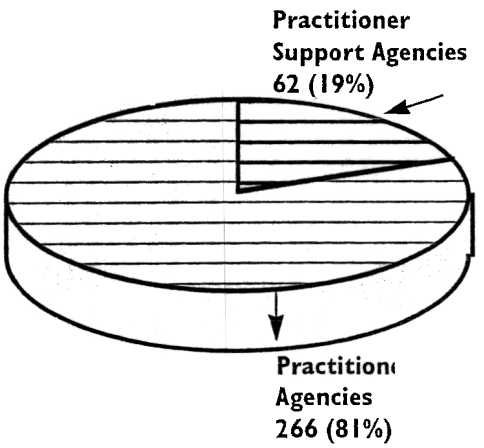
- ✔ In 1995, the 266 practitioner programs served 52,518 individuals, of which 9,605 were borrowers, and 42,913 were non-borrowers who received training or technical assistance. On average, each program served 245 individuals.

- ✔ The practitioner programs listed in the 1996 Directory have served a cumulative total of 171,555 participants since they were established.

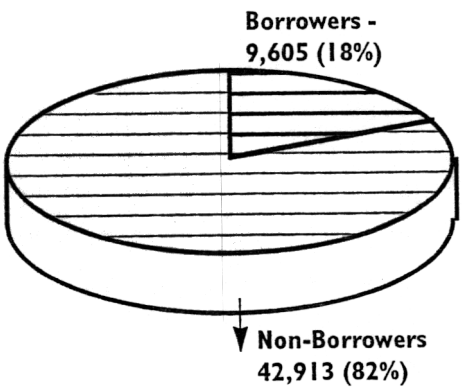
NUMBER OF PROGRAMS IN THE SELP DIRECTORY



328 PROGRAMS IN THE 1996 DIRECTORY



52,518 PARTICIPANTS ASSISTED IN 1995



- ✔ 36,211 businesses were assisted in 1995—of which 13,787 were start-ups.

- ✔ Since they were established, the lending programs in this Directory have disbursed more than $126 million in loans to microentrepreneurs. This is an increase since 1994 of almost 200% in total dollars loaned. In the 1994 Directory, programs reported that $44 million had been disbursed in loans since they were established.

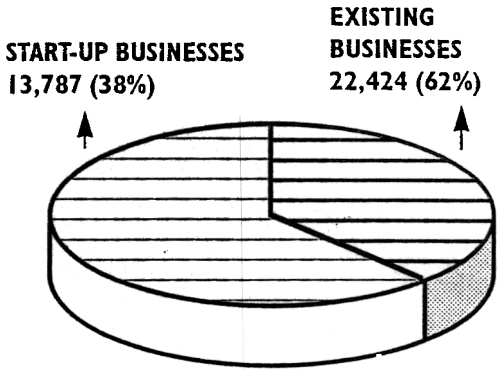
- ✔ In 1995, practitioner programs loaned $35,508,657 to microentrepreneurs.

- ✔ 51 programs (19% of practitioner agencies) provide loans using the group lending methodology. The average loan size for group lending programs was $1,597 in 1995. The average number of group loans per program was 42.

- ✔ In 1995, the group-lending programs served 792 borrowing groups, or an average of 19 groups per group-lending program.

- ✔ 163 programs (61% of practitioner agencies) provide individual loans, or non-peer group lending. In 1995, the average loan size was $9,248, and agencies disbursed an average of 29 loans per program.

36,211 MICROBUSINESSES ASSISTED IN 1995



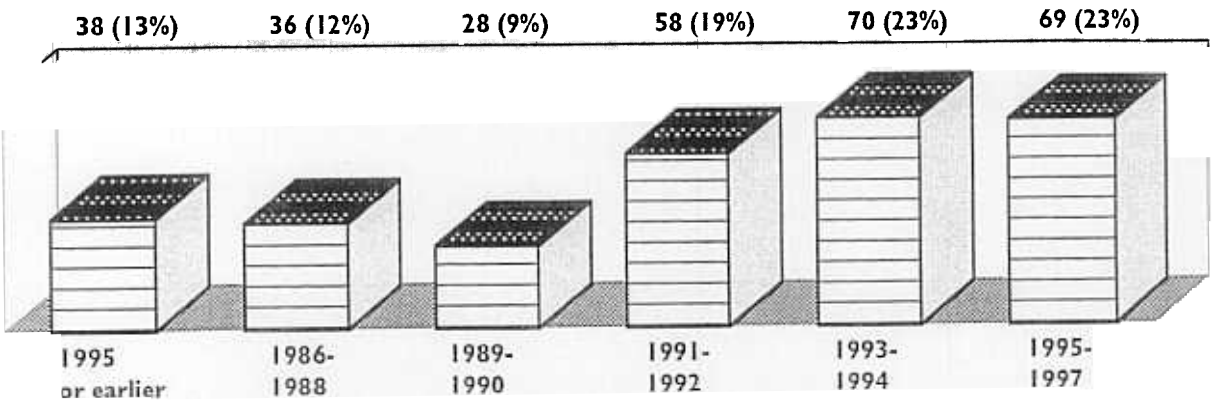
- ✔ 28 programs (11% of the practitioner programs) provide both individual and group lending.

- ✔ Loan terms varied considerably from program to program, ranging from a minimum term of one month, to a maximum term of 25 years. Generally, individual lenders offer longer repayment terms than do group lenders. 36 individual lenders allow a maximum term of six years or longer, while only two group lenders have terms of that length.

- ✔ For individual lending programs, maximum loan size ranges from $1,000 to $500,000. 40% of the programs make loans up to a maximum of $20,000, and 28% make loans up to a maximum of $5,000.

DATE MICROENTERPRISE PROGRAMS WERE ESTABLISHED

299 PROGRAMS REPORTED ESTABLISHMENT DATES



- ✔ For group lending programs, maximum loan size ranges from $500 to $25,000.

- ✔ Of practitioner programs making individual loans, 78% take collateral on loans. Only 16% of group lending programs take collateral.

- ✔ The average operating budget of all programs is $332,941, and the combined annual operating budgets of all programs totaled $85,898,934 in 1995. Most programs rely on a combination of federal, state and local funding sources, both public and private.

- ✔ The average capital loan fund size is $883,038, although there are many funds which are much smaller. The total of all capital funds is $143,052,220. Capital funds range in size from $3,000 to $20 million.

- ✔ The majority of programs target low-income individuals as part of their mission. 92% of the practitioner programs either target low-income individuals, or have assisted them directly. In 1995, 15,957 low-income individuals were served by microenterprise practitioner programs.

- ✔ In 1995, 55% of practitioner programs had low-income individuals directly involved as participants, and 56% had AFDC recipients as participants.

- ✔ The majority of programs have a staff size of less than five. 21 programs have a staff size of more than ten.

- ✔ While most practitioner programs provide training and technical assistance on-site, 30% of programs use community centers, and 24% use community college facilities.

- ✔ 38% of practitioner programs require a minimum number of hours of training to obtain credit.

- ✔ 40% of practitioner programs charge fees for training or technical assistance services. In the future, many seek to cover more of their costs through fees.

- ✔ Programs use multiple techniques to increase the cost-effectiveness of training and technical assistance. The two most common strategies are grouping clients together and using volunteer trainers. 60% of all programs use these two strategies. Almost one-half of the programs that provide training and technical assistance screen participants before entry into training.

- ✔ A large percentage of the programs are under three years old, while a few are more than ten years old. 69 programs initiated their services since 1994, while 51 programs have been in business ten years or longer.

- ✔ Three quarters of the programs have a client base made up of 50% women or more. Twelve programs (5%) serve only women.

- ✔ The biggest issue of concern to programs is programmatic sustainability. 61% rank this is a key concern.

- ✔ 56% of programs rate diversifying and broadening their funding base as a key concern.

- ✔ 45% of programs report that providing more advanced training and technical assistance is a key concern.

- ✔ 54% of all programs stated that economic development was their top priority. 29% stated that poverty alleviation was their most important goal.

- ✔ 80% of all programs listed in this Directory believe they will increase in size.

TOP TEN STATES WHERE THE MOST CREDIT HAS BEEN EXTENDED IN INDIVIDUAL LOANS (1995)

	DOLLARS LOANED
Ohio	$23,107,355
Washington	$9,873,179
California	$8,315,299
Montana	$7,439,963
Maine	$7,045,345
Colorado	$6,291,200
North Carolina	$5,963,093
New York	$4,189,000
Minnesota	$3,990,845
Arizona	$3,367,482

TOP TEN STATES REPORTING THE MOST START-UP MICROBUSINESSES (1995)

	START-UPS ASSISTED	AVERAGE NUMBER ASSISTED PER PROGRAM
California	3,666	94
New York	1,140	57
Massachusetts		
North Carolina		
Wisconsin		
Ohio		

TOP TEN STATES ASSISTING MICROENTREPRENEURS ON AFDC (1995)

	NUMBER OF WELFARE RECIPIENTS ASSISTED	AVERAGE NUMBER ASSISTED PER PROGRAM
New York	568	28
[illegible]	472	34

Where U.S. Microenterprise Agencies Are Located

	PRACTITIONER AGENCIES	PRACTITIONER SUPPORT AGENCIES	TOTAL AGENCIES
Alaska	3	--	3
Arizona	3	--	3
Arkansas	4	1	5
California	31	8	39
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	11	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Georgia	[illegible]	[illegible]	[illegible]
Hawaii	1	--	1
Illinois	11	6	17
Indiana	2	--	2
Iowa	3	1	4
Kansas	2	--	2
Kentucky	6	--	6
Louisiana	1	--	1
Maine	8	--	8
Maryland	2	2	4
Massachusetts	17	2	19
Michigan	8	3	11
Minnesota	9	4	13
Mississippi	1	--	1
Missouri	5	1	6
Montana	7	--	7
Nebraska	13	4	17
Nevada	1	--	1
New Hampshire	2	--	2
New Jersey	5	--	5
New Mexico	3	1	4
New York	17	3	20
North Carolina	9	--	9
North Dakota	1	--	1
Ohio	11	3	14
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	3	[illegible]	[illegible]
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[illegible]	4	1	5
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Virginia	10	5	[illegible]
Washington	[illegible]	[illegible]	[illegible]
West Virginia	[illegible]	[illegible]	[illegible]
Wisconsin	[illegible]	[illegible]	[illegible]

Self-Employment Learning Project (SELP)
Study Components

In-Depth Client and Business Case Studies	Agency Case Studies
* Interview-based sample of 405 entrepreneurs tracked over 5 years	* On-site documentation of program * Completed in 1992 and 1994

Program Profile

* Internal monitoring system
* Data collected every 6 months on all current, active clients
* Agencies complete forms based on client intake forms

Programs in Study

• Coalition for Women's Economic Development	Los Angeles, California
• Good Faith Fund	Pine Bluff, Arkansas
• Institute for Social and Economic Development	Iowa City, Iowa
• PPEP/ MICRO	Tucson, Arizona
• Rural Economic Development Center	Raleigh, North Carolina
• Women's Self-Employment Project	Chicago, Illinois
• Women Venture	St. Paul, Minnesota

** Programs were selected because they were the largest and oldest microenterprise programs in the country at the start of the SELP project in 1991*

Program Counties with Largest Number of Clients

Scott County, Iowa
ISED

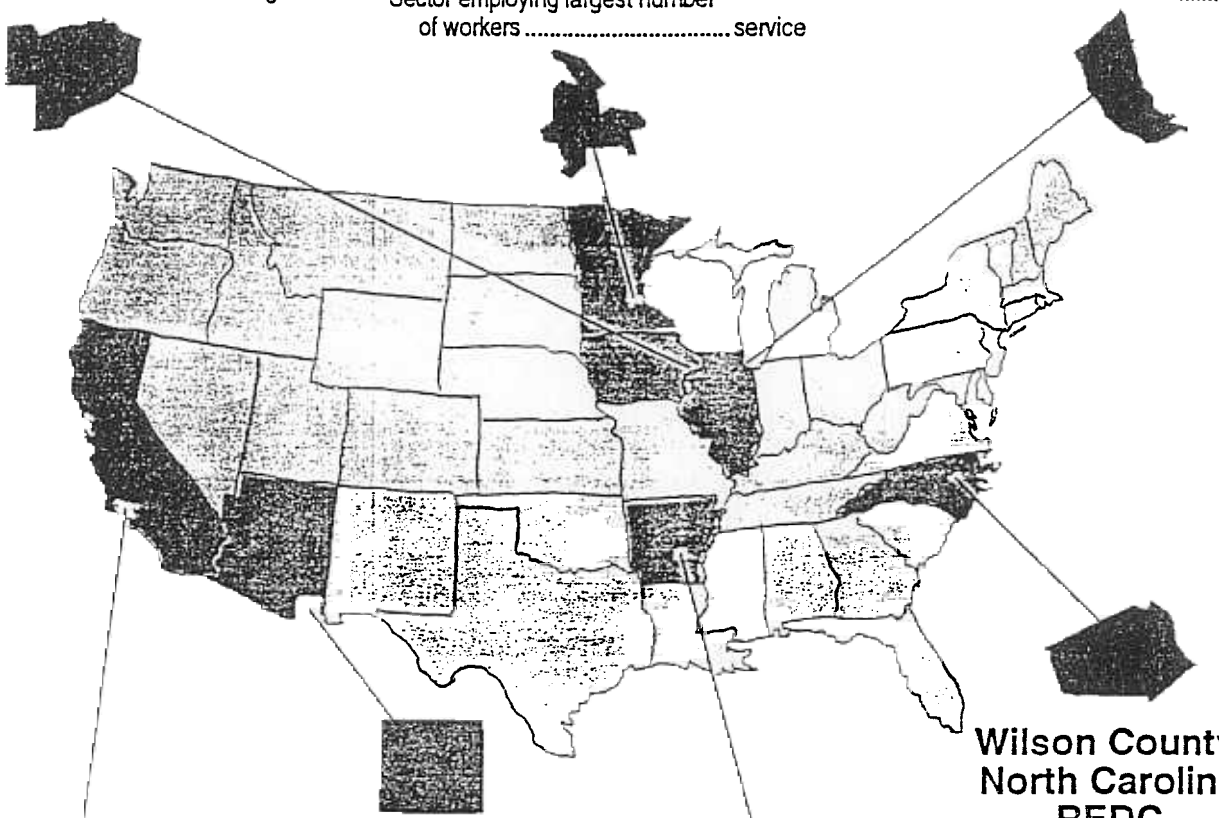
Population 150,979
Minority population 7%
% persons below poverty 12.1%
Median household income $16,930
Unemployment rate 5.1%
Sector employing largest number of workers ..... manufacturing

Minneapolis-St. Paul, Minnesota
WV

Population 2,413,873
Minority population 9%
% persons below poverty 8.8%
Median household income $36,561
Unemployment rate 5%
Sector employing largest number of workers ..... service

Chicago, Illinois
WSEP

Population 2,783,726
Minority population 62%
% persons below poverty 21.8%
Median household income $32,009
Unemployment rate 11.2%
Sector employing largest number of workers ..... service



Cochise County, Arizona
MICRO

Population 92,172
Minority population 36%
% persons below poverty 20%
Median household income $22,425
Unemployment rate 10.2%
Sector employing largest number of workers ..... government

Wilson County, North Carolina
REDC

Population 66,061
Minority population 38%
% persons below poverty 19.74%
Median household income $29,312
Unemployment rate 6.6%
Sector employing largest number of workers ..... white collar*

* White collar is defined as professional, technical, or managerial workers

Los Angeles, California
CWED

Population 8,863,164
Minority population 59%
% persons below poverty 18%
Median household income $34,965
Unemployment rate 8%
Sector employing largest number of workers ..... service

Jefferson County, Arkansas
GFF

Population 85,487
Minority population 44%
% persons below poverty 22.71%
Median household income $27,000
Unemployment rate 12.4%
Sector employing largest number of workers ..... service

Source: U.S. Bureau of the Census. 1990 Census of Housing and Population on CD-ROM, County Level Data. 1992.
Data compiled by the Self-Employment Learning Project.

SELP Key Questions

1. Who are the programs assisting?

2. What are the programs' designs, components, characteristics? How do they change over time?

3. What are the range of contexts in which programs operate? How does this affect programs?

4. What can we learn about program scale (numbers of clients) in the U.S.?

5. What are the outcomes and dynamics of assistance over time to businesses and clients?

   a. What happens to individuals' income over time?

   b. What happens to businesses over time?

6. What can we learn about qualitative changes over time in clients, their families, and communities?

7. What are the obstacles that prevent growth for clients and businesses?

Policy Questions

Is microenterprise an effective poverty alleviation strategy?

Do incomes rise over time?

Do people move out of poverty?

Do microbusinesses survive? Do they grow? Are they profitable? Do they create jobs? What contributions do they make to local economies?

Does microenterprise produce "empowerment" results?

What is the value of these results?

What is the microenterprise methodology?

Is it cost effective?

What are the delinquency and default rates?

Results from the Self-Employment Learning Project

Major Lessons Learned

- *Microenterprise programs effectively reach large numbers of minority and female clients.*
- *Large numbers of microentrepreneurs are "patchers"--patching together more than one earnings source to make ends meet.*
- *Microenterprise programs serve a diverse group of clients, including large numbers of low-income people.*
- *A typical microenterprise is a sole proprietorship that has been in operation for two or more years, with sales of less than $12,000 per year. Most microbusinesses are in wholesale or retail trade or services, with some manufacturing and construction firms.*
- *Over time, microbusinesses show high survival rates (78%), gains in net worth, and employment generation. Profitability over time fluctuates.*
- *A large majority of poor microentrepreneurs show income gains over time (55%), and 25% had income gains large enough to move out of poverty.*

Microenterprise programs effectively reach large numbers of minority and female clients.

- **62% are from a minority ethnic or racial group:**

  42% African-American
  18% Hispanic
  2% Asian

- **78% are women**

- **Microentrepreneurs are relatively well-educated:**

  83% are high school graduates
  58% have some education past high-school
  19% have 4-year college degrees
  8 % have graduate degrees

- **56% rely on the microbusiness as their primary source of earnings**

Large numbers of microentrepreneurs are "patchers"--patching together more than one earnings source to make ends meet.

- Half of the surveyed entrepreneurs have 2 or more sources of individual income

- 37% work at a part-time or full-time job as well as running a microbusiness

- 16% receive public assistance as their primary or secondary source of income

Microenterprise programs serve a diverse group of clients, including large numbers of low-income people.

- 43% have household incomes < $13,956 / year
  (H.H.S. poverty line for a family of four)

- 20% have household incomes < $6,000 / year

- The percentage of clients below the poverty line ranges from 19% to 64% of total clients across programs

A typical microenterprise is a sole proprietorship that has been in operation for two or more years, with sales of less than $12,000 per year. Most microbusinesses are in wholesale or retail trade or services, with some manufacturing and construction firms.

- 90% are sole proprietorships
- 66% employ the owner-operator alone
- 34% employ additional employees

- **Age of Businesses**:

  - 22% are less than 1 year old
  - 17% are 1-2 years old
  - 18% are 2-4 years old
  - 27% are 4 years old or more

- **Gross Sales:**

  - 47% have gross sales of less than $1,000/month
  - 21% have gross sales of $1,000- $2,499/month
  - 25% have gross sales of $2,500 or more a month

Types of Businesses

Most microbusinesses are in wholesale or retail trade or services, with some manufacturing and construction firms

Of the 386 firms in the survey, the largest categories of firms are:

- 81 are in apparel and textile production, sales, service
- 78 are in varied retail and wholesale product sales
- 66 are in professional services
- 27 are in building services, construction, sales and supplies (13 construction contractors, 7 custodial services)

Job Creation by Types of Businesses

Business Type	Number Additional Employees	Number of Businesses
Agriculture/Aquaculture	16	2
Apparel Production	17	8
Jewelry Manufacturing	17	9
Refuse Systems	13	1
Clothing and Accessories (retail)	31	59
Restaurants/Bars/Caterers	45	17
Retail Sporting Goods/Gifts	25	17
Building Custodial Services	21	9
Day Care	14	13

(23% of additional jobs are full-time; 68% are part-time.)

Over time, microbusinesses show high survival rates (78%), gains in net worth, and employment generation. Profitability over time fluctuates.

Microbusinesses

- 78% of SELP businesses surveyed for Wave 1 are still operating in Wave 3
- 34% of SELP businesses report a positive change in net worth from Wave 1 to Wave 3
- 36% of SELP businesses employ full- or part-time workers (an increase from 34% in Wave 1)
- 22% of SELP businesses with employees in Wave 1 added new employees by Wave 3

Microbusiness Profitability

- 52% reported a profit from business in Wave 3
- 36% reported a loss from business in Wave 3

Other SELP Business Highlights

- 67% of Wave 3 businesses filed tax returns (an increase from 59% in Wave 1)
- 41% of businesses market products out of state

A large majority of poor microentrepreneurs show income gains over time (55%), and 25% had income gains large enough to move out of poverty.

- Of those whose household incomes increased above the poverty line, average increase in household income was $14,674.

- While some microentrepreneurs hold down a job as well as run their business, earnings from the microbusiness were by far the most important source of income for the low-income microentrepreneurs whose incomes rose above the poverty line. The average change in household income from the microbusiness is $6,723.

- Even among entrepreneurs whose household incomes declined, 50% either increased their income draw from their businesses and/or their total business assets. Among this group, for those whose business incomes declined, 30% increased their business assets.

- The majority of poor households in this sample (63%) did not collect AFDC benefits in Wave 1, 2, or 3

- Many poor households have significant assets:

  50% have assets below $5,000
  5% have between $5,000 and $10,000 in assets
  45% have more than $10,000 in assets

- 43% of respondents increased household assets from Wave 1 to Wave 3 (18% by more than $10,000)

- 36% of respondents increased household net worth from Wave 1 to Wave 3 (16% by more than $10,000)

- 73% of businesses operated by poor respondents are still operating in Wave 3 (compared with 78% for total sample)

Experience with Credit

46% of respondents (152 people) tried to get a loan for their business from a financial institution other than the microenterprise program.
Of these,

- 47% received credit (71 people)
- 53% were denied credit (81 people)

The majority of respondents who were denied credit reported they were turned away because of

- businesses too small or young
- lacked collateral
- inadequate or problem credit histories

SELP Agency Case Studies
Key Findings

THREE STRATEGIES WITHIN "MICROENTERPRISE":

- Credit-led individual programs
- Group-lending programs
- Training-led programs

COSTS:

Total program costs range from $411,128 - $880,839 per year

Cost per client ranges from $941 - $1,998

Cost per dollar lent ranges from $0.30 - $2.01

Programs with the smallest average loan size have higher cost per dollar lent ratios

Costs can only be fairly assessed in terms of strategy type, client group and goals of program

OPERATIONAL EFFECTIVENESS AND EFFICIENCY:

- Repayment rates range from 65% - 89%
- Loan loss rates range from 0 - 9%
- Cost per assisted business ranges from $1,759 - $9,033 per business
- Percent budgeted for training ranges from 21% - 88% of total budget