microenterprise FACT SHEET SERIES

Fall 2000

MICROENTERPRISE DEVELOPMENT WORKS!: OUTCOMES FOR CLIENTS

It is easy to understand skepticism about the real potential of very small loans that support fledgling businesses. The enormous size and diversity of the established, formal economy that offers a store for every need and a product for every whim leaves little opportunity for the self-employed microenterpreneur to compete. The high failure rate of small businesses not associated with low-income entrepreneurs raises questions about how microenterprise loan strategy can work. But the strategy does work, and its success has many faces. For some, success is defined as the survival of their business and the realization of a dream; some are able to expand their business to become the major source of household income; some are able get off welfare; some rebuild their credit history through on-time repayment of loans from a microenterprise program.

SOURCES OF DATA

This fact sheet summarizes the data on the tangible outcomes for clients associated with microenterprise programs. Although this summary of outcomes is drawn from several sources that document programs with widely varying characteristics, it relies heavily on two studies described below – those of SELP and ACCION – both of which encompass multiple programs located in all parts of the country. Although the field is relatively young and needs more evaluation, available outcome data include very promising findings, especially recognizing that even small increases in income and assets are very significant for a client population that is on a slow path out of poverty or challenged to achieve the financial stability that will keep them from sliding back. The sources used include:

- The Self-Employment Learning Project's (SELP) five-year longitudinal survey of 405 clients sampled from seven distinct microenterprise programs and a subset of 133 poor clients (defined as those with household income 150 percent of the poverty line) that is analyzed in the publication, *Microenterprise and the Poor.*

The Microenterprise Fact Sheet Series is produced by FIELD, the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination, at the Aspen Institute in collaboration with the Association for Enterprise Opportunity (AEO). Funding is provided by the Ford Foundation.

Managing Editor: Candace Nelson

For further information, please contact:
AEO
1601 N. Kent St. #1101
Arlington, VA 22209
Phone: (703) 841-7760 Email: aeo@assoceo.org
Web site: www.microenterpriseworks.org

FIELD
Web site: www.fieldus.org

ISSUE 6

- *Measuring Client Success: An Evaluation of ACCION's Impact on Microenterprises in the United States* combines quantitative data of 1,957 borrowers from six affiliates and qualitative data from 72 in-depth interviews to ascertain financial and nonfinancial outcomes associated with program participation.

- The U.S. Department of Labor's evaluation of two pilot programs in Washington and Massachusetts that tested self-employment as a reemployment option for dislocated workers collecting unemployment benefits.

- An overview of findings from The Self-Employment Investment Demonstration (SEID) program that tested self-employment as a self-sufficiency strategy for welfare recipients in seven agencies and five states from 1988-92.

THE CLIENTS AND THEIR BUSINESSES

Knowing who the clients are helps in understanding the outcomes they attain. Located in all types of geographic settings, microenterprise programs in the United States embrace a broad range of clients; yet, overall, they tend to be female, minority and well educated relative to the U.S. population (83 percent of the SELP survey respondents have completed high school and 58 percent have some post-secondary education compared to 74 percent and 45 percent, respectively, of all Americans). Their average age is 40. Their median household income is $26,000[1].

A typical microenterprise is a sole proprietorship that has been in operation for two or more years with sales of $12,000 per year. Table 1 summarizes business characteristics from two studies: the SELP longitudinal survey of 405 clients from seven different programs and ACCION's analysis of its 1,959 clients spread across six affiliate programs. The ACCION clients are predominately Hispanic and fewer are women. Thirty-three percent of the SELP sample qualifies as poor compared to 13 percent of the ACCION clients.

Table 1:
Profile of Client Businesses

	SELP	ACCION
Type of Business		
◆ retail	43%	28%
◆ service	31%	54%
◆ small scale manufacturing	13%	17%
◆ other	13%	11%
Percent home based	64%	39%
Percent employing owner only	69%	69%
Average monthly profit at program entry		$694
Percent household income from business		55%
Gross sales		
◆ <$1,000/mo.	47%	
◆ $1,000-$2,499	21%	
◆ >$2,500	25%	

FINANCIAL OUTCOMES

The many ways to measure financial outcomes depend on the existence of a business. However, many programs attract and train clients who are exploring the self-employment option but don't always choose to pursue it. Consequently the first outcome to acknowledge is whether a client starts, strengthens or expands a business. Because clients of credit-led programs are borrowers, most are linked to a business. However, in programs focused on training, this outcome varies widely. Fifty-eighty percent of participants in the U. S. Department of Labor study started a business. Similarly, the Institute of Social and Economic Development (ISED) in Iowa reported that 58 percent of Temporary Assistance for Needy Families (TANF) recipients who completed the ISED training program started businesses. Among clients of the Office of Refugees and Resettlement programs, the figure drops to 14 percent. In an analysis of most outcome studies and program reported data, John Else states that a median of 30-40 percent of program participants start, strengthen or expand a business (Else, 2000). Over time, their progress is highlighted by the following results.

Microbusinesses demonstrate tenacity with survival rates of 57-90 percent. Survival rates compare very favorably to the general population of small businesses. The U. S. Small Business Administration estimates that only 47 percent of small businesses are still operating after four years. Corresponding survival rates for microenterprise program clients are as follows:

- 90 percent of businesses started by participants in the DOL pilot survived after 2.6 years;
- 79 percent those studied by SEID survived after 2.6 years;
- 57 percent of businesses of SELP respondents survived after 5 years; and
- 56 percent of TANF clients trained by ISED survived after 3 years.

Microbusinesses grow and become profitable, contributing to increases in personal and household income. The SELP data show that among those entrepreneurs who remained in business through the fifth year of the study, average revenues increased by 27 percent, and profits doubled over the five-year survey period. ACCION clients who had received three loans achieved a 47 percent increase in monthly business profits. In both studies, the gains among low-income borrowers were significantly higher.

Business growth translates into more money for clients and their households. Over 29 months spanning 1994 -1996, ACCION clients with three loans increased their monthly "draw" or take-home income from their business by $455 which accounts for 78 percent of the total increase in their monthly household income. During the five years of the SELP study, 57 percent of the entrepreneurs increased their household income. Recipients of unemployment insurance who participated in the U. S. Department of Labor's pilot projects realized income gains of $14,859 in

Massachusetts and $1,093 in Washington (The difference in outcomes is attributed more to differences in program design than to client behavior). Although many clients "patch" together their household income from several sources, these studies indicate that microenterprises are a major contributor to increases in household income.

Microentrepreneurs who remain in business increase their assets. Sixty-six percent of all respondents in the SELP study report that their business assets increased, growing an average of $16,427 over the five years. ACCION found that asset growth was stronger among longer-term clients – clients with three loans achieved a 42 percent increase in the value of their business equity worth $4,100. The steady growth in personal assets experienced by a majority of SELP respondents is largely due to an increase in the value of their homes.

Every new business represents a new job for its owner. In most cases, microenterprises employ their owner; additional job creation is not a significant outcome. But they do not lose ground either; that is, jobs existing at the time of program entry are retained. There are some exceptions. ISED reports that 225 new businesses started by clients created a total of 70 jobs in addition to the owners' jobs – 26 full-time and 44 part-time. ACCION's clients include a subset of "job creators" who, compared to the average client, are more stable, have higher net worth and achieve higher growth in equity and profits. Finally, seasonal and part-time employment for family members is not uncommon in microenterprises.

These outcomes share two common features. First, financial growth is correlated to time in the program. Longer-term clients experience stronger gains in business profits, assets and income than do short-term clients. Second, the outcomes for those identified as poor (according to federally established benchmarks such as poverty levels or median area income) are stronger than for the nonpoor. The link between microenterprise development and poverty alleviation merits a closer examination of significant outcomes for very low-income clients.

PROGRESS OUT OF POVERTY

The data from programs in every region of the country point to the dramatic outcomes that microenterprises can have for the very poor.[2] On most indicators, their gains are more robust than those of the nonpoor. These gains, highlighted in Box 1, are even more impressive considering the fragile foundation upon which the poor are struggling to achieve financial stability. The path out of poverty is not linear; it is followed with small steps forward and backward, tough tumbles and occasional leaps ahead.

Box 1: Highlighted Outcomes

- 72 percent of poor microentrepreneurs increase their household income over five years, by an average of $8,484, or from $13,889 to $22,374.
- The poor increased their household assets by $15,909 over five years.
- Over half – 53 percent – of poor entrepreneurs moved over the poverty line.
- Reliance on public assistance decreased by 61 percent.

Source: Clark and Kays, *Microenterprise and the Poor*, The Aspen Institute, 1999.

Table 2:
Comparing Outcomes for Poor and Nonpoor Respondents over five years of the SELP Study

	Poor Respondents	NonPoor Respondents	All Respondents
Median household income in Yr. 1	$12,246	$37,906	$26,227
Personal earnings increased	64%	41%	47%
Household income increased	72%	49%	55%
Household assets increased	66%	59%	61%
Business assets increased	54%	64%	62%
Change in dollar value of average business assets	$18,706	$13,120	$14,193

While the more dramatic gains in profits, business equity and income for the poor can be explained in part by their lower starting level, they are particularly important for poor microentrepreneurs because their businesses are more critical to household income. ACCION estimates that two-thirds of low-clients' household income comes from the business, compared to just over half for all clients.

Among ACCION's low-income borrowers, business profits are significant, particularly for those who remain in the program long enough to have received four loans. They experience a big jump in profits from their first to their second loans, followed by steady growth for a total increase of 96 percent, which

Table 3:
Total Percent Change for Low-Income and All Clients in ACCION Programs

	Clients with Two Loans Avg. time with active loan = 7 months		Clients with Three Loans Avg. time with active loan = 17 months		Clients with Four Loans Avg. time with active loan = 29 months	
	All Clients	Low-Income Clients	All Clients	Low-Income Clients	All Clients	Low-Income Clients
Change in monthly business profits	35%	-4%	47%	9%	45%	96%
Change in business equity	-6%	-10%	42%	16%	15%	46%
Change in monthly take-home income	14% $181	29% $283	38% $455	54% $515	45% $229	37% $329
Change in monthly household income	12%	40%	24%	58%	17%	54%

translates to an additional $229, on average, in monthly business profits. Given that, for many microentrepreneurs, business and household finances are part of one system, changes in business profits will be closely linked to trends in take-home income, household income and business equity.

Growth in take-home income (or business draw) is relatively steady and is driven by the low-income clients who draw greater amounts of personal income from their businesses than does the client population as a whole. The decrease in take-home income after the third loan is linked to growth of overall household income. ACCION's data indicates that when low-income clients reach a certain level of household income – roughly $25,000 annually – they begin to reinvest more of their business earnings back into the enterprise.

Similarly, low-income clients increase the net worth of their business by 16 percent, or almost $1,000 after three loans, and as much as 46 percent or $1,800 after four, clearly indicating that those who remain in the program do make strategic investments in their businesses. However, it should be noted that equity growth among these clients is not steady; despite an overall increase, many show significant decreases in equity between their third and fourth loans. ACCION believes that a concentration of equity in a single fixed asset (e.g. a taxicab), coupled with the likelihood that they are not insured, makes this segment of its clients highly vulnerable to single events capable of devastating net worth.

The gains noted above have helped many poor microentrepreneurs to move above the poverty line. The subset of poor in the SELP study is composed of three distinct groups: those who moved out of poverty by the end of the five-year study period (53 percent); those whose income increased but not enough to push them over the poverty line; and those whose income decreased. Of the 53 percent who moved out of poverty, most achieved this goal through steady business growth. Others started out patching wage and

Table 4: Changes in Income from Government Assistance Programs for SELP Respondents

	Average Income Year I	Average Income Year 5	Average Change
Sources of Means-Tested Benefits			
AFDC[3]	$1,532	$306	($1,227)
WIC, food stamps & other food supplement programs	$1,006	$291	($714)
General assistance	$66	$42	($24)
Government allowances	$95	$0	($95)
SSI	$34	$415	$381
Public housing assistance	N/A	$324	N/A
Total Means-Tested Benefits	$2,733	$1,054	($1,679)

business income but eventually closed their business to rely on job earnings. A smaller group moved out of poverty by patching income from their business and a job. Approximately one-third of this successful group received AFDC and food stamp benefits at some time during the five years; most got off AFDC but continued to collect food stamps.

Box 2: Strategies For Households That Moved Out of Poverty

Business was the main source of household income	43%
Business closes and job is main source of earnings	40%
Patching income from a business and job	14%

Low-income entrepreneurs reduced their reliance on public assistance by 61 percent during the five-year SELP study. Over time, the dollar value of welfare benefits and the percentage of respondents who received them fell. The Self-Employment Investment Demonstration (SEID) yielded similarly striking results. Business owners decreased their collection of AFDC benefits by 51.7 percent and food stamps by 43 percent. In addition, the contribution of AFDC benefits to SEID participants' household income fell from 74 percent in 1988 to 26 percent in 1993 (Friedman, 1995). However, these noteworthy changes cannot be attributed with 100 percent certainty to the impact of the enterprise. Other reasons – including forced loss of benefits or increased income from marriage, inheritance or other changes in family circumstances – could explain the decline in dependency.

Table 5: Percent Change in SELP Respondents Receiving Government Assistance

	Year 1	Year 5
Percent of low-income respondents receiving gov't assistance	48%	30%
AFDC	31%	12%
WIC, food stamps & other food supplement programs	43%	21%

The value of the informal economy and microenterprises in particular for those trying to move off welfare is highlighted by the current context of falling wages and the likelihood that those making the transition from welfare to work will still earn less than a livable wage. For those capable and motivated to start a business, self-employment can provide critical supplemental income, possibly serving as the "patch" that brings a household out of poverty.

INCOME PATCHING

The poor rely on more than one source of income. While true of most households, the phenomenon dubbed "income patching" is used here to refer to multiple income streams to individuals only. Of the SELP respondents, 50 percent have two or more sources of income and 37 percent work at a part-time job, as well as running a microbusiness. SELP data challenges the common perception that these small businesses are hobbies, providing their owners with extra pocket money. For those in the poverty subset, their business constitutes the second largest source of household income.

Box 3:
Components of Household Income

Microbusiness	$3,881
Respondent's spouse	$3,229
Respondent's job	$2,082
Other sources[4]	$4,123
Children	$ 410
Other Adults	$ 216

Source: Clark, 1999

In fact, for the poor, self-employment is often a key part of their survival strategy even when it cannot, alone, provide a livable income. For some, maintaining a business offers protection against the instability of low-wage jobs. Some, unable to survive on the wages they can command in the job market, engage in business to make ends meet. Those who care for children, elderly or disabled relatives need the flexibility of home-based employment, as demonstrated by the fact that 63 percent of low-income entrepreneurs work out of their home. On the other hand, those with growing businesses still hold on to their wage jobs to have health insurance. Whether to ensure access to critical benefits, earn extra money or create flexibility for family responsibilities, patching together a livable income from multiple sources is a matter of survival for the poor that reflects the reality of their economic options.

MICROBUSINESS SURVIVAL

Microenterprises have demonstrated impressive rates of survival that sometimes exceed those of the general population of small businesses and in some cases reach as high as 90 percent. What factors affect business survival? Experience indicates that it varies by industry sector. In the first year of the SELP study, for example, 45 percent of all businesses were retail or wholesale trade; by the fifth year, only 18 percent of the surviving businesses were in this sector. Service businesses increased from 34 to 46 percent of all surviving businesses in the same period, while manufacturing businesses jumped from 14 percent to 30 percent. Retail tends to be more challenging for the low-income entrepreneur because of fierce competition from larger companies and higher capital and cash flow requirements to manage inventory.

Practitioners have learned through experience that opportunities for business survival increase with access to training and technical assistance that lead to a good business plan, financial support and access to markets (See Issue 4 of this Fact Sheet Series for a discussion of training and technical assistance). Finally, business survival is linked in all the studies to a common set of circumstances including the owner's health and support from family and friends.

Strong survival rates should not mask the rocky road many microbusinesses travel. Thirty-seven percent of ACCION clients are in survival mode, using their loans to pay off other debts, smooth cash flow or invest in maintenance required to keep the business running. And, many microbusinesses fail, exacerbating economic strain on overburdened households. Some of these failed businesses never stood a chance of succeeding because of a misreading of the market, a mismatch between business requirements and owner capacity, or personal crises for which there is no cushion or safety net. The resulting challenge for microenterprise support programs is to identify and guide clients to viable business opportunities and to help them better understand the components of business success. Program are responding with strategies to include better assessment and screening of applicants, more targeted technical assistance, and new methods of "on-time" service delivery to address clients' evolving business needs.

NONFINANCIAL BENEFITS

While the outcomes discussed above are largely financial, clients do not define success for themselves in purely financial terms. Anecdotal evidence from programs across the country indicate that operating a business generates a host of other benefits for its owner, family and community. The owner gains control over his or her life, even though most work very long hours. When asked about the benefits of operating a business, many speak of fulfilling a dream, feeling proud of a job well done, gaining a sense of security, finding support networks, and increased self-esteem that reverberates in other parts of their lives. New skills, managerial capacity and attitudes developed in the course of microenterprise training have strengthened clients' capacity to run a business or the job prospects of those who decide against self-employment. Finally, communities benefit from business owners who provide local services and try to respond to community needs. Business owners understand that staying in touch with their customers strengthens their business.

CONCLUSION

Microenterprise development holds much promise, but it is not a panacea. The evidence shows that those who are able to stay in business move out of poverty, decrease their reliance on public assistance and increase their income. But for this population, the many barriers to business success – health crises, a change in family circumstances, the isolation from more lucrative markets, encroachment from larger competitors – point to a number of recommendations to increase their ability to surmount them. Entrepreneurs need: 1) access to health insurance; 2) savings tools and other asset building strategies that help them build some financial security; and 3) specialized legal, managerial and marketing assistance that help them solve the real problems of stabilizing or growing a business. Programs are piloting strategies to improve services in these key areas, while FIELD is documenting their efforts as part of its mandate to foster greater effectiveness through research and learning.

RESOURCES

Clark, Peggy and Amy Kays. *Microenterprise and the Poor*. Washington, D.C.: The Aspen Institute, 1999.

Himes, Cristina with Lisa Servon. *Measuring Client Success: An Evaluation of ACCION's Impact on Microenterprises in the United States*. Somerville, MA: ACCION, 1998.

Else, John with Janice Gallagher. *An Overview of the Microenterprise Development Field in theU.S.* Geneva: ILO, 2000.

Friedman, Robert, Brian Grossman, Puchka Sahay. Building Assets: *Self Employment for Welfare Recipients*. Washington D.C., Corporation for Enterprise Development, 1995.

Raheim, Salome and Jason Friedman. "Microenterprise Development in the Heartland: Self-Employment as a Self-Sufficiency Strategy for TANF Recipients in Iowa 1993-1998." Journal of Microfinance, Vol. 1, No. 1.

ENDNOTES

1. Though SELP collected baseline data in 1991, this household income figure has been adjusted to 1995 dollars.

2. From its larger sample of 405 clients, SELP analyzed the experience of a subset of 133 poor households, defined as those households falling below 150 percent of the poverty line in 1991 when the study was initiated (This translates to an annual household income of $23,354 for a family of four.) The ACCION study defines its subgroup of poor clients as those with household income below 80 percent of the metropolitan area's median family income, according to the 1990 census.

3. In 1996, federal welfare reform replaced the AFDC (Aid to Families with Dependent Children) program with TANF (Temporary Assistance for Needy Families).

4. Principle sources include means-tested government benefits, Social Security, disability and retirement, and child support and alimony

FOR FURTHER INFORMATION

The Association for Enterprise Opportunity (AEO) is the national professional association of organizations committed to microenterprise development. It holds an annual forum for members, serves as a nexus of communication about the field and advocates at the federal level on behalf of its members. Its Web site contains additional information about microenterprise and links to many other resource organizations.