Working Papers

THE MATERIAL CONDITIONS
FOR MICROENTERPRISE PROGRAMS
IN THE UNITED STATES AND THE THIRD WORLD

Mark Schreiner

Working Paper No. 00-2
2000

Center for Social Development
Washington
WASHINGTON·UNIVERSITY·IN·ST·LOUIS
George Warren Brown School of Social Work

THE MATERIAL CONDITIONS FOR MICROENTERPRISE PROGRAMS IN THE UNITED STATES AND THE THIRD WORLD

Mark Schreiner

Center for Social Development
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130-4899
Tel: (314) 935-9778
Fax: (314) 935-8661
E-mail: csd@gwbssw.wustl.edu

July 2000

A grant from the Division of Asset Building and Community Development of the Ford Foundation supported this research.

Acknowledgments:

I thank Cynthia Sanders for help with access to the literature and Michael Sherraden for comments. I am also grateful for comments from participants in seminars at Ohio State University, West Virginia University, and Washington University in St. Louis.

ABSTRACT

Sparked by a few successful microenterprise programs in the third world, community-development organizations in the United States have started hundreds of microenterprise programs. Can they be as successful in the United States as in the third world? This paper concludes that microenterprise in the United States is probably more difficult than in the third world. For example, the U.S. microenterprise sector is smaller and more complex because most people can get wage jobs and because of the public safety net. Unlike third-world programs, U.S. programs must do more than make loans. Microentrepreneurs need savings more than debt, and while some of them are creditworthy, all of them are depositworthy. Microenterprise programs can do little to facilitate savings, however, other than host Individual Development Accounts or advocate for relaxed asset tests on welfare programs. Indeed, most U.S. programs focus on classes meant to instill the skills and oomph needed for successful entrepreneurship. The cost-revenue structure of these classes, however, is not sustainable.

Microenterprise is not a panacea for low-income communities in the United States. Community-development practitioners should recognize that microenterprise programs will help a few extraordinary poor people, but most poor people would benefit more from other forms of aid. Practitioners ought to make modest claims for the potential of microenterprise and continue to explore diverse ways to connect the poor to the workforce, remembering that microenterprise is not an end in itself but rather just one means to the end of improved well-being for the poor. Practitioners should search for ways to monitor self-employment effort by the poor that do not require attendance at classes nor constant indebtedness. Microenterprise programs should focus not on loans and general up-front classes for start-ups but rather on savings and on-call advice for existing businesses in specific sectors. Funders should aim to strengthen the systems of incentives that prompt practitioners to search for ways to reduce costs and to increase the worth of services. A simple first step is to measure costs and outputs. Finally, the community-development community should insist that banks who seek credit for microenterprise work under the Community Reinvestment Act do the work themselves rather than give grants to not-for-profits. Otherwise, banks will not learn to make microenterprise loans well enough to make it a business rather than a write-off.

The Material Conditions for Microenterprise Programs in the United States and the Third World

1. Introduction

Microenterprises are small small businesses; most have one employee, the owner. In the United States, the number of microenterprise-development programs has grown from less than ten in 1987 (Clark and Huston, 1993) to more than 300 in 1996 (Severens and Kays, 1997). Most programs make loans or give classes to low-income people to start new firms or to strengthen those that they already own.

Some community-development scholars describe microenterprise as a promising way to help the working poor, the unemployed, and those on welfare (Banerjee, 1998; Raheim and Alter, 1998; Clinton, 1997; Spalter-Roth, Soto, and Zandniapour, 1994; Soloman, 1992; Balkin, 1989; Friedman, 1988). This hope stems from a few programs in the third world that serve massive numbers of the self-employed poor at low cost to the public purse (Christen *et al.*, 1995; Yaron, 1994). The best-known examples are Grameen Bank in Bangladesh (Khandker, 1998; Hossain, 1988), BancoSol in Bolivia (Gonzalez-Vega *et al.*, 1997; Mosley, 1996), and the *unit desa* system of Bank Rakyat Indonesia (Robinson, 1994; Patten and Rosengard, 1991).

The success of the transplant of microenterprise development from the third world to the first depends on the differences in the contexts. For example, clones of

Grameen have struggled outside Bangladesh. Microenterprise programs must adjust to the local context (Taub, 1998; Bhatt and Tang, 1998; Mondal and Tune, 1993).

The difficulty of microenterprise in the United States matters because microenterprise programs attract a large chunk of the community-development budget. For example, federal sources have pledged more than $130 million a year for the next few years (U.S. Newswire, 1999; Johnson, 1998a; Meyerhoff, 1997).

Can microenterprise programs be as successful in the United States as in the third world? This paper reviews the evidence on the effects of the material conditions for microenterprise in both places. It concludes that microenterprise for the poor is more difficult in the United States. Microenterprise does work for a few extraordinary low-income people, but wage employment, additional education, and job training are still the most common paths out of poverty (Sanders, 2000; Bhatt, Painter, and Tang, 1999; Servon, 1999; Dennis, 1998; Ehlers and Main, 1998; Light, 1998; Taub, 1998; Bates, 1997; Novogratz, 1992; Mokry, 1988; Bendick and Egan, 1987).

Access to microenterprise programs may double the rate of movement to self-employment from unemployment or welfare (Friedman, Grossman, and Sahay, 1995; Benus *et al.*, 1995). The absolute number of people who would start small firms if they had access to microenterprise programs, however, is probably about 1 per 100 for the unemployed and about 1 per 1,000 for those on welfare (Schreiner, 1999a and 1999b). Few self-employed low-income people will escape working poverty (Sherraden, Sanders, and Sherraden, 1998; Servon, 1996; Raheim, 1996a).

In the United States, access to wage jobs and an effective public safety net decrease the push to self-employment. Most microenterprise programs in the third world make loans to the poor through groups, but groups of borrowers in the United States tend to fall apart because of lack of social capital and because individuals with a good repayment history can get loans on their own from private lenders. The two most important constraints on self-employment are a lack of savings and a lack of skills, but microenterprise programs are limited in how they can facilitate savings, and it is difficult and costly to build the human capital needed for entrepreneurship.

The following sections describe how aspects of the economic and socio-cultural environment of the United States hinder the promotion of self-employment for the poor. Most of these material conditions are positive features of the context with the unfortunate side effect that they decrease the push toward self-employment. This is not bad, because the goal is not more microenterprise but rather more well-being. For example, low-income people are probably better of with a strong safety net and low incentives for entrepreneurship than with a weak safety net but greater incentives for self-employment. The paper concludes with recommendations for how to improve microenterprise development for the poor in the United States. The most important recommendation is that funders—whether public or private—should structure support so as to strengthen incentives to experiment with innovations that might reduce the cost of services or increase their worth.

2. Microenterprise in the first and third worlds

The basic features of the microenterprise sector in the United States differ from Bangladesh, Bolivia, or Indonesia. “Self-employment is not as easily pursued in the U.S. as it is in international contexts” (Edgcomb, Klein, and Clark, p. 59, 1996).

Table 1 lists example microenterprises in the first and third worlds. Most first-world microenterprises produce non-traded services such as child care, haircuts, retail sales, transport, or home, car, or office maintenance. What little manufacturing there is involves custom work such as cabinets, crafts, or clothes. Of course, some illegal microenterprises deal in drugs. The customers of first-world microenterprises do not spend a large share of their budget on purchases from microenterprises.

Third-world microenterprises produce both services and manufactured goods. Most of these small firms are subsistence farms, and many sell cooked food from the sidewalk or staples from a small store. The customers of third-world microenterprises spend a large share of their budget on purchases from microenterprises.

Most microenterprise programs everywhere target the working poor. They do not promote the high-demand, fast-growth small firms (the so-called gazelles) that may account for a large share of new jobs in the United States. Gazelles are usually started by people such as consultants, architects, or computer programmers who may have low incomes but still have high human capital. Microenterprise programs typically have little to offer these growth microenterprises.

Instead, microenterprise programs everywhere tend to focus on low-demand, slow-growth firms (the so-called gnus). This is sensible because low-income, low-skill people are less likely to fail (and more able to start) such survival and maintenance microenterprises. Gnus require less financial and human capital than gazelles, but they also have lower returns.

3. Loans to groups of borrowers

The history of microenterprise development in the third world rests mostly on the innovative use of joint-liability groups to make loans to people too poor to offer traditional collateral (Morduch, 1999). When groups work, they decrease the cost of lending and increase social benefits.

Groups can decrease the cost of lending because they tap into existing social capital to shift screening, monitoring, and contract enforcement from the lender to the group. Because each group member bears joint liability for the debts of the others, they might also mentor or insure each other. Total social costs decrease if the social capital required for these tasks was built in the past. In the third world, this is often the case because group members live or work in the same place or already run informal savings clubs among themselves (Besley, Coate, and Loury, 1993; Adams and Fitchett, 1992).

Group loans may increase social benefits if their financial intermediation relaxes financial constraints or if their social intermediation relaxes non-financial constraints (Edgcomb and Barton, 1998). For example, the weekly meetings of groups in the Grameen Bank in Bangladesh not only gives members access to loans but also, as a by-product, breaks down the constraints of *purdah*, giving women a socially acceptable excuse to walk in public, to meet women from outside their compound, and to hear their first names spoken with respect (Larance, 1998).

Microenterprise practitioners often prefer group loans to individual loans because they value social capital and community-level outcomes and because, as inexperienced lenders, it is easier to shift most tasks to borrowers. Groups in the United States, however, have been a disappointment (Taub, 1998; Bhatt and Tang, 1998). Even though the first programs copied the concept as conceived in Bangladesh, most programs have since shelved group loans in favor of a focus on classes or individual loans. Less than one-third of U.S. microenterprise programs make loans to groups (Severens and Kays, 1997). “Group-lending approaches in the United States do not carry with them the efficiencies anticipated by the performance of peer programs in the developing world” (Edgcomb, Klein, and Clark, p. 41, 1996).

Group loans in the United States have had little success for five reasons. First, social capital among the poor is weaker in the United States than in the third world for both market and household reasons. In the market sphere, most trades are one-shot and impersonal. Unlike the third world, the United States lacks concentrated, personalized markets where the same buyers haggle over each price with the same sellers each day or each week. The faceless, nameless trades with set prices that characterize U.S. markets do decrease transaction costs because they do not require buyers and sellers to invest in the formation of reputations, but, as a side effect, it stunts the growth of the social capital that would permit a link between the repayment of a group loan and good faith in other markets. In the household sphere, people get income from wage jobs or from public assistance and thus are not forced to form many multi-stranded, long-term economic and social relationships beyond the family. Furthermore, social capital is an asset that evaporates with each move, and people in the United States move often. Without constant contact to build trust, borrowing groups do not have the social capital that they require (Woolcock, 1999). Attempts to build social capital purely to enable group loans often collapse.

The second reason that groups have struggled is that the poor are more diverse in the United States than in the third world. In theory, joint liability works best when all members do the same work and so face the same risks (Varian, 1990; Stiglitz, 1990). In practice, this holds in Bangladesh or Bolivia because most entrepreneurs are farmers or petty traders and because every village has scores of women who would want to raise chickens or peddle soap. Small towns in the United States, however, cannot support five beauty salons or five résumé services. Furthermore, few poor people in the United States—whether rural or urban—can find four friends who also want to start a small business. The mix of cultures and ethnicities may also decrease social capital if people tend to avoid others who differ from themselves in these ways.

Third, the American psyche does not relish groups. At least for some, “Good fences make good neighbors” (Frost, 1914), and cooperation seems too much like communism. According to Mondal and Tune (1993), Bangladeshis have more respect for authority and more group identification than Americans. “Americans are too individualistic to accept the discipline of solidarity groups” (Light, 1998, p. 2).

Fourth, groups in the United States often fail because microenterprise programs do not enforce joint liability (Bhatt, 2000). It is not nice to make an honest borrower pay the debt of a defaulter, but forgiveness sets an example that unleashes an avalanche of default because group members no longer have selfish reasons to select trustworthy peers, to watch them, and to pressure them to pay.

Fifth, groups break down because even low-income people in the United States—if they have a clean credit record—can get individual loans through credit cards. In the absence of high levels of social capital, most borrowers would prefer to avoid groups and the high transaction costs needed to maintain friendships, coax and cajole delinquent partners, and mete out punishments.

Joint liability means that honest borrowers may be asked to pay the debts of defaulters. This can spark a domino effect in which borrowers who would have paid their own debts choose instead to default rather than pay both their own debts and those of defaulters (Paxton, Thraen, and Graham, 2000; Besley and Coate, 1995). Groups also break down because the fortunes of members diverge through time. Some members have more luck, skill, or effort and so get richer and want bigger loans, but poorer members cannot afford to be saddled with big debts should their less-poor partners default.

In both the first and third worlds, group borrowers are poorer than individual borrowers because those who can offer collateral opt out of joint liability (Conning, 1998; Navajas *et al.*, 2000; Economic Opportunities Program, 1997). For example, 78 percent of individual loans from U.S. microenterprise programs were collateralized, and the average disbursement was $9,200 (Severens and Kays, 1997). In contrast, 16 percent of group loans were collateralized, and the average disbursement was $1,600.

Joint-liability borrowing groups are the main innovation in microenterprise development in the third world, so it is unfortunate they do not work well in the United States. What matters now is that U.S. programs recognize this and start to look for innovations appropriate to their context.

4. Size of the microenterprise sector

The U.S. microenterprise sector is small. Microenterprise accounts for 60-80 percent of employment in the third world but only about 8-20 percent in the United States (Edgcomb, Klein, and Clark, 1996). Wage jobs and welfare are alternatives to self-employment that shrink the sector and weaken the pool of entrepreneurs.

The U.S. economy is wide, deep, and well-integrated with global markets. While this increases well-being in the United States on the whole, it also blocks the three types of self-employment that are most common in the third world. First, few manufacturing microenterprises in the United States can compete against mass-produced goods. Second, few small retailers can compete against discount chain stores. Third, few small farms can survive in the United States.

The alternative to microenterprise in the third world might be starvation. Wage jobs are scarce, and there is no public safety net. In contrast, the United States not only has abundant wage jobs but it also has a safety net for those without jobs.

4.1 Self-employment and the safety net

The safety net reduces the number of microenterprises in the United States in five ways. First, it prevents starvation and thus decreases the push toward self-employment. Second, the receipt of public assistance requires less risk and less effort than self-employment. Regardless of the effort of the owner, many start-up microenterprises fail. Third, income means-tests in welfare programs reduce the rewards to the risk and effort of self-employment. Welfare recipients get less public assistance as their businesses are more profitable. A fourth and related point is that asset means-tests discourage saving (Beverly and Sherraden, 1998; Powers, 1998; Hubbard, Skinner, and Zeldes, 1995). Without savings, there is no self-employment; nothing else can finance pre-venture capital and living expenses until the business turns a profit. The problem is less that limits on income and assets reduce public assistance and more that the limits kick in before a small firm can support its owner. Fifth, the safety net may decrease entrepreneurship because people who receive transfers may not think of self-employment as an alternative (Friedman, 1988).

In the United States, the safety net places a lower bound on economic well-being, and this makes microenterprise development more difficult. Of course, the safety net should not be loosened just to increase the number of microenterprises. After all, the goal is not more microenterprise but rather more well-being. But U.S. programs should recognize that their job is more difficult than in the third world.

4.2 Wage jobs and the pool of microentrepreneurs

The pool of low-income entrepreneurs in the United States is shallow. Entrepreneurship requires all the effort and skill of a wage job but offers higher risks and lower rewards. Those cut out for self-employment can usually earn more in wage jobs (Raheim, 1996b; Spalter-Roth, Hartmann, and Shaw, 1993). Thus many of the self-employed either have a special vocation to fulfill or have failed at wage jobs.

Income from self-employment is often low because most low-income microentrepreneurs start with low levels of investment and go into sectors with low barriers to entry (Bates, 1996 and 1995). Thus, they have low productivity and face high competition. Small firms in depressed areas also often face low demand because they often sell services that their customers could do for themselves or do without. All of this leads to high effort, high risk, and low profits.

The main impact of microenterprise-development programs in both the United States and in the third world seems not to be increased income but rather smoother income in the face of shocks (Taub; 1998; Sherraden, Sanders, and Sherraden, 1998; Morduch, 1998; Zeller *et al.*, 1997). Self-employment income buffers wage income. People who own small firms can adjust their self-employment effort when there is a spike in expenses or slack time in a wage job.

The pool of low-income entrepreneurs in the third world is not subject to adverse selection as in the United States, where most people who can get wage jobs have wage jobs. In contrast, wage jobs are so scarce in the third world that even people with skills and oomph may not find wage jobs. Thus, the average unemployed person in the third world is likely to have almost average luck, skills, and oomph, but the average unemployed person in the United States probably has below-average luck, skill, or oomph. If not, then the person would probably have a wage job (Novogratz, 1992).

Of course, there are exceptions. Some people start small firms to do work that they love, to be their own boss and to set their own hours, to bequeath a business and to be an example to their children, or to feel the pride of achievement (Himes and Servon, 1998; Sherraden, Sanders, and Sherraden, 1998). Self-employment may also shelter women and minorities from discrimination. Finally, self-employment may provide the flexibility parents—especially mothers—require as they raise children.

5. Entrepreneurs as decathletes

In the United States, entrepreneurship is complex. Like decathletes who sprint, jump, and throw in ten events, owners of small firms must excel in many tasks. They not only provide the service or make the good that earns revenue, but they also pay taxes, comply with regulations, supervise employees, maintain a locale, attract customers, and find suppliers. Entrepreneurs must wear many hats, and some of them may not fit well. In contrast, wage workers need to excel at only one or two tasks.

In the third world, self-employment is less complex. Employees, if any, are usually children or relatives who are simple to monitor. Most customers are neighbors, and it is easier to evade regulations and taxes than in the first world.

Like wage workers in the first world, owners of small firms in third world need to excel at only a few tasks. For example, a woman in Bangladesh can husk rice if she can get sheaves from a less-poor neighbor, beat them and toss them to remove the chaff, and then glean the dirt and rocks. It is a tough job, but anyone can do it. Likewise, raising a milch cow requires only land and time. In the Dominican Republic, a woman can buy 50-pound sacks of brown sugar wholesale and sell retail to neighbors from her house. In India, a woman can clean, refill, and sell used ballpoint pens.

The United States has small the markets for husked rice, fresh milk, cups of brown sugar, and recycled ballpoint pens. Even if there were demand for such simple, small-scale enterprises, the owner would still have to pay taxes and meet codes, maintain a locale, and deal with many suppliers and customers. Microenterprise development is difficult in the United States because even a simple microenterprise can be quite complex.

6. Government and formalization

More than third-world governments, the U.S. government does what it is supposed to do. Sometimes, this increases the cost of microentrepreneurship. For example, two-thirds of new businesses in 1995 were run from the home (Dennis, 1998). This lets the owner care for children, get help from family, work during slack times of the day, and utilize the illiquid investment in the home. It also avoids the need to commute, an important factor in the United States where public transport costs more and is less frequent than in the third world. Zoning laws, however, may prohibit home-based firms, and child-labor laws may forbid that children help their parents. These laws may be on the books in third-world countries, but they are seldom enforced as in the United States.

Some entrepreneurs in the United States are surprised by how much red tape they face (Dennis, 1998). Taxes and compliance with regulation have invisible non-cash transaction and opportunity costs that may swamp their visible cash costs, and their quasi-fixed nature impinges regressively on small firms.

Of course, red tape in the third world can make red tape in the United States look like gift wrap (de Soto, 1989). Formal microenterprises in the United States must pay taxes and comply with codes, but at least they benefit from police and contract enforcement by the courts, from payment histories recorded in credit bureaus, and, in some states, from waivers on income and asset means-tests in welfare programs. To note that effective government may not facilitate microenterprise is not to indict effective government, because formalization has its benefits. For example, informal microenterprises—such as the drug trade—must often resort violence to enforce contracts. They also must hide income and assets to keep public assistance, and they cannot prove their creditworthiness. Furthermore, zoning laws protect neighbors from negative externalities, and child-labor laws protect children from abuse. Even without microenterprise, the poor in the United States would be much better off than the poor in the third world, and much of this is due to better government.

Some U.S. laws do seem to impede self-employment needlessly. Usury caps, for example, might make sense if lenders held a monopoly and if borrowers had not choice but to borrow. This is hardly the case in the United States. In fact, usury laws decrease access to formal loans for microenterprise in two ways. First, they do not let lenders recoup the (mostly fixed) costs of small, short loans to high-risk borrowers without standard collateral. Usury laws prevent not high-priced lending but rather truth-in-lending; crafty lenders can increase the price of a loan without increasing the interest rate through adjustments to other contractual terms (Caskey, 1994). Second, usury laws give high interest rates a bad name. Even if lenders could raise rates enough to make a profit on risky loans to low-income microentrepreneurs, they might choose not to do so for fear of being called usurers. Most third-world countries recognized long ago that usury laws do not improve human welfare (Fry, 1988; McKinnon, 1973).

7. Access to financial services

Financial services include loans, deposits, insurance, and payment services. *Access* means supply at a price that both covers the long-term costs of an efficient supplier and is less than the value of the service to the user (Schreiner, 1999c). Thus, access depends on both supply and demand. Lack of access is not a problem unless the cost of supply is higher than it needs to be or if markets are imperfect. Of course, financial markets are imperfect, but not all feasible interventions are improvements.

Access to financial services in general and to loans in particular appear to constrain entrepreneurship in the third world more than in the United States. This means that U.S. microenterprise programs must help the poor to build savings or human capital. This is more difficult than making loans.

7.1 Access to financial services in the third world

In the third world, lack of access to financial services is an important constraint on microenterprises. For example, few banks collect deposits from the poor. Their branches are far from the poor, and they stay open for just a few hours a day. Also, their fixed-cost structures lead banks to discourage small, frequent transactions.

The poor in the third world do save, and greater access to deposit services has a large impact on their well-being (Aportela, 1999). They save because their income does not always coincide with their expenses (Rutherford, 1998), and they do not have public assistance or insurance to buffer catastrophic risks. They do not, however, save much in financial deposits. Instead, they store wealth as concrete blocks, lengths of barbed wire, gold nose-rings, sacks of grain, pots and pans, goats or pigs, bottles of rum, petticoats, favors for neighbors, and children. These stores of wealth, however, are not always as good as financial deposits. They are less liquid and can rust, run away, be consumed, or otherwise lose value through time. Of course, financial deposits in soft currencies can also lose value from inflation and devaluation.

The best microenterprise programs in the third world found innovative ways to reduce the fixed costs of deposit services for the poor. For example, the *unit desa* system of Bank Rakyat Indonesia has small, plain branches. Simple procedures allow low-skilled—and thus low-wage—employees to manage without computers (Rhyne and Rotblatt, 1994). Before the Asian meltdown, the system had about 18 million depositors and 2 million borrowers, and aggregate deposit balances were twice aggregate loan balances (Yaron, Benjamin, and Piprek, 1997).

Few poor entrepreneurs in the third world have checking accounts, and other payment services (except wire transfers from migrant workers in the first world) are not well-developed. If deposits are the forgotten half of development finance (Vogel, 1984), then payment services are the forgotten third, and loans are the remembered sixth. Insurance has also been undeservedly ignored (Zeller and Sharma, 2000).

Most banks in the third world make loans only to those with wage jobs or with mortgage collateral. This creates a vacuum for microenterprise programs in a niche with a broad pool of creditworthy entrepreneurs.

7.2 Access to financial services in the United States

Some studies find that U.S. entrepreneurs are constrained by a lack of access to loans (Holtz-Eakin, Joulfaian, and Rosen, 1994; Evans and Jovanovic, 1989). Others suggest that this is not a constraint (Cressy, 2000; Xu, 2000). If loans are a constraint, then it is because they require assets as collateral, and assets require saving.

U.S. microenterprises usually do have access to loans and have debt now or have had it in the past. For example, one-fourth of the clients of a large network of U.S. microenterprise programs had had defaults or bankruptcies, and more than half of all clients used their loans to consolidate debt from other sources (Himes and Servon, 1998). Of course, the most common creditors are friends and family, and informal finance has well-known limits (Christensen, 1994). Still, almost anyone in the United States with a wage job and a clean credit record can get a credit card. Most microentrepreneurs or their spouses have wage jobs (Spalter-Roth, Hartmann, and Shaw, 1993), and credit cards probably meet most demand for microenterprise loans (Bates and Servon, 1998). Although credit-card debt is high priced, it has low transaction costs and very low total costs. Likewise, loans from the so-called fringe banks—pawn shops, check cashing outlets, and rent-to-own stores—have high prices but low total costs. Banks may still discriminate and try to lead a quiet life (Berger and Hannan, 1998; Munnell *et al.*, 1996), but competition has pushed other financial intermediaries closer to the poor.

Low-income people in the United States also have access to savings and payment services. Existing microenterprises must have had some savings to get started, and some of these savings may have been held as financial deposits. A study in Milwaukee found that some bank branches in the inner city offered free passbook and checking accounts with low minimum balances (Squires and O'Conner, 1998). Half the low-income people and microenterprises surveyed in a Hispanic neighborhood of Chicago had deposits in banks (Bond and Townsend, 1996). Even banks, pressed by the Community Reinvestment Act and by the loss of big deposits to non-banks, have begun to look down-market (Merton and Bodie, 1995). Electronic Benefit Transfer will soon force anyone who gets a check from the federal government to have a bank account.

Low-income people in the United States also have access to a wide range of payment services. Post offices, check-cashing outlets, and grocery stores sell money orders and cash checks. ATMs provide some payment services, although many are unsafe or distant from the poor. Banks provide a full range of payment services but are closed on evenings and weekends, increasing transaction costs for the working poor.

Broad access to financial services in the United States is good for microenterprises but bad for microenterprise programs. In the third world, the best programs have approached self-sustainability through profits from loans. In the United States, programs cannot compete with for-profit lenders. Although savings services may be more useful than loans to promote self-employment for low-income people, the role for microenterprise programs to facilitate savings is probably small.

7.3 Savings services and microenterprise programs

Most microenterprises are financed not with debt but with savings (Dennis, 1998; Bates, 1996; Bond and Townsend, 1996; Loscocco and Robinson, 1991). Even if they get a loan, it is usually linked to a specific purchase such as a barber chair or a lawnmower. During gestation, the entrepreneur cannot get a loan for research expenses nor for living expenses, so without savings, most new firms fold before they fledge.

For new microenterprises, savings has some advantages over debt. Savings screen for skills and oomph at the point where information is the least asymmetric—the self. Often entrepreneurs start small, part-time, and with their own savings to test their skill and the market (Jovanovic, 1982). This lets them cut their losses if the venture fails. Microenterprises that use savings also avoid the fixed repayment obligations that could cause bankruptcy in the first months or years of irregular cash flows.

The dilemma is that most microenterprises need savings more than debt, but microenterprise programs have no clear role to facilitate savings. Programs can easily attract borrowers, especially if they make large, cheap loans without collateral and without a strong commitment to enforce repayment. They can also subsidize business plans and thus indirectly reduce the need for savings. But programs cannot, by law, take deposits. Furthermore, deposits, unlike loans, do not directly generate revenue.

Individual Development Accounts (IDAs) are one option (Sherraden, 1991). Deposits by low-income people in an IDA in a bank are matched, and the balance does not count in asset means-tests. After a time, the balance can be withdrawn to buy a home, to pay for post-secondary education, or to start or to expand a microenterprise. Still, the microenterprise program does little more than raise funds for the match, provide entrepreneurship classes and counseling, and monitor the use of withdrawals. Banks do the rest, and there seems to be no technological reason why banks and schools could not do it all at a lower cost.

U.S. microenterprises, unlike third-world microenterprises, are probably constrained less by lack of access to loans than by lack of savings. Unfortunately, microenterprise programs—like credit cards and fringe banks—cannot provide saving services directly. Thus, efforts to relax financial constraints on U.S. microenterprises probably should focus on banks.

8. Classes for skills and oomph

With competition for loans and little role in savings, U.S. microenterprise programs have focused on training for skills and entrepreneurship. About 95 percent of U.S. programs offer training; Johnson (1998b, p. 16) says that "providing credit without training could be likened to lending someone a fishing pole in the Mojave desert." It is more difficult, however, to impart skills and oomph than to lend cash.

The first third-world microenterprise programs started with classes, but most have now switched to focus on loans. In contrast, the first first-world microenterprise programs started with loans, but most have now switched to focus on training.

Human and financial capital are complements, but U.S. programs have three other reasons to bundle classes with loans. First, classes may help inexperienced lenders to screen potential borrowers. People who can pass a class—often with a business plan as its capstone—are more likely to succeed in business and repay their loans. Second, class attendance is a way to vet self-employment for waivers on welfare means-tests. Third, funders currently favor loans over training, so some training programs added loans as a bait-and-switch to get funds for their true mission (Servon, 1997).

The record in the third world suggests that loans and classes do not mix well. For decades, the World Bank tried without success to use subsidized loans to induce subsistence farmers to adopt new technologies (Von Pischke, 1991; Adams, Graham, and Von Pischke, 1984; Gittinger, 1982). Entrepreneurs, like farmers, usually do not need a loan to know whether they would benefit from training or new technology.

For their part, third-world programs that mixed loans and classes found that good teachers were not always good lenders and vice versa. Borrowers were confused when a class was a gift but cash was a loan. Some programs felt it was unfair to dun defaulters whose ventures failed in spite of the use of what was taught in class.

Perhaps the most important lesson was to that programs should build a firewall between lending and training (Helms, 1998). This improves transparency and thus improves incentives to decrease costs and to increase value.

8.1 Skills

The two prerequisites for entrepreneurial success are human and financial capital. Loans might matter at the margin, but only when skills and savings are present. Wealth is the biggest constraint on debt (Berger and Udell, 1998), and, according to Bates (1997, p. 4), "no serious studies of [microenterprise programs] have demonstrated that small amounts of debt can overcome human-capital deficiencies that otherwise minimize chances for business success."

Both in the United States and the third world, most training programs teach general business skills. Rather than attempt to tell a babysitter how to change diapers, a gardener how to cut grass, or a cobbler how to fix shoes, they focus on skills useful in all businesses such as bookkeeping and accounting, personal financial management, spreadsheets and word processors, sales planning, insurance, taxes, labor law, and licenses. "The objective is to provide the practical knowledge to do the myriad of little things it takes to start and sustain an enterprise" (Balkin, 1992, p. 141).

There is some experimental evidence, however, that on-call advice has a greater impact than up-front classes (Schreiner, 1999b; Benus *et al.*, 1995). Furthermore, sector-specific training for regulated sectors such as child care and food preparation have been found useful in helping poor entrepreneurs comply with regulation and get licenses.

In general, however, it is difficult to transfer human capital in short courses. Entrepreneurship training is more difficult than job training because the "goal is not merely to provide business skills, but to help develop a new and viable organization" (Drury, Walsh, and Strong, 1994, p. xiii). More resources are required to train decathletes than to train specialists. Furthermore, program staff may not be great adult-education teachers or may lack entrepreneurship experience. In the end, microenterprise classes may have greater impacts on self-esteem more than on skills or income (Raheim and Alter, 1998; Spalter-Roth, Soto, and Zandniapour, 1994).

Training in the United States drains program budgets for two reasons. First, it requires a lot of staff time, and skilled labor is expensive. Second, most programs provide training for free (Severens and Kays, 1997).

Free training ignores two of the biggest lessons from the microenterprise development in the third world. First, fees produce feedback that improves the quality of training: students will not pay more than what the class is worth to them. This argues for some fees, even if they do not cover all costs. Second, microenterprise training will probably never be profitable. In general, loan-led programs in the United States are closer to self-sustainability than training-led programs (Edgcomb, Klein, and Clark, 1996; Servon, 1994). Profit and self-sustainability matter if microenterprise development improves social welfare and if funders will nonetheless lose interest someday. Although some truck-driving schools and schools of cosmetology have abused their students, their existence does show that profitable self-employment training is possible, at least in regulated sectors that require a license.

Of course, market failure may prevent self-employment training from paying for itself. There is a market failure if classes produce more social gains than social costs even though they do not produce more private gains than private costs for either programs or students. If self-employment training suffers from market failure, then lessons from the third world can point to ways to structure subsidies so as resolve the market failure and still preserve incentives for quality and efficiency. For example, a program in Paraguay gives entrepreneurs vouchers to pay part of the price of self-employment training (Schor and Alberti, 1999). Entrepreneurs can get the vouchers whether or not they get loans. They combine the voucher with their own funds to pay for classes from the trainer of their choice. Professional training institutes teach general skills, and private entrepreneurs teach hands-on the specific skills they use all day as bakers, seamstresses, or mechanics. Trainers redeem the vouchers for cash.

8.2. Entrepreneurship

Even with observed traits held constant, people are not the same. The difference is *entrepreneurship*, the oomph that drives a person to work for a better future even at the cost of sacrifice in the present. Oomph matters because self-employment requires unsupervised work with high risks and low rewards (Dennis, 1998). But oomph, like skills, is difficult to imbue.

Taub (1998) speculates that low-income people in the United States may have low average oomph because they are not used to self-employment and because their peers do not expect them to risk a new venture. Other evidence suggests that at least some low-income people have high oomph. In 1995, 2.6 percent of families with incomes below $10,000 started new ventures (U.S. Bureau of the Census, 1997, cited in Sanders, 2000). About one-third of homeless men surveyed in Chicago shelters do some form of self-employment (Balkin, 1992). Of course, an unknown number of low-income people do informal work that is not reported as self-employment because it is illegal, paid in cash or in kind, or is too small or infrequent to be thought of as a business.

9. Conclusion and recommendations

U.S. microenterprise programs face challenges unknown in the third world. Abundant wage jobs and a safety net decrease the push toward self-employment. Even small ventures are complex and must comply with regulations, pay taxes, and compete in global markets. Group loans do not work well in the United States, and private lenders take the best individual borrowers. Low-income entrepreneurs need to build human and financial capital, but training decathletes—especially for entrepreneurial oomph—is costly, and microenterprise programs can do little to facilitate savings services. Microenterprise development is more difficult in the United States than in the third world. The rest of this paper recommends ways to help face the challenge.

9.1 Structures of incentives for innovation

Microenterprise development in the third world reduced costs through innovative joint-liability loans. Microenterprise development in the first world requires strong structures of incentives to prompt the search for similar innovations. The incentive structure of funders determines the incentive structure of programs.

Experiments and change are difficult, and government and private donors can sometimes be the smothers of invention. After all, most experiments, like most small firms, fail, and administrators who fund failures are not promoted. Furthermore, short-term electoral-cycles may reward bureaucrats who can claim quick results or who can disburse a lot of money. This leads to an overemphasis on current “best practices” and concentrates funds in a few programs widely recognized as being among the best, whether or not these programs still innovate (Hulme, 2000). U.S. microenterprise programs are still in the stage of research and development, and funders should restrict assistance to those with concrete plans to try something new meant to decrease the costs of supply and increase value to users. Innovation requires great time and effort from program staff, and although their altruism can lead them to bear greater personal costs on behalf of the poor, funders should also provide external, self-interested incentives with threats to cut funds to those experiments that have made little progress after a set time (Schreiner, 1999c).

The incentives faced by microenterprise programs derive from the incentives faced by within government and private donors. These structures are difficult to adjust, but a first step might be to give administrators long-term contracts renewable each 10 or 15 years after a strict evaluation based on the long-term results of experiments after their 3-to-5 years of funds ran out. A second step would be to measure the output of administrators not as funds disbursed but rather as the number of microenterprises served. This reward funders who seek programs that make an effort to control costs.

9.2 Costs and outputs

Of course, microenterprise programs can cut costs by cutting output, but would defeat the purpose of strict goals set by funders. Thus, a simple first step toward better incentives is to measure both costs and outputs. In the third world, such measurement has helped to push programs to innovate (Schmidt and Zeitinger, 1996; Yaron, 1994). Even in the absence of credible estimates of program benefits, estimates of costs and outputs can help to ensure that scarce community-development funds are spent well (Schreiner and Yaron, 2000; Devarajan, Squire, and Suthiwart-Narueput, 1997).

Many microenterprise programs in the United States are quick to relate anecdotes of successful entrepreneurs, but most are perhaps slower to measure and publish rigorous cost studies. Exceptions include a cost analysis of the largest IDA program in the nation (Schreiner, 2000), budget figures for U.S. microenterprise programs in Severens and Kays (1997) that indicate that about 53,000 users received services in 1996 at a cost of about $109 million (about $2,000 per user), and an excellent study of outputs and costs by Edgcomb, Klein, and Clark (1996), from which can be derived that the cost per dollar-year of borrowed purchasing power in the seven oldest and best-known microenterprise programs in the United States was about $1.50. Whether these costs are high or low compared with output is not the point; what matters is that the mere measurement of costs and benefits creates incentives to improve outputs and decrease costs (Schreiner, 1999d and 1997; Von Pischke, 1996).

9.3 The safety net

Community-development practitioners must remember that although the material conditions of the United States often mitigate against entrepreneurship by low-income people, it is probably better to have many wage jobs, an effective safety net, a good government, global trade, and taxes and regulations with teeth than to have greater opportunities for microenterprise. After all, the goal of community development is not more microenterprise but rather more human welfare, and microenterprise may or may not be a means to that end. Advocates for the poor must seek not more microenterprise but rather more human development, defined as greater capability of people to do and to be the things they have reason to want (Sen, 1998).

9.4 Savings and debt

The low-income self-employed in the United States are constrained more by lack of savings than by lack of loans. Although low-income communities often lack the social capital to make borrowing groups work, individuals with decent credit records can get small individual loans, through credit cards if nothing else. Larger loans require collateral, collateral requires assets, and assets require saving.

How can microenterprise programs promote saving? IDAs are one way. Programs might also require not only a business plan but also some minimum savings for operating and living expenses as a new venture gets off the ground. This would resemble the escrow accounts for emergencies often required of low-income home buyers.

9.5 Modest claims

For low-income communities in the United States, microenterprise is not a panacea but a vitamin. Advocates should seek not to promote but to improve, being "careful not to overstate benefits" (Raheim and Alter, 1998, p. 59). Microenterprise is "clearly not the answer to the urban poverty problem" (Servon, 1997, p. 175), and self-employment alone "will not result in the alleviation of poverty in the long run" (Raheim, 1997, p. 51).

The need to attract funds may sometimes tempt advocates to overstate potential and understate problems (Adams and Von Pischke, 1992). A more sober view can only help to push programs to try harder to seek for welfare-improving innovations.

9.6 Hire expertise

Good leaders of community-development organizations do not always make good teachers or good bankers. Although anyone with money can make a loan, good lenders are repaid and do not make loans that end up harming borrowers. Likewise, former entrepreneurs often make the best small-business teachers, but not all employees in not-for-profits have this experience. Just as an agricultural-extension project should hire agronomists rather than social workers, a microenterprise program should hire former entrepreneurs and professional loan officers and teachers.

9.7 Training and loans

For lack of alternatives, U.S. microenterprise programs focus on training and loans. But what kinds of classes should they give? And who should they target? Some evidence suggests that long-term on-call advice helps more than general, up-front classes (Schreiner, 1999b; Benus *et al.*, 1995). The risks and problems faced by small businesses are too diverse and idiosyncratic to predict and address before they happen.

In the third world, few microenterprise programs make loans to start-ups, but in the United States, most microenterprise programs focus on start-ups. Although it is more difficult to help a start-up, U.S. programs agree with Balkin (1987) that their impact will be greatest there. In contrast, Bendick and Egan (1987) suggest that scarce community-development funds would be better spent to strengthen existing small firms.

9.8 Monitor self-employment

Microenterprise practitioners should search for ways to monitor effort toward self-employment that do not require attendance at classes or indebtedness. Means-tests on welfare programs are meant to prevent the abuse of public assistance, but lawmakers have been willing to waive the limits if they believe that the waivers are short-term and that the waivers can help someone escape poverty for good.

It is difficult, however, to monitor self-employment effort. With wage jobs, the employer serves this purpose (Dennis, 1998). With job training or post-secondary education, the educational institution monitors effort. But self-employment has no natural monitor other than the market. Pleas to raise or to waive limits on income and assets in welfare programs to get rid of their pernicious side effects on self-employment will not be heard unless alternatives can be found to serve purposes of the means-tests. Class attendance or loan repayment might be good proxies for self-employment effort, but some low-income entrepreneurs do not want or need training or debt. Microenterprise programs may want to develop direct monitoring techniques such as having business counselors visit clients once a week at their place of work.

9.9 Wage jobs and more education

Microenterprise programs should search for ways beyond self-employment to connect people to the workforce. Even if access to microenterprise assistance doubles the number of poor people who start small firms, more than 99 percent of the poor will not be affected (Schreiner, 1999b). The one matters, but not more than the ninety-nine.

As one practitioner said, a good microenterprise-development program may often choose not encourage self-employment but rather to discourage it in favor of more education or job training. Self-employment may help a few extraordinary poor people—those with low incomes but high human capital and oomph—out of poverty, but most of the poor will climb to the middle class just like most of the middle class did, through education and wage jobs. As stated by Balkin (1987), programs with the best interests of the poor in mind seek first to help them get more education and skills, then to search for a wage job, and only last to attempt self-employment.

9.10 Banks and the Community Reinvestment Act

Some banks fulfill some of their obligations under the Community Reinvestment Act through grants to not-for-profit microenterprise programs who then make loans to microenterpreneurs. Community developers should insist that banks do the work themselves. If banks could not farm-out microenterprise loans, then they would put more pressure on themselves to learn to develop attractive products for which many poor people would pay high prices, allowing the banks to make a profit or at least to minimize costs. Then, if funds from government and private donors for microenterprise development were to dwindle, banks might still find it in their own self-interest to continue to serve this niche. As it is, incentives for not-for-profit programs to innovate are low, and banks do not learn whether their perceptions of losses in this niche are true nor whether innovations could change those losses into profits.

The dilemma is that community-development practitioners want grants from banks to bolster their budgets. Moreover, they to do not trust banks to do a good job. As for banks, many are content with business-as-usual; a foray into microenterprise would only increase their workload and decrease their profits. Regulators could correct this awkward incentive structure by refusing to consider grants to not-for-profits as a fulfillment of obligations under the Community Reinvestment Act if the not-for-profit uses the grant to do something similar to the main business activity of the bank.

References

Adams, Dale W; and Delbert A. Fitchett. (1992) *Informal Finance in Low-Income Countries*, Boulder, Colorado: Westview Press, ISBN dwadams@burgoyne.com.

Adams, Dale W; and J.D. Von Pischke. (1992) "Microenterprise Credit Programs: Déjà Vu", *World Development*, Vol. 20, No. 10, pp. 1463-1470, dwadams@burgoyne.com.

Adams, Dale W; Graham, Douglas H.; and J.D. Von Pischke. (1984) *Undermining Rural Development With Cheap Credit*, Boulder: Westview Press, ISBN 0-86531-768-2, dwadams@burgoyne.com.

Aportela, Fernando. (1998) "Effects of Financial Access on Savings by Low-Income People", manuscript, Massachusetts Institute of Technology, aportela@mit.edu.

Balkin, Steven. (1989) *Self-Employment and Low-Income People*, New York: Praeger, ISBN 0-275-92807-1, mar@interaccess.com.

____. (1992) "Entrepreneurial Activities of Homeless Men", *Journal of Sociology and Social Welfare*, Vol. 19, No. 4, pp. 129-150, mar@interaccess.com.

Banerjee, Mahasweta M. (1998) "Micro-Enterprise Development: A Response to Poverty", *Journal of Community Practice*, Vol. 5, No. 1/2, pp. 63-83, mahaswetab@sw1.socwel.ukans.edu.

Bates, Timothy. (1997) *Race, Self-employment, and Upward Mobility: An Illusive American Dream*, Baltimore: Johns Hopkins University Press, ISBN 0-8018-5798-8, t.m.bates@wayne.edu.

____. (1996) "The Financial Needs of Black-owned Businesses", *Journal of Developmental Entrepreneurship*, Vol. 1, No. 1, t.m.bates@wayne.edu.

____. (1995) "Why Do Minority Business Development Programs Generate So Little Minority Business Development?", *Economic Development Quarterly*, Vol. 9, No. 1, pp. 3-14, t.m.bates@wayne.edu.

Bates, Timothy; and Lisa J. Servon. (1998) "Microenterprise as an Exit Route from Poverty: Recommendations for Programs and Policy Makers", *Journal of Urban Affairs*, Vol. 20, No. 4, pp. 419-441, t.m.bates@wayne.edu.

Bendick, Marc Jr.; and Mary Lou Egan. (1987) "Transfer Payment Diversion for Small Business Development: British and French Experience", *Industrial and Labor Relations Review*, Vol. 40, No. 4, pp. 528-542, egan@gwu.edu.

Benus, Jacob M.; Johnson, Terry B.; Wood, Michelle; Grover, Neelima; and Theodore Shen. (1995) "Self-Employment Programs: A New Reemployment Strategy, Final Report on the UI Self-employment Demonstration", Unemployment Insurance Occasional Paper 95-4, U.S. Department of Labor, Jake_Benus@abtassoc.com.

Berger, Allen N.; and Timothy H. Hannan. (1998) "The Efficiency Cost of Market Power in the Banking Industry: A Test of the 'Quiet Life' and Related Hypotheses", *Review of Economics and Statistics*, Vol. 80, No. 3, pp. 454-465.

Berger, Allen N.; and Gregory F. Udell. (1998) "The economics of small-business finance: The roles of private equity and debt markets in the financial growth cycle", *Journal of Banking and Finance*, Vol. 22, pp. 613-673.

Besley, Timothy; and Stephen Coate. (1995) "Group Lending, Repayment Incentives and Social Collateral", *Journal of Development Economics*, Vol. 46, pp. 1-18.

Besley, Timothy; Coate, Stephen; and Glenn Loury. (1993) "The Economics of Rotating Savings and Credit Associations", *American Economic Review*, Vol. 83, No. 4, pp. 792-810.

Beverly, Sondra G.; and Michael Sherraden. (1998) "Institutional Determinants of Savings: Implications for Low-income Households", *Journal of Socio-Economics*, Vol. 28, No. 4, pp. 457-473, sbeverly@gwbssw.wustl.edu.

Bhatt, Nitin. (2000) *Microcredit and Entrepreneurship Development: An Institutional Perspective*, manuscript, University of Southern California, bhatt@usc.edu.

Bhatt, Nitin; Painter, Gary; and Shui-Yan Tang. (1999) "Microcredit Programs in the United States: The Challenges of Outreach and Sustainability", paper presented at the Conference on Public Policy Analysis and Management, Nov. 4-6, Washington, D.C., bhatt@usc.edu.

Bhatt, Nitin; and Shui-Yan Tang. (1998) "The Problem of Transaction Costs in Group-Based Microlending: An Institutional Perspective", *World Development*, Vol. 26, No. 4, pp. 623-637, bhatt@usc.edu.

Bond, Philip; and Robert Townsend. (1996) “Formal and informal financing in a Chicago ethnic neighborhood”, *Economic Perspectives*, Federal Reserve Bank of Chicago, Vol. 20, No. 4, pp. 3-27, www.frbchi/pubs-speech/publications/periodicals/ep/epjul/96.pdf.

Caskey, John P. (1994) *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*, New York: Russell Sage Foundation, ISBN0-87154-180-7, jcaskey1@swarthmore.edu.

Christen, Robert Peck; Rhyne, Elisabeth; Vogel, Robert C.; and Cressida McKean. (1995) “Maximizing the Outreach of Microenterprise Finance: An Analysis of Successful Microfinance Programs”, Program and Operations Assessment Report No. 10, Washington, D.C.: United States Agency for International Development, Doc. No. PN-ABS-519, www.dec.org/search/dexs/docs-1987-present/.

Christensen, Garry. (1993) “The Limits to Informal Financial Intermediation”, *World Development*, Vol. 21, No. 5, pp. 721-731.

Clark, Peggy; and Tracy Huston. (1993) “Assisting the Smallest Businesses: Assessing Microenterprise Development as a Strategy for Boosting Poor Communities. An Interim Report”, Washington, D.C.: Self-Employment Learning Project, Aspen Institute, www.aspeninst.org.

Clinton, Hillary. (1997) “Foreward”, pp. ix-x in C. Alexander Severens and Amy K. Kays (eds) *1996 Directory of U.S. Microenterprise Programs*, Wahsington D.C, the Aspen Institute, www.aspeninst.org.

Conning, Jonathan. (1998) “Outreach, Sustainability and Leverage in Monitored and Peer-Monitored Lending”, *Journal of Development Economics*, Vol. 60, pp. 51-77, jconning@williams.edu.

Cressy, Robert. (2000) “Credit rationing or entrepreneurial risk aversion? An alternative explanation for the Evans and Jovanovic finding”, *Economics Letters*, Vol. 66, pp. 235-240, r.c.cressy@hubs.hull.ac.uk.

de Soto, Hernando. (1989) *The Other Path: The Invisible Revolution in the Third World*, New York: Harper and Row, ISBN 0-06-016020-9.

Dennis, William J., Jr. (1998) "Business Regulation As an Impediment to the Transition from Welfare to Self-Employment", *Journal of Labor Research*, Vol. 19, No. 2, pp. 263-276, denny.dennis@nfib.org.

Devarajan, Shantayanan; Squire, Lyn; and Sethaput Suthiwart-Narueput. (1997) "Beyond Rate of Return: Reorienting Project Appraisal", *World Bank Research Observer*, Vol. 12, No. 1, pp. 35-46, www.worldbank.org.

Drury, David; Walsh, Stephen; and Marlene Strong. (1994) "Evaluation of the EDWAA Job Creation Demonstration", Research and Evaluation Report Series 94-G, U.S. Department of Labor, Employment and Training Administration, Office of Policy and Research, Washington, D.C., info@bpacal.com.

Economic Opportunities Program. (1997) "Microenterprise Assistance: What Are We Learning About Results? Key Findings from the Aspen Institute's Self-Employment Learning Project", Washington, D.C.: Aspen Institute, www.aspeninst.org.

Edgcomb, Elaine; and Laura Barton. (1998) "Social Intermediation and Microfinance Programs: A Literature Review", Washington, D.C.: Development Alternatives, www.mip.org/pdfs/mbp/social.pdf.

Edgcomb, Elaine; Klein, Joyce; and Peggy Clark. (1996) *The Practice of Microenterprise in the U.S.: Strategies, Costs, and Effectiveness*, Washington, D.C.: Aspen Institute, Self-Employment Learning Project, ISBN 0-89843-196-4, www.aspeninst.org.

Ehlers, Tracy Bachrach; and Karen Main. (1998) "Women and the False Promise of Microenterprise", *Gender and Society*, Vol. 12, No. 4, pp. 424-440.

Evans, David S.; and Boyan Jovanovic. (1989) "An Estimated Model of Entrepreneurial Choice Under Liquidity Constraints", *Journal of Political Economy*, Vol. 97, No. 4, pp. 808-827, david.evans@nera.com.

Friedman, Robert. (1988) *The Safety Net as Ladder: Transfer Payments and Economic Development*, Washington, D.C. Council of State Policy and Planning Agencies, ISBN 0-934842-42-6, www.cfed.org.

Friedman, Robert E.; Grossman, Brian; and Puchka Sahay. (1995) "Building Assets: Self Employment for Welfare Recipients. Overview of the Findings from the Self Employment Investment Demonstration (SEID)", Washington: Corporation for Enterprise Development, ISBN 1-883187-07-9, www.cfed.org/cfedpublications/index.html.

Frost, Robert (1914). "Mending Wall", *North of Boston*, London: David Nutt.

Fry, Maxwell J. (1988) *Money, Interest, and Banking in Economic Development*, Baltimore and London: Johns Hopkins University Press, ISBN 0-8018-3640-9.

Gittinger, J. Price. (1982) *Economic Analysis of Agricultural Projects, Second Edition*, Economic Development Institute of the World Bank, Baltimore: Johns Hopkins University Press, ISBN 0-8018-2912-7.

Gonzalez-Vega, Claudio; Schreiner, Mark; Meyer, Richard L.; Rodriguez-Meza, Jorge; and Sergio Navajas. (1997) "BancoSol: The Challenge of Growth for Microfinance Organizations", pp. 129-170 in Hartmut Schneider (ed.), *Microfinance for the Poor?*, Paris: Organization for Economic Co-operation and Development, ISBN 92-64-15415-9, www-agecon.ag.ohio-state.edu/RuralFinance/eso2332.pdf.

Helms, Brigit S. (1998) "Cost Allocation for Multi-Service Microfinance Institutions", Consultative Group to Assist the Poorest Occasional Paper No. 2, Washington, D.C.: World Bank, www.cgap.org/html/p_occasional_papers02.html.

Himes, Christina; and Lisa J. Servon. (1998) *Measuring Client Success: An Evaluation of Acción's Impact on Microenterprises in the United States*, U.S. Issues Series No. 2, Boston: Acción International, www.accion.org/pubs/main.asp.

Holtz-Eakin, Douglas; Joulfaian, David; and Harvey S. Rosen. (1994) "Sticking It Out: Entrepreneurial Survival and Liquidity Constraints", *Journal of Political Economy*, Vol. 102, No. 1, pp. 53-75, djheakin@maxwell.syr.edu.

Hossain, Mahabub. (1988) "Credit For Alleviation of Rural Poverty: The Grameen Bank in Bangladesh", Research Report 65, Washington, D.C.: International Food Policy Research Institute, ifpri-info@cgiar.org.

Hubbard, R. Glenn; Skinner, Jonathan; and Stephen P. Zeldes. (1995) “Precautionary Savings and Social Insurance”, *Journal of Political Economy*, Vol. 103, No. 2, pp. 360-399.

Hulme, David. (2000) “Is microdebt good for poor people? A note on the dark side of microfinance”, *Small Enterprise Development*, Vol. 11, No. 1, pp. 26-28.

Johnson, Margaret A. (1998a) “Developing a Typology of Nonprofit Microenterprise Programs in the United States”, *Journal of Developmental Entrepreneurship*, Vol. 3, No. 2, pp. 165-184, mjohnsn@okway.okstate.edu.

Johnson, Margaret A. (1998b) “An Overview of Basic Issues Facing Microenterprise Practices in the United States”, *Journal of Developmental Entrepreneurship*, Vol. 3, No. 1, pp. 5-21, mjohnsn@okway.okstate.edu.

Jovanovic, Boyan. (1982) “Selection and the Evolution of Industry”, *Econometrica*, Vol. 50, No. 3, pp. 649-670, jovanovi@econ.sas.upenn.edu.

Khandker, Shahidur R. (1998) *Fighting Poverty With Microcredit: Experience in Bangladesh*, New York: Oxford University Press, ISBN 0-19-521121-9, skhandker@worldbank.org.

Larance, Lisa Young. (1998) “Building Social Capital From the Center: A Village-Level Investigation of Bangladesh’s Grameen Bank”, Center for Social Development Working Paper 98-4, Washington University in St. Louis, lrclarance@aol.com.

Light, Ivan. (1998) “Microcredit and Informal Credit in the USA: New Strategies of Economic Development”, *Journal of Developmental Entrepreneurship*, Vol. 3, No. 1, pp. 1-4, light@soc.ucla.edu.

Loscocco, Karyn A.; and Joyce Robinson. (1991) “Barriers to Women’s Small-Business Success in the United States”, *Gender and Society*, Vol. 5, No. 4, pp. 511-532.

McKinnon, Ronald I. (1973) *Money and Capital in Economic Development*, Washington, D.C.: The Brookings Institution.

Merton, Robert C.; and Zvi Bodie. (1995) "A Conceptual Framework for Analyzing the Financial Environment", pp. 3-31 in Dwight B. Crane, Kenneth A. Froot, Scott P. Mason, André F. Perold, Robert C. Merton, Zvi Brodie, Erik R. Sirri, and Peter Tufano (eds.) *The Global Financial System: A Functional Perspective*, Boston: Harvard Business School Press.

Meyerhoff, Diane. (1997) "Federal Funding Opportunities for Microenterprise Programs", *Journal of Developmental Entrepreneurship*, Vol. 2, No. 2, pp. 99-109.

Mokry, Benjamin W. (1988) *Entrepreneurship and Public Policy: Can Government Stimulate Business Start-ups?*, New York: Quorum Books, ISBN 0-89930-239-4.

Mondal, Wali I.; and Ruth Anne Tune. (1993) "Replicating the Grameen Bank in North America: The Good Faith Fund Experience", pp. 225-234 in Abu N.M. Wahid (ed.) *The Grameen Bank: Poverty Relief in Bangladesh*, Boulder: Westview.

Morduch, Jonathan. (1999) "The Microfinance Promise", *Journal of Economic Literature*, Vol. 37, No. 4, pp. 1569-1614, jmorduch@wws.princeton.edu.

____. (1998) "Does Microfinance Really Help the Poor? New Evidence From Flagship Programs in Bangladesh", manuscript, Princeton University, jmorduch@wws.princeton.edu.

Mosley, Paul. (1996) "Metamorphosis From NGO to Commercial Bank: The Case of BancoSol in Bolivia", pp. 1-31 in David Hulme and Paul Mosley (eds.) *Finance Against Poverty: Volume II*, Routledge: London, ISBN 0-415-12430-1.

Munnell, Alicia H.; Tootell, Geoffrey M.B.; Browne, Lynn E; and James McEneaney. (1996) "Mortgage Lending in Boston: Interpreting HMDA Data", *American Economic Review*, Vol. 86, No. 1, pp. 25-53.

Navajas, Sergio; Schreiner, Mark; Meyer, Richard L.; Gonzalez-Vega, Claudio; and Jorge Rodriguez-Meza. (2000) "Microfinance and the Poorest of the Poor: Theory and Evidence From Bolivia", *World Development*, Vol. 28, No. 2, pp. 333-346, gwbweb.wustl.edu/users/schreiner/.

Novogratz, Jaqueline. (1992) "Hopeful Change: The Potential of Microenterprise Programs as a Community Revitalization Intervention", New York: Rockefeller

Foundation.

Patten, Richard H.; and Jay K. Rosengard. (1991) *Progress with Profits: The Development of Rural Banking in Indonesia*, San Francisco: International Center for Economic Growth.

Paxton, Julia; Graham, Douglas; and Cameron Thraen. (2000) “Modeling Group-loan Repayment Behavior: New Insights from Burkina Faso”, *Economic Development and Cultural Change*, Vol. 48, No. 3 pp. 639-655.

Powers, E.T. (1998). “Does means-testing welfare discourage saving? Evidence from a change in AFDC policy in the United States”, *Journal of Public Economics*, Vol. 68, pp. 33-53.

Raheim, Salome. (1997) “Problems and Prospects of Self-Employment as an Economic Independence Option for Welfare Recipients”, *Social Work*, Vol. 42 No. 1, pp. 44-53, salome-raheim@uiowa.edu.

____. (1996a) “Micro-enterprise as an approach for promoting economic development in social work: lessons from the Self-Employment Investment Demonstration”, *International Social Work*, Vol. 39, pp. 69-82, salome-raheim@uiowa.edu.

____. (1996b) “Rejoinder: Toward a Broader Understanding of the Needs of African-American Entrepreneurs”, *Journal of Developmental Entrepreneurship*, Vol. 1, No. 1, salome-raheim@uiowa.edu.

Raheim, Salome; and Catherine F. Alter. (1998) “Self-Employment as a Social and Economic Development Intervention for Recipients of AFDC”, *Journal of Community Practice*, Vol. 5, No. 1/2, pp. 41-61, salome-raheim@uiowa.edu.

Rhyne, Elisabeth; and Linda Rotblatt. (1994) “What Makes Them Tick? Exploring the Anatomy of Major Microenterprise Finance Organizations”, Washington, D.C.: ACCION International Monograph Series No. 9, www.accion.org/pubs/main.asp.

Robinson, Marguerite S. (1994) “Savings Mobilization and Microenterprise Finance: The Indonesian Experience”, pp. 27-54 in María Otero and Elisabeth Rhyne (eds.) *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor*, Kumarian Press, ISBN 1-56549-031-2.

Rutherford, Stuart. (1998) “The Poor and Their Money: An Essay About Financial Services For Poor People”, Institute for Development Policy and Management, University of Manchester, ISBN 1-902-51819-5, www.man.ac.uk/idpm/fdrp_wp3.htm.

Sanders, Cynthia K. (2000) *Microenterprise Versus the Labor Market Among Low-Income Workers*, unpublished Ph.D. dissertation, Washington University in St. Louis, sandersc@gwbmail.wustl.edu.

Schmidt, Reinhard; and Claus-Peter Zeitinger. (1996) “The Efficiency of Credit-Granting NGOs in Latin America”, *Savings and Development*, Vol. 20, No. 3, pp. 353-384.

Schor, G.; and J.P. Alberti. (1999) “Training Voucher Schemes for Microenterprises in Paraguay: Benefits of a Demand-Driven Approach to Government Intervention in the Training Market”, Internationale Projekt Consult Working Paper No. 12, Frankfurt, ipc_gmbh@compuserve.com.

Schreiner, Mark. (2000) “Resources Used to Produce Individual Development Accounts in the First Two Years of the Experimental Program of the American Dream Demonstration at the Community Action Project of Tulsa County”, manuscript, Center for Social Development, Washington University in St. Louis, jrobey@captc.org.

____. (1999a) “Self-Employment, Microenterprise, and the Poorest Americans”, *Social Service Review*, Vol. 73, No. 4, pp. 496-523, gwbweb.wustl.edu/users/schreiner/.

____. (1999b) “Lessons for Microenterprise Programs from a Fresh Look at the Unemployment Insurance Self-Employment Demonstration”, *Evaluation Review*, Vol. 23, No. 5, pp. 503-526, gwbweb.wustl.edu/users/schreiner/.

____. (1999c) “Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance”, Center for Social Development Working Paper 99-3, Washington University in St. Louis, gwbweb.wustl.edu/users/schreiner/.

____. (1999d) “A Review of Evaluations of Microenterprise Programs in the United States”, manuscript, Center for Social Development, Washington University in St. Louis, gwbweb.wustl.edu/users/schreiner/.

____. (1997) *A Framework For the Analysis of the Performance and Sustainability of Subsidized Microfinance Organizations With Application to BancoSol of Bolivia and Grameen Bank of Bangladesh*, unpublished Ph.D. dissertation, The Ohio State University, http://gwbweb.wustl.edu.users/schreiner/.

Schreiner, Mark; and Jacob Yaron. (2000) "The Measurement of the Social Cost of Public Development Finance Institutions", manuscript, World Bank, http://gwbweb.wustl.edu.users/schreiner/.

Sen, Amartya. (1998) "Human Development and Financial Conservatism", *World Development*, Vol. 26, No. 4, pp. 733-742.

Servon, Lisa. J. (1999) *Bootstrap Capital: Microenterprises and the American Poor*, Washington, D.C.: Brookings Institution Press, ISBN 0-8157-7806-6, servon@rci.rutgers.edu.

____. (1997) "Microenterprise Programs in U.S. Inner Cities: Economic Development or Social Welfare?", *Economic Development Quarterly*, Vol. 11, No. 2, pp. 166-180, servon@rci.rutgers.edu.

____. (1996) "Microenterprise Programs and Women: Entrepreneurship as Individual Empowerment", *Journal of Development Entrepreneurship*, Vol. 1, No. 1, pp. 31-55, servon@rci.rutgers.edu.

____. (1994) "The Institutionalization of Microcredit", *Economic Development Commentary*, Vol. 18, Fall, pp. 23-29, servon@rci.rutgers.edu.

Severens, C. Alexander; and Amy K. Kays. (1997) *1996 Directory of U.S. Microenterprise Programs*, Washington, D.C.: Self-Employment Learning Project, Aspen Institute, www.aspeninst.org.

Sherraden, Margaret S.; Sanders, Cynthia K.; and Michael Sherraden. (1998) "From the Eyes of the Entrepreneurs: Microenterprise as an Anti-Poverty Strategy", report to the Self-Employment Learning project, Washington, D.C.: Aspen Institute, csd@gwbssw.wustl.edu, www.aspeninst.org.

Sherraden, Michael. (1991) *Assets and the Poor: A New American Welfare Policy*, Armonk: M. E. Sharpe, csd@gwbssw.wustl.edu.

Soloman, Lewis D. (1992) “Microenterprise: Human Reconstruction in America’s Inner Cities”, *Harvard Journal of Law and Public Policy*, Vol. 15, Issue 1, pp. 191-221, www.dlcppi.org/texts/social/microent.txt.

Spalter-Roth, Roberta; Soto, Enrique; and Lily Zandniapour. (1994) “Micro-enterprise and Women: The Viability of Self-Employment as a Strategy for Alleviating Poverty”, Washington, D.C.: Institute for Women’s Policy Research, ISBN 1-878428-14-4, www.iwpr.org.

Spalter-Roth, Roberta M.; Hartmann, Heidi I.; and Lois B. Shaw. (1993) “Exploring the Characteristics of Self-Employment and Part-Time Work Among Women”, Washington, D.C.: Institute For Women’s Policy Research, www.iwpr.org.

Squires, Gregory D.; and Sally O’Connor. (1998) “Fringe Banking in Milwaukee: The Rise of Check-Cashing Businesses and the Emergence of a Two-Tiered Banking System”, *Urban Affairs Review*, Vol. 34, No. 1, pp. 126-149, squires@csd.uwm.edu.

Stiglitz, Joseph E. (1990) “Peer Monitoring and Credit Markets”, *World Bank Economic Review*, Vol. 4, No. 3, pp. 351-366.

Taub, Richard P. (1998) “Making the Adaptation Across Cultures and Societies: A Report on an Attempt to Clone the Grameen Bank in Southern Arkansas”, *Journal of Developmental Entrepreneurship*, Vol. 3, No. 1, pp. 53-69.

U.S. Bureau of the Census. (1997) *Statistical Abstract of the United States, 117th Edition*, Washington, D.C.

U.S. Newswire. (1999) “Clinton Remarks at Microenterprise Event”, February 5.

Varian, Hal R. (1990) “Monitoring Agents With Other Agents”, *Journal of Institutional and Theoretical Economics*, Vol. 146, pp. 153-174.

Vogel, Robert C. (1984) “Savings Mobilization: The Forgotten Half of Rural Finance”, pp. 248-265 in Dale W Adams, Douglas H. Graham, and J.D. Von Pischke (eds.) *Undermining Rural Development With Cheap Credit*, Boulder: Westview Press, ISBN 0-86531-768-2.

Von Pischke, J.D. (1996) “Measuring the Trade-off Between Outreach and Sustainability of Microenterprise Lenders”, *Journal of International Development*, Vol. 8, No. 2, pp. 225-239, jdvp@erols.com.

____. (1991) *Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy*, Washington, D.C.: World Bank, ISBN 0-8213-1818-7, jdvp@erols.com.

Woolcock, Michael J.V. (1999) “Learning from Failures of Microfinance: What Unsuccessful Cases Tell Us About How Group-Based Programs Work”, *American Journal of Economics and Sociology*, Vol. 58, No. 1, pp. 17-42, mwoolcock@worldbank.org.

Xu, Bin. (1998) “A reestimation of the Evans-Jovanovic entrepreneurial choice model”, *Economics Letters*, Vol. 58, pp. 91-95, xub@dale.cba.ufl.edu.

Yaron, Jacob. (1994) “What Makes Rural Finance Institutions Successful?”, *The World Bank Research Observer*, Vol. 9, No. 9, pp. 49-70, jyaron@worldbank.org.

Yaron, Jacob; Benjamin, McDonald; and Gerda Piprek. (1997) *Rural Finance: Issues, Design, and Best Practices*, Environmentally Sustainable Development Studies and Monographs Series No. 14, Washington, D.C.: World Bank, ISBN 0-8213-3737-8, jyaron@worldbank.org.

Zeller, Manfred; and Manohar Sharma. (2000) “Many borrow, more save, and all insure: Implications for food and micro-finance policy”, *Food Policy*, Vol. 25, pp. 143-167, m.zeller@agr.ilni_goettingen.de.

Zeller, Manfred; Schreider, Gertrud; Von Braun, Joachim; and Franz Heidhues. (1997) *Rural Finance for Food Security for the Poor: Implications For Research and Policy*, Food Policy Review No. 4, Washington, D.C.: International Food Policy Research Institute, ISBN 0-89629-503-6, ifpri-info@cgiar.org.

Table 1: Example microenterprises in the first and third worlds

First world	Third world
• Care for children or pets	• Plant crops and fatten livestock
• Cut hair or polish nails	• Do odd jobs, especially on farms
• Cook food and sell drinks at festivals	• Cook food and sell drinks on the street
• Sell Avon, Amway, or Mary Kay	• Petty trade in food, clothes, or toiletries
• Clean homes, cars, or offices	• Take in laundry
• Trade and/or repair clothes or cars	• Make and/or repair clothes or cars
• Paint or repair houses	• Build or repair houses
• Cut grass or trim branches	• Collect and sell wood, charcoal, or water
• Kill pests	• Carry loads or messages
• Repossess cars	• Drive a bus or truck
• Work with wood	• Work with wood or metal
• Rent video tapes	• Show movies from video tapes
• Deejay parties	• Play in a band
• Drive cabs	• Run a rickshaw
• Quilt or knit blankets	• Husk rice or shell peanuts
• Sling newspapers or brochures	• Sell newspapers or lottery tickets
• Make and sell arts and crafts	• Scavenge for things to recycle
• Make and sell fake jewelry	• Make and sell baskets or rope
• Buy and sell drugs	• Shine or repair shoes