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Support for Microenterprise as Asset-Building: Concepts, Good Practices, and Measurement

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Measuring Saving

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Support for Microenterprise as Asset-Building: Concepts, Good Practices, and Measurement

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Abstract

This paper proposes that building assets—be they human, financial, or social—plays a fundamental role on the development of *microenterprise*, that is, very small businesses owned by people of modest means. This new view expands beyond the current focus on training and loans to include savings services and networks of social capital. This is useful because most new ventures depend more on savings than on loans and because social networks are key—if invisible—business assets that people of modest means often lack. The outputs of microenterprise-support programs and the intermediate and final outcomes of self-employment can also be seen (and measured) in terms of asset building.

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Support for Microenterprise as Asset-Building: Concepts, Good Practices, and Measurement

1. What is microenterprise?

A *microenterprise* is a very small company run by an owner of modest means, usually with few or no other employees. Common activities include child care, catering, cosmetology, or cleaning services. The microenterprise rubric generally excludes one-person small businesses owned by professionals such as doctors, lawyers, or computer programmers, and it also excludes hobbyists—such as those selling hand-made arts and crafts at weekend shows—who are not really trying to make money.

The industry-standard definition of *microenterprise* (Severens and Kays, 1997) is a firm with five or fewer employees that can use loans of up to \$15,000. In contrast, the new definition proposed here not only explicitly excludes hobbyists (Bates, 1990) and small firms owned by well-off people but—most importantly—makes no reference to absorptive debt capacity. Small and medium-sized firms, for example, are typically defined in terms of their assets or (perhaps) numbers of employees, not in terms of the size of loans they might take.

The reference to debt in the received definition of *microenterprise* reflects a quirk in the microenterprise-support field; it has, to this point, focused largely on lending and training, perhaps due to its roots in microcredit models from low-income countries and in particular the Grameen Bank of Bangladesh (Yunus, 1999 and 1998; Soloman, 1992).

This paper proposes a different paradigm, one that suggests that—even when they make

loans—microenterprise programs best support self-employment when they help people build human, financial, and social capital.

This asset-building perspective is useful for three reasons. First, if microenterprise programs help participants to build assets, then they not only help them to start and strengthen small businesses but also to build capacities useful in wage jobs and indeed in all areas of life. Second, while loans are one way to build assets, they are not the only way, and they are certainly not the most common way, especially for start-up ventures. Third, looking at asset-development beyond loans suggests new ways to support microenterprise, in particular via savings services and assistance in building networks of social capital.

This paper proceeds as follows. The next section describes concepts and “good practices” in microenterprise-support programs as seen through the lens of asset-building. The following section describes the benefits of microenterprise development, again in terms of assets. The final section outlines an asset-based framework for measuring progress and performance.

2. What is a microenterprise-support program?

Microenterprise-support programs aim to help people of modest means to start, strengthen, and/or expand very small companies.

Microenterprise programs have their work cut out for them. Self-employment requires assets in the form of human capital (education, experience, and entrepreneurship), financial capital (loans or savings), and social capital (networks and personal support). By definition, people of modest means have fewer of these assets.

Even in the poorest neighborhoods and during the worst downturns, wage jobs are so plentiful in the United States that the vast majority of those whose assets might enable them to succeed in self-employment instead opt happily for wage jobs (Bates, 1997). Thus, the pool of potential microenterprise owners has a high concentration precisely of those people least ready to do it on their own.

To fill gaps in the assets that facilitate successful self-employment, microenterprise-support programs offer training, microfinance, and social support.

2.1 Training

Self-employment requires a wide range of skills, attitudes, and habits. The people most likely to succeed are older, highly-educated, and have experience in self-employment or in wage jobs in the same field (Spalter-Roth, Soto, and Zandniapour, 1994; Evans and Leighton, 1989). Training aims to equip microenterprise owners with the human capital needed to compete in the marketplace through:

- Advice about the risks of microenterprise and alternatives such as wage jobs
- Help with a written business plan
- General business skills, such as taxes, accounting, strategic planning, and pricing
- Assistance with legal compliance and licensing for specific businesses, in particular child care, cosmetology, and food service
- Consulting services and technical assistance on an on-going, on-call basis

Surprisingly, effective microenterprise training serves to scare off many potential participants. The Horatio-Alger American Dream of pulling oneself up by one's bootstraps through self-employment often tempts people to ignore what might go wrong (Arabsheibani, *et al.*, 2000). In the example of the Unemployment Insurance Self-Employment Demonstration (Schreiner, 1999a; Benus, *et al.*, 1995), microenterprise training may have decreased total employment and wage rates, especially for the most disadvantaged and for those new to self-employment. After all, self-employment is

usually more difficult than wage-employment: the hours are longer, the pay is lower, and the risks are higher. “To be your own boss” and “to set your own hours” takes a mindset and a discipline that many people would rather delegate. The Women’s Self-Employment Program of Chicago—the oldest microenterprise program in the United States—“believes that a critical element of self-employment training is to help clients understand whether or not they are suited as entrepreneurs” (Novogratz, 1992, p. 21). Likewise, Edgcomb (2002) notes that good training helps participants to assess their assets. In this vein, Balkin (1989) proposes that microenterprise training should first help people to get more education, second to search for a wage job, and only last to attempt self-employment. Kosanovich and Fleck (2001) call this the “cold shower” approach.

The capstone of microenterprise training is often a formal written business plan. For one thing, making a plan forces participants to sit down and ask themselves some tough questions (Bhatt, 2002):

- Does the idea make sense in business terms?
- How long will it take to break even, and how will I get by until then?
- Have I confused the enjoyment of supply with the existence of demand? (If I make it, will they come?)

The point is, a business is a business. “All too often”—says Sternberg (1998, p. 16)—“they start making a product because they like it (crafts, jellies, party balloons, tie-dyed silk scarves, hand-painted candy jars, or tape-recorded stories) rather than because it has a profitable market.”

The business plan also serves three other purposes. For microenterprise programs that make loans, the business plan screens out the highest-risk borrowers—no plan, no loan. For programs that do not make loans, the business plan prepares borrowers to approach banks or other lenders. Finally, the plan serves as a “final exam” and as a way

to track effort toward self-employment. States have been willing to waive work-search requirements for public-assistance recipients in microenterprise training as long as there is something concrete—such as a business plan—to prove that the training is real.

Microenterprise training can also teach general business skills. Like decathletes, business owners must excel in many tasks. Not everyone, however, can man both the helm and the oars, coming up with a viable business idea, producing a good or service, marketing it, dealing with suppliers and customers, keeping the books, and doing a host of other tasks. Because business owners must wear so many hats, a few may not fit well. Microenterprise training attempts to provide “the practical knowledge to do the myriad of little things it takes to start and sustain an enterprise” (Balkin, 1992, p. 141). Because of the wide array of business ideas in a given classroom, and because trainers themselves often lack sector-specific skills, it is good practice (Edgcomb, 2002) to focus on common business tasks such as taxes, accounting, strategic planning, and pricing.

Sector-specific training makes sense in fields such as child care, cosmetology, and food service that not only have many microenterprises—making it worthwhile for the microenterprise program to acquire sector-specific expertise—but that also require licenses (Sherraden, Sanders, and Sherraden, 1998). In the United States and abroad, regulation is a barrier—though not always an unhealthy one—to microenterprise (Dennis, 1998; de Soto, 1989). Although microenterprise programs may not be able to teach caregivers how to calm crying children, beauticians how to cut the latest hairstyles, or bakers how to cook souffles, they can still teach them how to deal with red tape.

Finally, microenterprise programs often supplement classroom training with one-on-one consulting on an on-going, on-call basis. The Unemployment Insurance Self-

Employment Demonstration (Benus, *et al.*, 1995) and a review of self-employment programs in Britain and France (Bendick and Egan, 1987) suggest that long-term, on-call advice and technical assistance for problems as they come up can be more effective than once-off, up-front courses meant to prevent possible problems. On-call advice is also less costly, both because problems that do not crop up are not treated and because people who end up not starting businesses are not trained.

2.2 Microfinance

Self-employment requires not only human capital but also financial capital.

Microfinance is the supply of financial services—loans and/or savings—tailored to the demands of microenterprises.

- Loans
 - From the microenterprise-support program itself
 - From banks or other lenders
- Savings services

2.2.1 Microloans

According to Drury, Walsh, and Strong (1994, p. 2-15), “many microbusiness practitioners believe that lack of access to capital is the greatest single barrier to starting businesses, and that capital is an input even more important than general business training.” Indeed, there is a strong link between business start-up and owner’s net worth (Bates, 1996; Holtz-Eakin, Joulfaian, and Rosen, 1994; Evans and Leighton, 1989).

Microenterprise programs often make loans to their participants because, as the saying goes, banks make loans only to those who do not need them. Banks require signals of creditworthiness that microenterprises often cannot offer: real estate for collateral, an unblemished credit-bureau record, and a wage job with enough steady income to make monthly payments. Unlike banks, microenterprise programs often use joint-liability

groups to control risk. Programs that lend to individuals may also consider non-standard signals of creditworthiness that banks ignore, such as a record of on-time payments for rent and utilities, regular remittances to relatives abroad, and/or completion of a microenterprise training course or business plan.

A few banks work in partnership with microenterprise programs to make loans to program “graduates” based on their business plans. The microenterprise field hopes that this will show banks that microloans are good business. For their part, banks hope to “score points” for the Community Reinvestment Act. Banks do not seem to have found a profitable niche in microenterprise. In fact, rather than making loans themselves, some banks score CRA points by donating funds for microenterprise programs to then on-lend. Of course, this wipes out incentives for banks to “get to know” the microenterprise market or to find a way to make microloans profitable. Furthermore, repayment rates to the microenterprise programs are low, a lesson not lost on banks.

In the Third World, microloans are the newest darling of development. Microlenders reach millions of microenterprises, and many lenders achieve almost-perfect repayment rates and post profits. In contrast, U.S. microlenders have few borrowers, struggle with low repayment rates, and post losses. The contrast stems from differences in contexts (Schreiner and Woller, 2003; Schreiner and Morduch, 2002). On the “push” side, the structure of the U.S. economy—in particular, plentiful wage jobs and the public safety net—means that even most disadvantaged Americans need not choose between microenterprise and starvation. On the “pull” side, microenterprises (except in a few specific sectors) compete in well-integrated markets with mass manufacturers and retailers. Furthermore, the United States—thanks to credit bureaux and scoring—has the

world's deepest and broadest loan market; the microloan is the credit card.

Microenterprise-support programs end up making loans only to the toughest cases.

2.2.2 Microsavings

A decade ago, the word “microfinance” did not exist; people spoke only of “microcredit”. The shift to the new word reflects the awareness that, for microenterprises, savings matter just as much—if not more—as loans.

For one thing, most new ventures do not use much debt at start-up (Dennis, 1998); according to Bates (1996), about one-fourth start with no financial capital at all. When start-ups do use financial capital, the most common sources are not bank loans but rather owner's savings or informal loans from friends or relatives. According to Bond and Townsend (1996, p. 15), “Formal loans are used strikingly little in financing business start-ups”. Loscocco and Robinson (1991) likewise report that 78 percent of women and 69 percent of men started ventures without any debt at all.

Berger and Udell (1998) and Bates (1997) find that microenterprises are limited less by low debt than by low savings. Indeed, Bates (1996) argues that, because lenders require collateral, low savings leads to a low access to loans. For example, Evans and Jovanovic (1989) found that most new small-business owners could not get debt in excess of half their wealth. All this means that higher savings would relax constraints on loans (Morduch, 1999; Deaton, 1992).

For start-ups, savings has other advantages over loans. Of course, savings pay interest, but loans cost interest. And loans are tied to specific purchases—such as a barber chair or a lawn mower—and cannot pay for research during the planning stage or for the owner's living expenses during the years of gestation required of most small ventures

(Servon, 1997; Birley, 1989; Nares and Feit, 1989). Furthermore, a microenterprise must invest a lot of “pre-venture capital” long before it gets in the sights of a bank (Shapero, 1983). Finally, even established, successful microenterprises do not provide a monthly paycheck, so they need savings to smooth the peaks and valleys in income and expenses. In sum, without a reserve of savings, most new, small firms will fold before they fledge.

The challenge for microenterprise programs is that it is easier to make loans than to support saving. After all, all it takes to make loans—especially if repayment is not a strong concern—is cash. More importantly, the law precludes microenterprise programs from collecting savings deposits. Two practical options remain: helping people to save in banks, and running Individual Development Accounts.

A feedback loop often limits saving in banks by unbanked potential owners of microenterprises: low-balance accounts have high costs (fees are higher, and it is easier to run short and bounce a check by accident), and high costs decrease account balances. Caskey (2002) proposes a practical strategy to help unbanked people to keep a bank account with a balance of at least \$500, a point at which fees are often reduced and which provides some cushion against the risk of bounced checks. Caskey suggests that community organizations—for example, microenterprise-support programs—could link savers with the special accounts and also provide complementary financial education.

The second practical option to support savings for microenterprise is Individual Development Accounts. Proposed by Sherraden (1991), IDAs provide matches for savings used for home purchase, post-secondary education, or microenterprise. Because microenterprise is one of the three fundamental matched uses, IDA programs attract about twice as many business owners than if they drew participants at random from their

target groups. So far, most IDA programs are in community non-profits (Edwards and Mason, 2003), and many of them house microenterprise programs. The IDAs themselves are passbook accounts in banks, and the IDA program helps participants open the account and then reminds them to make regular deposits. IDA programs also require financial education, often with a microenterprise-specific component for those who plan matched withdrawals for self-employment. Ssewamala (2003) analyzes the use of IDAs for microenterprise, and Schreiner (2004) estimates program costs.

2.3 Social support

In addition to human capital and financial capital, self-employment requires social capital. As Balkin (1989, p. 7) says, “No one does it on their own.” Business happens not only in the marketplace but also in the social arena, and the self-employed must rely on their personal networks for contacts and information and on their families for emotional support and physical sustenance. The inevitably social aspects of entrepreneurship mean that—now as in the past—“old boy” networks give Caucasian men an unearned head start (Allen, 2000). Few women, African Americans, or foreign-born people march in Shriner parades or feel comfortable at Rotary Club luncheons. Furthermore, people of modest have limited social support because their friends and relatives also tend to be of modest means and not to own businesses. To build social capital and to empower the self-employed, microenterprise programs often feature:

- Targeting to women, racial/ethnic minorities, and the foreign-born
- Basic skill training for self-esteem
- Mentors
- Events that bring microenterprise owners together:
 - Joint-liability groups
 - Business incubators or clusters
 - Trade shows or hosted get-togethers

Microenterprise programs can target women, racial/ethnic minorities, and the foreign-born in many ways. Location is one; participation is easier when the program's office and classrooms are close to where the target group lives and close to public-transport routes. Child-care is another; women cannot attend classes unless they have someone to watch their children. Programs targeted to women may also include spouses to get their "buy-in", as male partners can sabotage women's self-employment efforts or—especially if they have wage jobs—be mainstays of support (Taub, 1998; Spalter-Roth, Hartmann, and Shaw, 1993). Timing is important; most participants also work wage jobs, so classes should be repeated and scheduled to allow attendance by people working day or night shifts. The background of the trainer also matters; students make a greater effort when they identify with the teacher and feel that they "fit in" (Akerlof and Kranton, 2002). For the foreign-born, a key is to deliver classes, handouts, and advertising in the mother tongue. Of course, the most basic form of targeting is to restrict eligibility only to members of the target group.

To be sure, self-employment is difficult for anyone, and microenterprise is not a panacea for disadvantaged groups. "Among people who choose self-employment without appropriate education, skills, and financial resources, business failure and self-employment exit rates are high. These patterns typify black, Asian, and white Americans, men and women, immigrants and the native born" (Bates, 1997, p. 1). Bates also notes that while business ownership and ethnic enclaves may enrich an elite few among disadvantaged groups, the self-employment "economic detour" is usually a dead-end. In the long-term, the best way to promote self-employment for disadvantaged groups is through improved educational opportunities in grade school and high school (via an end

to local-school finance) and through an end to discrimination in wage employment. In the meantime, microenterprise support programs will do what they can do, helping business owners to patch together the requisite social networks.

Self-employment is not the same as entrepreneurship, and many people of modest means enter microenterprise not because they are risk-takers who want to get rich through “creative destruction” but because they cannot find a good wage job and so need a stop-gap measure as they tread water until something better comes along. To increase the chances that slow-growing (or no-growing) “gnus” will transform into the fast-growing “gazelles” touted as the engines of the economic growth, many microenterprise programs offer “self-esteem training” to buttress perseverance in the face of hard knocks and to inspire “entrepreneurial spirits”. In particular, programs targeted to women—especially those coming off public assistance—often find that basic-skills training provides a context of success that boosts self-esteem. Still, “even for motivated low-income women, microenterprise training does not generally increase living standards—at least in the short run—although it does make trainees feel better about themselves” (Spalter-Roth, Soto, and Zandniapour, 1994, p. 8). The skills *per se* are useful, however, and building self-esteem through self-employment training can be good wage-employment training.

Microenterprise programs often match participants with mentors. The self-employed are more likely to have had parents or relatives who owned a business (Balkin, 1989; Evans and Leighton, 1989), conferring a social advantage in terms of information and opportunities. “A self-employment training program can be thought of as a substitute for the business-minded relative that low-income people never had” (Balkin, 1989, p.

136). The best mentors come from the same backgrounds as participants and work in the same fields. A good mentor is hard to find, but once found, they also make good trainers, and they may be hired if they do not come forward as volunteers.

Microenterprise programs also build social capital by bringing owners together in joint-liability groups, business incubators or clusters, and trade shows and get-togethers.

With *joint-liability groups*, 3–5 people receive loans, all of whom must repay before any one of them can get a repeat loan. Made famous by the Grameen Bank of Bangladesh (Edgcomb and Barton, 1998), joint-liability eschews traditional collateral and credit evaluations, controlling repayment risk instead via existing social capital among group members. Joint-liability also builds social capital by giving members a reason to mentor each other. In Bangladesh where most people live in the same village all of their adult lives, where *purdah* norms restrict women from leaving their homestead unaccompanied by a male relative, and where attending a weekly meeting with other women and hearing one's name spoken with respect constitute unprecedented freedom (Larance, 2001), joint-liability has worked miracles of economic and social empowerment. In the United States, performance has been less dramatic. There is less social capital to tap. Not only are Americans more mobile, more spread out, and more diverse, but lenders often place strangers together in groups (Hung, 2002; Sternberg, 1998). Furthermore, with oppression less severe in the United States, group meetings can be seen more as burdensome than empowering (Ashe, 2000; Taub, 1998).

Business incubators are buildings that house microenterprises that share secretarial support, telephone and fax lines, computers, copiers, and restrooms. This helps dilute overhead costs. *Clusters* group microenterprises producing complementary goods

and services (Bhatt, 2002). Because they are close in space, microenterprises in clusters have lower transaction costs—both for information and transportation—and so enjoy economies of agglomeration (Porter, 1997; Krugman, 1995). Of course, a cluster or incubator needs an organizer, and the microenterprise-support program can play that role.

Finally, microenterprise programs can promote social capital through microenterprise trade shows or simply by convening a group of business owners and then letting nature take its course. One of the best ways to build social capital is simply to bring people together, and the microenterprise program can be the institutional setting.

3. Why support microenterprise?

Microenterprise-support programs help people of modest means to build human, financial, and social capital via self-employment. If successful, this has the same benefits (jobs and income) as wage employment. In addition, self-employment has unique non-financial or “way-of-life” benefits, and its benefits may spill-over to non-owners.

3.1 Financial benefits

Microenterprise programs try to help start, strengthen, and/or expand very small companies in order to increase income and employment. Thus, the financial benefits of microenterprises are a lot like those of wage jobs.

Starting a microenterprise is assumed to “create” a job and to increase income. Of course, this assumption is only partially correct; in the absence of the microenterprise, many—if not most—owners would have found a wage job of some sort. At the same time, others would have been unemployed, and even those with wage jobs would have—

to some degree—displaced other, less-fortunate wage workers. On the whole, successful microenterprise does create jobs and, in so doing, increases aggregate national income.

Strengthening microenterprises is, on the one hand, what microenterprise programs say that they have done when they cannot claim to have created new microenterprises nor to have expanded existing ones. In this sense, “to strengthen” means “to provide services, with no measured changes in end outcomes”. On the other hand, programs can indeed strengthen microenterprises—even if measured end outcomes do not change in the short term—by improving skills and so helping to increase and stabilize income. On average, self-employment provides a low, highly variable wage, especially for women (Spalter-Roth, Soto, and Zandniapour, 1994). Also, the owner/employee must pay for any “fringe benefits” such as health insurance or retirement savings as well as both halves of the Social-Security tax. For most microenterprise owners, this means that income must come from a “patchwork quilt” of part-time self-employment and wage jobs (Sherraden, Sanders, and Sherraden, 1998). Better skills increase the chances of staying in business long enough to reach a point where income is high enough and steady enough to quit the “day job”.

Although self-employment has low, risky wages, one of its main effects seems to be to diversify the risk of the portfolio of household activities (Sherraden, Sanders, and Sherraden, 1998; Dunn, 1997; Hulme and Mosley, 1996; Servon, 1996). For example, a household with one or more wage jobs might start a part-time microenterprise to insure against job loss. Unlike wage jobs—whose hours and income are usually rigid and all-or-none—self-employment effort and earnings can be adjusted by the household as needed.

Expanding microenterprises has two aspects, accumulating business assets and hiring employees. Besides being a store of savings, investment in plant and equipment increases the return to the owner's labor. Of course, business assets are not only financial and physical but also human (know-how, know-what, and know-why) or social (know-who). As discussed earlier, microenterprise programs aim to support all three types of asset accumulation. In all cases, more business assets mean more income.

Microenterprises expand not only by building assets but also by hiring employees. Like the microenterprise itself at start-up, new hires represent new jobs. But—other than start-up—hiring the first employee is the most-risky event in a business's life. Thus, there is ample room for microenterprise programs to assist with compliance with labor laws, provision of “fringe benefits”, and tax issues. Many microenterprise owners are better doers than managers, so management training can also be valuable.

3.2 Non-financial and “way-of-life” benefits

Sherraden, Sanders, and Sherraden (1998) point out that, for most microenterprise owners, financial benefits (which are often low and risky) matter less than non-financial and “way-of-life” benefits. Simply put, microenterprise owners tend to be drawn from those who want the lifestyle promised by self-employment. For them, microenterprise improves quality-of-life and fulfills a dream. They give up higher incomes in exchange for independence, pride of ownership, and self-fulfillment (Himes and Servon, 1998).

Much of the excitement for microenterprise as a way for single mothers to leave public assistance stems from its unique promise to combine home-based self-employment with child care or elder care. Others—such as those on farms or otherwise rooted in place—want work that does not require them to move. Some microenterprise owners see

the business as a way to imprint a work ethic on children and as a way to build assets to bequeath. Even owners of failed firms see self-employment as a “learning experience” that will serve them throughout life (Sherraden, Sanders, and Sherraden, 1998).

3.3 Benefits that go beyond owners

Finally, microenterprise may benefit society at large, most obviously by creating jobs. As mentioned above, microenterprise may also help single mothers leave public assistance (Friedman, Grossman, and Sahay, 1995; Else and Raheim, 1992), although it probably will not be a common route (Schreiner, 1999b; Servon and Bates, 1998).

Microenterprise may also have macroeconomic benefits. Even if 999 flowers die from every 1,000 that bloom, the successes may be well worth the failures, especially if they grow into large companies.

4. How to measure performance?

So far, this paper has discussed what microenterprise-support programs try to do and why they want to do it. This section discusses how to measure performance, that is, whether programs do do as they intend.

There are three levels of performance indicators (Project STAR, 2003):

- *Outputs*: Services delivered by the microenterprise program
- *Intermediate outcomes*: changes in microenterprises and their owners that contribute to ultimate goals but that are themselves but means to ends
- *End outcomes*: Improvements in the lives of microenterprise owners

Measurement of progress and performance matters for two reasons. First, microenterprise programs must compete for public and private funds against alternative

ways to help people of modest means. Second, measurement tends to create healthy pressure for improvement (Schreiner, 2002; Von Pischke, 1996).

4.1 Outputs

The services delivered by a microenterprise-support program—its outputs—aim to build human capital, financial capital, and social capital.

4.1.1 Human-capital outputs

First and foremost, a microenterprise program helps participants weigh the risks and rewards of self-employment versus alternatives. Thus, potential participants who sign up but soon opt out are a valid (and valuable) output. Performance measurement should “give credit” to microenterprise programs both for helping those who are “ready and willing” to try self-employment and for helping others to choose the right path for them:

- Number of inquiries received by potential participants in the year:
 - By phone
 - By mail
 - In person
- Number of people who started the formal in-take process in the year:
 - Attended initial group-orientation session:
 - Already owned a microenterprise
 - Did not already own a microenterprise
 - Received one-on-one in-take counseling :
 - Already owned a microenterprise
 - Did not already own a microenterprise

Black, *et al.*, (2002) define a *participant* as someone who, in the past year, had a loan in good standing and/or received at least 10 hours of training or technical assistance.

Measures of participants (beyond in-take) in a year are thus:

- Number of people with loans in good standing
- Number of people who received 10 hours of training or technical assistance

For most microenterprise programs, formal classroom training forms the heart of structured human-capital building:

- Classroom-hours of training provided in the year:
 - General business skills such as taxes, accounting, and strategic planning
 - Specific business skills such as legal compliance and licensing
 - Management training or other advanced topics

Often, the capstone of microenterprise human-capital building is the business plan. As with in-take, performance measurement should count not only completed business plans but also in-process plans and abandoned plans:

- Number of business plans supervised in year

Good practice suggests complementing classroom training and business-plan guidance with on-going, on-call, one-on-one consulting and technical assistance.

Edgcomb (2002) suggests that while programs should actively offer technical assistance to owners, results are best when owners initiate the request:

- Hours of one-on-one counseling or technical assistance in the year:
 - Scheduled by the program
 - Requested by the owner

4.1.2 Financial-capital outputs

To build financial capital, microenterprise programs' main tools are loans and Individual Development Accounts.

Loans may be disbursed to joint-liability groups or individuals, to start-up ventures or on-going microenterprises. For on-going microenterprises, the loan may be the borrower's first, or it may be a repeat loan.

- Number of loans disbursed in the year:
 - Joint-liability:
 - Start-up ventures
 - On-going microenterprises:
 - First
 - Repeat
 - Individual:
 - Start-up ventures
 - On-going microenterprises:
 - First
 - Repeat

Loan output may be measured not only as the number of loans disbursed but also as dollars disbursed (Schreiner, 2001), with the same sub-classes as above:

- Dollars disbursed in loans in the year

It is also useful—for example, when deriving the portfolio-at-risk measure of arrears (see below)—to measure dollars outstanding at the end of the year, as usual with the same sub-classes as for the number of loans disbursed and dollars disbursed:

- Dollars outstanding at the end of the year

Individual Development Accounts (IDAs) involve assistance with opening an account, prodding to make regular deposits, and financial education:

- Number of IDAs opened in the year
- Number of IDAs open at the end of the year
- Number of deposit reminders to IDA savers in the year:
 - By mail
 - By telephone
- Classroom-hours of IDA financial education provided in the year:
 - Personal finance
 - Microenterprise-specific
 - Other

4.1.3 Social-capital outputs

Outputs meant to build social capital include targeting disadvantaged groups to help them build networks, self-esteem training, matching participants with mentors, and building social capital directly through institutionalized social events.

Targeting to groups who are disadvantaged in terms of social capital for business development is reflected in the demographics of participants served in the past year:

- Gender (male or female)
- Race/ethnicity:
 - African-American
 - Asian-American
 - Caucasian
 - Hispanic
 - Native-American
 - Other
- Birthplace (United States or other)
- Disability (yes or no)
- Receipt of TANF or food stamps:
 - In the past year (yes or no)
 - In the four years before the past year (yes or no)
- Experience with microenterprise ownership:
 - Never
 - Formerly (but not currently)
 - Currently

These same measures are also applied to program staff and class instructors to assess how closely their background matches that of disadvantaged target groups.

Targeting the foreign-born shows up in services in languages other than English:

- Classroom-hours provided languages other than English in the year:
 - Microenterprise training
 - IDA financial education
- Materials produced in languages other than English in the year:
 - Radio and television advertisements (yes or no)
 - Printed publicity (yes or no)
 - Written program information (yes or no)
 - Class handouts (yes or no)

One way to assess how well a microenterprise program targets people of modest means is to compare their income with a poverty line. Income is measured best as “total income” from past-year tax returns. Doyle and Black (2001) suggest two poverty lines:

- Number of participants in the year with income below the family-size adjusted poverty guideline of the U.S. Department of Health and Human Services:
 - Below 100 percent
 - Below 150 percent
 - Below 200 percent
- Number of participants in the year with income below 80 percent of the local area median income as published by the U.S. Department of Housing and Urban Development

Class scheduling indicates commitment to people who often must patch income together from multiple jobs:

- Classroom-hours of training provided in the year:
 - Before 5 p.m.
 - After 5 p.m.

Attempts to accommodate the unique situation of women include providing child care and reaching out to participants’ male partners:

- Child-hours of child care provided for participants in the year
 - Number of male partners of participants who attended at least one training session in the year
- Self-esteem training is measured much like other types of training:
- Classroom-hours of self-esteem training in the year:
 - Basic skills such as literacy or numeracy
 - Job or job-search skills
 - Other

Microenterprise programs match participants with mentors so as to fill in a “missing link” in the network that the disadvantaged may lack among kith and kin:

- Number of participants who met at least once with a mentor in the year:
 - Assigned in the current year
 - Assigned in past years

- Number of meetings between participants and mentors in the year:
 - Assigned in the current year
 - Assigned in past years
- Number of mentors prepared for assignment in the year

Microenterprise programs also build social capital by organizing events that build networks. This breaks the “free-rider” collective-action problem in which participants themselves have few incentives to arrange such events because, even though each would benefit, no individual benefits enough to compensate for the trouble of playing host.

Programs organize incubators, trade shows, and simple get-togethers:

- Number of microenterprises housed in business incubators in the year
- Number of participants whose participation in a trade show was somehow facilitated by the microenterprise program in the year:
 - Number of trade shows
 - Number of participants per trade show
- Number of microenterprise-owner get-togethers hosted:
 - Number of get-togethers
 - Number of participants per get-together

4.2 Intermediate outcomes

If all goes well, the outputs delivered by a microenterprise-support program lead to intermediate outcomes that represent increases in human, financial, and social capital.

4.2.1 Human-capital intermediate outcomes

Classroom-hours of training are outputs produced by microenterprise programs; classroom-hours of attendance, courses completed, business plans finished, and business licenses issued are intermediate outcomes that indicate the accumulation of human capital by participants that promote end outcomes that improve well-being:

- Classroom-hours of training attended in the year:
 - General business skills such as taxes, accounting, and strategic planning
 - Training for specific businesses such as legal compliance and licensing
 - Management training or other advanced topics

- Number of students who completed courses in the year:
 - General business skills such as taxes, accounting, and strategic planning
 - Training for specific businesses such as legal compliance and licensing
 - Management training or other advanced topics
- Number of formal written business plans finished in the year
- Number of business licenses or permits issued to participants in the year

Training may cover how to obtain an Employer Identification Number and/or how to adopt a formal legal status:

- Number of participants obtaining an Employer Identification Number in the year
- Number of participants adopting a legal status other than “sole proprietorship” or “partnership” in the year

If participants attend classes even when not required to do so, then they must be receiving some benefits from training (Navajas, 1998; Bender, *et al.*, 1990):

- Classroom-hours of training attended in the past year:
 - To fulfill a requirement (for example, to get a loan or to qualify for a matched withdrawal from an IDA)
 - Voluntary

4.2.2 Financial-capital intermediate outcomes

Microenterprise programs attempt to build financial capital through loans and Individual Development Accounts. For loans, two simple indicators mark success: repeat borrowers and repayment rates.

Using the wisdom of “fool me once, shame on you, fool me twice, shame on me”, borrowers may get one loan and discover that it was a mistake, but they will not come back for a repeat loan unless they benefited from the first one (Schreiner, 2003):

- Number of loans in the year to borrowers who received program loans before

A loan that is not repaid is not a loan but a gift. It is one thing to produce gifts and another thing to produce loans, so performance must consider arrears and default.

Repayment-as-promised is an intermediate outcome symbolizing a milestone on the road

to desired end outcomes because it indicates not only some financial capacity by the owner but also that the microenterprise program inspires honesty and/or the desire among borrowers to maintain a clean record and so qualify for repeat loans.

The most conservative (and most useful) measure of arrears is *portfolio-at-risk*, the ratio of all dollars outstanding in loans 1 day or more overdue, divided by all dollars outstanding (Rosenberg, 1999). Given dollars outstanding at year-end (discussed earlier), deriving portfolio-at-risk requires measuring dollars outstanding in overdue loans, classified as usual by joint-liability/individual, start-up/on-going, and first/repeat:

- Dollars outstanding in loans with at least one installment overdue at year-end
Once 90-days late, loans have gone bad. In a last-ditch rescue effort, microenterprise programs may reschedule such delinquent loans. Even if borrowers are making the rescheduled payments on-time, the loans remain at-risk. Thus, good practice counts rescheduled loans as if they were 90-days delinquent (with the usual sub-classes):

- Dollars outstanding in rescheduled loans or in loans 90 or more days overdue at the end of the year

Not all microenterprise programs make loans, so business loans to participants from other formal sources (usually banks) are also indicators of progress:

- Number of loans in the year to participants from other formal sources

For IDAs, indicators of progress are net IDA savings (balances that could be matched in the future) and matched withdrawals:

- Net IDA savings at year-end
- Number of matched withdrawals from IDAs in the year:
 - For microenterprise
 - For purposes other than microenterprise

- Value of matched withdrawals from IDAs in the year:
 - For microenterprise:
 - Excluding matches
 - Including matches
 - For purposes other than microenterprise:
 - Excluding matches
 - Including matches

Programs may also help participants to save in bank accounts beyond IDAs:

- Number of participants with a bank account in the business's name at year-end
- Number of participants with a bank-account balance of at least \$500 at year-end
- Number of participants with a checking account at year-end

4.2.3 Social-capital intermediate outcomes

Microenterprise programs attempt to build social capital through self-esteem training and through institutionalized social events:

- Classroom-hours of basic-skills training attended in the past year for literacy, numeracy, job skills, or self-esteem
 - Number of participants who are members in a local chambers of commerce, clubs of small-business owners, and the like
- Web sites and business cards may help to spread social networks:
- Number of participants with business cards at year-end
 - Number of participants with business web sites at year-end
- Finally, business owners with business partners have larger social networks—all else constant—than sole proprietors:
- Number of owners in the microenterprise at year-end:
 - None (no business exists)
 - One (sole proprietor)
 - Two (partnership)
 - Three or more

4.3 End outcomes

Microenterprise programs produce outputs so as to increase human, financial, and social capital in the hopes that the asset accumulation leads to improved end outcomes in participants' lives. These *end outcomes* include more employment, higher income, greater asset accumulation, and improved psychological and social well-being.

4.3.1 End outcomes for employment

The Holy Grail for microenterprise-support programs is new business starts:

- Number of participants who started a business in the year

Programs also seek to strengthen on-going concerns. Because failure rates decline with each year of survival (Taylor, 1999), a good indicator of strength is continued existence. Furthermore, full-time self-employment is a sign of strength, and looking at both full-time and part-time work in both microenterprise and wage jobs (see below) allows programs to see whether microenterprise helps to stabilize income and reduce the need to “patch”:

- Number of participants who were self-employed at year-start:
 - Full-time
 - Part-time
- Number of participants who were self-employed at year-end:
 - Full-time
 - Part-time

A simple but powerful sign of the strength and stability of a microenterprise is the existence of a locale outside the home (Schreiner, 2002), although working from home can provide non-financial benefits, especially for women:

- Number of participants with home-based businesses
- Number of participants with businesses with a locale outside the home:
 - Owned
 - Rented

By building human capital, microenterprise programs foment wage-employment as well as self-employment (Benus, *et al.*, 1995; Drury, Walsh, and Strong, 1994):

- Number of participants with wage jobs at year-start:
 - Full-time
 - Part-time
- Number of participants with wage jobs at year-end:
 - Full-time
 - Part-time

Beyond employing the owner, microenterprises may also employ others:

- Person-months of employees in supported microenterprises in the year:
 - Full-time:
 - Family
 - Non-family
 - Part-time:
 - Family
 - Non-family

4.3.2 End outcomes for income

Employment—whether in microenterprise or wage jobs—affects income, for both owners and their employees:

- Income for supported participants in the year:
 - From self-employment:
 - Increase in retained earnings of the business:
 - Retained earnings at year-start
 - Retained earnings at year-end
 - Owner’s draw or salary
 - From wage-employment
- Income for employees in supported microenterprises (payroll expenses) in year

A large share of income for owners and employees comes in the form of “fringe benefits”. The central “fringe benefits” are health insurance and employer-sponsored, subsidized retirement savings:

- For supported participants in the year:
 - Number covered by private health insurance at year-end
 - Number covered by life insurance at year-end
 - Number who contributed to an IRA, 401(k), SEP, Keogh, or other tax-preferred retirement account in the year
- For employees of supported microenterprises:
 - Number covered by private health insurance at year-end
 - Number covered by life insurance at year-end
 - Number who contributed to an IRA, 401(k), SEP, Keogh, or other tax-preferred retirement account in the year

If income increases, then the use of income-tested public assistance may fall:

- Number of participants who received TANF or food stamps at year-start
- Number of participants who received TANF or food stamps at year-end

Microenterprise may or may not increase earnings per hour (Drury, Walsh, and Strong, 1994; Bendick and Egan, 1987; Spalter-Roth, Hartmann, and Shaw, 1993), as at least some owners work more hours without commensurate increases in total income. To measure earnings per hour requires data on hours worked:

- Hours worked by participants in microenterprise in the year
- Hours worked by participants in wage jobs in the year

4.3.3 End outcomes for asset accumulation

Asset accumulation is an end in itself; owners savor their savings, so mere ownership—quite apart from the use of owned assets—improves well-being and changes thoughts and choices (Schreiner *et al.*, 2001; Sherraden, 1991). For example, beyond microenterprise training, programs may prompt participants to get more education:

- Number of participants with a high-school diploma or GED at year-end
 - Number of participants who attended a college course for credit in the year
 - Number of participants who attended a non-credit course (besides microenterprise training) in the year
 - Number of participants with a college degree at year-end
- Business owners may also help their children become educated:
- Number of participants with children in a private school at year-end
 - Number of participants with children in high school at year-end
 - Number of participants with children in college at year-end

Employment and income from microenterprise affects not only the net worth of participants at year-end but also their ownership of household assets such as homes, cars, and appliances:

- Net worth:
 - Total financial assets:
 - Personal financial assets
 - Microenterprise assets

- Total financial liabilities:
 - Personal debts
 - Microenterprise liabilities
- Number of participants who own a home
- Number of participants who own a car
- Number of participants who own a major household appliance:
 - Refrigerator
 - Stand-alone freezer
 - Dishwasher
 - Clothes washer
 - Clothes dryer
 - Computer

An often-overlooked but central social asset is a marriage:

- Number of participants who are married

4.3.4 End outcomes for psychological and social well-being

For microenterprise-support programs, the ultimate end outcome is happy people.

Microenterprise aims to improve well-being by improving economic outcomes

(employment and income) as well as by improving non-economic outcomes (such as self-efficacy, independence, and citizenship).

Three-class “Likert-scale” items measure psychological and social well-being.

Respondents read a statement and then respond by agreeing, disagreeing, or neither.

Programs then report the number of responses in each class for each item at year-end. For example, to see whether microenterprise made people happier, example items are:

- At this point in my life, I am happy
- I am happier now than I was last year
- Life is good

Loosely inspired by the questionnaires used in the randomized experiment that was part of the American Dream Demonstration of IDAs, similar psycho-social, Likert-scale items include:

- I like my work
- I like the people I work with
- I would like to get a better job
- If I wanted to start my own business, I could do it
- I feel hopeful about my future
- I have a mental/physical disability that limits the kind or amount of work I can do
- I feel healthy
- Society discriminates against people like me
- If I set my mind to it, I can do what I set out to do
- I am involved with my children's schools
- I expect that my children will graduate from college
- People in my community respect me
- If I need help, family and friends are there for me
- I go to church regularly
- I voted in the last presidential election
- I voted in the last non-presidential election
- I have a good relationship with my spouse or partner
- I have a good relationship with my parents
- I have a good relationship with my children
- I have a best friend
- I have several friends whom I see regularly
- When I disagree with someone, I can talk about it without getting too upset
- I'm happy with my home
- I'm happy with my car
- I can make ends meet without too much trouble
- I am getting ahead financially
- If I get sick, I can get the medical care I need
- I expect to live as long as most people
- I am comfortable putting money in a bank account
- People think I speak with an accent
- I like my neighborhood
- I usually pay off the balance on my credit card at the end of each month
- I understand taxes well enough to get the deductions I deserve
- My parents were entrepreneurial
- I have always wanted to have my own business
- I like to keep track of my income and expenses
- My friends and family are always asking me for money
- I don't mind if I don't "fit in"

- I like to read books
- I like my things to be clean and put-away

5. Conclusion

This paper has defined support for microenterprise in terms of asset-building. That is, microenterprise programs attempt to help people of modest means to build human, financial, and social capital for the development of very small businesses that will improve people's well-being. This "asset-development" paradigm highlights the usefulness not only of loans for financial capital and training for human capital but also savings services for financial capital and networks for social capital. With more tools, microenterprise programs have better chances of finding something that works in their context with their target group.

These programs have their work cut out for them, because the people they aim to help are often precisely those who tend to lack the assets that support small-business development in the first place. Still, there are established "good practices" that programs can build on. Furthermore, good self-employment programs are also good wage-employment programs—a fact highlighted by the focus on asset-building—and many "graduates" will end up being quite happy with wage jobs. Others will try their hand at business ownership. Some will succeed, others will fail, but even if they do not earn higher incomes or create jobs for themselves or others, they will have enjoyed some of the non-financial benefits of microenterprise ownership and will have built assets that will serve them in whatever they do next.

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