



POLICY BRIEF 5

PROMOTING ECONOMIC WELL-BEING AMONG THE POOR THROUGH MICROENTERPRISE INITIATIVES IN THE UNITED STATES

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Among those starting businesses each year are many Americans who are relatively poor. There is a growing trend in the United States promoting self-employment among the poor through Microenterprise Assistance Programs. These programs have attracted increased attention and public policy support. The number of assistance programs has steadily risen with currently over 300 programs throughout the United States (Severens & Kays, 1997). Additionally, federal funding for programs has continued to expand and initiatives have been supported by several governmental departments including the Department of Labor, Department of Health and Human Services, and Department of Housing and Urban Development (Meyerhoff, 1997). Many states have also provided funding to support local community economic initiatives that include microenterprise.

Microenterprises are very small businesses often run as a sole proprietorship, sometimes as a partnership or family business, with fewer than five employees. Owners of microenterprises generally do not have access to the commercial banking sector and initially begin their business with a loan under \$15,000 and often much less (Severens & Kays, 1997). The majority of microenterprise programs in the United States targets low-income people. Additionally, many programs are aimed at ethnic and racial minorities, and overwhelmingly at women. Microenterprise programs have sought to provide access to

financial capital and business training that may otherwise not be available to disadvantaged groups. Some U.S. programs emphasize poverty alleviation, others fill a need for credit gap, others focus on local economic development, while others promote job development for the unemployed or economic sufficiency among low-income women, including welfare recipients.

Various international microenterprise initiatives impacted the development of microenterprise programs in the United States. Both third world initiatives and developments in Europe inspired U.S. program development. Perhaps the best known initiative impacting U.S. development is the Grameen Bank which was instituted in Bangladesh to provide access to credit for poor villagers (especially women) to begin small businesses despite a lack of traditional collateral. With the realization that the United States has areas beset by many of the same problems as third world nations, principles and design ideas have been borrowed extensively by emerging U.S. programs.

Microenterprise initiatives have both proponents and critics. Proponents suggest that microenterprise has the capacity to create jobs and businesses, revitalize low-income communities and move people out of poverty (Clark & Huston, 1993). Some advocates have touted microenterprise as an anti-poverty strategy (Banerjee, 1998) and others see it as a way to bring poor families into the eco-

conomic mainstream, enable economic opportunity, or exit the secondary labor market (Raheim, 1996, Raheim & Bolden, 1995).

Critics of microenterprise suggest that, with a focus primarily on credit, microlending cannot seriously reduce poverty in the United States. Additionally, they suggest microenterprise initiatives are part of a larger trend toward reducing social safety net programs (Neff, 1996). On the whole, self-employment for poor people is more difficult in the United States than in the third world (Schreiner, 1998). In developing countries the informal sector is relatively easy to enter, is unregulated, small scale, competitive, labor intensive and allows the adaptability of resources from one use to another. While programs such as The Grameen Bank have had significant effects on improving the economic well-being of the poor, there are difficulties transposing such models to a capitalist society like the United States (Taub, 1998). Low-income entrepreneurs encounter structural barriers that discourage business development. Moreover, many institutional supports that enable business development do not benefit low-income business owners, making it difficult for them to gain access to information, capital, and business networks.

Barriers exist within the global economy, local economy, and business infrastructure. Well integrated global markets in the United States create difficulty for small scale microentrepreneurs who must compete against mass-produced goods. Local economies must contend with factors like declines in economic base, seasonal fluctuations and fierce competition with large chain stores (Sherraden, Sanders, Sherraden, 1998).

Some research suggests microenterprise may increase economic opportunity and result in improved economic outcomes for a sub-group of the poor. Microenterprise may help generate income, accumulate assets, and move women off of welfare (Banerjee, 1998; Clark, et. al., 1999; Clark & Huston, 1993; Raheim & Alter, 1998). However, because research in this area is in the early stages, there are a number of limitations and research should be interpreted cautiously. With few exceptions (Benus, et. al., 1995) most studies use cross-sectional data, lack control or comparison groups and are primarily descriptive. Because there is a lack of experimental or quasi-experimental designs that compare outcomes with control or comparison groups, most studies do not allow for parceling out of program effects. A study by Sanders (2000) in which low-income microenterprise program participants are compared over time to matched comparison groups from the Panel Study of

Income Dynamics casts some doubt on the program effects of microenterprise programs.

Policy makers interested in poverty reduction through microenterprise initiatives should take heed of the limited knowledge to date regarding their effectiveness. This is not to say that microenterprise may not play a vital role in community economic development initiatives. However the role should be carefully examined. Additionally, income gained through self-employment may play a critical role in the income package of poor families. Faced with limited economic opportunity and poor job prospects, poor families commonly combine multiple sources of income to make ends meet (Edin & Lein, 1997).

However, if the goal of microenterprise is to move poor families out of poverty a careful and thoughtful approach will be needed. The costs and benefits associated with microenterprise assistance programs should be carefully examined and weighed in relationship to other employment programs, poverty initiatives and social safety net programs. Policies that allow low-income entrepreneurs to draw more income from their businesses will be needed. These may include more forgiving tax policies and community development initiatives that support patronage of small businesses.

Microenterprise assistance programs may be instrumental in allowing low-income people to start and/or develop their businesses. On the basis of equity, low-income individuals who wish to begin self-employment should have a means of acquiring start-up capital. However, facilitation of access to capital through credit should be balanced with initiatives to promote savings and wealth accumulation among the poor (Sherraden, 1991). Microenterprise initiatives aimed at wide scale poverty alleviation are cautioned. Further research is needed to gain a better understanding of the outcomes of microenterprise assistance programs, their impacts on the poor, and whether such programs are the most effective and efficient way to provide access to business start-up capital, skill development, and improved economic well-being.

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**LIVABLE communities don't just HAPPEN.
They are CREATED by the PEOPLE who LIVE in them.**