Microenterprise Development as Job Creation

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The authors wish to acknowledge Ilgar Alisultanov of FIELD at the Aspen Institute for his significant contributions to this paper.

Abstract

Microenterprise development is a strategy with at least a 25-year history in the United States. In recent years, its potential to create jobs has achieved greater attention. Data suggest that since the Great Recession, microenterprise development organizations (MDOs) have increased their lending by 25 percent and the number of individuals assisted by 15 percent. Outcomes data collected in 2011 from 1,198 microentrepreneurs served by 23 organizations demonstrate the power of these very small businesses to produce jobs for their owners and others, many of whom are disadvantaged in the labor market. And, although logistic regression analysis indicates that microentrepreneurs with higher incomes are more likely to create jobs (as are those who receive loans or pursue businesses in certain sectors), even the working poor create jobs for others as well as themselves. The income gained is an important component of household income and can lift families out of poverty. In addition, cost-benefit analysis suggests that the investment in microenterprise assistance is modest compared to the financial benefits generated. Even state and local governments facing budget challenges can support more microenterprise development by tapping available resources and partnerships. This paper suggests four strategies for doing this: using Community Development Block Grant funds to support programs; joining with private sector partners to develop capacity-building initiatives; using Capital Access Programs to help microlenders mitigate risk and increase lending; and accessing the federal Self-Employment Assistance Program to help dislocated workers start new businesses.

Introduction

Listen to almost any discourse on the state of the U.S. economy and you will hear one word repeated relentlessly — jobs. The monthly job creation rate is watched as one of the most important indicators of the nation's well-being. News reports describe an economy that is "faltering for the third consecutive year after a promising start." (New York Times, June 28, 2012.) Attention has focused on small businesses, with official research indicating that they are responsible for between 65 and 90 percent of all job creation, depending

on the source cited. (U.S. Small Business Administration, 2010) Economic development strategies that can create and retain jobs are, obviously, most in demand.

In this context, where does microenterprise fit? Microenterprise development is a strategy with at least a 25-year history in the United States. Adopted by a broad range of organizations as a tool for poverty alleviation and local economic development, its nonprofit practitioners served an estimated 350,000 individuals in 2010. (FIELD, March 2012). Although not new, in recent years its potential as a job creation strategy has achieved greater attention. In the wake of the Great Recession and a collapse of bank lending to small businesses, the federal government increased its financing to microlenders and community development financial institutions serving small businesses. Bank charitable foundations, such as the Bank of America and the Citi Foundation, created special programs to channel grants for loan loss reserves and loans to grow local loan funds. The Association for Enterprise Opportunity launched the One in Three Campaign arguing for increased assistance to microenterprise development organizations, stating that if one in three microbusinesses hired just one worker, the nation would be at full employment. (Association for Enterprise Opportunity, undated) And, other entities such as Kiva, a nonprofit that created crowd funding for developing country microentrepreneurs, and Starbucks, the coffee retailer, created new opportunities for the public to channel funds to help microentrepreneurs and community businesses create more jobs.

This faith in the potential of very small businesses, and especially new small businesses, to step up and fill the jobs gap was not without reason. In 2010, the Kauffman Foundation noted that, historically, net new job creation has come from startups (Kane, July 2010, 2). Therefore, it is not surprising that programs that foster business creation would attract attention. And, over the course of the recession, the Kauffman Index of Entrepreneurial Activity, which tracks annual business creation at the individual owner level — among those who report the business as their main job — found rising rates of self-employment since 2008, above the range found for the previous decade and a half. And even though the rate declined slightly in 2011 (when an average of 0.32 percent of the adult population created a new business each month), it still remained higher than before the recession started (officially dated December 2007). At the same time, fewer new employer firms were created, suggesting that new business owners were being more cautious in taking on employees, or that more people were being pushed toward self-employment because of high rates of unemployment (Fairlie, March 2012, 4-6).

In this context, where more people were pursuing self-employment and existing business owners were facing serious credit barriers that might constrain job retention as well as creation, microenterprise development organizations appeared to step up. Data collected by FIELD through the 2010 U.S. Microenterprise Census[1] indicated that organizations reporting both in 2008 and 2010 achieved a 25 percent increase in the number of microloans disbursed over the two-year period and a 15 percent increase in the number of individuals

assisted. Many expanded their range of loans, from very small "credit-builder" loans to larger loans up to $50,000, as they maintained their focus on serving the disadvantaged.

But, do investments such as these create jobs? And if so, what type of jobs and at what cost? This paper will argue that microenterprise development is one important and cost-effective tool for state and local governments to use, especially for more disadvantaged communities. Leveraging its potential, however, requires increasing institutional capacity and capital to reach more aspiring entrepreneurs. The paper will conclude with four recommendations for how states and cities can do this.

The Theory and Practice of Microenterprise Development

Microenterprise development is a strategy that has multiple antecedents — both national and international — and that embodies multiple approaches. There are also several goals of microenterprise development: It has been championed as a strategy that can foster personal, community, and economic development. And, its theory of change, in short, is that skills development and financing can unleash the entrepreneurial capacities of those who have lacked access to mainstream business capital and services, leading to business start-ups and growth, increases in personal income for owners and their families, and community revitalization through job creation and the multiplier effects that local businesses engender. In the early 1990s, the questions asked about microenterprise development were more about poverty alleviation. Does microenterprise offer those on welfare and other low-income individuals the opportunities to move out of poverty? Does it build assets that can increase long-term economic security? Does it provide skills that can help people be more effective in the labor market? Today, the questions are more about its job creation impacts. Does microenterprise development create jobs for its owners and others? Who holds these jobs, and what return to they receive for their labor? Does job creation increase over time?

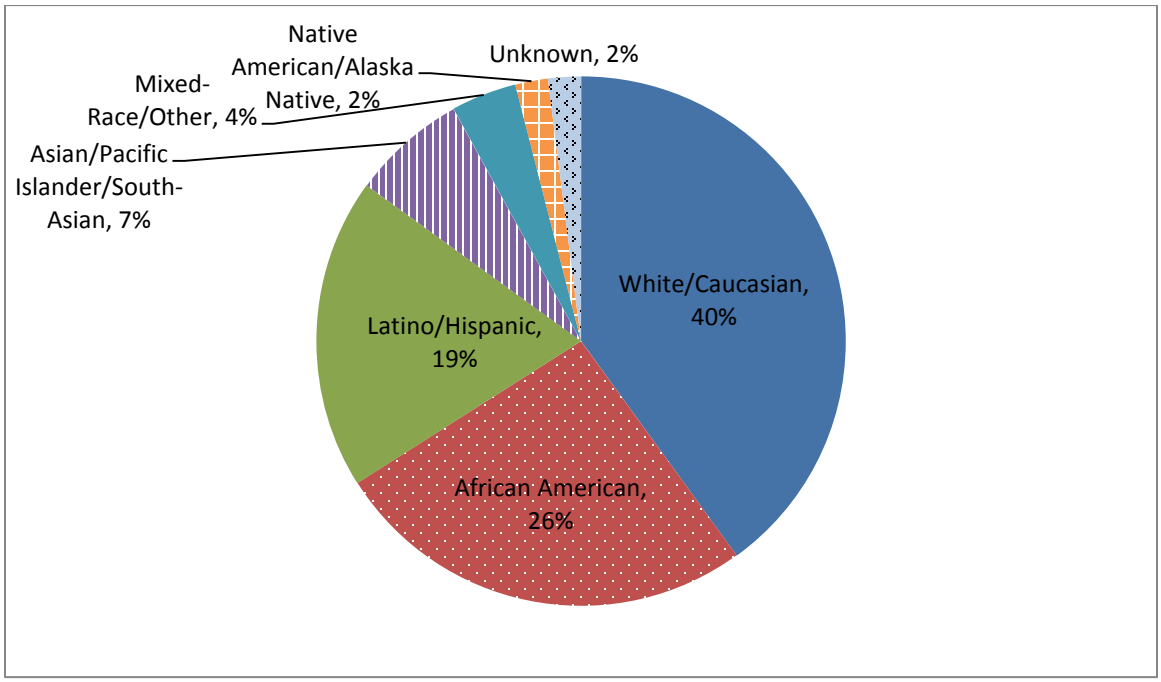
The reality is that it can demonstrate effects in both areas, depending upon both the target market an organization serves, and the package of products and services offered. The target market for microenterprise services is defined broadly as aspiring entrepreneurs and those whose businesses employ five or fewer workers including the owner, and who need less than $50,000 in financing. Consistently, this has meant a focus on women- and minority-owned businesses, low-to-moderate income individuals, and people living in communities with limited banking resources and other business services. Institutions reporting data to the U.S. Microenterprise Census indicated that the individuals they assisted were:

- 59 percent women;
- 53 percent people of color or members of traditionally disadvantaged ethnic groups (for a breakdown of ethnic groups assisted, please see Figure 1);

- 56 percent with household incomes at or below 80 percent of the Department of Housing and Urban Development's (HUD) median income for their location; and

- 49 percent with household incomes at or below 150 percent of the Department of Health and Human Services (HHS) poverty guidelines.

Figure 1. Ethnic Composition of Microenterprise Program Clients[2]



The U.S. Department of Treasury's Community Financial Institutions Development Fund uses the HUD income guideline to measure disadvantage. The U.S. Small Business Administration uses the HHS standard as the income guideline for its grant programs that support training and technical assistance services to low-income entrepreneurs.[3] Although the data show that the majority of individuals assisted are lower-income — almost half would be considered working poor -- it is clear that the industry serves a broader market in terms of income. Mission plays a role here as does geographic market. The 2010 census found that about one-third of the MDOs reporting income data had a client base with at least 75 percent of individuals at or below 150 percent of the HHS guideline. At the other end, one-third of the programs served many fewer low-income participants, who represented 32 percent or less of their total assisted population. Differences in target groups affect the services offered and their intensity. Although the package of services may differ given the specific characteristics of clients, so long as the services are tailored to their needs, microentrepreneurs of a wide variety of backgrounds appear able to generate income and offer income-earning opportunities to others as well.

Over the years, the target market for microenterprise services has grown. In the early 1990s, a microloan was defined as $25,000 or less, so entrepreneurs who could start or grow businesses with that amount of capital were the focus. Later, the range for microloans moved up to $35,000 and, in the wake of the financial crisis, the range has been further extended up to $50,000. (This definition of the loan is based on guidance of the U.S. Small Business Administration for its Microloan program. Programs tend to follow that guidance.) This was in response to the practical withdrawal of the banking industry from business lending under that amount. In fact, many microbusinesses require much less than that in start-up capital and, for years, average loan size was around $7,500. Even with the expansion of microlending to the somewhat larger businesses that are now seeking help from the nonprofit sector, the median average loan size reported by respondents to the 2010 U.S. Microenterprise Census was $14,000.

Outcomes

Individuals participating in microenterprise services report a set of outcomes related to changes in business status, revenues, household income, and employment generation. FIELD has, since 2004, assisted MDOs across the U.S. to collect outcomes data on their clients. This section will draw on data collected in 2011 to describe 1,198 individuals' experiences in generating jobs and income for themselves and for others during 2010.[4] It will also draw on data that describe the experience of long-term clients of programs, those who responded to surveys five years after program intake. FIELD completed an analysis of data submitted by 36 MDOs on 240 clients, who met that criterion when they were interviewed between 2004 and 2009. These data offer a sense of what the longer-term job creation effects of microenterprise may be.

Box 1 includes a list of the 23 organizations that participated in the 2011 outcomes process.

Box 1. List of MDOs With Clients Represented in 2011 Outcomes Survey

ACCION New Mexico-Arizona-Colorado	Northeast Oregon Economic Development District
ACCION Texas-Louisiana	Opening Doors
ACCION USA	Opportunity Fund
Agriculture & Land-Based Training Association	OUR MicroLending
Creating Economic Opportunities for Women	Rising Tide Capital
El Pajaro Community Development Corporation	TMC Working Solutions
Entrepreneur Works	Utah Micro Enterprise Loan Fund
Jefferson Economic Development Institute	Washington CASH
Justine PETERSEN	Westchester Housing Fund Inc., dba Community Capital Resources
Maine Centers for Women, Work, and Community	Women's Economic Ventures of Santa Barbara
Mercy Corps Northwest	Women's Enterprise Development Center Inc.
Nebraska Enterprise Fund	

These MDOs self-selected to participate, and therefore are not necessarily a representative sample of the field overall. Their client bases and program services mirror those of the industry in some ways, but differ in other ways. Table 1 compares the responses of these "outcomes" organizations to the 2010 U.S. Microenterprise Census with those of 343 others that reported data. The outcomes groups tend to offer the same products and services as others in the industry, and have client populations, in aggregate, that are majority women and minorities just as are those of other practitioners. On the other hand, they tend to serve urban areas more than rural areas and low- to moderate-income people less in percentage terms. (In aggregate, the outcomes programs serve 15 percent fewer individuals at or below 80 percent of the HUD median and 20 percent fewer individuals at or below 150 percent of the HHS poverty guideline.) Their larger scale, however suggests that the actual numbers of low-income people served by these institutions may be higher than many organizations in the non-outcomes group. The median number of individuals served is almost three times that of others in the industry. (And, not surprisingly, the median operating budget for the outcomes programs is 3.5 times larger and the median FTE staff figure is also three times larger than that of the others.) The median average loan size of the outcomes group, $8,029 (less than 60 percent of the median size of other industry practitioners) and the number of microloans disbursed (the median for the outcomes group was four times larger) suggests that their lending reaches the more disadvantaged and early stage businesses in their client group as well as more moderate-income clients.

Table 1. Comparison of Programs Reporting Outcomes and Others in the Microenterprise Industry

	MicroTest Outcomes Programs	Microenterprise Industry
Median Individuals Served	471	165
Median Microloans Disbursed	61	16
Median Average Loan Size	$8,029	$14,172
Median Operating Budget	$884,107	$251,530
Median FTEs	6.35	2
% of Programs Offering Microloans	77%	67%
% of Programs Offering Training or Technical Assistance	95%	96%
% of Individuals at or below 80% HUD Median	55%	70%
% of Individuals at or below 150% HHS	41%	61%
% Women	64%	56%
% Minorities	75%	63%
% Serving Rural Areas	41%	52%
% Serving Urban Areas	77%	60%
% Statewide Organizations	23%	20%
% Multistate Organizations	14%	6%

One last important preface is to note how a "job" is defined. The FIELD outcomes survey attempts to capture all work that an enterprise is generating. Therefore, the analysis includes all work undertaken by the owner-operator of the business, whether remunerated or unremunerated in the survey year, and all workers receiving wages, whether those individuals are paid as full- or part-time employees or as contractors. The survey does not attempt to differentiate between those two categories of worker for two reasons. The survey is purposely designed to be as simple and short to administer as possible in order to avoid respondent fatigue. At the same time, it recognizes that worker status is less relevant to gaining an understanding of the full economic effects that microenterprises have in their communities. The survey does collect data on hours worked, wages, and owners' draw, however, so that the actual financial impact of this employment generation can be calculated.

The findings from the 2011 survey also echo many of the results of earlier surveys (FIELD has collected this data annually since 2003 and now has 15,930 surveys in its database). As the discussion below demonstrates, microenterprises create jobs and provide income for many people, many of whom are likely disadvantaged in the labor market. The income gained is an important component of household income and can lift families out of poverty. In addition, cost-benefit analysis suggests that the investment in microenterprise assistance is modest compared to the financial benefits generated for owners and workers.

Microenterprises create jobs, and job creation grows among microentrepreneurs with sustained relationships with microenterprise development programs.

Among 1,198 entrepreneurs surveyed in 2011 about the status of their business in 2010, 43 percent reported providing paid work and were responsible for 2,158 paid jobs for others, a mean of 1.9 jobs per business. From intake to survey, a mean period of 1.7 years, the net number of new jobs supported by these firms was 740, an increase of 104 percent.[5]

Across all the respondents (including both sole proprietorships and employee businesses), the number of jobs per business was 2.9. That figure includes the owner and anyone who was paid for work.[6]

When FIELD analyzed its multiyear database of interviews, it found that longer-term clients reported more paid workers than clients interviewed approximately one year after initiating program services. Fifty-two percent of those surveyed five years after intake and still receiving programs services report having employees, and the mean number of paid workers was 3.05. Only 41 percent of entrepreneurs surveyed one year after intake reported having employees, and the mean number of paid workers (not including the owner) was 1.68. The five-year clients were more likely to be borrowers and differed from the one-year clients in other ways. Their greater employment effects may be a result of inherent capacities or prior experience that enabled them to take advantage of the financing and other services that microenterprise programs offer. (See more below on the differences observed between sole proprietors and entrepreneurs

who generate paid work for others.) Nevertheless, what the data demonstrate is that a subset of microenterprises generates increased employment over time.

Microenterprises create part-time and full-time work for both owners and workers, and pay wages that exceed minimum wage.

The data demonstrate that the majority of microentrepreneurs assisted by the study programs were full-time workers in their businesses and one-third of all workers were part time. Owner's draws taken by owners and wages paid to workers both exceeded federal minimum wage rates, and the majority of owners below the poverty line were able to move above it due to increases in their incomes from their businesses and other sources.

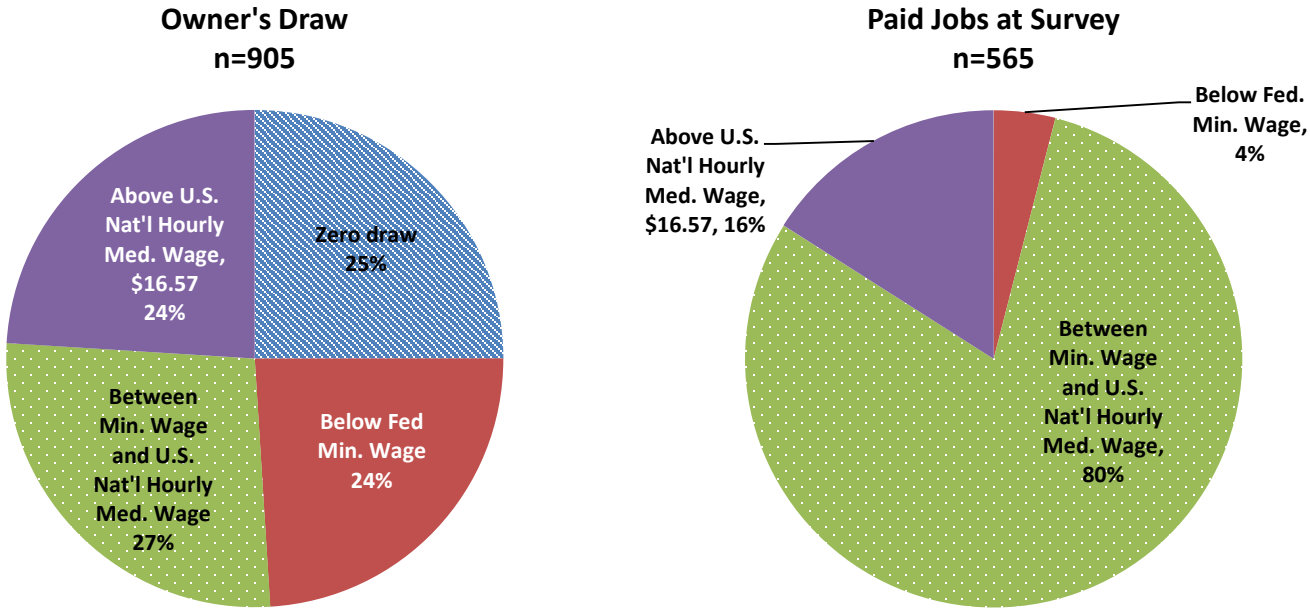
About two-thirds of the entrepreneurs who reported the hours worked at their businesses in 2011 worked full time, and one-third reported working part time (n = 1,169). Over one-third of the jobs these owners created were also fulltime (37 percent). The rest were part-time (n =1,120). Among the five-year clients (receiving services and interviewed five years after initial program intake) represented in FIELD's multiyear data set, 70 percent of owners who reported the hours worked at their businesses worked full time (n = 202). And, the percent of full-time jobs occupied by employees was somewhat higher, 41 percent, but still less than half of all jobs produced. These jobs, whether full- or part-time, provide important income to the holders.

At the time of the 2011 survey, 76 percent of owners who answered questions on draw reported compensating themselves in 2010 (n = 926). The median and mean payments were $18,024 and $24,168, and this translated into mean and median hourly rates of $11.11 and $16.29[7] (n=679).

Respondents to the 2011 survey also provided wage data for 50 percent of the workers (1,082 out of 2,158 positions[8]) and, for that group, the median hourly wage was $10 and the mean was $14. The median annual payment was $11,520 and the mean payment was $14,330 (n = 1021).

For owners who paid themselves, the median hourly wage was 53 percent higher than the $7.25 federal minimum wage in effect in 2010. For workers, it was 38 percent higher. A few workers earned less than the minimum wage and many earned more than the minimum wage. The distribution of wages for workers and owners can be seen in Figure 2. Owners were more likely to underpay themselves than their workers for the hours that they put into their businesses (although a majority of owners, 62 percent, who paid themselves at or below minimum wage were sole proprietors). In fact, 28 percent of owners with paid workers did not take a draw. This may be a necessity strategy (foregoing remuneration to keep the business open) or an investment strategy (re-investing money back into the business for growth).

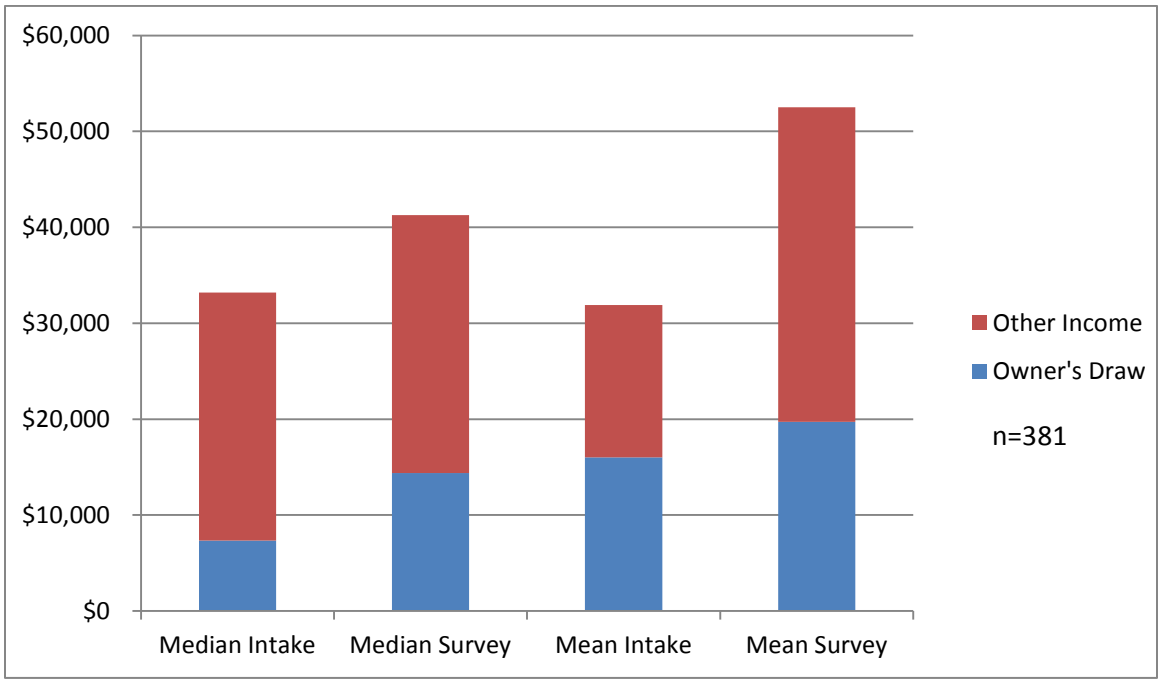
Figure 2. Wage Distribution for Owners and Workers



What do these earnings mean in terms of the households receiving them? As mentioned above, owners are from disadvantaged populations. They pursue self-employment and microenterprise creation to improve their livelihoods and that of their families. At intake, median and mean household income for these owners is $33,201 and $41,906. At survey, median and mean household income is $ 41,282, and $52,502, (all results expressed in 2010 dollars). The median has increased by 24 percent and the mean by 25 percent (n = 381).[9]

Earnings from the business represent 38 percent of household incomes, on average, at both intake and survey. Both business earnings and household income have risen over time. Changes in household income are shown in Figure 3.

Figure 3. Sources of Household Income for Owners



These earnings, combined with other sources of income, have helped 81 percent of owners who were below the federal poverty line at intake to move above that line (48 out of 59). In addition, they helped 68 percent of owners who were at or below 150 percent of the federal poverty line to move above it (73 out of 108).[10] So, although the earnings from these businesses were modest, for many, they were an important part of a household's economic advancement during a time when advancement is an opportunity available to few.

Forty-six percent of the workers were paid hourly wages that met or exceeded the federal poverty guideline for a family of four, which was $10.60 in 2010. Because the household size of workers paid by surveyed microentrepreneurs is unknown, it is not possible to determine how many actually match the demographic used in this yardstick. Still, it suggests that for many individuals, these jobs likely must serve as one component of a household's income stream rather than as household-sustaining jobs in and of themselves. Only 16 percent of all jobs for which wages were known met or exceeded the national median hourly wage of $16.27 in 2010.

It is also likely that most of these positions do not include health benefits. Among entrepreneurs surveyed in 2011, only 8 percent of owners reported having health coverage paid for by their businesses. This suggests a very small percentage of owners would be providing health insurance coverage for others.

Microentrepreneurs patch income from a variety of sources to help their households move out of poverty.

An analysis of household income sources reported by business owners at survey showed that poor households depended on multiple sources to move themselves above the poverty line. In addition to owner's draws, the owners reported a mean of $10,185 in personal wages, $7,337 in wages, and $5,030 in self-employment income produced by other household members. A range of other sources made up another 17.3 percent of income. It is not clear if the self-employment income of other household workers is from the owner's business or another business. But, together, the mean amount of self-employment income in these households is over 45 percent.

In addition, 37 percent of all the 1,198 surveyed business owners were "patchers;" that is, individuals who reported both operating a business and being employed in a wage job, thereby creating a full-time job equivalent for themselves from the two sources. In many ways, these patchers looked like other microenterprise program clients. They were predominantly female (61 percent) and members of traditionally disadvantaged ethnic or racial groups (55 percent). In a majority of instances, these patchers were in the early stages of business formation (69 percent came to programs in order to start new businesses), although one-third had been in business at least three years. The first group may be pursuing patching to mitigate the risks inherent in business start-up, a commonly recommended strategy in business development. The second group who pursued it as a longer-term strategy may do so for other reasons. In either case, the strategy brought several advantages to those who pursued it:

- Patchers earned more than those who pursued either a business full time or a job full time (the median personal earnings patchers reported was $30,400, compared to $21,000 reported by those who worked either solely at a business or job);
- Their household incomes increased more than non-patchers due to growth in their owner's draws and other sources (a median increase of 28 percent compared to 16 percent for non-patchers between intake and survey);
- Their paid employment provided health insurance (66 percent of their households had insurance compared to 57 percent of those who pursued business full time); and
- They moved above the poverty line at a high rate (84 percent rose above the poverty guideline).

Interestingly, even though these entrepreneurs reported modest owner's draws (the median increased from $1,298 at intake to $4,500 at survey), one-third of them reported paying workers. All this suggests that disadvantaged individuals may use business development in a variety of ways to create jobs for themselves and others.

Microentrepreneurs who create paid work for others differ from sole proprietors in some key ways.

There are some statistically significant differences between owners of businesses with workers and sole proprietors. Logistic regression analysis indicates that business owners with higher incomes at intake are more likely to create jobs than those with lower incomes. Specifically, the odds of creating employment increases by 8 percent with every $10,000 increase in income. Having a loan also increases the odds -- by 302 percent -- that the business owner will employ others. And, not surprisingly, sector makes a difference as well. Businesses in the accommodations and food services sector are more likely than others to have employees, while having a business in the manufacturing sector is associated with a lower probability of having paid employees. (Manufacturers supported by microenterprise development programs are often crafts persons rather than owners of industrial facilities.)

On the other hand, the data suggest that gender does not have an effect on the decision to hire employees. Nor does having a business at intake increase the probability of having paid employees.

What do these findings mean? Certainly, the difference in sector makes sense. A restaurant needs more workers than an artisan. Higher incomes suggest the capacity for households to take on risk and cover loan payments. And business owners who borrow tend to do so because they are seeking growth capital. The loan approval itself signals that the program assessed the business's cash flow appropriate to achieving that growth and paying the loan back. The fact that business status at intake does not matter simply underscores the reality that programs serve many different types of business owners, some who prefer self-employment and some with larger ambitions.

Table 2: Logistic Regression Analysis of Having Paid Employees*

Parameter	Estimate	Odds Ratio Estimates	Pr > ChiSq
Intercept	-1.679		0.001
In Business at Intake	-0.203	0.817	0.391
Household Income at Intake	0.074	1.077	0.018
Microloan Recipient	1.392	4.024	0.000
Gender	0.185	1.203	0.348
Food and Accommodations Sector	1.315	3.723	0.017
Manufacturing Sector	-0.834	0.434	0.037

*Please refer to Appendix 1 for complete estimation results

At survey, those business owners who paid workers outpaced sole proprietors in terms of revenues reported. Median and mean revenues for sole proprietors actually declined by small amounts, while they increased substantially for businesses that paid workers. In fact, median and mean revenues were about six times higher than those of sole proprietors at survey (they were only 3.5 times higher at intake). At survey, the median revenues for businesses with workers were $94,512 compared to $16,000 for sole proprietors. The mean revenues were $225,866 for the first group and $35,682 for the second.

Yet, business owners with paid workers still paid themselves modestly. The median draw for owners with workers was $22,000 and the mean was $26,482. Even for business owners paying more than four workers, the median draw was $25,000 and the mean was $30,996. At the same time, these larger businesses reported a mean of $73,863 in total wages paid to others, demonstrating the financial contributions these businesses were making to other households as well as to their own.

Table 3. Revenues and Owners Draw

	Sole Proprietors			Businesses with Paid Workers		
	Intake	Survey	Change	Intake	Survey	Change
	Revenues					
Mean	$36,601	$35,682	-2.51%	$128,980	$225,866	75.12%
Median	$17,000	$16,000	-5.88%	$61,032	$94,512	55%
n	312	515		278	409	
	Owner's Draw					
Mean	$11,411	$12,353	8.26%	$20,360	$26,482	30.07%
Median	$2,400	$12,000	400%	$4,500	$22,000	83.33%
n	301	277		514	394	

Even though those with higher incomes are more likely to create jobs, the working poor do create jobs for others as well as themselves.

Over one-third of business owners with very low-incomes at intake — 36 percent of those with incomes at or below the federal poverty guideline and 38 percent of those with incomes at or below 150 percent of that guideline — created work for others as well as themselves (n= 298). Seventy-six percent were able to pay themselves in 2010 — a mean of $16.99 an hour and a median of $8.93. And, 54 percent reported working full time at their businesses. Even though their own compensation was not high — overall the group reported mean annual compensation of $13,245 and the median was only $6,000 — these owners also created 1.4 jobs per business in addition to their own. They paid a mean of $13 an hour to these workers (the median was $10), most of whom were part time (62 percent of all jobs for which hours were reported). Mean annual compensation for these workers was $13,168 and the median was $12,540 (n = 194), suggesting that these workers may have benefitted financially as much if not more than the owners themselves that year.

However, owners are working toward longer-term rewards and it is worth noting that, overall, one-third of respondents to the survey said that the income their businesses generated met their expectations, another 27 percent said it somewhat met their expectations, and 8 percent said it exceeded expectations. The most important point is that low incomes are not barriers to the generation of income and jobs by clients participating in microenterprise programs. Through a combination of their own readiness and experience and the services they receive (85 percent of all clients said the services they received completely or mostly met their expectations), the working poor can become engines of economic development for themselves and others.

The return on investment in microenterprise development is positive.

FIELD collects data on both the costs of providing services to clients as well as outcomes. Cost and outcomes data were available for 22 of the 23 programs that provided outcomes data, and an analysis was conducted to extrapolate cost and benefit calculations across the entire client population served by these programs. This analysis suggests that:

- The cost to produce a business outcome (defined as being in business at the time of the survey) was estimated to be between $6,266 and $6,605 per business. This range is based on an analysis of the likely number of business owners in the overall client population, calculated with 95 percent confidence.[11]
- The cost to create or retain a job — either full- or part-time -- (for both paid workers and owners) was between $2,112 and $2,226.
- The cost to create a new job (paid workers and new owners) was between $5,175 and $5,454
- The mean increase in the amount of draw taken by business owners from intake to survey was $8,495 and the mean increase in wages paid was $12,657 for a total of $21,152 in additional dollars paid to owners and workers as of the end of 2010.
- The initial return on investment in terms of earnings to workers and owners was, therefore, between 3.2 and 3.4 to 1.

These data are not based on control group research and, therefore, the change in the income earned and employment generated cannot be ascribed causally to the microenterprise services that the clients received. Program clients entered with varying levels of business experience and personal qualities (such as determination) and received different services. Individuals who choose to enroll in microenterprise programs may be different from those who do not enroll. These data, therefore, describe the experiences of individuals who have chosen to pursue microenterprise services. It is also important to recognize that this estimate only captures the value of one year of owners' draw and wages, and that individuals who were clients for multiple years, and in business for multiple years, would likely have experienced additional benefits in those intervening years. Furthermore, this estimate does not include the full range of financial

benefits that the businesses may produce, such as reductions in public benefits and other effects in local communities. For example, an econometric study of the ripple effect of Opportunity Fund's microlending in the California Bay Area found that every dollar lent to local businesses generates nearly two dollars in additional spending and the $13.5 million in loans invested in local businesses from 1995 through 2010 is estimated to have resulted in more than $22 million in annual economic activity (Opportunity Fund, June 2011). Moreover, assuming that even half of these businesses survive five years, a reasonable assumption based on longitudinal research (Clark and Kays, 1999), and that the businesses produced owners' draw and wages for these remaining years, the value of these program investments increases considerably.

How do these numbers compare to other job creation efforts? Other studies report that:

- State tax credit policies can produce new jobs at rates between $9,100 and $75,000 (median: $42,000) (Neumark, 2011).
- Jobs for disadvantaged workers can be subsidized at $12,500 for a year or less (Lower-Basch, 2011).
- Direct job creation by governments would cost a net of $26,162 per FTE (Harvey, 2011).

These cost analyses refer to a range of jobs with varying job quality and are designed for individuals with varying levels of disadvantage relative to the labor market. Microenterprise jobholders, in most instances, do not receive health insurance, retirement plans, or other benefits from their workplace. On the other hand, the majority are receiving hourly wages above the federal minimum. And, they are likely disadvantaged workers just as the owners are disadvantaged entrepreneurs. Head notes that small businesses with 24 or fewer employees "have a higher share of employees working part time, employees with a high school diploma or less education, and employees 65 years or older. This seems to indicate that SMEs [small and medium enterprises] may be able to offer employment opportunities not otherwise available to these groups." (Head, 2004, 20) Living Cities also notes that when one talks about job creation, it is important to consider "jobs for whom?...Workforce development studies show that small businesses account for a larger share of employees on public assistance, and a higher number and share of employees with lower education levels. Assistance to smaller firms may be particularly effective in generating jobs for the hard to employ." (Living Cities, undated, 4) To the extent that cities and states are concerned with job creation for challenged individuals and communities, microenterprise development may offer a reasonably cost-effective option for moving people into the labor market.

Opportunities for State and Local Investment

One of the hallmarks of the U.S. microenterprise industry is its local nature. Although there are some large-scale, strong institutions serving states and regions, most microenterprise development organizations are relatively modest in size with local stakeholders that are the underpinning to their operations. Cost-effective

as they are, both microlenders and business development organizations depend on subsidy, at least in part, to deliver services to aspiring entrepreneurs. (The 201 microenterprise programs reporting to the U.S. Microenterprise Census in 2010 had median earned revenues 11 percent.)[12] Therefore, their capacity to serve more clients depends on their ability both to access more operating funds and, in some instances, capital, to expand their services. In addition, many require funds to invest in the systems, tools, technologies, and human capital to increase their scale and efficiency.

The Great Recession has been challenging for microenterprise programs as it has been for other nonprofits. In fact, their ability to sustain and grow services since 2008 has, in many instances, depended on federal government support. In aggregate, federal dollars represented the largest source of funding for the operating budgets of 192 organizations that reported to the U.S. Microenterprise Census in 2010 (representing 37 percent of total budgets). In 2008, in contrast, private philanthropy exceeded federal support for the 162 organizations that reported (31 percent to 28 percent). A trend group of 61 organizations that provided data both years also reported declining state and local support. (Edgcomb and Girardo, May 2012).

Yet, states and cities could see direct benefit from investments in strengthening their microenterprise sectors. As this paper has indicated, microenterprises do, indeed, produce jobs for their owners and others, many of whom are likely disadvantaged in the labor market. The income gained is an important component of household income and can lift families out of poverty. And, although the regression analysis found that those with higher incomes are more likely to create jobs, the working poor also do so (in this research, 1.4 jobs per business in addition to their own). Low incomes at the start are not a barrier to income generation and job creation by clients participating in microenterprise programs. In addition, cost-benefit analysis suggests that the investment in microenterprise assistance is modest compared to the financial benefits generated.

Given the challenges facing public budgets, which limit the ability to directly fund or expand program initiatives, there are four ways that state and local governments can tap available resources and partnerships to finance expanded capacity among microenterprise development organizations. These programs can build capacity and support more microlending. Given the role of borrowers in job creation, efforts that can extend and strengthen programs' abilities to serve more high-potential borrowers with loans and technical assistance will bear valuable returns. And, support for self-employment can increase the number of individuals who can sustain themselves by their own means.

Use Community Development Block Grant funds to support and expand microenterprise development programs.

The Community Development Grant Block Program (CDBG) provides a flexible source of financing for community and economic development activities including microenterprise. Large cities and urban counties

access funds through the CDBG entitlement communities program while smaller cities and rural areas may access funds through the State Administered CDBG or "Small Cities" program. CDBG fund recipients may use grant proceeds to not only provide direct assistance to business, such as technical assistance and training, and to capitalize microenterprise loan funds, but also to cover microenterprise program operating expenses. In CDBG applications, states and entitlement communities have to specify how they plan to meet one or more national objectives with their microenterprise assistance, and there are several options available to demonstrate this.

CDBG funds offer a good tool for supporting microenterprise development because of their flexibility in terms of the uses of funds and the types of disadvantaged individuals and communities that can be served. There is clearly the opportunity for states and cities to increase their use of CDBG funds for microenterprise more actively. In FY2011, entitlement communities and states together dedicated $26,711,069 in CDBG funds towards microenterprise activities, only 9 percent of CDBG economic development funds and .67 percent of total CDBG funds allocated nationwide. This is despite the fact that, as explored earlier in this paper, data show that the cost per new job created for microenterprise programs ranges between $5,454 and $5,175, well below the maximum cost per job allowed under the CDBG program of $35,000 per FTE. Using that estimate, every additional million dollars invested in microenterprise programs could generate 183 jobs.

One way that states can improve the use of CDBG funds to support microenterprise development is by creating defined microenterprise initiatives within their CDBG programs. As of summer 2012, CFED cited 23 states that had used CDBG funds for microenterprise (CFED, October 2012), but a much smaller number had specific microenterprise programs. New York State's CDBG Microenterprise Program and Indiana's CDBG Microenterprise Assistance Program are two examples of defined initiatives. One of the benefits of these programs is that they increase awareness among local municipalities – which are the entities that can apply to the states for CDBG funds – of the fact that they can use these funds to support microenterprise development organizations.

Develop a capacity-building initiative to expand microenterprise services to underserved communities.

Cities and states can increase the level of capital and technical assistance available to microentrepreneurs by investing in building the capacity of local microenterprise development organizations. Because the regression analysis indicated that clients who received a loan were more likely to create jobs, ensuring capacity exists within a community to serve microloan demand is important. A recent effort in Chicago suggests a model.

Recognizing the limited availability of microlenders — and consequently, microloans -- within its boundaries, the city of Chicago has launched an initiative designed to increase the number of qualified microlenders and the volume of microloans available to entrepreneurs across the city. With $1 million in loan capital provided

by the city, and $245,000 in training dollars provided by Citibank and the Chicago Community Trust, the initiative's goal is to both provide additional capital to the city's leading microlender, Accion Chicago, and to build the capacity of five additional local nonprofits to add microlending to their portfolio of activities. Accion's lending is expected to grow 30 percent per year, and the two "core" organizations receiving training are expected to be making 100 loans each a year by 2017, and then achieve similar growth rates to Accion thereafter. In addition, three affiliate programs attend best-practice forums to help them develop as referral partners to the newly trained lenders and to prepare themselves to participate as core training members in 2013 and 2014 should the program be funded in subsequent years.

The new lenders receive training in all phases of operating a microloan fund (including marketing, loan underwriting, risk management, collections, loan fund management, etc.), and loan capital from Accion. They are covering operating expenses from their own resources, and are expected to raise subsidy annually to support the program. (The most self-sufficient nonprofit microlenders reporting to the 2010 US Microenterprise Census achieved earned revenues between 45 and 90 percent, with a median of 33 percent.) All decisions regarding loan amounts, terms, and pricing are in the hands of the microlenders. Accion Chicago and its lending partners will report to the city on loan production and business and job creation outcomes. They are expected to be able to make a combined 280 business loans totaling $2.8 million over four years. And, these loans will support 280 businesses, creating or maintaining an estimated 850 jobs and providing $1.4 million in payroll to those employees (Accion Chicago, December 2011).

This model is instructive for several reasons.

- It recognizes that, while capital may be needed, funds are also needed to build the capacity of lenders to make and manage more loans. In Chicago, the limited number of microlenders led the city to leverage the expertise and strong track record of Accion Chicago to create new lenders. Other cities may have a larger number of lending organizations, but the capacity of these may be limited by inadequate resources to invest in human capital, product development, technology and systems, marketing, and market research required to reach more clients and make more loans. Making modest amounts of capital available for these purposes can help organizations transform their operations over time to reach higher levels of scale and, therefore, outcomes.
- It brings together public and private sector partners to achieve its goals. In this case, a national bank, a community foundation and the city partnered to finance the initiative (with the bank and foundation providing the capacity-building funds that the City was hard-pressed to provide), and a high-performing nonprofit microlender has operational leadership.
- Performance targets are clear. The lead nonprofit has discretion to select its trainee partners and implement the program. An Advisory Board monitors performance.

Initiatives like these can generate jobs faster or slower depending on the state of institutional capacity already present. But whether faster or slower, the infrastructure building will offer long-term benefits.

Help microlenders mitigate risk in their portfolios and extend more credit.

As the regression analysis revealed, borrowers play a key role in job creation for others. Therefore, states seeking that multiplier effect can help microlenders extend credit to more entrepreneurs by enabling them to tap Capital Access Programs (CAPs). CAPs are state programs that provide a mechanism for lenders to reduce the risks (and therefore the costs) they incur in making loans to small businesses. In these programs, the lender, borrower, and state each contribute a small percentage of each loan covered under the program to a reserve account. When a loss occurs, the lender can be reimbursed from the reserve account. Twenty-seven states now have Capital Access Programs, and in 2010 the federal government made additional funds available to support CAPs through the Small Business Credit Initiative that was part of the Small Business Jobs Act.[13] Although CAPs support small business lending by banks, they can also be used by microenterprise lenders and small business Community Development Financial Institutions. For example, California has used its Capital Access Program to enable microlenders – such as Opportunity Fund in the Bay Area, Community Finance Resource Center and Valley Economic Development Center in Los Angeles, and Accion San Diego, among others – to recoup some of the costs of loans that are written-off. In 2011, 896 microloans (defined as loans of $40,000 or less) were made by lenders participating in the program; there were 88 claims filed by lenders during the same period against all loans, large and small, enrolled in the program that year, and which were valued at $85 million. (California Pollution Control Financing Authority, undated) A few other states include microlenders in their lists of participating lenders, including Colorado (Colorado Enterprise Fund), Georgia (Access to Capital for Entrepreneurs and Albany Community Together) and North Carolina (North Carolina Rural Development Center).

Access federal funding for the unemployed.

For states interested in supporting opportunities for self-employment among unemployed workers, the Self-Employment Assistance Program enables dislocated workers to receive unemployment benefits while they start a new business and participate in training to help them succeed. Created in 1992, the program allowed states to extend the first 26 weeks of regular unemployment benefits to those pursuing self-employment. In February 2012, Congress expanded the program to enable states to make this assistance available to people who receive Emergency Unemployment Compensation, an additional 20 to 53 weeks of benefits, and offered $35 million in grants for states to start, improve, or expand programs. (CFED, June 2012) States interested in pursuing this opportunity can apply up to June 2013 and should connect with the Department of Labor regarding the steps required to act on this opportunity.

Other streams of funding for disadvantaged workers include WIA (Workforce Investment Act) and TANF (Temporary Assistance for Needy Families). CFED notes that "microenterprise development and services for entrepreneurs are allowable uses in the federal guidelines for the CDBG, WIA and TANF programs, but few states take full advantage of these provisions." Its 2012 Resource Guide: State Microenterprise Support counts eight states using TANF funds, 18 states using WIA funds and six states using SEA funds to support self-employment. (CFED, October 2012) Although it can be challenging from an administrative perspective to use some of these funding streams to support self-employment services (WIA's required metrics pose a particular challenge because they do not currently include one that enables states to report self-employment outcomes), they do present opportunities for states to use existing resources to help unemployed and disadvantaged residents create work for themselves. And, microenterprise advocates continue to work to improve aspects of these programs to ease states' use of them for this purpose.

Conclusion

Microenterprises have always been part of the U.S. economy. Since the mid-1980s, a field has emerged that calls attention to the importance of this sector to help the disadvantaged take greater control of their economic lives, move out of poverty, and contribute to local community development. Although most microentrepreneurs are self-employed, at least 40 percent of those who work with microenterprise development programs create paid work for others as well as themselves. And, there is some evidence that suggests that a portion of these businesses create even more employment over time. Making microloans available, along with training, technical assistance, and other services, helps those businesses grow, and sustains the households of disadvantaged owners and workers. State and local government can support even more job creation in this sector by building the capacity of microenterprise development programs to scale their services. A low cost per job and a positive return on investment demonstrate that working with the entrepreneurial energy of local residents is a smart strategy for policymakers seeking to move the needle on unemployment quickly.

Appendix 1. Regression Analysis

A logistic regression was performed to determine which factors were most critical in determining the likelihood of an entrepreneur creating a business that would employ paid workers in addition to the owner. Logistic regression of the following form was estimated: $\log(p/(1-p)) = \beta_0 + \beta_1 * x_1 + \ldots + \beta_k * x_k$ Where p is the probability of having paid employees, x_1- x_k are explanatory variables, and β_0 - β_k are parameters to be estimated. Definitions and descriptive statistics of variables are reported in Table 1 below:

Table 1. Descriptive Statistics

Variable	Mean	St.Dev	Min.	Max.	n
Paid (1 = Had Paid Employees at Survey; 0 = No Paid Employees)	0.47	0.50	0	1	662
Int_biz (1= Had Business at Intake; No Business at Intake)	0.80	0.40	0	1	662
HHInc_Int (HH Income at Intake in $10,000s)	4.08	3.19	0	30.38	662
Loans (1= Received Loan; 0= did not receive loan)	0.78	0.42	0	1	662
Gender (1= Male, 0= Female)	0.44	0.50	0	1	662
FA (1= Florida; 0 = otherwise)	0.05	0.21	0	1	662
MA (1= Massachusetts; 0 = otherwise)	0.16	0.37	0	1	662
ME (1= Maine; 0 = otherwise)	0.15	0.36	0	1	662
NE (1=Nebraska; 0 = otherwise)	0.03	0.16	0	1	662
NM (1= New Mexico; 0 = otherwise)	0.02	0.14	0	1	662
NY (1= New York; 0 = otherwise)	0.01	0.11	0	1	662
OR (1=Oregon; 0 = otherwise)	0.08	0.27	0	1	662
PA (1=Pennsylvania; 0 = otherwise)	0.05	0.21	0	1	662
TX (1= Texas; 0 = otherwise)	0.01	0.09	0	1	662
UT (1=Utah; 0 = otherwise)	0.07	0.26	0	1	662
WA (1= Washington; 0 = otherwise)	0.04	0.20	0	1	662
CA (1= California; 0 = otherwise)	0.14	0.34	0	1	662
MO (1= Missouri; 0 = otherwise), Reference Category	0.19	0.40	0	1	662
AGRI (1=Agriculture, Forestry, Fishing and Hunting; 0 = otherwise)	0.01	0.08	0	1	662
FOOD (1= Accommodation and Food Services; 0 = otherwise)	0.04	0.20	0	1	662
CONST (1= Construction; 0 = otherwise)	0.06	0.23	0	1	662
EDU (1= Educational Services; 0 = otherwise)	0.03	0.18	0	1	662
HEALTH (1= Health Care and Social Assistance; 0 = otherwise)	0.15	0.36	0	1	662
MNFCT (1=Manufacturing; 0 = otherwise)	0.09	0.29	0	1	662
RTRADE (1=Retail Trade; 0 = otherwise)	0.14	0.35	0	1	662
TRANS (1= Transportation and Warehousing; 0 = otherwise)	0.05	0.21	0	1	662

INF (1= Information; 0 = otherwise)	0.03	0.16	0	1	662
WTRADE (1= Wholesale Trade; 0 = otherwise)	0.04	0.19	0	1	662
FINS (1= Finance and Insurance; 0 = otherwise)	0.02	0.12	0	1	662
REST (1= Real Estate and Rental and Leasing; 0 = otherwise)	0.03	0.16	0	1	662
PROF (1= Professional, Scientific, and Technical Services; 0 = otherwise)	0.11	0.31	0	1	662
MGMNT (1= Management of Companies and Enterprises; 0 = otherwise)	0.002	0.04	0	1	662
ADMIN (1= Administrative and Support and Waste Management and Remediation Services; 0 = otherwise)	0.08	0.27	0	1	662
ARTS (1=Arts, Entertainment, and Recreation; 0 = otherwise)	0.03	0.18	0	1	662
PUBLIC (1= Public Administration; 0 = otherwise)	0.003	0.05	0	1	662
OTHER (1= Other Services; 0 = otherwise); Reference Category	0.10	0.31	0	1	662

Maximum likelihood parameters are estimated using Proc Logistic in SAS. Results are reported in Table 2. Column 2 (Estimate) shows log of odds ratios and column 3 (Odds Ratio Estimates) shows odds ratios. (Odds ratio is the ratio of the probability of success over the probability of failure.) Statistically significant results at the 95% confidence interval are in bold font.

Table 2. Analysis of Maximum Likelihood Estimates

Parameter	Estimate	Odds Ratio Estimates	Standard Error	Wald Chi-Square	Pr > ChiSq
Intercept	-1.679		0.518	10.510	0.001
Int_biz	-0.203	0.817	0.236	0.737	0.391
HHInc_Int	0.074	**1.077**	0.031	5.600	0.018
Loans	1.392	**4.024**	0.370	14.181	0.000
Gender	0.185	1.203	0.197	0.881	0.348
FA	-0.008	0.992	0.426	0.000	0.985
MA	0.466	1.593	0.291	2.558	0.110
ME	0.526	1.691	0.406	1.679	0.195
NE	0.080	1.083	0.565	0.020	0.888
NM	-0.408	0.665	0.630	0.421	0.517
NY	0.311	1.365	0.806	0.149	0.700
OR	0.394	1.483	0.417	0.892	0.345
PA	-0.174	0.840	0.486	0.128	0.720
TX	-0.211	0.810	0.906	0.054	0.816
UT	0.048	1.049	0.383	0.016	0.901
WA	-0.106	0.900	0.698	0.023	0.880

CA	0.766	**2.151**	0.301	6.485	0.011
AGRI	-1.445	0.236	1.214	1.416	0.234
FOOD	1.315	**3.723**	0.549	5.727	0.017
CONST	0.647	1.910	0.456	2.015	0.156
EDU	-0.374	0.688	0.550	0.462	0.497
HEALTH	0.336	1.399	0.343	0.957	0.328
MNFCT	-0.834	**0.434**	0.399	4.364	0.037
RTRADE	-0.200	0.819	0.342	0.342	0.559
TRANS	-0.742	0.476	0.475	2.443	0.118
INF	-0.396	0.673	0.617	0.412	0.521
WTRADE	-0.011	0.989	0.511	0.001	0.982
FINS	-0.149	0.862	0.720	0.043	0.836
REST	-0.506	0.603	0.586	0.747	0.387
PROF	-0.212	0.809	0.375	0.319	0.572
MGMNT	-14.147	<0.001	1217.200	0.000	0.991
ADMIN	0.159	1.172	0.394	0.163	0.687
ARTS	0.192	1.211	0.537	0.127	0.721
PUBLIC	-13.245	<0.001	852.100	0.000	0.988

Association of Predicted Probabilities and Observed Responses			
Percent Concordant	71.2	Somers' D	0.427
Percent Discordant	28.5	Gamma	0.428
Percent Tied	0.3	Tau-a	0.213
Pairs	109161	c	0.713

	Had Paid Jobs	**Did Not Have Paid Jobs**
% Correct	57.4%	62.2%
% Not Correct	42.6%	37.7%

Testing Global Null Hypothesis: BETA=0			
Test	Chi-Square	DF	Pr > ChiSq
Likelihood Ratio	102.8832	33	<.0001
Score	94.5558	33	<.0001
Wald	79.1751	33	<.0001

Model Fit Statistics		
Criterion	**Intercept Only**	**Intercept and Covariates**
AIC	917.308	880.425
SC	921.804	1033.264
-2 Log L	915.308	812.425

Appendix 2. Cost and Benefit Analysis

The paper, Microenterprise Development as Job Creation, was published as part of the Big Ideas for Jobs Project, http://www.bigideasforjobs.org, a project of the University of California, Berkeley, Institute on Labor and Employment and Institute for Urban and Regional Development, with the support of the Annie E. Casey Foundation and the W.K. Kellogg Foundation. It includes a discussion of the return on investment produced by microenterprise development programs whose costs and outcomes data are collected by the Aspen Institute's FIELD program. This document summarizes the methodology used to calculate that return on investment.

The analysis was done on data provided by 22 microenterprise development programs, which included the following, and their characteristics are described in the paper:

Accion New Mexico-Arizona-Colorado
Accion Texas-Louisiana
Accion USA
Agriculture & Land-Based Training Association (ALBA)
Creating Economic Opportunities for Women (C.E.O. Women)
El Pajaro Community Development Corporation
Entrepreneur Works
Jefferson Economic Development Institute – JEDI
Justine PETERSEN
Maine Centers for Women, Work, and Community
Mercy Corps Northwest
Nebraska Enterprise Fund
Northeast Oregon Economic Development District
Opening Doors
Opportunity Fund
Rising Tide Capital
TMC Working Solutions
Utah Micro Enterprise Loan Fund
Washington Cash
Westchester Housing Fund Inc dba Community Capital Resources
Women's Economic Ventures
Women's Enterprise Development Center Inc.

The Data Collection Process

The process these organizations followed consisted of guided collection of outcomes data from a sample of program clients, using protocols and tools developed by FIELD under its MicroTest program. All participating programs received training and drew a random sample of their clients. The sample was drawn from clients who received program services during Fiscal Year 2009. Clients in the sample were interviewed in 2011 and asked to report if they were in business in 2010 and to provide data regarding business sales, owners' draw, employment and household income, and other points of interest. Clients also indicated if they were still in business at the time of the survey.

The size of the sample was based on program size. Programs with fewer than 100 clients attempted to survey all of them. Programs with 100 clients or more generally attempted to survey a sample of 100, although six programs attempted larger sample sizes ranging from 119 to 200. Surveys were completed in person, by phone and online by computer.

Data Analysis

The data were submitted to Aspen and then cleaned and analyzed by Aspen staff. A respondent analysis was completed. Chi-Square tests are performed on categorical variables (gender, minority) and T-tests on continuous variables (sales, household (HH) income) to identify any statistically significant differences between the surveyed respondents and those not surveyed. Statistical significance in this case implies that the differences are not due to chance.

Using the tests described below, we did not find statistically significant non-response bias in the data collected in terms of Gender, Business Ownership, and Wage Job at Intake. At the same time, the surveyed group was likely to have fewer minorities and slightly higher HH Incomes. Some other variables, like Health Insurance, Business Revenue and Draw were missing in too many cases to perform tests.

	Surveyed	Not Surveyed	Test	n	MD	N
Gender (% of Females)	62%	65%	1.814 (0.178)	2415	0%	2426
Minority	57%	64%	13.563 (0.0002)	2232	8%	2426
Had a Business	62%	58%	3.507 (0.061)	2284	6%	2426
Had a Wage Job	46%	44%	0.531 (0.466)	1969	19%	2426
HH Income (Mean)	$38,495	$35,489	2.19 (0.028)	1944	20%	2426

Comparison of Costs and Benefits

Costs

First, we estimated the total number of 2010 businesses among clients served in FY2009. We estimated a 95% confidence interval for the proportion of clients with businesses to be between 77% and 81%. The 22 programs included in the analysis served a total of 5,224 clients in FY2009. This means that the number of businesses served by the 22 programs was likely to be between 3,998 and 4,214.

Then, the cost per client and the cost per business outcome, were estimated. The programs reported their total microenterprise program expenses. Because the average years of service received by the clients surveyed in 2011 was 1.7 years, 1.7 years of program costs were calculated to represent the total value invested in producing these business outcomes. For the 22 programs, the total cost was $26,406,037 in 2010 dollars. This figure includes not only the costs of providing all services to business owners, but also the costs associated with anyone who participated in program services in some way during the period, whether they started a business or not. It was assumed that services provided to those who were not in business at the time of the survey were part of the costs involved in producing the business outcomes that existed at the time of the survey.

Finally, total costs were divided by the estimated number of businesses. The cost to produce a business outcome (defined as being in business in 2010) was between $6,266 and $6,605 per business.

In 2010, among surveyed businesses, there were 2.97 jobs per business, including the jobs of the business owners. By multiplying this number by the estimated number of 2010 businesses, we estimate that the total number of jobs supported by these businesses was likely to be between 11,861 and 12,502. Total program costs were divided by these estimated jobs figures to derive the cost to create or retain a job (for both paid workers and owners). The result was between $2,112 and $2,226 per job created and retained.

Using the same approach as above, the number of new jobs was estimated to be between 4,841 and 5,103. And, the cost to create a new job (paid workers and new owners) was found to be between $5,175 and $5,454. This calculation compares all program costs to the job creation estimates and takes no “credit” for retention of jobs by clients who were business owners when they came to the program and had pre-existing employees.

Benefits

To answer the question as to whether this level of investment was justified based on the economic benefits produced, costs were compared to two factors: increase in the business draw reported by owners and increase in reported wage payments to employees.

A total of 440 surviving businesses reported an increase of $2,263,314 in draw from intake to 2010. In addition, 249 new businesses reported a total draw of $3,589,818 in 2010. Adding the dollar value of owner's draws produced by ongoing (440) and new (249) businesses results in a total of $5,853,132 (or an average of $8,495 per business) increase in business draw from intake to 2010.

To calculate increase in wage payments, we multiplied the average wage payments in 2010 ($14,294) by the number of additional jobs created per business (0.885). We estimate that, on average, businesses were likely to pay $12,657 more in wages at survey than at intake.

The total new benefits per business are estimated, finally, to be $21,152 (increase in draw + additional wage payments due to the increased number of jobs). With an investment of between $ 6,266 and $6,605 per business outcome, it is estimated that the initial economic return is between 3.2 and 3.4 times the investment.

In considering this return, it is important to keep several factors in mind. First, there are several economic benefits of the businesses — such as taxes paid, reduction in welfare benefits paid to business owners or workers, and increased circulation of money in local communities — that are not included here. Valuing these benefits would presumably increase the returns above. Second, the analysis only considers the benefits accrued in the one-year period prior to the survey. It does not capture any benefit that respondents who were multiyear clients may have reported after previous years of program participation. Furthermore, as other research has shown that most of the businesses of microenterprise clients survive for several years, the return on the investment would increase as the value of future benefits is included.

On the other hand, however, because the process of collecting the outcomes data did not include a control group, the above estimates capture the gross effects of the clients' participation in these programs. It could be that some of the positive changes in owner's draw and employment would have occurred even if these businesses had not received services from the programs. Thus, analysis of net benefits of program participation would be a more accurate representation of program benefits.

Endnotes

[1] FIELD has conducted periodic surveys of the microenterprise industry since 1992. In the past few years, it has been called the U.S. Microenterprise Census, and aggregate and institution-level data are available at www.microtracker.org.
[2] The data in many of the figures and tables is from the U.S. Microenterprise Census. Much of it can be located on www.microTracker.org, either in the published Census Highlights (http://microtracker.org/assets/default/2d/2ddb0dc52bf35144572b64e9e30a139e2288ed76/original.pdf) or through using the analysis tools available on the site.
[3] The Federal Poverty Guidelines updated annually by the Department of Health and Human Services were originally calculated by taking the dollar costs of the U.S. Department of Agriculture's economy food plan for families of three or more persons and multiplying by a factor of three. The poverty guidelines are updated each year based on annual prices changes using the Consumer Price Index. The U.S. Department of Housing and Urban Development calculates median family income limits annually. These limits are based on the American Community Survey (ACS) conducted by the Census Bureau and reflect the median family income at the county or county equivalent area.
[4] Through its members, MicroTest annually conducts a survey of the business, household, and individual outcomes of microenterprise clients. Participating organizations also receive training in data management and interview skills and have access to ongoing technical assistance during the survey process. FIELD provides data cleaning and analysis services, and produces customized reports for each participating organization. The analysis presents information on clients in the survey period and also compares information about the client when entering the microenterprise development organization (MDO) to the client's status approximately one year after receiving services. Only clients, those who received significant services from the MDO (training, loan, grant, etc.), are eligible to participate in the MicroTest Outcomes Survey. Only clients who received services in 2009 were eligible to be surveyed about their outcomes in 2010. The survey was conducted in 2011 in person, by telephone, by mail, and online. In 2011, 23 MDOs participated in the outcomes process, surveying 1,514 clients out of an attempted 2,526 surveys. While programs attempt to have clients complete the survey, not every client answers every question. This, combined with data that may be missing at intake, contributes to a lower number of cases, "n's" for some data points than others.
[5] The median number of years that respondents were with programs was one year. The range was from less than 1 year to 14.6 years.
[6] As will be discussed below in the text, 24 percent of owners did not report compensating themselves in the survey year. Removing them from the calculation, in 2010, there were 2.4 individuals per business receiving compensation for their work.
[7] Respondents who indicated they work part time at their business (less than 35 hours a week) provided the average number of hours they worked in a week. Respondents working full time were estimated to have worked 40 hours a week for 52 weeks.
[8] As can be seen by the number who responded to questions on employee compensation, this question is one that has been more difficult for programs to get entrepreneurs to answer. Fifty-six percent of all business owners with paid workers provided data on wages.
[9] The number of respondents is lower here due to the absence of data at either intake or survey. Some microenterprise programs that collect data using FIELD protocols start working with incomplete data collection, especially at intake, reducing the number of individuals on whom change can be calculated.
[10] It is important to note that some clients who were above the poverty line had slipped below it at survey. Out of 381 who had incomes above the federal poverty guideline (100 percent HHS), 291 stayed above the line, and 27 slipped below the line by the time of the interview. The net change was positive, however. There were four percent fewer people in poverty at survey than at intake.
[11] A business outcome includes new businesses started during or after receipt of program services or a pre-existent business that survived as of the date of the interview. Pre-existent businesses include a range from those that have experienced little or no change to those that report considerable growth in sales and employment. Given that the mean time respondents received services from programs was 1.7 years, 1.7 years of program costs were included in the cost calculation. A full description of the methodology used to derive these return on investment calculations can be found in Appendix 2.
[12] Earned revenues largely include revenues generated directly from program clients and do not include contract income.
[13] The U.S. Treasury's State Small Business Credit Initiative was created as part of the Small Business Jobs Act signed into law by the President in September, 2010. It was funded with $1.5 billion, available to states to "build on successful models for state small business programs, including collateral support programs, Capital Access Programs (CAPS) and loan guaranty programs. Existing and new state programs are eligible for support under the State Small Business Credit Initiative." http://www.treasury.gov/resource-center/sb-programs/pages/ssbci.aspx

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About the Big Ideas for Job Creation Project

Big Ideas for Job Creation, a project of the Institute for Research on Labor and Employment at the University of California, Berkeley, with the support of the Annie E. Casey Foundation, tapped into the innovative thinking of leading experts across the nation to develop job creation proposals. Every idea had to meet the following criteria: designed for implementation by cities and/or states and will lead to net new job creation in the short-term; practical, sustainable, scalable and already tested; and all jobs created should be accessible for low-skilled workers and offer some career opportunity. Taken together, these Big Ideas can create millions of new jobs for our country.

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