

Microenterprise Development Programs in the United States: Can They Become Sustainable?

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Focusing Statement

For the past thirty years, the rising global competition for jobs has led to decreasing job security, less benefits, and greater numbers of steady jobs being converted to part-time or temporary work.¹ In response, millions have turned to self-employment as a means to earn income or supplement other income streams. In the United States, over ten million business owners run microenterprises, which have less than five employees and require a starting capital of \$35,000 or less.² Self-employment has been a popular option particularly for people who are unemployed or want to supplement a low-wage job, women with young children, highly-skilled workers who have been laid off, immigrants and refugees, and people with disabilities.³ Flexible working hours allow entrepreneurs to accommodate a wage job if needed, single mothers can attend to their children while working at home, and minorities living near ethnic enclaves can market to their community's particular demands. Despite the many benefits conferred by self-employment to these groups, significant barriers have limited their ability to expand their business ventures and achieve higher levels of profit.

Many minority, female, and low-income microentrepreneurs have been excluded from accessing formal financial services because of bank redlining of poor and minority clients, poor credit histories, high costs associated with servicing small loans, and perceptions of elevated risk due to the high rate of failure of small businesses.⁴ In the past few years, predatory lenders, such as payday lenders, pawn shops, rent-to-own centers,

¹ Nancy Jurik, *Bootstrap Dreams: U.S. Microenterprise Development in an Era of Welfare Reform* (Ithaca: Cornell University Press, 2005), 2.

² Association for Enterprise Opportunity, available from <http://www.microenterpriseworks.org/>; Internet; accessed 30 November 2007.

³ Microenterprise Fact Sheet, Association for Enterprise Opportunity, Spring 2005, available from <http://www.microenterpriseworks.org/index.asp?sid=17>; Internet; accessed 30 November 2007.

⁴ Jurik, 22.

and check cashing facilities, have made a profit to the tune of \$70 billion by targeting those individuals that are excluded from the formal banking sector.⁵ Recent immigrants have often fallen prey to these lenders because of language, cultural, or documentation barriers that prevent them from accessing bank loans. Business owners with bad credit histories have little choice than to accept the high interest rates and large fees associated with these “fringe banking institutions” if there are no other options.

Fortunately, since the mid-1980s, microenterprise development programs (MDPs) have expanded to every corner of the nation to address the needs of microentrepreneurs. Through its MicroLoan program, the Small Business Administration provides funding for 170 NGOs to on-lend to microentrepreneurs in their local area. Other MDPs have created microlending portfolios through the support of private foundations and local banks.⁶ Besides offering microloans, MDPs support the work of entrepreneurs through business training and technical assistance. Although critics have pointed to the disparity in success between microfinance providers in the developing world and in the United States, MDPs have had positive effects on poverty alleviation.

Several longitudinal studies have documented the impact that MDPs have had on low-income clients. The Self-Employment Learning Project, an initiative by the Aspen Institute, surveyed 405 microenterprise clients over five years.⁷ Over the course of this study, 72% of poor entrepreneurs increased their household income by an average of \$8,484 and their household assets by \$15,909. More than half, 53%, of the poor

⁵ “Microfinance in the United States: Is the US Market More Challenging than Other Markets?” The Microfinance Gateway, available from <http://www.microfinancegateway.org/content/article/detail/25590>; Internet; accessed 9 October 2007.

⁶ *Ibid.*

⁷ Microenterprise Fact Sheet, Association for Enterprise Opportunity, Spring 2005, available from <http://www.microenterpriseworks.org/index.asp?sid=17>; Internet; accessed 30 November 2007.

entrepreneurs rose above the poverty line. Usage of public assistance, including TANF monies and food stamps, decreased by 61%.⁸ While these figures attest to the positive impacts that microenterprise development programs can have on low-income business owners, the challenges of entrepreneurship are evident in that only 57% of business were in existence at the end of five years.⁹

I became interested in microenterprise development in the United States after having researched microfinance during an independent study and having surveyed microfinance providers in Tanzania for my summer community based research project. Microfinance has helped millions of the world's poor to raise their incomes by providing them with credit to improve or expand their businesses. Upon returning to the United States, I wondered if microfinance could have a similar impact in this country. On the whole, the scale of the microenterprise field is much smaller in the U.S. than in the developing world, because most low-income Americans work in wage labor jobs, instead of self-employment. Other challenges have prevented MDPs from having the same scope of success as in the developing world.

The most important struggle for MDPs in the United States has been finding ways to achieve financial sustainability. The high operating costs, small market size, and government regulations that limit the interest rates that lenders can charge have forced most MDPs to rely on funding from private foundations and government grants.¹⁰ Stable sources of income will need to replace grant funding in order for MDPs to continue

⁸ Clark, Peggy and Amy Kays. *Microenterprise and the Poor*. Washington, D.C.: The Aspen Institute, 1999, as cited in Microenterprise Fact Sheet, Association for Enterprise Opportunity, Spring 2005, available from <http://www.microenterpriseworks.org/index.asp?sid=17>; Internet; accessed 30 November 2007.

⁹ *Ibid.*

¹⁰ "Microfinance in the United States: Is the US Market More Challenging than Other Markets?" The Microfinance Gateway, available from <http://www.microfinancegateway.org/content/article/detail/25590>; Internet; accessed 9 October 2007.

operating in the long run. Over the last six years, the federal government has cut funding for two of the SBA's principle microenterprise programs by over 34%. A national survey on MDPs found that 30% of programs operating in 1996 had either ceased operations or eliminated microlending from their services.¹¹

Despite the challenges, it is imperative that microenterprise development programs keep their doors open to serve the needs of microentrepreneurs. Self employment is a means out of poverty, a chance to express one's talents, and an escape from low-wage jobs; yet, it would not be accessible to many low-income, minority, female, and disabled business owners without the resources provided by MDPs.

¹¹ Pollinger, J. Jordan, Outhwaite, John, and Hector Cordero-Guzman. "The Question of Sustainability for Microfinance Institutions." Journal of Small Business Management 45.1 (2007) Gale. Duke U Lib., Durham. 4 Nov. 2007 <<http://find.galegroup.com>>

Research Question

My research question is: can microfinance services take root in American inner cities and help micro-entrepreneurs move above the poverty line?

As part of this research question, I will need to investigate several factors that are central to the success of microfinance services. First, I will look into the current and future potential for sustainability of microfinance institutions in the United States. Sustainable programs are generally those that have a large number of clients, can charge necessarily high interest rates without government interference, maintain a low default rate, and keep operational costs low. It is unclear whether these conditions could be met in the U.S.

Second, I will investigate the impact of microfinance services on the local community. As a part of this, I will evaluate whether or not microfinance services are helping to create new jobs in a locality and whether borrowers are able to rise above the poverty line. Moreover, it will be necessary to evaluate the depth of the impact by finding out whether microfinance services are targeting only the working poor or if they include the poorest of the poor as well.

Third, I will look into the unique conditions that will shape the course of microfinance in the United States. I will examine what models are being used by practitioners and whether training or credit has a greater impact on the economic development of a community.

Lastly, I will look into whether the presence of microfinance services prompts greater self-employment and less dependency on welfare and government assistance.

Annotated Bibliography

This annotated bibliography surveys a portion of the scholarly literature on microcredit programs in the United States. Given the rekindled interest in microfinance after Muhammad Yunus and the Grameen Bank won the 2006 Nobel Peace Prize, much of the literature compares microfinance methods, application, and sustainability in the United States and in the developing world. Sources related to this topic will be grouped under the label “microcredit sustainability.” Conversely, other sources examine the impact, context, and future of microcredit programs in the United States. These sources will be labeled “microcredit possibilities.” An understanding of these two topics helps to frame the current situation of many microenterprise development programs that are caught between the demands to serve their clients and achieve financial sustainability. Extended entries are marked with an asterisk.

Microcredit Sustainability

- *1. Schreiner, Mark and Gary Woller. “Microenterprise Development Programs in the United States and in the Developing World.” World Development 31.9 (2003): 1567-1580. Elsevier. Duke U Lib., Durham. 28 Oct. 2007
<www.elsevier.com/locate/worlddev>

Schreiner and Woller compare the contexts, services, and institutions of microfinance in the developing world and the United States in this article to demonstrate how several important factors mitigate the development of the microfinance field in the United States. The authors argue that the availability of wage jobs, the existence of a safety net, high competition and low profitability for microenterprises, and high transaction costs for starting a business venture create major disincentives for poor Americans to enter self employment. Although the popularity of microfinance has spread like wildfire throughout the international development field, the successes of major microfinance institutions operating in developing countries may not be transferable to the United States.

From the client’s perspective, it would be more beneficial for most unemployed or working poor Americans to find a steady job with decent wages. The risks of entrepreneurship are high; most microenterprises fail because there is simply not enough demand for their goods or services. Unlike in most developing countries, U.S. businesses must comply with government regulations and pay taxes. Welfare recipients must contend with thresholds on income and assets in order to retain their benefits. Entrepreneurs who are ready to borrow must have a sufficient level of savings to pay for living expenses until they can turn a profit. Most borrowers need at least some collateral; peer lending models have not worked well due to low social capital and clients who are unwilling to participate in lending groups.

On the part of microenterprise development programs, most have turned to training and technical assistance programs, instead of lending, as their central activities. Realizing that the potential for many microenterprises to succeed is limited, the majority of program funds are used to prepare clients for wage labor or to develop business plans and basic business skills before starting a microenterprise. Credit is usually the last step,

and is reserved only for clients that demonstrate a high level of effort and capacity to succeed.

The authors are very skeptical about the impact of microfinance on poverty or the likelihood that any significant number of poor Americans will turn to self employment as a strategy to escape poverty. Their argument that microfinance does not fit the American context on any large scale is sensible, yet they do not comment on the narrowing course of welfare reform on benefits and requirements, as well as the growing scarcity of low-skill jobs that pay living wages. Schreiner and Woller do offer useful recommendations at the end of the article, in which they advocate experimentation amongst programs to find more cost-effective means to provide services to clients, as well as to take a more sober view towards the impact that microenterprise development can have on the welfare of the poor.

2. Hung, Chikan Richard. "Loan Performance of Group-Based Microcredit Programs in the United States." Economic Development Quarterly 17.382 (2003) Sage Publications. Duke U Lib., Durham. 30 Oct. 2007
<<http://www.sagepublications.com>>

In this study of peer group lending programs, Chikan Hung examines whether loan performance is affected by "payoff rules, staff actions, peer group actions, and various contexts." His four main hypotheses are:

- (1) Higher costs of nonpayment and higher benefits of repayment promote timely loan repayment.
- (2) Lower borrower credit risk results in better loan performance.
- (3) More appropriate staff background results in better loan performance.
- (4) More active staff member and peer group screening, monitoring, and enforcing result in better loan performance.

After running a series of regressions using a variety of factors, Hung concludes that the level of credit risk of borrowers is a significant variable for delinquency (late payment) and default (lack of payment). Peer groups that maintain a strong continuity of screening, monitoring, and enforcing tend to have lower rates of default than groups who only emphasize screening or monitoring. Finally, Hung suggests that peer group lending programs have better chances of success if operated in small towns or rural communities (as opposed to large urban areas), with fairly homogenous groups, and through selecting clients that have at least some work experience or credit history, rather than welfare recipients with little or no business experience.

3. Servon, Lisa. "Microenterprise Development in the United States: Current Challenges and New Directions." Economic Development Quarterly 20.351 (2006) Sage Publications. Duke U Lib., Durham. 4 Nov. 2007
<http://www.sagepublications.com>

In this article, Lisa Servon identifies several key challenges facing the microenterprise development industry in the United States and offers suggestions for how the industry can modernize and mobilize its resources to better serve clients and attract greater sources of funding. According to the author, the microenterprise development

field has not reached the levels of efficiency and impact necessary for sustainability because of “fragmentation, insufficient data, lack of accreditation and regulation, narrow product lines, and inconsistent or unreliable funding streams.” She argues that microenterprise development organizations (MDOs) are wasting resources by not collaborating (and possibly merging) with fellow organizations that serve the same target population, as well as developing common forms and training procedures that would cut down on administrative costs. By working together, MDOs could eliminate redundant services and allow for greater innovation and product diversification. Likewise, combined organizations would no longer compete for the same pool of funds and would benefit from greater funding sources as their economies of scale increase. Servon also encourages the standardization and accreditation of MDOs. By agreeing upon a set of industry standards and accrediting organizations that meet those standards, MDOs would have greater leverage for most stable sources of funding and would be in a better position to demonstrate their impact on local communities. Servon’s recommendations provide hope for the microenterprise development industry; greater coordination and standardization would bring about greater efficiency and would make considerable progress towards sustainability.

4. Bhatt, Nitin and Shui-Yan Tang. “Making Microcredit Work in the United States: Social, Financial, and Administrative Dimensions.” Economic Development Quarterly 15.229 (2001) Sage Publications. Duke U Lib., Durham. 4 Nov. 2007 <<http://www.sagepublications.com>>

In this article, Bhatt and Tang identify three areas that will need considerable attention in order for the microcredit field to become more sustainable in the United States and better serve target populations. The first problem area is social intermediation, which the authors define as “the process of interacting with and engaging prospective borrowers to recruit them and make them loan ready.” Microcredit organizations often run costly training programs, but these training sessions often lack applicability to the clients and often do not emphasize the market research and business planning necessary to make a venture successful. The second problem area, financial intermediation, is defined as “a lender’s ability in creating value through managing risks and minimizing transaction costs.” Here, the authors refer to the lack of discipline in screening clients and enforcing repayment through viable collateral substitutes. Since the peer lending model developed by microfinance providers in the developing world relies upon social capital, U.S. microcredit organizations need to assess whether their target population has enough existing social capital to make group lending a viable substitute for collateral. Most inner cities or isolated rural areas lack the social capital necessary for group lending. The authors point to the lack of enforcement and cost inefficiencies that have stymied many organizations from achieving financial sustainability. The third problem area is administrative intermediation, which “refers to the practices, policies, and structures that govern the operations of a lending agency.” Most microcredit organizations have high administrative costs and lack a clear mission and objective because of the conflicting incentives of various funding sources. Microcredit providers need to think of their services as commercial transactions instead of social services in order to become more efficient, and possibly outsource training programs to local community colleges or

training centers. In sum, the microcredit field needs to tailor its services more clearly and cut down on administrative costs in order to better serve clients and have an effect on the social goals that it would like to accomplish.

5. Bhatt, Nitin and Shui-Yan Tang. "Determinants of Repayment in Microcredit: Evidence from Programs in the United States." International Journal of Urban and Regional Research 26.2 (2002), 360-376.

In this article, Bhatt and Tang tested for the determinants of repayment in microcredit programs in order to determine possible policy recommendations. They found that the education level of the borrower and the proximity of the lending institution to the borrower's residence or business are the only significant factors for the repayment of microloans. The authors explained these findings by arguing that a high level of education helps an entrepreneur in basic business skills and accounting, and working close to the lending institution decreases the transaction costs for receiving and repaying loans and allows lenders the opportunity to monitor the borrower's business. As far as contextual variables, the authors found that transaction costs and sanctions in case of default were the only significant variables. Low transaction costs allow borrowers to take advantage of business opportunities that may emerge and foster a better relationship between lender and borrower. The credible threat of sanctions for nonpayment is another key factor for high repayment rates. The authors point to the need for microcredit organizations to maintain accurate accounting records and enforce collection in order to set a culture of discipline for both the staff and borrowers and to keep costs low in order to stay in business.

6. Pollinger, J. Jordan, Outhwaite, John, and Hector Cordero-Guzman. "The Question of Sustainability for Microfinance Institutions." Journal of Small Business Management 45.1 (2007) Gale. Duke U Lib., Durham. 4 Nov. 2007
<<http://find.galegroup.com>>

In this article, Pollinger, Outhwaite, and Cordero-Guzman look into the pricing of loans that will most benefit microfinance institutions (MFIs) in the United States. They break down the various fees and components necessary for sustainability and consolidate them into a single APR. Their main conclusion is that MFIs do not currently charge enough in interest and fees to cover their costs, which leads to inefficiencies at all levels of the organization. One factor that leads to inefficiency is the subsidized funds that currently make up the majority of MFI budgets. MFIs lose the incentive to use their funds efficiently and to prioritize loan collection when the funds they on-lend are not acquired at full cost. Though some states have usury laws, most MFIs charge below the legally allowed limit; a likely explanation is that MFIs do not want to overburden clients with high interest rates. However, without sufficiently high rates, MFIs cannot recover the costs of their services, making them dependent on public and private sources of funding. Until MFIs can become self-sufficient and cover their costs through income alone, the uncertainty of their stability and viability affects not only their future existence, but also the standards of their present service.

7. Buntin, John. "BAD CREDIT." *New Republic* 216.13 (31 Mar. 1997): 10-11. *Military & Government Collection*. EBSCO. Duke U. Lib., Durham. 6 November 2007. <<http://search.ebscohost.com/login.aspx?direct=true&db=mth&AN=9703205105&site=ehost-live&scope=site>>.

In this article, Buntin points out the disparity between the media-covered successes of microfinance institutions (MFIs) in developing countries and the limited successes and small impact of microcredit providers in the United States. Despite the Clintons' promotion of microcredit during the 1990s, many of the promises of poverty alleviation and community building have not come to fruition. One interesting example is the Good Faith Fund in Arkansas, which Muhammad Yunus himself helped to establish and the Clintons supported during its foundation. During its first few years of operation in the late 1980s, the Good Faith Fund had a default rate of 40 percent and "service costs of roughly \$4,000 per loan, both extremely high for such small loans." The Fund soon reoriented its services towards training and began to target clients with high chances of success, instead of its original target population of former welfare recipients. Buntin rightly urges caution towards popular rhetoric that microfinance can be applied anywhere in the world and can be used as a powerful poverty alleviation tool. Such claims lead to inflated expectations and often disappointing results, particularly in the United States.

Microcredit Possibilities

8. Yunus, Muhammad. *Banker to the Poor*. New York: PublicAffairs, 1999.

In Chapter 10 of *Banker to the Poor*, Muhammad Yunus, Nobel laureate and founder of the Grameen Bank, discusses the application of microfinance in the United States and other industrialized nations. During the mid-1980s, Yunus was invited to the United States by the founders of the South Shore Bank in Chicago, which later became one of the pioneering microcredit organizations in the Midwest. Yunus describes how he encountered skepticism from many political, academic, and business elites about how applying his lending methodology in the U.S., due to the highly individualistic character of American culture and increased transaction costs of government regulations involved in starting a new business. Yunus argues that the common features of poverty make poor people worldwide more similar than different and includes several anecdotes about meeting groups of welfare recipients and marginalized minorities in Oklahoma, South Dakota, Arkansas, and Illinois. Although he believes in the power of credit for the poor to change lives, Yunus also accedes that the disincentives of welfare for starting one's own business and the abundance of regulations that require compliance may complicate the application of microfinance in the United States.

- *9. Stoesz, David, and David Saunders. "Welfare Capitalism: A New Approach to Poverty Policy?" Social Service Review 73.3 (Sep. 1999): 380-400. SocINDEX with Full Text. EBSCO. Duke U Lib., Durham. 6 November 2007.
<<http://search.ebscohost.com/login.aspx?direct=true&db=sih&AN=2250206&site=ehost-live&scope=site>>.

In this article, Stoesz and Saunders comment on the efforts to reform welfare during the mid 1990s and the subsequent trend towards "welfare capitalism," which promotes job creation and business development in poor communities instead of effort-free entitlements to welfare payments. The authors identify three central components of welfare capitalism: wage supplements, asset building, and community capitalism. Wage supplements have been designed to promote work over welfare; these supplements take the form of tax credits and subsidies for employers that employ low income workers and former welfare recipients.

As for the last two components, microcredit may play an important role in asset building and community capitalism. Many low income Americans have turned to fringe banking institutions such as check cashing stores and pawn shops, since most commercial banks have moved away from low-income areas and often do not cater to low income clients because of the high administrative costs associated with conducting business with the poor. The authors see microcredit and community banks as playing an integral role in recapturing low income clients from predatory lenders and combining government benefits with deposit accounts through the use of such technology as electronic benefit transfer. Asset building is crucial for upward mobility, since savings can be used to leverage a mortgage for a home or can pay for classes at a community college. Community development banks will also serve as a catalyst for upward mobility, by providing reasonably-priced loans for small businesses and home mortgages. Moreover, community development banks have the added benefit of keeping the capital in the local area, in contrast to "mega-banks" that transfer funds to a nationwide network. As policymakers increasingly view market-oriented policies as the best solution to welfare, more analysis needs to be done as to the impact of "welfare capitalism" and the structural factors of poverty that still require change.

10. Tinker, Irene. "Alleviating Poverty." Journal of the American Planning Association 66.3 (Summer 2000): 229. Academic Search Premier. EBSCO. Duke U. Lib., Durham. 6 November 2007.
<<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=3251224&site=ehost-live&scope=site>>.

In this article, Tinker comments on the increasing disparity in wealth in the United States and various efforts in recent decades to make progress on global poverty. The author emphasizes the importance of targeting women in development schemes, as women generally devote more of their income to household expenses and children's needs than men. Similar to most authors that focus on poverty alleviation, Tinker points to the Grameen Bank in Bangladesh as a success story in transforming the lives of rural women through microcredit. The setting of Bangladesh is important: microentrepreneurs have large, stable social networks that reinforce the lending group model and most often

have no alternatives to credit outside of village moneylenders. The situation in the United States is different, however. Most people have access to some form of credit, yet the high costs and obstacles to entrepreneurship often lead business ventures to fail. Tinker suggests that community development organizations could best help people through job training and technical assistance for existing businesses, or through promoting a business venture as a second or third source of income. The lack of health insurance for many poor people in the United States is a major issue and often drives people to seek wage employment instead of self-employment. Tinker recommends that more community centers partner with local banks to offer Individual Development Accounts, which can be applied to home ownership, education, or self-employment. Special care needs to be devoted to women, who often struggle between the demands of childrearing and income generation. The partnership of public, private, and community institutions need to devote greater resources to ameliorate the income gap in the United States.

11. McCord, Michael. "Small is beautiful: Microbusinesses find a home in N.H." New Hampshire Business Review 26.13 (25 June 2004): 21A-23A. MasterFILE Premier. EBSCO. Duke U. Lib., Durham. 6 November 2007.
<<http://search.ebscohost.com/login.aspx?direct=true&db=f5h&AN=13608948&site=ehost-live&scope=site>>.

This article focuses on the success stories of several microentrepreneurs in New Hampshire. MicroCredit NH, a microcredit organization in New Hampshire, offers business skills workshops in various parts of the states and assembles its members into lending groups. The comments of several of the microentrepreneurs in the article reflect comments made in other articles: the microcredit organization's main service is training, not credit. Borrower groups were described as support groups, and while groups did make decisions on loans, the main purpose of the group was to disseminate information and support, not monitor or enforce loan repayment. The successful microbusinesses featured in the article were already established before they received credit, in contrast to many business startups that flock to microcredit lenders and then never become viable. The author notes that "New Hampshire's business-friendly tax structure and its high education levels make it a natural breeding ground for entrepreneurial activity leading to small businesses," which is hardly the case in most inner cities where poverty is concentrated. In sum, while this article demonstrates that microenterprise development programs do have their place in the United States, context is a very important variable for success.

12. Self-Help Impact. Spring 2007 Newsletter. Self-Help, Inc. 6 Nov. 2007
<www.selfhelp.org>

Self-Help, based in Durham, NC and with branches nationwide, assists minorities, women, rural citizens, and low-income people and communities to access financial services for businesses, home ownership, and community development. Self-Help and its affiliates offer "home lending, small business lending, community facilities lending, secondary market financing, real estate development, and policy and advocacy." Beyond lending to microenterprises, Self-Help helps finance small businesses that will create jobs

in the community and serve a social purpose within the community. Its mission to assist families become homeowners allows families to build their home equity and leverage their wealth for future loans or business ventures. Self-Help also lobbies against predatory lending and supports greater expansion of the community development and credit union fields. Self-Help is a model for other community development centers through its sensible mission of promoting home ownership and business financing through direct service and partnerships.

Book Review

Jurik, Nancy. Bootstrap Dreams: U.S. Microenterprise Development in an Era of Welfare Reform. Ithaca: Cornell University Press, 2005.

Nancy Jurik's *Bootstrap Dreams* is a study of the establishment and evolution of microcredit programs in the United States. Her work begins with an introduction to the economic, political, and social conditions that impelled the creation of microenterprise development organizations throughout the nation. Jurik surveys several major studies conducted on microcredit programs and comments on various emerging trends evident among programs throughout the nation. For example, though many programs initially modeled themselves on widely known microfinance institutions in the developing world, such as the Grameen Bank, practitioners soon discovered that their programs needed to be adapted to the unique conditions of the United States.

Jurik adds to the literature by conducting an in-depth, longitudinal institutional ethnography, where she studies one microcredit program in a western state of the U.S. for eight years. Jurik highlights and reinforces many of the common trends that appear in the scholarly literature by referring to her own observations and findings about the microcredit program she studies. While both volunteering and researching the microcredit program, to which she gives the pseudonym MicroEnterprise, Inc. (ME), Jurik gains insight into the many contradictions facing practitioners, as they struggle to define their mission, attempt to serve their clients' needs, and appeal for money from funders with an agenda that may not square exactly with the resources and outlook of the program.

In order to understand the conditions that brought forth the microcredit field, Jurik begins with a discussion of New Economics, a movement begun during the 1970s that

pressed developing and developed nations alike to decrease spending on social programs and privatize many services for the poor in order to curb “wasteful” government spending. At the same time, the private sector also made an effort to streamline operations in order to prepare for increasing competition stemming from globalization. The consequences of these changes were decreasing job security, exportation of low wage jobs to developing nations, greater incidence of part-time or temporary work instead of full-time hours for low wage workers, and decreasing benefits such as healthcare or pension plans. Efforts to reform welfare during the 1990s also aimed to reduce complacency among welfare recipients by restricting benefits and augmenting work requirements. The federal government shifted the responsibility of maintaining safety net programs to the states and began to promote self-employment as a worthy option for former welfare recipients.

Early on, microcredit programs set their sights on disadvantaged citizens: poor women, minorities, recent immigrants, and those receiving public assistance. Funding sources echoed the mission to serve the poor. After experiencing very high default rates and watching most of their clients’ businesses fail, many microcredit programs abandoned the peer lending model and shifted their focus to training, making lending available only to those clients who had completed lengthy training periods and had viable business plans. Jurik describes how many programs then entered a sort of pendulum process: programs would focus on training and reserve lending only for a few select clients; funding sources, interested in the credit part of microcredit, would push programs to expand their loan volume and keep the cash flowing; loan defaults and high administrative costs associated with serving disadvantaged clients would lead programs

to screen out these clients and serve higher-income clients with greater chances of business success. Other funding sources, despite the higher repayment rates of higher-income clients, would pressure programs to re-focus their sights on the poor. In turn, programs would shift back to training in order to serve disadvantaged clients without losing money through defaults. This process, repeated in some form or another depending on the context and the funding sources, came to be a common experience for many microcredit programs throughout the United States. Jurik notes how each new layer of complexity, of trying to solve one problem by applying more resources and staff effort, often resulted in even more “contradictions,” due to the ever-shifting demands and pressures of clients, funding sources, the board of directors of that program, and staff.

When discussing impact studies conducted on other programs throughout the nation, Jurik cites the lack of control groups to compare non-participants with participants and the overemphasis of anecdotal “success stories” in judging the effectiveness of microcredit programs. Although rightly pointing out that the high administrative costs of training and low cost recovery will likely mean that microcredit programs will almost never be financially self-sustainable, Jurik seems to imply that the question of maintaining microcredit programs should be evaluated using cost-benefit analysis.

Jurik’s work rightfully acknowledges the complexity of the situation. She advocates neither solely market-oriented solution nor solely government-funded solutions. However, her argument fails to acknowledge that even though community development projects will forever strive to be more effective and more efficient, the very nature of helping disadvantaged clients will almost always entail bearing high costs.

Microcredit programs in the U.S. may not have had the news-worthy success that led to Muhammad Yunus earning the 2006 Nobel Peace Prize, but they have helped microentrepreneurs in qualitative, if not significantly quantitative, ways. I agree with the author's position that greater research needs to be done to address the disadvantages of poor entrepreneurs. Yet similar to the dilemma facing financially-unsustainable microcredit programs, the effort and funds put forth to address these disadvantages will most likely have higher quantifiable costs than quantifiable benefits, despite the necessity of such an endeavor.

Bootstrap Dreams makes a unique, important contribution to the literature on U.S. microcredit programs. The strength of the work lies in combining a review of microcredit programs from various parts of the nation with an in-depth, institutional ethnography of one microcredit program. With eight years worth of data, Jurik is able to open the "black box" of an organization and lay bare the internal contradictions of microcredit programs on a much deeper level than the majority of the scholarly literature on U.S. microcredit.

Interview with a Practitioner

Roberta Boyd-Norfleet is the Durham branch director for Self-Help, a nonprofit organization in Durham, North Carolina with the mission of creating wealth through home and business ownership. This interview allowed me to examine how Self-Help has been able to serve the local community for over 27 years and become financially self-sustaining at the same time. The following is a consolidated, edited transcript of the interview.

Why was Self Help originally founded? What was the need in the community that brought about the founding of Self Help?

As I recall it, and as Martin Eakes who is the founder of Self Help tells the story, it started out on a worker-member based theory, meaning that there were several factories in rural North Carolina that were owned by workers. There was one that was being threatened to close, and they became familiar with Martin because his original profession was as an attorney. He went to represent this particular worker-member group. From that factory came this particular worker who wanted a loan and there were no means for him to get one. He wanted to start his own bakery. He was an excellent pastry chef. He did this bake sale and brought his first monies from the bake sale to Martin Eakes to put on deposit, and Martin was able to give him a loan. From that came this concept of establishing a credit union. So we started out doing loans to small businesses as a means of building wealth and reaching those that could not get the traditional banking, which is of course part of our mission still. And it grew from there, and we started doing home loans. The mission behind doing the home loans was to provide services to African American mothers, single moms, who the banks in the early 80s wouldn't go near as far as doing home loans for them because they felt it was too risky and so forth. So that became part of our mission as well, to build wealth through home ownership and business ownership, and then to non-traditional markets, such as rural markets, minority families, female led homes, and their businesses.

What is the system of collateral that is used? Do you use a group system or some other form of collateral?

What we use now, for businesses for instance, is business equipment; if that person happens to be a home owner we may place a lien on their personal residence to strengthen the collateral piece. Of course, we do a lot of SBA loans, so there is the guarantee that the SBA offers to strengthen the collateral side as well. And the guarantee basically says that, for example if we're lending \$100,000 to a small business and they may have collateral that based on our standards may be worth \$20,000 or \$30,000, then the guarantee normally supports 85% of what we're lending in the case of default, which says that if this loan goes bad, the SBA will give the lender 85% of the outstanding balance, so it mitigates the risk essentially.

Has that disincentivized people from paying back?

No actually, not.

Do they know about that guarantee?

Oh sure. I mean they are certainly happy to know that its there because they know that otherwise we wouldn't be able to do the loans. So, just across the board, it's very seldom that you're going to run across someone who doesn't have the desire to pay the loan back. Now, circumstances beyond their control may prohibit them from paying it back, but their first desire is to pay it back. People are stressed when they can't pay their debts. It's very seldom where we'll run across anyone that just has deceived us in getting a loan. Now, has it happened? Yes. But it is very, very rare.

What is the typical amount for small business loans?

Most of our loans, on average, tend to be under \$100,000, even though we've done loans well into the millions, but they're sporadic. But as far as what we consider branch lending, because we have seven branches throughout the state, most of the loans tend to be small in nature, or very well under \$200,000. You're not going to see a whole lot of half a million or million dollar loan requests coming to the branch.

What are the smallest ones?

We've done loans for \$1000 or \$5,000, and again, we've done much larger loans, but on a daily basis we tend to do loans under \$100,000 a lot of times.

What has been the repayment rate for small business loans?

I will have to look up that answer for you. We have a good repayment rate, but I don't know that number off the top of my head. Now, we have some loans that go maybe 60 days or sometimes 90 days. The luxury on the business side is that we service our own loans, so we can be flexible in modifying the terms to allow the borrower to repay us back. They may have a slow month or two and get behind in the payment or can only pay half of it. If they come to us in time, we can modify their loan until they can catch up. We don't like to make it a habit, but the opportunity is there.

Has Self Help evolved over the years in terms of who the target clients are? What services have been more or less successful?

To answer the first part, our target market has always been the same, and it probably won't ever change. The mission is still to serve the markets that have been historically underserved: rural families, minority families, woman-owned businesses, female-headed households, and low- to moderate-income families. Our clients can fall into any or all of those categories. In terms of products that we've offered, that is what has had to evolve. We did at one point have a staged micro-loan program. We had it about ten years ago when I first came here. It was here the first year that I was here, but it kind of fizzled out. I think the product in some ways was successful, but I don't think we had the manpower to manage it. Basically, the way it worked is that if someone were to get a loan for \$500, they would pay that and come back and get maybe \$1,500. So that's why it's called a staged micro-loan. So, we kind of cut that out after a period of time. I can't really say how long we did it, because like I said it was already in effect by the time I got here. We started doing more SBA-backed products, which right now we do quite a few of. We probably have about half a dozen SBA products that we do, and we also are at a point where we can do loans backed by our own portfolio, meaning there are no guarantees to it. We take the total risk on those products, and that's because over time we've become

certainly self-sustaining and very strong financially. We can take those risks and not have to worry about shutting the doors the next day.

What did Self Help do to build up and become financially sustainable?

I would have to say that a large part of that credit can go to our secondary market program. We buy home loans on the secondary market in bulk, to the tune of several million dollars from banks, to free up their community reinvestment dollars. So, its an extension of our mission because the loans that we buy from the banks are the same type of loans that we do ourselves to minorities, low income families, and so forth and so on. So the community reinvestment loans that banks are required to do, and there's a maximum that they have to do, well we buy those portfolios from them to free up their dollars to do more of the same lending. We were able to make money in doing so.

Why are secondary market loans more profitable?

When we first started, the banks would have to maintain the risk for the first year. Under certain criteria, the loan would have to perform in a certain manner before we would take on the full risk of it. We don't do that any more, because you know the market has just changed and things constantly evolve. We were able to buy them at a premium, so to speak, and just wait and make money. We had deals with several large financial institutions to buy our loans, and we still do that to this day. We did pretty well from it.

As for the funding of Self Help, especially in its earlier years, did Self Help apply to different grants or government programs, and how did those affect what services were offered?

In the line of grants, they are normally earmarked for a certain thing. So, we may have gotten a grant to lend to small businesses in rural counties, I'm just using that as an example, then that's where the money had to go. So that's how we directed the money. And we, every now and then, will get a grant, but we don't need the grants at this point to function, not by a long shot. Sometimes we will seek grant money for a particular venture. For example, about two years ago we got grant money from a private foundation that was earmarked for home lending, for down-payment assistance, to single headed households. I think we got about \$200,000, but it had to be used specifically for that. Once it was gone, it was gone; they didn't replenish it. So that's an example of when we do get grant money, it comes for a specific purpose. Sometimes we do get grants for just general commercial lending. We got some recently, as a matter of fact, so that just kind of goes into the pot and goes out in all kinds of directions.

When Self Help was still dependent on grants, did it experience a lot of volatility in trying to please various funders?

Because we have a great variety and versatile services, there is no one thing that will kind of rock the boat. We probably turned a corner when we entered the secondary market. That was kind of the turning point for us, because it put us in a place where if we didn't get a grant, we were fine. We're well beyond the point of any one thing shutting our doors. It would take a lot.

What's the typical process for someone applying for a small business loan?

Most of our borrowers first contact us by phone. One I did recently was a local merchant. He has a small, neighborhood grocery store, and he wanted some funds to increase his inventory for the holidays, because he services the whole neighborhood and a lot of people are in walking distance. So, he told us how much he wanted and had very solid collateral. So, we were able to do the loan that he requested. As far as how much time it takes, it varies, because there are some other things that we have to deal with that aren't related to collateral to put us in a position to be comfortable with the loan. That was one that we did from our own portfolio and we didn't use the SBA at all.

If they do call in, we have a phone interview, so to speak, before we can even determine what we can do. That is something that most people don't want to hear because it sounds like we can't help. But we really need them to do the application, so we may mail them the application or we may direct them to our website to download. We can't even begin to say what we can do if we don't have their financial information in front of us. Most people want to know the answer before they do the application, but it's not possible. Or they want to come in and sit down with you, which is not conducive either because we have to have a chance to analyze it. So, that's the typical process. We talk to them to see if it's a feasible request and then we have them send in the application. We do our initial analysis and then the dialogue starts from there.

Does Self Help lend only to established businesses, or do you do start-ups?

We do plenty of start ups. Which again, that's one of the reasons we were established years ago, because banks were not interested in lending to start up businesses. If our mission is to build wealth, people have to start somewhere, so we do quite a few start ups. Attorneys firms, taxi cab drivers, restaurants, retail, you name it, and we have probably done it.

Do most of those succeed?

Most do. I mean they may run into some slump in their revenue, or we may have to do some modification in their payments, so they can get back on their feet. Even if businesses fail, which of course some do, they still pay the loan back. Unless it's just a disastrous situation where they're just not able to. So we have to deal with that how we have to deal with it, but again, most people's desire is to pay their debts and they'll do it by any means they can come up with.

How do you assess collateral?

Sometimes we'll do site visits. Really in this day and time, if someone comes to us and wants to borrow \$5,000, it really depends on the nature of the business, it might be more feasible for them to get a business credit card and deal with it that way. Say someone wants to borrow \$50,000 and they want to open a retail shop, we would probably go out to see the shop, see where its going to be located, make sure it's in a good location. We would just assess, based on their application, their collateral. If there's a lease on that spot, they certainly can't use that as collateral, because they don't own it, so we would have to consider if they're using their home or using business equipment and from what they have listed, we would determine what the value is. We would get a list of the equipment, plus get a tax value of the home from the website, and would make an

assessment based on the whole picture. If someone has a shortfall in collateral, we would probably use an SBA product, so we would have a guarantee to strengthen the file.

How poor are the clients that Self Help serves?

I don't know if there's a number I can give you, it just varies. To me, I don't necessarily equate poor with dollars; I would equate poor with lack of knowledge. If you have knowledge to make money, eventually the poor theory is going to go away. We see more people of modest means on the home lending side, more so than the commercial side, because most people getting business loans have probably already acquired a home. In fact, we have some of our home loan customers who come back to us to get business loans, which is a real nice story, and vice versa. Our customers on the business side have moved up to a more moderate level.

Has Self Help ever considered doing a welfare-to-work program?

Probably not, because that's just not our forte. We leave it to those who establish a program and do it well. We have, however, participated with the housing authority in various cities in doing home loans and voucher programs through their offices, so someone can get a voucher for down-payment assistance.

What are the criteria for selecting a successful applicant with an idea for a start-up business?

We operate on a case by case basis, because someone may walk in the door and may have a good bit to put into a business. They may have a solid business idea that we're comfortable with. They may have collateral, but they have credit issues. Well, that's not going to rule them out because everything else is strong. They may have to do some finessing to just see what we can get comfortable with, and then the reverse can also be true. Someone could come here with stellar credit, with a great business plan, but no money. They are actually in a worse situation than the person who has poor credit and cash, because we always require that people put cash into the project costs. Now we do have some products, again through the SBA; there's one called the SBA Express where a business owner has the potential of getting \$25,000 unsecured, so they don't necessarily have to put any cash into it and they can be a start up business, but there are certain criteria that they have to meet. They have to have a certain credit score. Their personal debt ratio can't be more than a certain number. It can vary; we won't have any two scenarios that you can compare. More often than not, we can work out a loan. It may not be what they asked for originally. They may want 100 and we may say that we can only do 70. Can you still make your project work on 70? There's no need to do a loan if they can't, because we don't want to set anyone up to fail. We want them to have enough to get started, so it's that kind of analysis that we have to go through.

Where does Self Help refer people when they are not prepared to get a loan?

There are a couple different places. We have a formal partnership with the Small Business, Technology, and Development Centers (SBTDCs), which is an arm of the SBA. They offer technical assistance; that's all they do. They help people write their business plans. They help people with their business projections, even help them complete the package if need be. But they prepare them before they come to us. Good

Works, which is here in Durham, is another entity, which is right across the street, does the same kind of thing. And so does IMED (Institute of Minority and Economic Development). They do the same thing; they do technical assistance. If someone comes to us and they don't have a business plan and they have this idea, then we refer them to one of those entities. Most likely the SBTDCs, because they can help them from beginning to end to prepare their business plans and projections and everything that they need. They know us very well. They know what we're doing; they know the products that we offer. So when someone comes to us, they're ready to apply. The SBTDCs can't guarantee that they'll get a loan, but they can guarantee that they'll have everything that we require to make a decision. So, it works out very well.

Do either Good Works or IMED have a microloan program?

I believe IMED does do some lending to contractors. That's their one small mission; they will do contractor loans. Simply because most contractors, be it transportation or construction, need the money quickly, and a lot of the times we are not able to turn it around as quickly. A lot of times they'll come when they need it the next day, so we can't do that. But sometimes IMED can work some miracles and do some loans for them. Now Good Works, interestingly enough, they used to have a lending circle. They would have to pay some dues that they would lend out to each other, in a sense. I don't know if they do that any more. But it was an interesting concept. It was kind of born out of Self Help, but I can't remember who the first director was.

Is the Latino Community Credit Union a part of Self Help?

No, they are a free standing credit union. They probably have about half a dozen branches throughout the state as well. At the very early stages, it was assisted by Self Help in its formation, but we are not the parent company and they are not affiliated with us.

Do you refer Latino clients to them?

Yes. They refer clients to us as well, as does Generations Credit Union. Generations is an African American based credit union that was born out of Minority Support Center. There are a lot of minority credit unions throughout the state of North Carolina, and a lot of them were failing because of capital, bad management, or what have you. So, the Minority Support Center was managing as a kind of parent company for a lot of them. Gateway Credit Union, which used to be in Henderson, came up with the idea to create a credit union to support these other failing ones, so Generations was born out of the Minority Support Center and around ten of the rural credit unions merged into them.

Do other organizations offer classes on how to start a business?

Along with the other ones that I mentioned previously, SCORE and NCREAL offer educational courses for those looking to start a business. NC Central offers a very good course as well for potential business owners. UDI offers an entrepreneurial course, and they have a small business incubator on Corporation Street.

Is there a lot of competition between the various organizations?

Actually, there is very friendly cooperation. We don't feel like we're competing with each other at all. Everybody knows everybody, at least the entity, so everyone is referring back and forth all the time.

What is the vision for the future of Self Help? What are the unmet needs that Self Help wants to engage?

A few years back, probably four years ago, we purchased a retail credit union arm. It was another rural retail credit union that was failing, so we purchased it. It was called Firestone, which is in Wilson, NC. They are now an affiliate of Self Help. The lending that they do, we don't do in the traditional Self Help branches. They do retail lending, for car loans, equity lines, and things like that. After that, we purchased one in Scotland county, which is also very rural. I think the next one was Cape Fear, in Wilmington. And most recently, the Wilson Community Credit Union, which was the county's credit union. So, we now have four retail credit union affiliates that are part of Self Help. I mean, we're all on the same payroll, same benefits; everybody is a Self Help employee, which is the parent company.

We have branched out on the advocacy side to D.C. and California; we have an office in Oakland and probably the next retail site will be in Sacramento. It is advocacy in wealth protection, so we do a lot on the payday loans that are out and all these check cashing places, where people can go in and borrow against their paycheck. We also deal with the predatory mortgage loans that are out there, that you've probably seen a lot on the news. We helping to write policy and create law to protect people from those abusive lending practices, and I imagine that we'll be doing that for a while. That is done through CRL, which is the Center for Responsible Lending; they are employees of Self Help as well. That is a fight that we're going to continue because [predatory lending] is going to cause so much damage to the country, quite frankly. There are huge foreclosure rates going on, and the people that are suffering are the people that are imbedded in our mission. They tend to be elderly people, minority people, low wealth people who have gotten into these loans that they did not understand. The predatory lenders are saying that the consumer should know what they're getting into. Well, not if you're not being forthcoming. How is someone supposed to know if you're not willing to tell them? It's really going to do some serious damage to the economy; it already has. And it will continue, probably for the next five years, we're going to keep hearing about all the foreclosures, because it not only affects those who are in the home, but it affects those who are in the neighborhood, because it affects property value. So, essentially everybody is going to be affected by this, whether you have a good loan or not, whether you are high income or low income; you're eventually going to get affected by it. These subprime mortgages are also putting people into homes that they cannot afford, which might be a home of \$250,000 or \$300,000. If that goes into foreclosure, then all the people around them that could afford their own homes are going to be affected. So, that particular problem is not limited to the poor, so to speak. It's going to hit everybody in the pocket.

TO: Amy McKenna Luz, President of the Association for Enterprise Opportunity
FROM: Christian Sotomayor
RE: Microenterprise Development Program Sustainability
DATE: 11/24/2007

Executive Summary

As a means of setting industry standards and promoting greater levels of funding, I recommend that AEO establish measures of accreditation for the various types of MDPs. AEO should lobby private foundations and government agencies to provide adequate funding for MDPs that specialize on particular services or target populations. AEO should also promote greater collaborative efforts amongst MDPs in order to reduce redundancy of services and seek to establish local microenterprise Chambers of Commerce to promote information-sharing and support networks for microenterprises. Microenterprise development programs need greater stability of funding and collaborative relationships with other community institutions in order to cut down on the high costs that currently make MDPs financially unsustainable.

Problem Statement

Although microenterprise development programs (MDPs) in the United States have multiplied to include over 500 programs nationwide, few programs have even begun to approach financial self-sustainability. Although many programs provide valuable services to their communities, including business training, microlending, and technical assistance, several problematic issues have limited the capacity of MDPs to achieve sustainability.

1. Microenterprise development programs in the United States often face conflicting demands and expectations from funding sources. Since the move towards greater privatization during the last 30 years has prompted cuts in federal funding for social service programs, MDPs have had to rely to a greater extent on a mix of funding from private foundations and various government grants. A major cause of inefficiency for MDPs has been the disjuncture between specific-use available funds and established services. Although some programs have developed effective services through years of experience, limited available funds may be targeted towards other services. In turn, programs have had to add, modify, or suspend services based on the availability and orientation of the funding they secure, instead of concentrating on and expanding the services they can offer with the greatest impact.
2. In order to serve poverty-level or disadvantaged clients, many MDPs have redirected their energies away from lending and focused heavily on business training. While this change has allowed MDPs to provide valuable services to these clients, some well-prepared entrepreneurs have likewise been excluded from obtaining credit, either because the time of training and loan application process may be prohibitively long or not conducive to capturing business opportunities. The high administrative costs associated with training services greatly outweigh any cost-recovery of microloans, which in turn increases the burden to seek exterior funding sources.

3. The staffs of MDPs are often limited in number and are heavily involved in administration, fundraising, or providing services, which often leaves little time for the evaluation of organization impact and follow up with clients. These accountability measures are often demanded by private funding sources, yet many MDPs face a difficult task of completing reports based on differing standards set by funders.

Criteria

1. Greater availability of funds for microenterprise development programs, with minimal distortion of services based on specific-use funds.
2. Greater use of funds for client services and lower administrative costs for MDPs.
3. Minimal competition and redundancy of microenterprise development services within communities.
4. Greater support and quicker access of credit for serious microentrepreneurs.

Options/Analysis

1. AEO can refine its lobbying efforts to increase government spending by specifying and distinguishing various microenterprise development target populations. In order to better address the funding needs of organizations, funding for poverty-level entrepreneurs, low- to moderate- level entrepreneurs, and business training programs should be readily available in response to the demand for these funds. If many MDPs are serving low- to moderate-level entrepreneurs with their credit programs, more funds should be made available for these organizations, instead of forcing organizations to change their services in order to access funds intended for poverty-level entrepreneurs. Likewise, ample funding should be provided for business training programs, so that these programs will not have to offer microloans just to access funds. This option fulfills criteria 1 and 4, because entrepreneurs will not lose access to credit due to the elimination of services for particular groups.

2. AEO can advocate for greater specialization and collaboration within the microenterprise development field. Organizations will better serve their clients by concentrating on their area of expertise, instead of offering a panacea of services. Likewise, organizations will be able to cut down on administrative costs by partnering with organizations that offer complementary services, instead of competing for a limited client base by offering redundant services. This option fulfills criteria 2 and 3.

3. AEO can establish a standard rubric of accountability for various MDP types in order to cut down on the administrative costs of preparing accountability reports with various standards set by funding sources. With a standard measure of accountability, reporting will be simplified and will foster greater comparability of MDPs. This option fulfills criteria 1 and 2.

4. AEO can further develop and expand its Microenterprise Standards and Accreditation Project, which quantifies various measures of cost-effectiveness, scale of services, and depth of involvement in serving clients. This accreditation system will also facilitate funding sources to select MDPs with greater impact on their communities.¹² This option fulfills criteria 1.

5. AEO can encourage the creation of local Chambers of Commerce designed specifically for microenterprises.¹³ These organizations can serve as forums for best practices for microenterprises, as support and resource centers for microentrepreneurs, and as information centers for MDPs to advertise their services. This option fulfills criteria 4.

Recommendation

I recommend that AEO implement all five options, as these varied approaches will help bolster the stability and reach of the microenterprise development field in the United States. These options correspond with the criteria listed above and represent important first steps in order to make microenterprise development services more cost-effective. With greater specialization and a larger proportion of funds devoted to services, MDPs will have a greater impact on the communities they serve.

¹² Lisa Servon, "Microenterprise Development in the United States: Current Challenges and New Directions.," *Economic Development Quarterly*, 20 (2006): 351.

¹³ Tinker, Irene. "Alleviating Poverty." *Journal of the American Planning Association* 66.3 (Summer 2000): 229. Academic Search Premier. EBSCO. Duke U. Lib., Durham. 6 November 2007. <<http://search.ebscohost.com/login.aspx?direct=true&db=aph&AN=3251224&site=ehost-live&scope=site>>.

Adaptive Leadership Analysis

In the United States, low-income, female, and minority entrepreneurs have been historically underserved by traditional financial systems. Over the past several decades, microenterprise development programs (MDPs) have been created throughout the nation to assist these entrepreneurs through training and access to credit. Despite the value of these services, MDPs in the United States have struggled to remain in operation and have often needed to change their services or target clients because of difficulties in finding sufficient funding. Moreover, MDPs have not achieved financial self-sustainability because of various inefficiencies in program administration, service and product delivery, and cost-recovery efforts.

As a means to address this issue, I recommend in the Policy Memo to encourage and facilitate partnerships among MDPs and various institutions in order to diminish service redundancy, offer more diverse products and services, and cross-subsidize costly services such as training through lending profits. These efforts should lead to greater access, stability and value of services to entrepreneurs in need of assistance.

In order to promote the successful use of partnerships, as exemplified by various organizations such as Self Help in North Carolina and MicroBusiness Development Corporation in Colorado, microenterprise development programs, private foundations, state governments, experienced microentrepreneurs, and local financial and community institutions need to work together to build the institutional bridges necessary for collaboration.

Adaptive Challenges

In areas with several microenterprise development programs, MDP directors need to coordinate with one another in order to assure that the needs of the community's entrepreneurs are being met, with the least redundancy of services as possible. MDPs need to open lines of communication to local institutions and microentrepreneurs themselves in order to assess the demand for financial services, technical assistance, and training, in order to design appropriate products for the local community.

MDPs need to find new ways to lower administrative costs and maintain or improve service quality. Microenterprise development programs may consider merging with other organizations that provide similar services or partnering with organizations that deliver complimentary services. MDPs must also find ways to connect their clients to experienced microentrepreneurs, which will improve the quality and applicability of their services.

MDPs must find sustainable sources of funding to support their services and alleviate the need for fundraising. In particular, MDPs need to find ways to pay for services where cost-recovery has not been feasible, such as for business training services.

Until MDPs are able to finance themselves through local sponsors or retained earnings, funding sources such as private foundations and state governments need to make available more funding for a wide variety of uses, so that MDPs are not forced to eliminate valuable services just to access funds that are intended for other uses. Additionally, the funding community needs to find ways to facilitate collaboration among

organizations, while screening for organizations that may be partnering with others merely because of the financial incentive.

Holding Environment

In order to forge successful partnerships, MDPs need to choose carefully which organizations they can work with effectively. Partner organizations need to be able to trust each other and share resources skillfully, minimize the transaction costs for clients that use the services of both or all partners, and agree upon an integrated vision that incorporates harmoniously the missions of all partner organizations.

Microenterprise network organizations, such as the Association for Enterprise Opportunity (AEO), could facilitate the formation of partnerships by holding a conference that features successful coalitions or partnerships of MDPs from around the nation. AEO could also facilitate the dissemination of industry best practices and coordinate lobbying for more government funding for microenterprise development programs.

Focusing Attention on Key Issues

One possible rallying point for greater expansion of MDPs and other community financial institutions is the issue of predatory lending. Payday lenders, check-cashing facilities, rent-to-own stores, and subprime mortgage brokers have caught the attention of various research and advocacy centers, as well as the media, for charging exorbitant fees and trapping many people in debt. Payday lenders have been known to target military families, an issue which could be used to lobby Congress to both regulate predatory lenders and provide greater funding for beneficial community financial institutions. Financial service providers, including MDPs, should seek to drive predatory lenders out of business by expanding the reach of their services, minimizing transactions costs for applying for loans and other products, and offering a greater range of products and services to clients.

Shifting the Work Back to the People

The work of forging partnerships among MDPs and other local institutions, pooling resources, and promoting efficiency will have to be done by the MDPs themselves. AEO can encourage this partnership building by facilitating connections through conferences and workshops in various parts of the country. MDPs should encourage local advocates to join them in lobbying efforts, and vice versa. Greater public awareness about local microenterprises and the work of microenterprise development programs may lead to greater financial support and patronage of these businesses. Together, community financial institutions will be able to better serve their clients by sharing resources, diversifying products, increasing outreach, and eliminating the demand for predatory lenders.