

Microentrepreneurship and Job Creation

A Multiple-Case Study of HUD Microenterprise Development Assistance Programs in Upstate New York

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Abstract: This multiple-case study explores local government's use of HUD-funded microenterprise development assistance for job creation and self-employment of low-to-moderate-income individuals. Respondent information was reviewed and then supplemented with document analysis and interview materials from earlier research on HUD microenterprise development assistance programs in upstate New York. Because the number of local government respondents who self-identified as providers of microenterprise development assistance was small, it was not possible to generalize research findings to the overall public microenterprise development sector. However, the study of this phenomenon, although limited, does have implications for government micro-finance instrumentalities and intermediaries and for future research on public-sector microenterprise development efforts. Based on the participants' self-report, it appears that both urban and rural HUD-sponsored microenterprise development assistance programs create jobs and self-employment opportunities for low-to-moderate-income persons using a myriad of strategies.

Since the end of World War II, the industrial economies of the northeastern United States have undergone a fundamental structural change. Where automotive and manufacturing industries were once dominant employers, today's urban economies

in the Northeast are now driven by growth in the service sector. With the change from a manufacturing-based economy to one that is service oriented, many “living wage” employment opportunities have all but disappeared.

These changes, coupled with high unemployment and a shrinking tax base, have compelled public-sector administrators to develop local policies and programs that link business lending, on-the-job training, education, and training programs to their community development processes. These programs, albeit nascent, have created many noteworthy economic opportunities for low-to-moderate-income persons.

The Upstate New York Context

Job creation for and self-employment of low-to-moderate-income persons is an important policy option in New York State because New York, like other states, has been experiencing an increase in the number of unemployed persons and working people earning low wages. Prospects for such programs are particularly important in upstate New York, where poor economic conditions continue to exacerbate local social, economic, and political problems. New York’s poor economic conditions are evidenced in the notably high unemployment figures and poverty levels of non-New York City areas like western New York. In recent years, the weak upstate economy has been a political rallying cry for national and local officials seeking political office. The Center for Budget and Policy Priorities (2002) indicates that for the past two decades, the gap between high-income and low-income New York State families is significantly wide. The report, “Pulling Apart: A State-by-State Analysis of Income Trends” (Economic Policy Institute, 2002), shows that in New York State by the late 1990s,

- The richest 20% of families had average incomes that were 12.8 times as large as the poorest 20% of families.

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- The richest 20% of families had average incomes 3.1 times as large as the middle 20% of families.

The Economic Policy Institute's estimate of the average income of families, expressed in 1990 dollars, shows that the average income of the bottom fifth of New York state families was \$13,433 from 1978–1980, \$12,871 from 1988–1990, and \$12,639 from 1998–2000. The top fifth of New York state families earned \$105,046 from 1978–1980, \$134,061 from 1988–1990, and \$161,868 from 1998–2000. From these figures it can be observed that the bottom fifth of New York state families has grown relatively poorer over time while the top fifth's income has experienced nearly a 54 percent increase between 1978 and 2000 (p. 67). The increased income gap is partially due to the downsizing and outmigration of many defense and manufacturing industries and to increased job separations in low-wage retail and service sectors—job quits, layoffs, and firing.

Why HUD Microenterprise Development Assistance

There are two reasons for using microenterprise development as a community development policy tool: first, it is a method of optimizing the use of indigenous resources for economic stabilization and growth; and second, it is a method of wealth generation for groups that have historically been economically isolated—welfare mothers, youth, unemployed persons, and immigrants. As “supply-side” economists and planners have learned from the economic growth periods of the 1980s, “universal policies” fail to redistribute income toward the poorest in our nation (Wilson, 1996). While this failure may be partially explained by the skill mismatch between laborers and available jobs, it is also a function of social behaviors and practices like racism, social exclusion, the crowding of the labor force in low-wage service jobs, the indifference of multinational corporations to local social problems, and the absence of full-time work for the low-skilled. A targeted microenterprise development program may be one of the few viable vehicles—in addition to a few innovative job training

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programs—for overcoming some of these challenges and increasing employment opportunities for many low-income persons.

Although state and local governments must play a part in designing and implementing a public-sector microenterprise development strategy, they are generally not able to pursue such a strategy on their own. There are several reasons for this, including staffing constraints, the large amount of financial resources required to overcome macroeconomic and human capital barriers faced by the poor in the formal economy, and the inability of local governments to garner sustainable, broad-based political support for means-tested programs targeted at the poor that may create few jobs, have a potentially high failure rate, and provide limited tax benefits. For this reason, many U.S. microenterprise development programs are administered by not-for-profit organizations using a variety of funding streams (the Community Reinvestment Act; community foundation funding; Individual Development Accounts; religious, social, and economic justice funding; and government grants). In some instances these agencies may act as the main instruments of local governments and community foundations, directly responsible for carrying out a multitude of publicly authorized community development activities.

In 1992, the Housing and Community Development Act of 1974 was amended to include microenterprise development as an allowable activity under the Community Development Block Grant (CDBG) program. While this provision did not create a *de facto* set-aside for federally sponsored microenterprise development assistance, it did codify microenterprise development as an eligible CDBG social and economic development activity. CDBG funds could now be used for microloans, technical assistance, transportation, and child-care in support of entrepreneur training. HUD allocates CDBG funds to each state on a formula basis to support community development activities in support of low-to-moderate-income households whose incomes are less than 80% of the area median family income. Based on published information from the Consolidated Federal Funds Report (U.S. Bureau of the Census, 2002), national CDBG obligations have exceeded \$3.4 billion for

the past five years. From this information, it seems that CDBG is a viable, accessible, and practical source of funding for microenterprise development programs.

Microenterprise: Toward a Definition and Initiative

There is no general consensus about what constitutes a federally recognized microenterprise. The definition depends on the granting agency and its objectives. For example, two agencies within the federal government, the U.S. Agency for International Development (USAID) and the U.S. Department of Housing and Urban Development (HUD), define microenterprise differently. USAID has defined microenterprise as a business with a low level of assets that has fewer than ten employees (USAID, 2002). HUD on the other hand defines a microenterprise as any form of business that employs five or fewer employees, one or more of whom owns the enterprise (HUD, 2001). With the lack of consensus in mind, this assessment will follow the HUD definition of a business that employs five or fewer employees, including the owner.

HUD regulations for microenterprise development programs, as codified under the 2002 Federal Code of Regulations 24CFR 570.201 (o) state that municipalities can provide microentrepreneurs (HUD, 2002):

- (i) credit, including, but not limited to, grants, loans, loan guarantees, and other forms of financial support, for the establishment, stabilization, and expansion of microenterprises;
- (ii) technical assistance, advice, and business support services to owners of microenterprises and persons developing microenterprises; and
- (iii) general support, including, but not limited to, peer support programs, counseling, child care, transportation, and other similar services, to owners of microenterprises and persons developing microenterprises.

Thus, there are three classes of activities that are eligible for CDBG funds: (1) microenterprise establishment, (2) microenterprise expansion, and (3) microenterprise stabilization. Microenterprise establishment activities are designed to integrate disadvantaged groups and nontraditional borrowers into the small business sector. These programs assist low-income and nontraditional borrowers to form viable businesses that will be owned and operated by entrepreneurs who otherwise have limited or no access to capital markets.

Microenterprise expansion activities attempt to increase an entrepreneur's sales and income through extending credit or various forms of technical assistance to him or her. Technical assistance may include marketing, bookkeeping, legal, managerial, and tax assistance. The objective of an expansion program is to create employment opportunities by affecting employers' long-range demand for additional labor.¹

Microenterprise stabilization activities attempt to improve the managerial capacity of the entrepreneur or provide short-term credit to help increase sales and revenues. It is assumed that an increase in sales or revenue will enable an entrepreneur to retain or create jobs. Local governments are compelled by HUD regulation to direct microenterprise development assistance exclusively toward establishment, expansion, or stabilization. In addition, HUD regulations require that microloan borrowers create or retain jobs for low-to-moderate-income individuals.

Conventional public and quasi-public microenterprise development programs supported by CDBG focus activities on credit enhancement and lending. With regard to lending, four categories of loans have been commonly made to microentrepreneurs: working capital loans, business development loans, purchase order financing, and inventory and equipment loans. Working capital loans allow an entrepreneur to pay suppliers and buy equipment. Business development loans are used for site acquisition, capital improvement, asset purchases, and working capital. Purchase order financing is made available to businesses to make up for shortfalls in production. Inventory and equipment loans are for the purchase of fixed assets in support of production.

**Table 1: Community Mission Statement Summary for
Microenterprise Development Programs**

Name of funded community	Mission statement summary
Cattaraugus County	Offer a comprehensive support program in response to the diverse needs of the growing number of entrepreneurs in Cattaraugus County.
Cayuga County	Provide financial assistance to small new and existing businesses in the county, with emphasis on proposed new or retained job creation.
Columbia County	Strengthen the city and county tax base through economic development and job creation, and assist businesses small and large with training and financial assistance.
Elmira Heights	Educate individuals on the opportunities that exist in the village and allow them to utilize the available resources to make Elmira Heights a more desirable community in which to live and work.
Greene County	Provide training, technical assistance, and low-interest financing to support the start-up and expansion of microbusinesses.
Lewis County	Create and retain jobs within Lewis County.
Little Falls	URA plans, applies for, and administers community and economic development projects on behalf of the City of Little Falls.
Village of Mayville	Provide sub-market rate low-interest financial assistance to microenterprises as well as additional business assistance as may be required.
Niagara County	Assist low-to-moderate-income entrepreneurs in starting or growing their microenterprises (defined as having 5 employees or less) by providing education, technical assistance, and access to a low-interest loan fund.
Oswego County	Establish and implement sound economic development strategies in order to enhance the economic vitality of Oswego County's businesses, industries, and citizens, leading to an overall better quality of life.
Village of Saranac Lake	Improve quality of life by providing state- and federal-funded economic development supported by village residents.
Wayne County	Provide technical and financial assistance to start-up or expanding small businesses (5 or fewer employees) where low and moderate income jobs will be created or retained.

Lisa Servon and Timothy Bates (1998) have noted that providing a small business loan to a microentrepreneur will not by itself remove the barrier for small business creation. Entrepreneurs benefit from a combination of programs, including neighborhood planning, leadership training, business related training, access to capital and a high quality labor pool, and labor training programs. This is not to say that microlending programs do not have their merit. Servon and Bates (1998) point out that, “when well-targeted and clearly focused, . . . it [microlending strategy] can be a critical vehicle for helping some low-income people to achieve economic self-sufficiency” (p. 437). As Servon points out, by their very nature, microlending programs act as a conduit for linking neighborhood residents and businesses to banks, business development centers, community-based organizations, and state and local government agencies (Servon, 1996, p. 336). This study reinforces the importance of non-lending activities in microenterprise development.

Research Questions

In the following section I lay out the research method used to review microenterprise development assistance projects in upstate New

Table 2: Microenterprise (M.E.) Development Program Characteristics

Name of funded community	Number of staff	Program start-up date	Value of all loans
Cattaraugus County	2	1996	\$1,687,579
Cayuga County	0*	1993	\$816,000
Columbia County	1	1996	---
Elmira Heights	1	1996	---
Greene County	0*	1998	\$332,998
Lewis County	1 p.t.	1995	\$852,000
Little Falls	0*	1990	\$357,829
Village of Mayville	0	---	\$354,200
Niagara County	4	1995	\$1,340,600
Oswego County	5*	1998	\$195,000
Village of Saranac Lake	1	1996	\$189,500
Wayne County	1	1994	\$584,000

*Respondents report that the program is supplemented by municipal department staff.

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York. Next, I describe the missions of microenterprise development assistance programs. I then outline some specific program characteristics and performance indicators that address the following research questions:

- Who is the program serving?
- How many people have been served?
- How are clients performing?
- Are there any recognizable patterns or themes among upstate microenterprise development programs?

Methodology

The scope of the review included an examination of provider agency program documents and a structured survey. The survey was faxed to upstate New York municipal government grant recipients under the HUD Small Cities CDBG program. As the universe of active HUD-funded microenterprise development programs is not easily identified through available information systems, municipal government grant recipients were asked to self-identify themselves as operators of a Small Cities CDBG subsidized microenterprise development program. Service providers were asked to supply informa-

Table 3: Performance of Microenterprise Development Program

Name of funded community	M.E. start-ups since program inception	Existing M.E.s served	Number of loans issued	Number of jobs created
Cattaraugus County	35	68	103	180
Cayuga County	14	21	38*	120
Columbia County	65	65	-0-	indeterminable
Elmira Heights	14	---	14	60
Greene County	35	-60	14	30
Lewis County	15	15	40*	82
Little Falls	10	5	15	43
Village of Mayville	14	24	14	64
Niagara County	70	157	64	265
Oswego County	10	5	15	25
Village of Saranac Lake	-0-	12	12	39
Wayne County	45	50	24	84

* In some instances, microentrepreneurs applied for and were issued multiple loans.

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tion about the loans issued, clients served, program accomplishments, and ancillary technical assistance provided to microentrepreneurs. The survey consisted of approximately 34 open-ended questions. It was modeled on a questionnaire used by the Aspen Institute's 1999 Directory of U.S. Microenterprise Programs. This information was then supplemented with earlier unpublished original case-study research on this topic. The earlier research was in the form of structured interviews and documentation analysis of 15 HUD microenterprise development program operators.

Research and Discussion

Twelve municipalities responded to the survey. All respondents identified themselves as practitioner agencies. Practitioner agencies are defined as active agencies that provide loans, training, or technical assistance directly to microentrepreneurs. Most practitioner agency microenterprise development programs were established in the mid-1990s.

They operate with few staff people specifically dedicated to microenterprise development program operations. In some instances, programs are carried out by existing government community and

Table 5: Characteristics of Microenterprise Development Program Clients

Name of funded community	Percentage of AFDC/TANF assisted clients	Percentage of low/mod* assisted clients	Percentage of unemployed assisted clients	Percentage of female assisted clients
Cattaraugus County	N/A	56	N/A	---
Cayuga County	---	50-55	--	23
Columbia County	N/A	61	1	50
Elmira Heights	---	100	---	50
Greene County	10	60	10	50
Lewis County	---	90	1	10
Little Falls	---	13	7	13
Village of Mayville	0	100	25	21
Niagara County	---	58	---	41
Oswego County	N/A	55	30	10
Village of Saranac Lake	0	80	20	---
Wayne County	0	72	---	39

* Low/Mod: persons whose incomes do not exceed 80% of the Median Family Income.

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economic development staff. Annual microenterprise development program operating budgets (survey question 14) ranged from \$10,000 to \$100,000. Program performance, as measured by reported major agency achievements (survey question 32), varied among programs. This may be partially explained by the fact that program divisions and departments in respondent municipalities had different program missions and operating requirements. Respondents listed the following types of activities as major agency achievements:

- Program funding allowed the only grocery store serving the remote, rural community to remain open.
- The microenterprise program has filled empty stores, increased local employment, and educated individuals while improving the overall community.
- The program has generated \$1.6 million in leveraged loans.
- The program has enjoyed eight years of continuous success. Nearly 300 individuals and businesses have been assisted. Forty-six loans have been made, for a total of over \$1 million, with an acceptable charge-off rate for a high-risk portfolio.
- A county-wide program has been developed to train and support small business and microbusiness development in rural areas.
- There are 12 new businesses in town!!

The mission statements in Table 1 show that job creation is merely one objective of microenterprise development. Filling vacant storefronts, keeping essential services in communities, and introducing new business opportunities into the area are also important achievements for local governments. While the distinctions between reported major achievements are subtle, they represent significantly different paradigmatic approaches to development—social planning and development versus economic development. This finding is reinforced by the fact that a number of respondents consider improving the quality of life of residents to be their mission while others consider job creation and job retention to be their mission.

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All respondents with active microenterprise development programs indicate that their programs have created or retained jobs.² Most respondent communities currently operate a revolving loan fund (RLF) concomitantly with training and technical assistance programs. RLFs are locally administered, flexible debt instruments that are capitalized by public and quasi-public entity grants and low-cost loans. RLFs provide affordable capital to microentrepreneurs and nontraditional borrowers in the form of seed capital, bridge loans, and gap financing. An entrepreneur uses a seed capital loan for business start-up needs like real estate and equipment purchases. A bridge loan is a form of short-term debt that is assumed by an entrepreneur until permanent financing is put in place for such activities as the development of new commercial properties or the renovation of existing properties for leasing and speculative development. The currently available dollars in the RLFs of respondent communities range from \$25,000 to \$866,000, and the total value for all loans issued across each RLF ranged from \$189,500 to \$1.6 million. The aggregate dollar value of loans distributed for all respondent microloan programs since the inception of their programs is \$9,815,206.

The primary forms of technical assistance are:

- Business training courses
- Business planning assistance
- Individual business counseling.³

One quarter of the respondents indicate that peer support and exchange, mentoring, and other forms of technical assistance are provided to entrepreneurs. The majority of the respondents indicate that they use a collaborative process for carrying out their microenterprise development program. Only a small percentage of the respondents indicate that their program is being carried out by a single government agency. Examples of collaboration cited by respondents are:

- We are the only agency in the county that offers training and technical assistance to small business; therefore banks and other loan funds in the area refer their clients to us. The Department of Labor even uses our classes as a requirement for their self-employment program.

- We work with borrowers to secure local bank funding; local planning staff assists with land use and environmental issues, business groups, and real [*sic*] to help promote programs.
- A 30-hour course is developed through Corning Community College Small Business Development Center. The Small Business Administration (SBA), local law firms, and local insurance agencies supply guest speakers.
- Some borrowers use the Small Business Development Center (SBDC). The Urban Renewal Agency (URA) works with local banks to meet business needs.
- The village microenterprise program interacts with other lenders to provide additional funding for qualified applicants to ensure access to conventional lending sources.
- Niagara County Community College coordinates classroom curriculum and provides some technical assistance. Business skills gained by program participants make their businesses more bankable, and several participants have obtained bank financing in addition to microloan fund financing.
- The Industrial Development Agency (IDA) provides 25% of each loan, using the HUD Microenterprise Program (MEP). IDA works for bank participation where possible. State University of New York (SUNY) Oswego SBDC contracted for microenterprise training.

Respondents were responsible for assisting 327 business start-ups and 482 existing businesses. As a result of this, 1,237 persons have been employed by microenterprises served by the program since its beginning. The number of loans issued by microenterprise development agencies ranges from 12 to 103, and the number of jobs created ranges from 25 to 265. Applicants were not requested to convert positions to full-time equivalents; therefore, nothing further can be inferred from this description. Because these developments are not concentrated in a specific city within the region, it is difficult to gauge the regional impact or macroeconomic implications of this change—despite the fact that they are noteworthy.

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The microloan programs' general characteristics appear to be convergent. Average loan amounts are in the \$20,000 range. The average rate is approximately 5%. Loan terms range from one to seven years. Interest rates ranged from 3% to 5%. The majority of microenterprise programs reported income in the range of \$30,000 to \$50,000. Most respondents report an 89% to 90% business success rate (survey question 22). One third indicated a success rate that is less than 70%. Additionally, most respondents indicate that less than 10% of the loans are delinquent (survey question 24).

The respondent programs primarily serve low-to-moderate-income clients, including unemployed individuals. In three of the respondent communities, unemployed individuals account for nearly 20% of the clients served. Most beneficiaries of microenterprise development program assistance are Caucasian. Between 95% and 100% are Caucasian and 50% to 90% are male.

Conclusion

The results of this study appear to suggest that microenterprise development assistance is being used not only as a vehicle for general job creation but also as an employment strategy for low-to-moderate-income persons. Several microentrepreneurs were receiving some form of public assistance (unemployment benefits, TANF, etc.) prior to program participation.⁴ Most beneficiaries of HUD microenterprise development assistance in respondent communities are Caucasian, and several business start-ups were in rural areas. It seems that there is a large need for entrepreneurship programs and community development services for microbusiness development in rural areas. Research involving framework development would be required to investigate this issue further. Respondent communities that view themselves as using microenterprise development programs to address quality-of-life issues implement and evaluate their programs slightly differently than municipalities that view themselves as merely operating a loan pool. This is evident in the way the programs are staffed, coordinated, and self-evaluated in terms of achievements. Finally, municipalities that operate stand-alone programs cannot be

evaluated in the same manner as municipalities that offer assistance as an adjunct service in an existing institution. Scale, operating procedures, organizational systems, and staff capacity cannot be captured by some of the standard measures of efficiency and program performance (average loan per staff, loan as a percentage of overall costs, etc.). Although many intangible benefits of microenterprise development have not been directly addressed through a limited survey of provider agencies and focused interviews such as this, it does raise the question “to what degree can microenterprise development be used to integrate low-income and the under- and unemployed into our economy?”⁵

Today, we are only able to measure that (1) HUD-assisted programs have increased employment opportunities for low-to-moderate-income persons; and (2) these programs have produced some achievements that are consistent with the diverse interest of the sponsoring local governments. In the future, more research must be done to understand this phenomenon and to refine the social role the public sector should play as these programs evolve in the future.

Responses to Select Survey Questions

Question 9: For the purposes of this questionnaire, please select the response that best describes your agency:

Assessment: All 12 respondents indicated that they were practitioner agencies, which are agencies that provide loans, training, and technical assistance directly to microentrepreneurs.

Question 10: Number of microenterprise development staff:

Assessment: Agencies had one or fewer microenterprise development program staff each. In a few cases, microenterprise development activities were carried out by municipal government staff that also carried out other duties.

Question 11: Date of agency start-up:

Assessment: Two thirds of the agencies had started up operations by the mid 70s.

Question 12: Start-up date of HUD-assisted microenterprise development assistance program:

Assessment: Three fourths of the HUD-assisted microenterprise development assistance programs started between 1990 and 1996.

Question 14: Microenterprise development annual operating budget:

Assessment: Annual operating budgets for microenterprise development programs vary from \$10,000 to \$100,000.

Question 15: Is your program still operational?

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Assessment: All 12 respondents indicated that their programs were still operational.

Question 16: Dollar amount of loan capital fund:

Assessment: Loan Capital fund values range from \$150,000 to \$866,000.

Question 17: Sources of funding:

Assessment: The primary source of Loan Capital is the Community Development Block Grant, followed by program income from Community Development Block Grant loan repayments. The primary source of operating dollars is the Community Development Block Grant, followed by program income from Community Development Block Grant loan repayments.

Question 19: Target population:

Assessment: The target populations served by the program are low-to-moderate-income individuals.

Question 20: (b) Number of business starts, (c) Number of existing businesses served since the program start-up, and (d) Number of persons who have been employed by the microenterprises you serve (including owners) since program start-up:

Assessment: (b) 327 business start-ups by programs, (c) 482 existing businesses assisted by program, (d) 1,237 persons employed by microenterprises served by the program since its beginning.

Question 22: What is the business success rate for your HUD-assisted microenterprise program?

Assessment: Most microenterprise programs report an 89% to 90% business success rate. One-third indicated a success rate that is less than 70%.

Question 23: What is the business failure rate for your HUD-assisted microenterprise program?

Assessment: Most microenterprise development programs report a business failure rate less than 15%.

Question 24: What are the loan repayment histories?

Assessment: Most respondents indicate that less than 10% of the loans are delinquent.

Question 25: Who are the beneficiaries by race?

Assessment: Most beneficiaries by microenterprise development program are white (between 95% and 100%).

Question 26: What are the percentages of beneficiaries by gender (% male, % female)?

Assessment: Most microenterprise program beneficiaries are male (between 50% and 90%).

Question 27: How much income is being generated annually?

Assessment: The majority of the microenterprise programs reported income in the range of \$30,000 to \$50,000. Two respondents had income in excess of \$150,000.

Question 29: What type of technical assistance do entrepreneurs receive—what type