

Microenterprise Development in the Heartland:

Self-Employment as a Self-Sufficiency Strategy for TANF Recipients in Iowa 1993-1998

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ABSTRACT: There has been a significant interest in the microenterprise movement regarding its effectiveness as a welfare-to-work strategy. A decade's worth of program results, demonstration projects, and research strongly suggest that the benefits of microenterprise development for welfare recipients outweigh the costs and risks.

The state of Iowa has been a leader in promoting microenterprise development as a welfare-to-work strategy. Iowa was the first state in the US to incorporate microenterprise-development training as an eligible activity in its welfare-reform program. Since 1993, the Iowa Department of Human Services (IDHS) has contracted with the Institute for Social and Economic Development (ISED), a statewide microenterprise development organization, to help welfare recipients become self-sufficient through self-employment. IDHS requires an annual third-party evaluation of the program. The purpose of the evaluation is twofold: (1) to document program implementation and results, including goal attainment and participant characteristics; and (2) to analyze participants' movement toward self-sufficiency, as compared to that of welfare participants not enrolled in the program. This article reviews ISED's program and summarizes the findings of the first five years of the program. Among other findings is the fact that the program has experienced a three-year business survival rate of 56.4%.

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“These microcredit projects are proof of what we can unleash if we invest in the economic and human potential of all our citizens. It is becoming increasingly obvious that microenterprise not only transforms lives, but it lifts up communities and societies as well.”

~Hillary Rodham Clinton

Over the last decade, microenterprise development has become a powerful nationwide movement. According to the *1999 Directory of US Microenterprise Programs*, 341 microenterprise programs operate in 46 states and the District of Columbia. In 1997, 24,145 businesses were assisted, of which 10,791 were existing (more than 12 months old), 7,054 were start-ups (less than 12 months old), and 6,300 were new (not yet operating when they came to the program). A total of 3,953 TANF (Temporary Assistance for Needy Families) recipients were served in 1997 (Kays & Orwick 1999).

Microenterprise is a strategy that contributes to economic development, human capital development, and community development, and that addresses needs not met by existing institutions. Unlike other economic development strategies, the objective of microenterprise development is to reach into the poorest communities and draw potential entrepreneurs from the ranks of women, people of color, long-term welfare recipients and single heads of households. Microenterprise programs build on the unique ideas and skills of disadvantaged individuals and residents of economically distressed communities, empowering them to create their own economic opportunities and achieve self-sufficiency.

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Microenterprise-development organizations accomplish this by providing training, counseling, technical assistance, and access to small amounts of capital to support the development of small businesses. These services are delivered in a supportive environment that conveys the message that people can improve their lives through initiative and hard work.

There has been a significant amount of interest regarding the effectiveness of microenterprise development as a welfare-to-work strategy. A decade's worth of program results, demonstration projects, and research-to-date strongly suggest that the benefits of microenterprise development for welfare recipients outweigh the costs and risks. Specifically, microenterprise development (1) works for a small but significant percentage of welfare recipients, (2) reduces welfare receipt, and (3) enables recipients to increase their income and assets (Friedman, Grossman, & Sahay, 1995).

At the same time, microenterprise development yields variable results for welfare recipients; it will produce economic independence for some, supplemental income and assets for others, and simply not work for still others (Boshara, Friedman, & Anderson, 1997).

The state of Iowa has been a leader in promoting microenterprise development as a welfare-to-work strategy. Since 1993, the Iowa Department of Human Services (IDHS) has contracted with the Institute for Social and Economic Development (ISED) to help welfare recipients become self-sufficient through self-employment. IDHS requires an annual third-party independent evaluation of the program. The purpose of the evaluation is twofold: (1) to document program implementation and results, including goal attainment and participant characteristics; and (2) to analyze participants' movement toward self-sufficiency as compared to welfare participants not enrolled in the program. The following is a summary of five

years of results on welfare recipients who participated in ISED's Entrepreneurial Training (ET) Program.

Background

The Institute for Social and Economic Development is a private, nonprofit, microenterprise-development, technical assistance, and research and evaluation organization based in Iowa City, Iowa. The mission of its Economic Development Division is to help low-income, unemployed, and underemployed Iowans achieve self-sufficiency through self-employment and to help revitalize economically distressed urban neighborhoods and rural communities through small business development. ISED operates branch offices in six of the state's largest cities and maintains a network of independent contractors serving rural areas.

Since 1988, ISED has helped start or expand more than 1,200 businesses, 85% of which are low income, as defined by the US Department of Housing and Urban Development (HUD) guidelines. With assistance from ISED, these entrepreneurs have obtained 510 loans and grants totaling over US\$7.24 million. At a White House ceremony last February, President Clinton awarded ISED the Excellence in Microenterprise Development Award in the category of Poverty Alleviation.

Since its inception, the focus and purpose of ISED's microenterprise program has been to support low-income business owners and potential entrepreneurs in their efforts to achieve and maintain economic self-sufficiency. At the core of ISED's efforts is a comprehensive microenterprise development training program and curriculum that has been developed and carefully refined to effectively meet the business-related needs of low-income entrepreneurs and individuals with limited business exposure.

Program Components

ISED's microenterprise development program consists of three basic services: comprehensive formal business development training, access to capital, and follow-up assistance. These services are designed to provide low-income microentrepreneurs with the skills, knowledge, and support they need in order to start and manage successfully a small business and to achieve self-sufficiency.

Formal Microenterprise Development Training. ISED offers a formal, 13-week business training class to Family Investment Program (FIP) participants interested in starting or expanding a small business. The curriculum consists of the following components:

- **Orientation and preliminary assessment of business idea and personal readiness.** Clients attend one orientation session and two assessment sessions, which are designed to introduce them to ISED and the program. The objective of these sessions is for clients to (1) understand how the program works (expectations, time schedule, and commitment required); (2) present and discuss their business idea; (3) explore their skills, experiences, interests, and abilities to determine if they have the qualities needed to start a microenterprise; and (4) understand what business ownership is like—its advantages, disadvantages, risks, and rewards. ISED's small business development professionals help clients to complete preliminary assessments of their business ideas and explore their personal readiness for entrepreneurship.
- **Business Feasibility.** The client assesses the business idea (feasibility, level of financing necessary to start the business, and nature and amount of business assistance needed), their entre-

preneurial experience (i.e., business-related background and work experience), and the fit of their skills to the technical skills required for a particular business.

- **Personal Readiness.** The trainers help each client assess his or her readiness to enter into entrepreneurship through examining (1) level of interest, energy, and enthusiasm for self-employment as demonstrated through research and draft documents he or she has prepared; (2) personal financial management skills and credit potential; (3) level of self-esteem and self-confidence; and (4) readiness to start a business (i.e., the extent to which a client's current life situation either supports or creates obstacles to committing the amount of time and energy required to start or expand a small business).

At the conclusion of this component, each client has an individual interview with the trainer/consultant to determine whether small-business development is viable for them and whether it is an appropriate time in their life to take this step. Clients interested in pursuing business ownership continue training toward development of a quality business plan.

Business plan development training and technical assistance.

This component of ISED's training focuses on preparing a business plan. Clients conduct more extensive feasibility research in order to define and test the viability of their proposed business and determine whether the business will produce profit. Business trainers assist clients with developing an appropriate structure for their business, developing marketing and financial plans, and identifying financial and capital needs.

At the conclusion of the business training component, clients have drafted a business plan and loan application (if financing is needed).

Frequently, extensive technical assistance is necessary to help clients refine these documents.

Access to Business Financing. ISED's approach to small-business lending is to secure agreements with existing private and public sources of capital in order to finance ISED-sponsored clients. ISED has developed a strong working relationship with the banking sector and with state and federal government programs designed to provide low-income individuals with access to business capital. ISED clients use the following funding sources:

- **Commercial banks.** ISED has developed strong linkages with statewide and community-based banks throughout Iowa. Many of these banks have agreed to set aside microloan funds for ISED clients and to give priority consideration to financing requests from individuals who complete the program and have a final ISED-approved business plan.
- **Credit Enhancement.** ISED has a Loan Guarantee Fund that can be used to reduce the often high risk associated with loans for start-up businesses. This fund provides a partial guarantee for a bank loan when additional security is needed—up to 50% of the loan, to a maximum value of US\$10,000. This credit enhancement feature serves to reduce the risk to the lender and establishes a successful relationship between the client and the bank, which can be built upon in the future.
- **Iowa Small Business Loan Programs.** ISED has a strong working relationship with the Iowa Department of Economic Development (IDED), the state's economic development agency. IDED administers two loan programs targeted to low-income minorities, women, and disabled individuals.
- **Self-Employment Loan Program (SELP).** This program provides loans of up to US\$10,000 for five years with an interest

rate of 5%, and specifically targets low-income borrowers who seek business start-up or expansion. ISED is the largest source of SELP loan applicants in Iowa.

- **Targeted Small Business Financial Assistance Program.** This program provides up to US\$25,000 in business financing to low-income individuals—minorities, women, and persons with disabilities—who seek to start or expand a small business. Financing terms are five years at a 5% interest rate.
- **Private Funding Sources and Grants.** ISED is the Iowa administrator of the Trickle-Up program, a private foundation in New York City that provides grants of US\$700 to low-income entrepreneurs. This program targets individuals who have very small capital needs and little opportunity for financing.

Since 1988, ISED has helped clients who complete training and are ready to launch or grow their own small businesses to secure nearly US\$7.2 million in capital.

Follow-up Assistance. Self-employed individuals are typically isolated following the start-up of their business. Without extensive business experience and a strong support network, they may encounter difficulties coping with the unexpected challenges that arise during business operation. To counter this, ISED provides the following assistance:

- **Post-Start Technical Assistance.** To help these businesses meet the challenges they face, ISED offers on-going technical assistance to business owners for five years after the completion of training or for the life of the business loan—whichever is longer. ISED business trainers meet with new business owners to help them prepare monthly financial statements, explore marketing options, and solve specific problems, or generally

help them build their capacity to understand their businesses and solve problems. In addition, clients may require specialized assistance (i.e., accounting or legal help), which ISED provides through independent contractors.

- **Community Support Systems.** To combat the isolation and loneliness that many new microentrepreneurs face, ISED has established formal support systems in several locations. These support systems, called community business networks, provide a forum in which low-income business owners meet on a continuing basis for group learning, networking, and discussing their challenges in running a business.

As of this writing, all ISED businesses have a five-year survival rate of 64%.

Microenterprise Development and Welfare Reform in Iowa

Iowa has been a leader in implementing reforms and programs designed to assist low-income persons in transitioning from welfare to work. Iowa's welfare reform initiative, called the Family Investment Program (FIP), is the centerpiece of Iowa's human investment strategy, which blends education and training, economic development, and employment services in order to provide a range of choices for participants to better meet their needs and abilities.

In 1988, Iowa was one of five states that opted into the Self-Employment Investment Demonstration (SEID), a national demonstration project to test microenterprise development as a welfare-to-work strategy. The SEID program was designed to provide selected welfare recipients with business skills, loan financing, and continuing technical assistance to enable them to establish or expand small businesses. Through a Request for Proposals, ISED was

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selected to administer the program in twelve counties in eastern Iowa.

In 1993, based on ISED's success in the program, Iowa included microenterprise training to welfare recipients statewide as an eligible activity for participants in Iowa's welfare reform program. Named the Entrepreneurial Training (ET) Program, its goal was to "stimulate self-employment, which will create sufficient revenue to sustain families at a standard of living independent of public assistance." Under the FIP program, self-employment activities count toward participation requirements.

To help achieve this objective, IDHS grants waivers of certain existing income, assets, and business expense policies to ET participants who are ready to start or expand their business. The waiver period is for 12 consecutive months and is not required to commence with the first month of business start-up or expansion. Clients pursuing self-employment in Iowa through ISED's program remain eligible for public assistance during their training and until their income or assets from the business are sufficient to make them ineligible for benefits. These clients also remain eligible for other assistance available to FIP participants, such as child care, transportation, and health care services.

Research Methods

To document program implementation and results, data were collected at each milestone of the program: orientation, enrollment, training completion, loan acquisition (when applicable), and business start. Data were collected from many sources, including interviews with ISED management and field staff, review of program documents, and ISED's management information system (MIS).

To analyze ET participants' movement toward self-sufficiency, ISED analyzed participants' welfare receipts after enrollment in the program as well as that of a comparison group. For this analysis, electronic data files from IDHS containing Family Investment Program grant histories of all state recipients during the period were used. FIP start dates and counties of residence were used to select a pool of possible matches to ET participants, and a matched comparison group was randomly selected from this pool of FIP recipients. A one-to-one match for each ET participant was made. Individuals who received no FIP benefits during the study period, as well as their match in the ET or comparison group, were excluded from the analysis. After their exclusion, 819 records for each group, or 1,638 cases, were analyzed.

ET participants' rates of FIP receipt and that of the comparison group were examined from the date of enrollment in the ET program through June 30, 1998. Rates of FIP receipt for the two groups were compared using two methods. One method was computing the percent of each group not receiving FIP at each six-month interval after enrollment. These percentages were compared in order to determine if statistically significant differences exist between the two groups. The second method was comparing months on and off of FIP during the study period, using the following variables: (1) total possible months of FIP receipt, (2) total actual months of FIP receipt, (3) total months of no FIP receipt, (4)% of months off FIP (total months of no FIP receipt), and (5) total possible months of FIP receipt.

Means of these variables were compared for each group. Since we assumed that effects of ISED's business training on FIP receipt would be evident only after one or more years of participation, ET participants enrolled for one year or less (and their match in the compar-

ison group) were excluded from this portion of the analysis. After this exclusion, 665 cases were analyzed in each group.

ET Program Outcomes

In our study, program results are defined as numeric outcomes achieved at each critical milestone specified in ISED’s contract with Iowa DHS: (1) orientation and assessment, (2) enrollment, (3) training completion, and (4) business start. Expected and actual cumulative outcomes through June 30, 1998 are shown in Table 1.

A comparison of expected and actual cumulative outcomes indicates that the ET Program exceeded its numeric targets for critical program milestones. In five years of operation,

- Recruitment/orientation was 133% (1,946) of the target goal of 1,466;
- Enrollment was 132% (972) of the target goal of 739;
- Training completion was 89% (472) of the target goal of 529; and
- Business starts were 117% (234) of the target goal of 200.

These data show that 24% of enrolled participants successfully started or expanded a business. However, business start rates for participants that completed the entire training were substantially higher, at 50%. While the program serves only an extremely small number of welfare recipients per year, the data suggest that self-employment appears to be an appropriate option for many of these recipients.

Table 1. Variance of Expected and Actual Program Results: Number of ET Participants Who Reached Each Milestone July 1, 1993 – June 30, 1998

Program Milestone	Expected	Actual	Variance
Orientation and Assessment	1466	1946	133%
Enrollment	739	972	132%
Training Completion	529	472	89%
Business Starts and Expansions*	200	234	117%

*These 234 participants started 225 businesses.

Five-Year Trends of Completing Program Milestones

To identify trends in participants' completion of program milestones, Table 2 details the percentages of those moving from each milestone to the next for each year of the program studied. The following observations are noted:

- During each year, the percentage of participants who enrolled in training after orientation remained fairly constant, ranging from 46% to 54%.
- Movement from enrollment to completing training was constant during the last three years of the period studied, at about 50%. In contrast, during years one and two, the rate of enrollment to training completion was 70% and 37%, respectively.
- With the exception of year one, 44% to 50% of participants progressed from training completion to business starts each year. During the first year, only 19% of participants started businesses.
- The three-year business survival rate for these businesses is 56.0%.

Characteristics of ET Enrollees and Those Who Started Businesses

Table 3 presents characteristics of ET participants who enrolled in training. Microenterprise development attracts a diverse range of people. Similar to the SEID program, welfare recipients who choose self-employment in Iowa tend to be older, long-term recipients, with higher than average educational levels and more extensive work histories than typical TANF recipients. They are people lim-

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Table 2. Percentages of ET Participants Completing Program Milestones

Program Year	Orientation to Enrollment	Enrollment to Training	Training to Bus. Start
1993-94 Year 1	46%	70%	19%
1994-95 Year 2	53%	57%	50%
1995-96 Year 3	54%	56%	44%
1996-97 Year 4	50%	49%	48%
1997-98 Year 5	50%	49%	50%

ited by lack of opportunity, not lack of capacity. The following are the most notable characteristics:

- ◆ Gender: 76% of enrollees were women, which is consistent with the high proportion of women who receive FIP in Iowa and in the nation.
- ◆ Race: 81% were white, but 17% were persons of color, with African-Americans accounting for 10% of the total. This is significant because persons of color represent only 12% of the state's population participating in public aid programs.
- ◆ Marital status: 49% were separated, divorced, or widowed, while 28% were married and 21% had never married.
- ◆ Educational attainment: 58% completed high school or a GED, 24% had a technical certificate or 2-year college degree, and 5% had a four-year college degree or higher. Only 7% had not completed high school. One possible explanation for the high educational attainment of ET enrollees is that Iowa's high school graduation rates are above the national average.
- ◆ Age: Participants' ages ranged from 18 to 58 years and averaged 33.7 years.
- ◆ Dependents: On average, participants had two children under 18 years old living in the household and 3.4 people depending on their income.

- Income: Most participants had monthly gross incomes between US\$501 and US\$1,500 at the time of enrollment.

Table 3. Characteristics of ET Participants in Business Training
July 1, 1993 – June 30, 1998
N = 972

Characteristic	Number	Percent			
Gender					
Female	736	76%			
Male	234	24%			
Ethnicity					
White	785	81%			
African American	93	10%			
Native American	31	3%			
Hispanic	20	2%			
Asian American	9	1%			
Other Minorities	12	1%			
Missing data	22	2%			
Marital Status					
Married	277	28%			
Separated/Divorced/Widowed	479	49%			
Never Married	207	21%			
Missing data	9	1%			
Highest Grade Completed					
HS Diploma or GED	562	58%			
Technical or 2-Year College	231	24%			
BA or BS	51	5%			
Masters or higher	11	1%			
None of the above	67	7%			
Missing data	50	5%			
Primary Wage Earner	765	79%			
Monthly Gross Income					
<US\$500	352	36%			
US\$501-US\$1,500	541	56%			
>US\$1,501	27	3%			
Missing data	52	5%			
	972	100%			
	Median	Mean	SD	Min.	Max.
Age of participant	33.0	33.7	7.16	18	58
Children <18 years	2	2.1	1.38	0	9
Dependents	3	3.4	1.6	0	13
Highest grade completed	12	10.6	4.3	2	19

FIP and Employment History

An on-going question regarding microenterprise in the United States is whether programs are serving the poorest of the poor. As a group, participants enrolled in the ET program had experienced long-term welfare receipt as adults (see Table 4), the average length of time being more than four years (51 months). However, the median FIP receipt was 34 months, nearly three years. One-third (33%) had received FIP for 36 months or more prior to enrollment. Another third (35%) had received FIP for 12 to 35 of the 36 months before enrollment. Slightly fewer (28%) had received FIP for less than twelve months immediately prior to starting the program. These data indicate that FIP had not been merely a temporary means of financial support for most participants.

Consistent with the findings of the Self-Employment Learning Project (SELP) conducted by the Aspen Institute and SEID program, enrolled participants had substantial employment experience. One-third of ET participants were employed at the time of enrollment, 12% full-time and 22% part-time. On average, participants had six years of employment experience and 84% had prior full-time employment experience and/or part-time experience (70%).

At the same time, the FIP and employment histories of these enrollees show that most enrollees had relied on public assistance for substantial periods of their adult lives, despite their efforts to participate in the labor market. For those currently employed, FIP provided a necessary part of their total subsistence income package. Table 4 details participants' FIP and employment histories.

Also noteworthy are enrollees' previous entrepreneurial experiences. Forty-two percent had worked in a family-owned business, and 29% had previously owned their own business (see Table 4).

These data suggest that individuals who enroll in training are more likely to have personal experience with operating a business than the general FIP population.

Business Starts and Waivers

Of the 972 participants enrolled in ET, 234 (24%) had started a business by June 30, 1998 (see Table 1). More than half of those starting a business (58%) received a waiver that permitted them to acquire a business loan, receive business income, or accumulate business assets without the reduction or loss of their FIP grant. The waiver is an essential feature of the ET Program that makes pursuit of self-employment a viable option for FIP recipients.

Table 4. FIP and Employment History of ET Participants Enrolled in Business Training N = 972

FIP History	Number	Percent			
Received FIP as a parent	958	99%			
Receiving FIP currently	903	93%			
Months of FIP in last 3 years					
all 36 months	316	33%			
12 to 35 months	341	35%			
<12 months	277	28%			
Missing	38	4%			
	972	100%			
Ever received food stamps	931	96%			
Ever received housing assistance	371	38%			
	Mean	SD	Min.	Max.	
Total years of employment	6.1	8.9	0	45	
Employment History	Number	Percent			
Ever worked full-time	814	84%			
Ever worked part-time	678	70%			
Currently full-time	117	12%			
Currently part-time	215	22%			
Worked in family business	405	42%			
Had own business	281	29%			
	Mean	SD	Min.	Max.	
Total years of employment	6.1	8.9	0	45	
	Median	Mean	SD	Min.	Max.
Months of FIP current spell	18	37.9	49.3	1	294
Months of FIP since 1 st spell	34	51.3	54.9	1	361

Analysis of Factors Associated With Business Starts

A number of variables were analyzed to identify factors associated with higher probabilities of business starts. Independent sample t-tests and cross tabulations using chi-square analysis revealed that the following factors are associated with higher probabilities of ET-participant business starts (at a significance level of .05 or higher):

- Business experience. It is logical that individuals who have firsthand experience in business operation would more likely start a business than those who do not.
- Work experience. Work experience likely provides transferable knowledge and skills that are useful in self-employment.
- Part-time employment. It is reasonable that participants who have part-time employment have more flexibility to begin a business than those who are employed full-time. These participants who work part-time may also have a greater network of people to draw from for business contacts than those participants who are not employed.
- Marital status: Being divorced or married and living with a spouse (in contrast to being separated from a spouse or never having been married) makes a difference. Participants who are separated from a spouse may be in a period of transition that requires their energy and attention. This may interfere with their ability to meet the demands of business start-up. Participants who have never been married and who are likely to have children may be less likely to have the social network or supports required to meet the demands of opening a business while single parenting.

No associations were found between the following variables and the likelihood of business starts:

- Age
- Gender
- Number of children under 18 years of age in the household
- Number of dependents
- Having ever worked part-time or full-time prior to enrollment
- Full-time employment at the time of enrollment
- Type of business training received in the program (i.e., classroom vs. one-on-one)

This analysis may provide insight into positive influences on business development and aid in program planning to increase the percentage of business starts. Knowledge of factors related to higher probabilities of business starts may be useful if incorporated into an assessment of individual participants' strengths and needs for support.

Characteristics of ET Businesses

During its first five years of operation, the ET program facilitated the start or expansion of 225 businesses by 234 participants. Table 5 presents the characteristics of these businesses. Seventy-six percent of these are female-owned businesses; this figure is consistent with the high proportion of women who are FIP clients. Eleven percent of ET businesses are minority-owned, indicating that the program has been effective in recruiting and serving persons of color, who represent only 12% of the state's population participating in public-aid programs.

Types of Businesses

Most ET businesses were new ventures (88%), while 12% were expansions. Types of businesses vary, slightly more than half being service-oriented (57%), about one-third (30%) retail, and a small per-

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**Table 5. Characteristics of Businesses Started by ET Participants
July 1, 1993 - June 30, 1998**

Businesses	Number	% of Total
Businesses Started by ET Participants	225	100%
Female-owned	171	76%
Minority-owned	24	11%
Type of Activity:		
New Start	198	88%
Expansion	27	12%
Business Type:		
Service	129	57%
Retail	67	30%
Manufacturing	12	5%
Wholesale	3	1%
Other	11	5%
Missing Data	3	1%
Business Location:		
In-home	136	60%
Not in-home	69	31%
Missing Data	20	9%
Number of Employees Hired before Opening:		
Full-time	3	
Part-time	9	
Seasonal	3	
Number of Employees Hired as of 6/30/98:		Net Increase
Full-time*	29	26
Part-time*	53	44
Seasonal	18	15

*Thirty-two employees were low-income individuals at the start of their employment—16 full-time and 16 part-time.

centage manufacturing (5%) and wholesale (1%). Most businesses are home-based (61%), but almost one-third (31%) operate away from the home.

Job Creation

In addition to creating jobs for themselves, ET participants' businesses have created 70 additional jobs—26 full-time and 44 part-time (see Table 7 below). Thirty-one of these 70 new jobs employ low-income individuals. While these numbers are not very large, they do indicate that these microbusinesses do generate some additional employment opportunities.

**Table 6. Loans and Grants Obtained to Finance ET Businesses
July 1, 1993 – June 30, 1998**

Loan Type	#	% of Total Loans	% of Total Amount	Average Loan	Minimum Loan	Maximum Loan
Commercial*	30	29%	US\$293,210	34%	US\$9,774	US\$1,016 US\$53,678
IDED SELP	28	27%	US\$224,300	26%	US\$8,011	US\$2,200 US\$10,000
Private	14	14%	US\$117,517	14%	US\$8,394	US\$200 US\$39,000
Grants	25	35%	US\$21,900	3%	US\$876	US\$200 US\$5,250
IDED TSB	3	3%	US\$39,500	5%	US\$13,167	US\$5,500 US\$25,000
Other	2	2%	US\$159,500	19%	US\$79,750	US\$9,500 US\$15,000
Total	102	100%	US\$855,927	100%	US\$8,391	

* ISED Loan Guarantees totaling US\$50,197 were used to secure 14 of 30 commercial loans.

Loan Activity

As detailed in Table 6, 102 ET businesses received US\$855,927 in loans and grants for start-up or expansion. ISED's experience with low-income entrepreneurs is that only roughly 50% of clients require capital to start a business. Of those that did need financing, commercial loans accounted for 34% of these funds, totaling US\$93,210. Loans from the Iowa Department of Economic Development's Self-Employment Loan Program were the next largest source of financing for ET businesses, accounting for 26% of all funding received for a total of US\$224,300. The remaining funds came from private sources (14%), TSB (5%), grants (3%), and other sources (19%). The average loan was approximately US\$8,000. Table 6 details loan sources and amounts.

ET Participant's Movement Toward Self-Sufficiency

Analysis of ET participants' and the comparison group's FIP receipt at six-month intervals after program enrollment addresses two important questions:

- Are FIP recipients moving toward self-sufficiency?

- What are participants' rates of progress toward self-sufficiency compared to those of FIP participants not enrolled in the program?

Table 7 shows the results of this analysis for both groups. There is a consistent increase in the percentage of both ET and comparison group members, leaving FIP at successive six-month intervals of the study period. Comparison group members are more likely to exit FIP during the first twelve months than ET participants, These results are consistent with the design of the ET program, in which the first several months of the program are devoted to training, acquiring financing, and business start-up activities. After business opening, the FIP waiver allows twelve months of business operation without interruption of the FIP grant. Continuation of FIP benefits during the initial 12 months of business growth is critical to the viability of self-employment as a self-sufficiency strategy for welfare recipients. Consequently, substantial decreases in FIP receipt cannot reasonably be expected before 18 to 24 months after enrollment.

At 18 months after enrollment, there is no longer a significant difference in FIP exit rates for the two groups. However, at 36 months,

**Table 7. Percentages of ET Participants and a Comparison Group off FIP at Six-Month Intervals after Enrollment
July 1, 1993 - June 30, 1998**

Not receiving FIP	ET Participants (n=726)		Comparison Group (n=726)	
*at 6 months	115	15.8%	180	24.8%
**at 12 months	213	31.7%	256	38.2%
at 18 months	274	45.8%	272	45.5%
at 24 months	297	55.4%	280	52.2%
at 30 months	248	62.3%	222	55.8%
*at 36 months	246	69.9%	202	57.4%
at 42 months	193	74.5%	176	68.0%
**at 48 months	140	74.1%	120	63.5%
*at 54 months	193	74.5%	176	68.0%

* There is a statistically significant difference between ET participants and the comparison group at these intervals at the $p < .001$ level.

** Statistical significance is at the $p < .05$ level

ET participants surpass those in the comparison group in rates of leaving FIP at a statistically significant level ($p < .001$). At 42 months, there is again no difference between these participants' rates of FIP exit, but at 48 and 54 months, the percentage of ET participants leaving FIP is significantly higher than the comparison group's percentage.

The above analysis of the percentages of each group no longer receiving FIP does not identify the rate of each groups' FIP receipt during the entire study period. Because individuals may exit FIP but return, additional analysis was completed comparing each groups' rate of FIP receipt after enrollment. Table 8 displays (1) the average

Table 8. FIP Receipt for ET Participants Enrolled more than One Year* and a Comparison Group from Enrollment Date through June 30, 1998

	ET Participants (n=665)	Comparison Group (N=665)	Mean Difference**
Average possible months of FIP receipt	36.43 (SD = 13.51)	36.43 (SD = 13.51)	0
Average actual months of FIP receipt	20.19 (SD = 12.75)	20.60 (SD = 14.21)	.41 (p = .002)
Average percent of months on FIP	58.44% (SD = 31)	58.56% (SD = 33)	.0012% (p = .03)
Average percent of months off FIP	41.56% (SD = 31)	41.44% (SD = 33)	-.0012% (p = .03)

* Since it is reasonable to expect that effects of the ET Program on FIP receipt would be evident only after one year or more of participation, ET participants enrolled for one year or less (and their match in the comparison group) were excluded from this portion of the analysis.

possible months of FIP receipt, (2) the average actual months of FIP receipt, and (3) the average percent of months off FIP for ET participants and the comparison group.

As Table 8 shows, each group could have received FIP for an average of 36.43 months from the date of enrollment through June 30, 1998. Because the program has been operating since July 1, 1993, and participants have enrolled at various times, the possible number of months individuals could have received FIP after enrollment

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ranged from 13 to 60. The average months ET participants actually received FIP was 20.19 months, in contrast to 20.60 for the comparison group members—a difference of only 0.41 months. ET participants' average percent of months not receiving FIP during the study period was 41.56%, while the comparison group's was 41.44%, a difference of only 0.12%.

Means for the above variables were compared using t-tests for independent samples. Significant differences were found for the average months on FIP and the average percent of months on and off FIP. On average, ET participants received FIP for 0.41 months (about twelve days) more than the participants in the comparison group and were on FIP for 0.12% more months during the study period. These differences are statistically significant. However, their practical significance is questionable.

A five-year independent evaluation of ISED's Entrepreneurial Training Program indicates that microenterprise development works for a small but significant percentage of welfare recipients as a strategy for self-sufficiency. Further, the data suggest that self-employment is a self-sufficiency strategy that requires a greater initial investment of time than other self-sufficiency strategies require. However, the long-term payoff in terms of rates of exiting FIP and job creation, both for ET participants and employees they hire, suggests that this strategy merits the initial investment required.

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