Microenterprise as a Tool for Alleviating U.S. Family Poverty

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Maria Luisa is a 43 year old Hispanic immigrant who struggled for several years after arriving in the United States from Central America. Together with her husband and three children they located in Provo, Utah hoping to find the American dream—secure careers, school for the children, a decent home, food security, and a better quality of life than before. But life was hard. Neither Maria Luisa nor her spouse was able to obtain middle-class wage jobs. Poverty led to numerous stresses and strains. Eventually, the husband abandoned his family and moved on, leaving no forwarding address.

The uncertainties of a bleak future, unanswered questions, practical matters like how to pay the rent all heightened Maria Luisa's worries. Unable to speak English combined with no income led to having to move to another dilapidated rental unit. This meant a loss of the children's few friends, as well as having to begin anew in the middle of the academic year at a new school.

After further difficulties, Maria Luisa heard about a local community nonprofit organization, Mentores para la Microempresa, *(Micro Business Mentors). That group was launching a program to train Spanish-speaking immigrants who sought to start income-generating projects. Beginning to feel she might not be successful in obtaining employment in the formal economy of Utah, becoming self-employed might be a viable alternative, she thought.*

A year later, after small business training and a microloan of $500, Maria Luisa is able to stand on her own two feet. She used the loan to purchase haircutting equipment: Clippers, combs, electric hair-styling brushes, trimmers, a curling iron, razors, hair tonics, talc, gels, and a shoulder bag. She makes a living going door to door *carrying the tools of her new trade. She solicits customers who would enjoy a low-cost, nicely-done haircut within the comfort of their own homes.*

Maria Luisa was able to pay off her loan 100 percent, on time. She started out her microenterprise by bringing in around $300 the first month. With Micro Business' ongoing consulting assistance, her business has grown so that she now grosses some $1,500 per month. Her family has been able to remain in the same apartment so the children can continue to stay in the same school, keep their friends, and worship at the same church. All this gives the family stability and a degree of security that they never had before.

Each month Maria Luisa saves a percent of her income to maintain the business and prepare for a better future. Eventually, she hopes to go to beauty school and then open her own shop.

The case of Maria Luisa is real. It grew out of a project that my Brigham Young University students and I developed over the past several years to address the challenges of family poverty in our own community. This chapter elucidates the growing phenomenon of U.S. microenterprise—what it is, how it strengthens poor families, where it works, how it is structured, and the extent of its impacts.

Many Americans talk about "moral values" such as overthrowing Saddam Hussein in the Iraq War, blocking stem cell research, and dealing with terrorism. But for me, alleviating family poverty is a moral value of top priority. So let us turn to a new tool for aiding poor families, the strategy of microenterprise.

LIFTING POOR FAMILIES THROUGH MICROENTERPRISE

While many American families experience the stress and strain of poverty, new solutions are being implemented to help overcome the debilitating effects of joblessness. One of the most innovative is microenterprise and its related tactics to empower the poor and enable those who struggle to enjoy greater incomes, experience a sense of dignity, solidify family relationships, and improve their quality of life.

This approach differs from large-scale, expensive programs that broadly assert that their objective is to eliminate poverty, in general. Instead it is a sort of boutique strategy which has narrower goals. It uses a business model, not charity, to lift the poor, and it accomplishes this, one family at a time. In doing so, the poor experience a better life, feel more dignity, and are not dependent on huge government programs. The phrase I often use in my consulting and working with microenterprise organizations is that it gives the poor "a hand-up, not a handout."

To begin with, let us clarify several terms. First, microenterprise is usually created through *nongovernmental organizations (NGOs*), an increasingly-used expression for what Americans typically have referred to as nonprofit foundations. The most commonly used word is *microenterprise*. I use it to signify one's very small business, usually operated by just one or two family members. Next is the word, *microcredit,* by which I mean "microlending" only—tiny amounts of capital loaned for income-generating projects. *Microentrepreneur* is the term for the recipient of microcredit, i.e. an individual who seeks a small loan with which to start or expand one's business. *Microfinance* is a more encompassing word that may include microcredit for the microenterprise operated by the microentrepreneur. It may also include other economic services for the poor like a microentrepreneur's savings account, microloans for housing or education, microinsurance, small-scale agriculture loans for seed or tools. NGOs that provide this broader array of financial services are often described as *microfinance institutions* (MFIs). One may wonder where these new financial strategies came from.

GLOBAL ORIGENS OF MICROENTERPRISE

Three financial experiments gave rise to this movement. One MFI that claims it was the first is ACCION International, an NGO that was doing traditional development work in Latin America during the 1970s. It began to provide simple, tiny loans for start-up economic activity in 1972 in Brazil. Seeing that a small amount of credit could help a poor family improve, the practice began to spread. While ACCION's early efforts were limited to Latin America, it eventually began to expand--launching start-up offices in the U.S., Africa, and most recently, India.

Another pioneer was the Grameen Bank of Bangladesh, based in the capital city, Dhaka. It was the first microenterprise support organization to achieve major growth and substantial scale. Founded in 1976 by Professor Muhammad Yunus, a U.S.-trained economist, Grameen created a peer-lending structure where five to six women each received individual loans and jointly guaranteed all the loans in their group. Weekly payments were small and easy to understand, and all loans were one year in length. The groups met weekly in a designated center, meeting with five to seven other groups, to make loan and interest payments and to support each other's business success. This group structure fostered self-esteem and a culture of mutual accountability that supported high loan repayment rates, high savings rates, and low levels of business failure.

Today it has more than 5 million clients, 96 percent of them women. One of the most important features of Grameen is its openness and commitment to helping other

NGOs start microcredit programs. Today there are hundreds of replication efforts in many nations that were built off the Grameen model.

The third MFI, FINCA International, (Foundation for International Community Assistance), did not become a major organization in the emerging microcredit field until 1990. But the founder, Dr. John Hatch, was a key player in the efforts to generate interest and public attention for the MFI field, beginning in 1983. Indeed, without any knowledge of the Grameen Bank in far-off Bangladesh, or of the microcredit experiments by ACCION in Latin America, Hatch invented another type of solidarity group which he called *Village Banking*. In his model, the loan officer would go to a village, explain the concept, and ask the village elders to choose 30-40 impoverished women who each needed a $50 loan to start or expand a business. Later they returned for the repayment.

FINCA's model was implemented in those early years in several Latin American locales, but more recently has expanded to Africa and the former USSR. Today it has over 300,000 clients who comprise some 24,000 village bank groups of mostly poor women living in 23 nations. Further details about the rise of microenterprise through ACCION, Grameen and other cases may be obtained in Woodworth's volume (2000).

This strategy for empowering poor families has become perhaps the most innovative development tool to globally empower millions of poor families in the last decade. It is impressive for several reasons: It defies the traditional assumption that solutions are best invented in industrialized nations and that top-down development is required because national political leaders' support is essential for success. Instead, microfinance essentially turns traditional borrowing and finance for families upside down.

MFI GROWTH AND ACCELERATION

From its humble, experimental beginnings, microcredit has grown into a development strategy involving millions of poor women and men who are accessing the services of thousands of microfinance institutions. These MFIs come in various forms. Most are NGOs directly operating as microcredit practitioners. That is, they acquire funds and provide microcredit services. Some are commercial banks like Mibanco in Peru and Banco Sol in Bolivia. These are specialized, for-profit banks set up to provide financial services to impoverished families. Many credit unions are also starting to participate in the microcredit movement.

As microcredit has been increasingly recognized for its contribution to poverty alleviation, many government and multilateral organizations (such as USAID, the World Bank, the United Nations) have become involved. Likewise, there are important microenterprise industry research and policy organizations helping to further the impact of microcredit for the poor: They include the UN's "International Year of Microcredit" (UN, 2005), the Consultative Group to Help the Poorest (CGAP) the Small Enterprise Education and Promotion Network (SEEP), and the Microcredit Summit established in 1997 that since has accelerated microloans to over 92 million families (Harris, 2005).

U.S. MICROCREDIT

Microcredit strategies emerged in America during the mid 1980s in response to the desires of low-income people, women, minorities, and persons with disabilities who wanted to achieve the American dream of self-employment. In a curious historical twist of the usual pattern in which U.S. aid organizations go abroad to advise Third World countries on how to improve their economies through "modern" innovations, in the case of microfinance, it was just the opposite. NGOs from poor nations came to North America to share their expertise on how the peer lending approach to microentrepreneurship could be applied in the states, as well as Canada (Nelson, 1994). Grameen and two other successful Bangladeshi MFIs led the discussions.

As the western organizations learned from Asian practitioners, innovations followed, in spite of the general opinion that so-called industrialized societies would never embrace group borrowing techniques. Over time, some applications of Third World approaches have succeeded in the U.S. Microfinance has helped people transform their family lives and also improved the economic well being of their communities. The field has grown rapidly and now exceeds hundreds of programs operating in virtually all states and Washington, D.C. today.

In the process, microcredit has gained the attention of local, state, and national legislators of both political parties. It has captured the interests of economic development, human services, and other professionals. The enactment of welfare reform laws in 1996, with their time limits and work requirements, has increased the urgency of creating economic opportunities for low-income people. Microenterprise represents an important new option for many of these individuals.

Currently, a microenterprise in the U.S. economy is usually defined as a business with five or fewer employees that is small enough to require initial capital of $35,000, or less. Most microenterprises are sole proprietorships, which create employment for the owner, and often, other family members. However, there are also those microenterprises that grow into larger businesses which eventually employ other members of the community.

There seem to be several reasons why I and others view the rise of microfinance within the U.S. context as both viable and desirable:

-- Self-employment allows people in low wage regular jobs to supplement their income.

-- Microcredit enables the entrepreneurial spirit to flourish among society's poorest families and promote their development (Nelson, 1994).

-- Structural unemployment, such as plant closings and corporate downsizing, has dislocated many workers, leading many to create their own jobs.

-- Banks in the U.S. find it difficult to make profitable microenterprise loans under $35,000, most of which are not 100 percent collateralized. Reasons for this include the cost of conducting due diligence on loan applications, high transaction costs on loans, and compliance with "safety and soundness" issues of federal and state regulators.

-- For a low-income person, self-employment offers opportunities to use one's talents and find personal fulfillment. These opportunities may be difficult to find through low-wage employment (Nielson, 2000).

-- Self-employment offers women the flexibility to balance work and family responsibilities.

-- Immigrants and refugees frequently lack the certifications, licenses, or English proficiency needed to obtain professional jobs for which they may qualify. Creating a self-employment business related to their professional training is often preferable to a low-wage job in another field.

Thus, MFIs provide business development services to people who are currently operating or are interested in starting a microenterprise. The programs are operated by a wide variety of non-profit organizations. They range from those for which microcredit is their primary activity, to those whose programs include various other employment, economic development and anti-poverty strategies. MFI programming fits well into the service mix of these organizations since most microcredit programs focus on community development, business development or poverty alleviation. Such organizations include community development corporations, loan funds, community action agencies, women's business centers, community development financial institutions, small business development centers, and many others.

MFI Services

A number of useful supports for microenterprise are provided by MFIs.

Business training and/or technical assistance. These programs help participants build the skills needed to plan, market, and manage their microbusinesses. The business training/technical assistance usually results in the participants developing their ideas into feasible enterprises and writing formal business plans. In addition to helping individuals learn to research the market, conduct financial analyses, and plan marketing strategies, the training/technical assistance addresses personal development issues such as family budgeting, control of personal finances, and appropriate managerial behavior.

Access to credit. Microfinance helps participants obtain access to funding for their businesses. Many MFIs operate in-house lending programs. Others link participants with loans from collaborating banks, public loan funds, or other financing sources with which they have formal relationships. Most loans are made to individual business owners, but some programs use a peer-lending model. This assistance to accessing credit is crucial because federal and state banking regulations and underwriting criteria often prevent commercial banks from making loans to poor families.

Ongoing business assistance. Continuing consulting is provided to microentrepreneurs after they start or expand their family firms. It addresses issues that the businesses face as they move through each stage of development, as well as specific difficulties that they encounter.

Access to markets. Microcredit technical assistance helps participants find markets that will increase sales and profitability. They often provide training on marketing and sales concepts. They may also encourage clients to participate in trade shows, develop catalogs of their products, and advertise their businesses on the Internet. Some programs have started incubators for certain types of firms, such as technology or food businesses. Incubators provide business owners with a place to operate their firms, as well as with support services, such as administrative services and technical assistance.

Asset development/economic literacy. MFIs help clients increase their understanding of banking and savings principles. Some offer participants the option to open Individual Development Accounts (IDAs)—savings accounts that can be used by low-income households for certain purposes, such as to purchase a home or start a business. These accounts are matched—usually $1 to $3 for every dollar saved—with funds from either private or government sources.

Microentrepreneurs may choose to start from a wide range of businesses—ones that fit their interests and abilities. Common types of businesses are: Repair services, cleaning services, specialty foods, jewelry, arts and crafts, gifts, clothing and textiles, computer technology, child care, and environmental products and services. Let us examine several examples of MFIs that support such small U.S. firms, the first being a case of Native American family microcredit.

Lakota Fund, South Dakota

The typical U.S. approach to native economic development consists of top-down, government-operated, large grants of money that go to tribal officials, as well as often to their expensive Anglo consultants. These generally only last for the short-term and many suffer from governmental bureaucracies and inefficiencies, as well as corruption. In contrast, independent Native American microcredit could become a viable alternative. Indeed, small, grassroots-operated microenterprise development may become a catalyst for achieving greater tribal self-sufficiency. The Lakota Fund, albeit small, is a case in point (Lakota, 1998; 2006).

The Lakota Fund became the first microcredit financing for Native Americans in 1986. This effort on the Pine Ridge Indian Reservation was established because the region in South Dakota was among the poorest within the United States. Unemployment tended to range between 70-85 percent.

In the past, the 22,000 Native Americans at Pine Ridge have largely survived on federal funds to schools, healthcare and tribal government. Otherwise, agriculture has been the only source of income except for a few small private firms. Thus, the Lakota Fund was established in Kyle, a central village in the reservation. Over the past two decades, hundreds of tiny loans have been accessed by tribal members starting new microenterprises.

It began as a 1986 project of the First Nations Development Institute based in Fredericksburg, Virginia. Channeling loan capital to the Lakota Fund has been one of its greatest successes. Over 1,600 loans totaling some three million dollars have been given to would-be microentrepreneurs at Pine Ridge through several mechanisms.

Lakota circle banking. One strategy is that of "Circle Banking," based on the group lending model of the Grameen Bank. Small peer groups of 4-10 individuals form their group and participate in five microentrepreneurial training sessions. Most participants would not be considered "credit worthy" according to traditional U.S. banking criteria.

Upon completion of the Circle business education, the group is "certified" and its members then determine who will receive what amount of loans, usually ranging from $400-$1,000, with which to start. Lakota uses the social collateral of others in the Circle to guarantee that each loan is repaid. As co-debtors, this practice assures a loan repayment rate of about 90 percent. As loans are repaid, another larger amount may be borrowed to expand one's microenterprise.

An example illustrates the type of borrowers and businesses financed through microlending. Roselyn Spotted Eagle is an older woman who lives on the Pine Ridge Reservation in a two room house without running water or decent heating. She supports not only herself, but a grandson who is afflicted with fetal alcohol syndrome. Ms. Spotted Eagle makes beautiful beaded crafts for the tourist market, and through microcredit she has been able to purchase new tools and a greater inventory of beads and other materials to expand her microenterprise.

What features help to explain Lakota Circle banking success? First, it is not just about money, but training and education. The course modules include basic business skills such as budgeting, marketing and sales, quality, tax and licensing, and so forth. Borrowers also may participate in life-skills education that covers topics such as problem-solving, goal setting, drug abuse, and alcoholism issues. Elsie Meeks, executive director, reports: "If I were to identify the one most valuable aspect of Circle Banking, I would have to say that learning to deal with and solve problems is more important than even the loans" (SCN, 1997, p.91).

Another facet of Lakota Fund's achievements is its native control. Rather than be operated by Anglos or other outside "experts," the fund has a staff of four members from the tribe. They are overseen by a nine-person board of directors, most of whom also live on the reservation as tribal members. Thus, indigenous values and culturally appropriate policies are embedded and maintained over the years (Meeks, 2000).

A third element that ensures the Lakota Fund's achievements is strict adherence to the Grameen model, not a break-off U.S. variation. The Lakota Fund also insists that borrowers deposit at least $5 every two weeks as a nest egg of personal savings, also a replication of the Grameen system.

<u>Small business loans.</u> The second mechanism for entrepreneurial start-up is the Lakota Fund's Small Business Loan (SBL) program. In contrast to microcredit for Circle Banking enterprises, SBL started by giving initial loans for up to $25,000, much more money than that of the microenterprise level. However, candidates have to first participate in a seven-week training program where they obtain the basics of small business success and develop a feasibility plan. Examples of small businesses needing more capital than Circle Banking include construction, electronic repairs, and restaurants (Garr, 1996). From the reservation, we shift to microenterprise in the southern U.S.

<u>Micro-Business USA, Florida</u>

Another American MFI that provides microfinance services is based in the Miami area of south Florida. It was first established by my colleague, Kathleen Gordon, as a branch of Working Capital over a decade ago. Micro-Business USA (MB-USA) has grown gradually ever since and today serves multiple families in three languages: Creole, Spanish, and English. Its clients include low-income whites, Hispanic immigrants, especially large populations from the Dominican Republic and Cuba, as well as Haitian and other Caribbean refugees.

From Ms. Gordon's presentations at Brigham Young University's annual microcredit conferences, speeches to students in my courses, and personal conversations, the following picture about MB-USA emerges (Gordon, 1997). The organization only provides microloans to U.S. citizens or permanent residents with low incomes. Most are self-employed, but a few also have other jobs in the formal economy, so their microenterprise becomes a second income. The MFI's mission is to support financial self-sufficiency for low income families. It is established as a not-for-profit corporation with the state of Florida, and is qualified as a 501©3 tax-exempt firm with the IRS. This enables donors to claim a charitable tax deduction on their federal filings for monies given to support microcredit in Florida.

Basics of MB-USA. With headquarters is in Miami, it has additional offices in North Miami, Broward County, Ft Lauderdale, and St. Petersburg. It has provided training in peer-group lending processes to some 6,000 individuals, given out more than 2,500 loans, and the rate of repayment is in excess of 95 percent. Poor individuals begin the MB-USA program with twelve hours of training and a $500 microloan. Little by little, they build a credit history in the ensuing weeks and months as the loan is paid on time, until it is fully repaid. Clients also continue to participate in the MFIs microenterprise training to learn marketing and sales, leadership, accounting, and other critical dimensions of entrepreneurship (MB-USA, 2006).

At this stage, firms are often part-time income-generating projects. Recipients develop their talents and skills, apply ideas, and enjoy the experience of nurturing their own microenterprises. They overcome self-doubt and economic hardships, and begin to feel greater self-worth, according to Gordon.

Client success. One illustration of a positive case that typifies MB-USA's impact is Gammons Seasonings (2006) started by Larry Gammons in 2001. With a $500 loan and a small business license, the founder began in his kitchen. A second loan for $1,000 enabled him to purchase more supplies, develop a bar code for tracking products, and build a website. He even began running a low-cost television commercial through a local cable station. As business continued to grow, he qualified for another MB-USA credit line for $2,500 so he could purchase liability insurance and began placing his seasonings in grocery stores. Finally, Gammons' spices began to be bottled and sent out through an area distribution firm, ensuring a growing income and a more secure future for the Gammon family. He now is known as an African-American success in Florida and specializes in barbecue herbs and seasonings, and each of his family members are beneficiaries (Black Miami, 2006).

Building assets in a microenterprise gives poor Florida residents security. In the case of a small firm, it may also generate thousands of dollars in extra annual income. Studies suggest that for poor families this may translate into better healthcare, an improved living environment, perhaps a car that actually operates, as well as other family outcomes such as nutrition and children's education.

MicroBusiness Mentors, Utah

One offshoot of MB-USA is that it has inspired other groups to design and implement community-based microcredit programs like the one my students and I established for poor families in Provo, Utah. With advice from Ms. Gordon, who shared materials and her experience, we began to design an MFI as a university laboratory for service learning in 2003, as noted in this chapter's beginning, the vignette about Maria Luisa.

<u>Initial Research.</u> For my social entrepreneurship course, a team of graduate students worked with others across campus to conduct a needs assessment of the growing inner city Latino community. What we found were a number of problems facing residents in that area, in contrast to other neighborhoods: Median family incomes under $20,000, higher violent crime rates, lower high school GPAs, more public assisted housing subsidies, official poverty rates of 52-84 percent, family English as a Second Language (ESOL) of 28-51 percent in that area's elementary schools, and student mobility that ranged between 50-64 percent (BYU, 2002).

In our surveys of Provo inner city Latino families, we learned that 48 percent reported having no savings and 71 percent had annual incomes of under $30,000. When we inquired about their potential interest in becoming self-employed, 81 percent answered in the affirmative. Likewise, 78 percent reported they would be interested in receiving business training. Yet surprisingly to us, only 55 percent expressed interest in obtaining a loan (Woodworth and others, 2003). Thus, we began to feel that the delivery of business skills might best be our first priority. Based on these data, MicroBusiness Mentors was created. Its nickname, "M & Ms," began to be used for marketing our services.

M & Ms process. We designed a four-pillar system for operating its program: Training, group support, mentors, and loans. Briefly put, training seemed to be of interest to 78 percent of Latino adults in our survey. So we designed eight modules, one to be taught each week for 8 weeks. During these weeks, the participants learn about each other, work on training cases as a team, share ideas and experiences, all culminating in the creation of one's microenterprise plan. This system of mutual support builds solidarity and trust. If group members go on to complete the eight sessions of training and qualify for $500 loans, a graduation ceremony is held, certificates of completion are given, as well as the loans. Each member of the group signs a commitment to repay each others' loans, in addition to one's own, the group thereby acting as social collateral. This technique is sometimes referred to as "peer-lending" or "solidarity group loans." Group commitment and peer pressure serve to minimize borrower default rates. Also, they teach responsibility and the importance of repayment on time and in full for the amount due. After graduating and obtaining their first loans, M & M microentrepreneurs next turn to launching their tiny businesses, and each is assigned a volunteer mentor who agrees to coach them at least monthly over the next year.

As of now, M & Ms seems to be quite promising. Hundreds of Utah Latinos have received orientation and/or training. Those who completed the training have received loans, started microenterprises, and, so far, at least until now, a hundred percent of them have paid back their microcredit debts. Currently, M & Ms is seeking to become a legal 501(c) 3 MFI in Utah so it may expand its services and loan capital to greater numbers of poor families. But does this approach to alleviating family poverty work beyond the cases cited above? We turn next to several more systematic studies that indicate answers.

RESEARCH ON U.S. MICROCREDIT

While there are numerous articles regarding Third World microfinance, U. S. research is limited. However, the following paragraphs synthesize a number of benefits and impacts from MFI efforts:

1) Microcredit supplements family income. Research shows that clients of one organization in the northeast, Working Capital, a Massachusetts MFI, enjoyed more than $5,000 in additional income annually, a considerable figure for many poor families (Ashe, 2000).

2) Microcredit increases family assets. An Aspen Institute study (Clark and Kays, 1999) found that average household assets over five years grew by $13,623 among all study respondents. A low-income sub-group experienced a significantly higher increase in assets, averaging $15,909 during the same period..

3) Microcredit pares down one's reliance on government welfare. Two studies, one by the Self-Employment Investment Demonstration (SEID) project (Raheim and Alter, 1995), and the other, the Aspen Institute (Clark and Kays, 1999), found that many welfare recipients who participated in microenterprise development programs left Aid to Families with Dependent Children (AFDC) as well as food stamps programs. In the Aspen Institute's study, 61 percent of the low-income group stopped receiving AFDC. In the SEID study, 43 percent were not receiving food stamps, and 52 percent of the study participants no longer received AFDC benefits.

4) Microcredit through group lending ensures greater enterprise survival rates, including sales and profits, than typical individual-based small businesses (Barsky, 2000).

5) Microcredit builds family income and moves the poor out of poverty. A five year tracking study by the Aspen Institute (Clark and Kays, 1999), of longitudinal data from seven MFIs between 1991-1997 was conducted. Average household incomes of low-income program participants increased by $8,484 over five years. This resulted in 53 percent of participants moving out of poverty.

6) Miscellaneous other outcomes. Microcredit services improve microentrepreneurs' self-esteem, their quality of life, and their participation in the community. Barsky's (2000) research demonstrated that involvement in a borrower solidarity group results in increased self-confidence, better family relationships, and improved leadership and communication skills. Through their business activities, microentrepreneurs are more able to provide for their families. They serve as positive role models for their children and for the community. Many successful microentrepreneurs become mentors and advisors to others who seek to become self-employed.

7) The studies by Ashe concluded that peer lending creates jobs for not only the poor microentrepreneur, but also one's friends and neighbors. It opens new access to sources of credit, and builds better management capabilities, as well (Ashe, 2000).

8) Families and individuals in ACCION programs report more self-respect, dignity, and independence through group lending processes (Himes and Servon, 1998).

9) Microcredit adds to the net worth of poor families The Clark and Kays research (1999) showed higher amounts of family net worth, growing at an average level of $1,519 by the end of a five-year period.

MICROCREDIT AS A MODEL FOR POOR FAMILIES

U.S. microenterprise programs use a business model for fighting poverty. They are not a tool for welfare, handouts, or other approaches to charity. Rather, they seek to operate using free market principles; the underlying assumption being that by empowering poor families with economic knowledge, small business skills, and capital, poor families will be able to raise themselves above the suffering and lack of dignity many feel throughout the years of their economic struggles.

American MFIs focus on underserved families who have had difficulty accessing business development services of credit through traditional institutions. They often channel their services toward a specific target population, such as women, members of minority communities, people with low incomes, immigrants and refugees, and/or welfare recipients.

A core assumption is that by supporting parents in starting or expanding an income-generating enterprise, their examples may motivate their children later. MFIs can help them to increase their income, assets, and net worth. As a result, their reliance on welfare may be reduced, enabling them to move out of poverty. Self-employment activities can also result in individuals' increased self-esteem, improved quality of life, and greater involvement in their own communities. Such programs also benefit one's home town. They help to revitalize downtown areas, enhance regional economies in rural areas, and may lead to additional results for good.

A question often raised is how U.S. MFIs are capitalized. Early in the movement during the 1980s, funding for microcredit programs mostly came from foundations. Over time, however, existing agencies whose work focused on poverty alleviation and historically relied on public funding, found that some of the public dollars available to them could support these efforts. By the early 1990s, microfinance was recognized as a distinct field, and supporting legislation and appropriations began to be passed by Congress. Today the federal government channels money through such avenues as the Small Business Administration (SBA) Microloan Fund, and other agencies such as agriculture and housing also offer funding. In the latest fiscal year of federal funding for 2006, congress authorized $12.7 million for SBA loans, along with $13 million in technical assistance for supporting microenterprise development. Also, corporations like American Express and Levi Strauss provide philanthropic grants to MFIs, as do nonprofits such as the United Way. In addition, churches and individuals are becoming more interested in funding such efforts to empower the family.

As to the scope of today's MFI programs, the size varies considerably, as well as in the types of agencies that host them, and in the extent to which they identify with the field. This makes hard data nearly impossible to ascertain. Various observers estimate there are between 500-700 formal microcredit programs in America. With respect to numbers of microenterprises, the Association for Enterprise Opportunity (AEO) generously estimates on its state fact sheets that more than 21 million such firms exist (AEO, 2006).

It also claims that the total number of microentrepreneurs makes up 17.2 percent of all private sector jobs in the nation. In contrast, Edgecomb and Klein (2005) in their latest study, suggest the number to be about half that, approximately ten million microentrepreneurs. Others argue for different totals, their disputes, of course, arising from alternative definitions of how many employees, or how much capital is involved.

It is safe to conclude that microfinance is becoming institutionalized in America. It is increasingly supported by the business community. Members of both political parties have sponsored legislation and appropriations with the objective of strengthening the family through countering poverty. Back when he was Governor, former President Bill Clinton and wife, Hillary, helped to establish one of the first microcredit nonprofits in America, the Good Faith Fund, in Arkansas (Taub, 2004). Later serving in the Whitehouse, Clinton affirmed the importance of microenterprise development in giving families an opportunity to participate in America's economic prosperity by initiating Presidential Awards for Excellence in Microenterprise Development, presenting the awards to outstanding programs in 1997 and 1999.

CRITICISMS OF MICROCREDIT

While the growth of microfinance has been dramatic, it has also had some problems. Some of the early organizational players have shut their doors. Symptoms of problems vary—leveling off of growth, board and staff infighting, inability to raise more grant money, and aggressive marketing by new MFIs entering the movement, among other factors. In certain instances, MFIs managers belatedly realized that domestic applications of microcredit were more complex, necessitated greater sophistication, and so forth. For instance, FINCA spent three years and considerable money seeking to build a U.S. strategy, but finally abandoned the idea and refocused on its more successful global outreach. One notable case of MFI dissolution was the Coalition for Women's Economic Development (CWED) in Los Angeles, one of the seven core programs in the Self-Employment Learning Project (Huemann and Wiley, 1999). After some years, it completely disintegrated.

Finally, when trends such as dropping U.S. unemployment rates and rising availability of decent wage/salary jobs occur, there will be a decrease in the number of people who seek to create microcredit-based self-employment options.

A number of conservative U.S. think tanks have heavily criticized the rise of microcredit. One of them, the Mises Institute, was established to eulogize the legendary thinking of Ludwig von Mises, and takes a decidedly libertarian stance on economic and political issues. The writer complains that microcredit is a type of "cult," and complains that "despite a massive governmental push . . .very few borrowers receive any benefit at all . . . ." He concludes hyping traditional finance by raising a rhetorical question: "Is this the kind of program that will uplift the poor in the U.S.? We are better off sticking with old-fashioned banks that turn a profit, don't need subsidies, treat their borrowers like human beings rather than minions in a vast political organizing effort" (Tucker, 1999, p. 2).

But even mainstream business sources have their doubts about microcredit. For instance, in 2001 *The Wall Street Journal* published one of the most widespread attacks on the movement. Its authors alleged that Grameen Bank suffered from loan repayment problems and lateness and/or nonpayment, and that its accounting processes hid financial irregularities (Pearl and Phillips, 2001). The world's largest MFI defended itself in the press by pointing out that it adheres 100 percent to Bangladeshi corporate accounting practices, and pointed out that the nation's Central Bank officials constantly audit its books, resulting in two decades without a single irregularity. In fact, the MFI has continually published its financial information every month to anyone interested, making it one of the most transparent banks in the world (Yunus, 2001).

With respect to late payments and non-payment of some loans, Grameen reported that indeed, it did suffer a onetime hit, but it was due to the devastating 1998 floods which inundated half of the country, killing thousands, destroying microenterprises, and leaving millions of homes under water for nearly three months. As a socially-conscious MFI, Grameen forgave thousands of microloans and wrote them off as an expense. Repayment rates had indeed dropped to approximately 90 percent, but rebounded within a year and were again operating at 99 percent (Yunus, 2001).

While the *Journal* debated has subsided, there are other skeptics and their criticisms. Summarizing some of the issues includes the following oft-repeated assertions: 1) Providing loans to women only may disrupt the traditional family structure; 2) Tiny amounts of microcredit are too small to generate significant new jobs and lift the poor out of poverty; 3) There are many more youth and young adults unemployed globally, and microfinance is not sufficient to solve this crisis, and so forth.

My frequent response to such critiques is the observation that microcredit is not a silver bullet with which to solve all problems. It is but one tool, albeit a radically different idea, for reducing family poverty in many sectors of society. With respect to the above three issues, my rebuttals are synthesized as follows:

1) While skeptics may worry about female-focused microcredit disrupting families, some data suggest that microcredit makes women more equal and gives them a sense of dignity. Studies imply that marriages are stronger when there is a more level playing field between the partners. The female entrepreneurs begin to accumulate assets, and these assets can be used to provide better education and healthcare to their children. Furthermore, a number of MFIs have begun to change their client mix by moving toward

a more 50-50 ratio of male and female borrowers. In fact, one in India, BASIX, now gives preferential treatment in giving loans to male microentrepreneurs first (BASIX, 2005). A number of other MFIs are beginning to do the same.

2) The second complaint is from critics who argue that small microloans are insignificant in generating new jobs. To this, I would agree to an extent, depending on what is meant by "insignificant." At one level, I would argue that helping even just a few families is a good thing. Maybe even one. But the impact problem of numbers is due to the lack of capital, not the methodology. In the future, as the formal financial markets further embrace this movement, we will see much more significant impacts from it on a nation's economy. In Bangladesh, where millions have received microloans, approximately a third of recipients have moved above the official poverty line (Yunus, 2000). I am told that similar impacts have occurred in Bolivia and Peru. As MFI access to larger amounts of capital becomes easier, more families will rise above poverty, including the U.S. poor.

3) With respect to the third criticism that new employment creation is not keeping up with the demand, especially regarding youth, I concur. But the size of the problem is immense. Should we abandon traditional capitalist companies because they do not provide all the jobs society needs? The International Labor Organization (ILO) estimates that there are some 200 million unemployed people globally, and nearly half are the ages of late teens and early adults. Even worse, the proportion has greatly accelerated in just the past decade, making the future even more bleak (ILO, 2004). So I would suggest that MFIs are more needed now than ever. Microenterprises, more so than huge multinational corporations, are going to help answer this challenge. Large companies have been downsizing for a decade in much of the world, and those jobs will not return. This is

likely to be a growing crisis facing the U.S. economy as well. One of the most viable solutions is clearly going to be microcredit. However, to meet the demand, MFIs must turn their attention to this growing new, younger target population, a group that it typically has overlooked. Doing this will require new strategies, youth-centered training programs, and other innovations in order to strengthen the next generation of microentrepreneurs.

NEXT STEPS

Of course there are other issues regarding microenterprise that could be addressed were it not for the constraints of space and deadlines for this chapter. Among them are my personal concerns about *mission drift,* i.e. the tendency of U.S. microcredit to flow to the upper-level segments of the poor rather than to those truly at the bottom. This phenomenon tends to occur because very poor families are perceived as higher risks, less educated, and may, therefore, not repay their loans on time, in full.

But I argue that considerable effort should be made to focus on America's most vulnerable families and that by designing effective strategies they can and will be responsible clients. To what extent this is possible within the current U.S. economic context is clearly a matter of debate, owing at least, in part, to the cold reality that serving the poorest microentrepreneurs with tiny loans is not just risky, but also more expensive.

Future research, of course, needs to be done, but I think the data will bear out my assertion that the poor can become bankable. Better studies are badly needed on viable MFI tools for alleviating U.S. family poverty. Which methods are indeed best? How may greater amounts of capital ramp up this movement within our own country? What does not work, and why? How might it be changed? In addition, I would suggest that

U.S. microfinance needs to move beyond government support and private donations. What will be required increasingly in the future is to build MFI strategies that not only reach out to poor families, but that can become sustainable for the long-run. To continue depending on government subsidies, fund-raising campaigns and annual donor requests will not fully do the job. Nor will simply reaching a break-even point be sufficient. Over time, U.S. MFIs may need to be transformed into institutions of the capital markets, in which they are no longer operate as mere nonprofit foundations, but become morphed into for-profit companies working parallel with the traditional banking sector.

In conclusion, my sense is that microenterprise tools have made inroads for alleviating family poverty in America. They are elements of an economic self-reliance strategy that is here to stay. Microenterprise is based on the premise of a business model, not welfare. If we envision economic development as a ladder, what we have had historically is rungs toward the top that served the upper middle classes and elites—those who had decent jobs, or great jobs, sufficient or huge wealth, who worked in corporations, government, or the financial zenith of Wall Street. These families have enjoyed great access to banks and other upper echelon financial services, reiterating the old adage that it takes money to borrow money.

In contrast, at the very bottom of the economic ladder are the poorest families--the disabled, the unemployed, the immigrants. They have subsisted on the lower rungs because of government anti-poverty tools such as job services, food stamps, AFDC, and other programs. But these have not been enough to help many of the poor climb up. Instead, they have stayed at the bottom—stagnant, dependent, and unable to progress.

U.S. microenterprise adds a couple of new rungs to the ladder, above those of welfare, but below the rungs of the upper and middle classes. It can be a facilitator for improving a family's quality of life. What is different, however, is that microcredit empowers the poor family's capital investment, even in a microenterprise. As we have seen in south Florida, Hispanic Utah, and the Lakota reservation in the Midwest, it generates a sense of ownership and hope. Bit by bit, along with entrepreneurial training and consulting, in addition to a microloan, the impoverished family of today may rise beyond mere survival toward a sense of dignity tomorrow, and eventually enjoy the blessing of having control over one's own economic future. This is the promise of microenterprise for poor U.S. families.

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