MICROENTERPRISE AND THE POOR

Findings from the Self-Employment Learning Project
Five Year Study of Microentrepreneurs

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As Americans, we have come to see the poor as “the other.” We view them with a critical, distanced eye and believe that it is their lack of responsibility, action, or values that has led them to an impoverished life. The sweeping changes of the Welfare Reform Act of 1996 have allowed us to take this stance without remorse: They are off the rolls; they are no longer our problem.

On the other hand, there are those who argue that it is our moral responsibility to cast the safety net broadly again and pay cash benefits to poor mothers of small children. They argue that many welfare mothers cannot get ahead on their own, and their children will suffer.

Both are true. The answer — our solution — lies somewhere in between. Poor individuals are not helpless victims alone, nor are they able to clamber out of poverty by force of sheer will and the impetus of necessity and hunger. In fact, many, many poor Americans struggle every day to better their lives economically — yet cannot get a foothold. Engaging in the struggle to join the economic mainstream without support and public recognition of the magnitude of their efforts may be, for many, impossible in today’s economy.

While a triumphant story unfolds of the lowest unemployment rate in a quarter of a century, low interest rates, rising profits and a booming stock market, another story also unfolds: that of the weakening of wages for the average low-income or low-skilled worker. While jobs are plentiful, often these jobs do not pay wages that can sustain a family. In 1996 just over four million workers who were employed part-time said that they wanted to work full-time but could not find full-time jobs.1 Nearly 10 million worked full-time year round but for less that $7.00 an hour.2 From 1992 to 1998 the unemployment rate dropped by more than a third, yet the real hourly compensation of American workers remained virtually unchanged.3

It is in this context that microenterprise for the poor should be examined. While most low-income Americans will choose wage employment as a route to economic self-suffi-

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2 Ibid.
3 Ibid.
ciency, many (approximately 2-3 million) will choose self-employment, or running their own small or *micro* business. Many more will choose *both* a wage job and self-employment as a means to make ends meet with two income sources.

The Self-Employment Learning Project of the Aspen Institute tracked the progress of 405 individuals who were running microbusinesses for a five year period from 1991 to 1997. Of these individuals, 133 were very poor — with households less than 150% of the poverty line — at the first year of the study. This report documents the experiences of these individuals in their efforts to get out of poverty and the progress of the businesses they operate.

**Major Results of the Research**

**Progress out of Poverty**

- A very large majority — 72% — of poor microentrepreneurs experienced gains in household income over five years. The average change in household income was $8,484 — rising from $13,889 to $22,374 over five years.

- More than half — 53% — of poor entrepreneurs had household gains large enough to move out of poverty. For these individuals, their move over the poverty line was an economic change of huge magnitude: in most households family income nearly doubled over the five year period.

- For most of the individuals who moved their families out of poverty, the microbusiness was a major source of earnings for the household. For this group of successful individuals, the business was critical to the family’s ability to get out of poverty.

**Reli ance on Public Assistance**

- Poor microentrepreneurs reduced their reliance on government assistance by 61% on average, with the greatest reduction in the amount of Aid to Families with Dependent Children and cash benefits received. Average benefits declined by $1,679 a year.
The Role of the Microbusiness in Household Income Changes

• The microbusiness was a major contributor to household income — accounting for 37% of the increase in household income for those whose businesses stayed open.

• The survival rate of microbusinesses was 49% after 5 years — comparable with survival rates for businesses with similar characteristics and owners.

• Individuals in the study whose businesses stayed open experienced far greater success in getting out of poverty than those whose businesses closed, or who chose wage employment alone.

• Many microentrepreneurs “patch” together more than one source of individual income — wages from a job together with income from a business — in order to survive.

Asset Growth Over Time

• Average household assets of the poor grew by $15,909 over five years. The primary source of growth in the value of assets was in the category of housing assets.

Other Findings

• Only 50% of poor entrepreneurs have health insurance, putting themselves and their families at risk. Those who do have health insurance get it primarily from government assistance programs.

Recommendations for the Microenterprise Industry

• Entrepreneurs need access to affordable health insurance.

• Low-income entrepreneurs need a financial cushion in the form of emergency savings accounts.

• Low-income entrepreneurs need ongoing technical assistance and specialized consulting to help them implement and grow their businesses. The microenterprise field needs new strategies to develop these ongoing services.
• Microenterprise strategies should recognize and support patching — when individuals combine income from microbusinesses together with income from wage employment.

• Microenterprise programs should include an effective assessment process to help keep business failures to a minimum.

The path out of poverty is not drawn by a smooth, clear line from hardship to plenty. It is a course of small steps forward and back, leaps ahead and hard falls. The advent of getting out of poverty is often due to a combination of many factors: strong self-esteem, extensive personal support networks, the opportunity to move to a better job, successful business ownership, adequate health insurance coverage, good child care, and connections to the mainstream economy. When discussing the true nature of poverty alleviation programs, we must take care to give due respect to the complexity of forces that influence one’s life, both economic and otherwise.

In this report we explore the outcomes, in terms of income changes and poverty status, of the study’s poor entrepreneurs relative to the non-poor, and pose recommendations for the further development of microenterprise assistance nationally as an emerging industry.

Throughout, we have attempted to give voice to the poor entrepreneurs whose stories are told here. They are stories of struggle, resourcefulness, and commitment. We hope they will inspire you to consider the role of microenterprise within the range of efforts employed to move the poor out of poverty into productive lives. We hope they will encourage you to engage in the discussion about how best to support the efforts of these individuals in their attempts to move ahead in the world.