

## PROGRAM DESIGN FOR MICROENTERPRISE DEVELOPMENT

Microenterprise development programs tend to have common core components that include training, access to capital and technical assistance, although they vary greatly in how each of these components is emphasized and delivered. While the program design and the combination and sequencing of services will be largely driven by the founder's mission, many additional factors will influence the program and generate multiple decisions from those charged with shaping it. For those new to microenterprise development, this fact sheet introduces some of the key issues they will face in designing a program — from organizational settings to matching target groups with appropriate strategies. While it does not present any of these issues in depth, it does raise the questions that anyone exploring the options for a new program should consider.

### MISSION AND TARGET GROUP

The **mission**, clearly articulating the organization's purpose and goals, is the foundation and starting point for the design of a program. The mission is inspirational, communicating the organization's commitment to a targeted clientele as well as the principles guiding its relationship with that population. **Target groups**, in turn, usually link a program to distinct goals, objectives and activities. These two pillars — mission and target groups — will influence those charged with designing a new microenterprise program very differently, depending on whether that program is completely autonomous or part of an existing institution. In the former case, the mission of the organization and the microenterprise program are the same; the founder and the designer are likely to be the same person or working very closely together from a shared vision. In the latter, the new microenterprise program must support the existing mission and serve a target group already defined. Its implementation will likely require reconciling new practices with older more established ones of the parent organization. The advantages and disadvantages of these two scenarios are explored later under the discussion of institutional arrangements.

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**A program's strategy** flows from its mission and target populations. A program dedicated to helping welfare recipients to work their way off welfare will follow a different strategy from one committed to the economic development of specific neighborhoods. The microenterprise training curriculum for recent immigrants might include language classes as well as information on American banking practices, the legal system and tax code.

Most microenterprise programs are based on one of the following three broadly defined strategies. Their common link to promoting self-employment as an option for economic survival explains the overlap in target groups and outcomes.

**1. Business development:** Aiming to improve the economic self-sufficiency of poor families, a business development strategy focuses on increasing both the numbers of businesses owned by the poor and their performance. While this strategy can incorporate new and/or existing businesses, the goals and outcomes for each may be different. Helping new businesses to get over the hurdles of starting up usually requires intensive training and technical assistance. Assisting established businesses to grow and increase profits generally calls for more specialized technical assistance targeted to the specific problems in marketing, production or management encountered by each business. Access to loans from the program or other lenders is often part of the program design in both cases. Measurable outcomes could include numbers of businesses started, numbers of loans, number of businesses that have accessed bank financing, improved business performance over time and the creation of new jobs.

**2. Community economic development:** Associated with Community Development Corporations (CDCs), this strategy is implemented in specific neighborhoods in an effort to revitalize them. Target groups are often residents of those neighborhoods, and business development activities may range from financial and technical assistance to individual entrepreneurs to the rehabilitation of commercial properties. Outcomes could include new businesses on the street, new sources of income for residents, new jobs for targeted residents (public housing tenants, teens, etc.) or increased community assets and economic vitality.

**3. Poverty alleviation:** With the goal of helping the poor to gain access to new opportunities that will enable them to move out of poverty, this strategy builds the foundations of entrepreneurship for the disenfranchised. It seeks to empower these clients by increasing their economic literacy, business skills, self-esteem and personal behavior appropriate to the workplace. With a better grasp of their financial options as well as their own capacities and inclinations, clients make informed decisions about wage or self-employment. Financial assistance for those ready to start a new business includes small loans, small seed capital grants or incentives to save. Case management to resolve barriers related to housing, child care or transportation may need to be part of the program design.

## ASSESSING THE MARKET

Program designers need to consider these fundamental issues of mission, target group and strategy in a market context. A basic question to be answered is, "Is there a market, or demand, for this type of program?" The answer to this question lies not only in the huge numbers of low-income and self-employed people but in those willing and able to use the services offered. Assessing this actual demand will vary by mission and corresponding strategy. For example, an organization driven to serve a high volume of clients will need to assess where potential clients are concentrated and what it will take to reach them. A program

committed to the economic empowerment of poor women will need to find out more about the barriers women face, the realistic opportunities they can access with guidance from the program and what will motivate them to accept the challenge. The importance of relevant market research should not be underestimated in the program design process. A decade of experience indicates that making uninformed assumptions about demand can be a costly mistake. The following questions are illustrative of the information that is needed during the design process:

- ◆ Will the identified target group use this program? What is the strength of their demand for these services?
- ◆ What are the sources of potential clients who help the program reach its goals?
- ◆ Are there opportunities to partner with other institutions to either provide complementary services or gain access to their similar target groups?
- ◆ In light of relevant market information, how will the organization fund the program?

## SERVICES

Microenterprise development is defined by three basic services: training, technical assistance to entrepreneurs and access to capital. Each of these broad categories represents a rich mine of service types (types of training, types of assistance, etc.) and methods for delivering them. In keeping with its guiding mission, each microenterprise program design combines these three services in different ways. Some emphasize lending, others training. Many juggle all three because entrepreneurs, particularly new ones, typically need all of them to survive. So, the decision to specialize in only one of the three services should be made with the knowledge of how and where clients will access the other two. Together, training, technical assistance and capital constitute distinct parts of the whole package of inputs needed to ensure successful business outcomes among low-income entrepreneurs. Table 1 presents a summary of options under each service (See Microenterprise Fact Sheet Issue 3 on lending and Issue 4 on training and technical assistance for a more detailed discussion of these services).

While few programs offer all of these services, most include some combination that draws from the three categories. This selection of services involves important decisions about which ones have the most priority, how distinct services will be sequenced and linked, and defining the eligibility criteria for accessing them as illustrated by following questions:

### Box 1: Re-assessing the Market

**In the late 1980s, the Institute for Social and Economic Development of Iowa (ISED) participated in a demonstration project to help welfare clients become self-employed. Based on the program's success, ISED expanded services statewide and incorporated low-income clients, the unemployed and underemployed. Today, however, ISED is taking a closer look at its markets. Given that Iowa's welfare rolls have been cut in half and the state enjoys a very low unemployment rate, ISED is searching for new opportunities to expand. It believes that achieving a significant scale of operation is critical to its long-term survival. ISED's market research has revealed a number of untapped market niches such as youth, prison inmates, recent immigrants, refugees, day care providers, artists and farm families.**

- ◆ Will both training and loans be offered?
- ◆ Will completion of training be a requirement to get a loan?
- ◆ How long will the training be?
- ◆ Will the training focus on loan management or will it target broader issues of business operations?
- ◆ Will clients have access to technical assistance before or after receiving a loan, or both?
- ◆ What form will the technical assistance take? Will it emphasize on-site, individual business counseling, or will it include a range of services available at a business center?

While the chosen target groups will determine the answers to some of these questions, others will be influenced by the emphasis or priority that program designers assign to the three types of services. A program that places a priority on lending will be more likely to offer minimal training that focuses on helping borrowers to take and

Table 1:  
Summary of Program Services

TRAINING	TECHNICAL ASSISTANCE	CAPITAL
<p><b>Recruitment and Screening</b> Potential clients need to judge whether they want to join the program and programs need to screen out those who are inappropriate.</p> <p><b>Personal Effectiveness Training</b> The need for a holistic approach to the entrepreneur that addresses personal barriers to successful self-employment varies by target group.</p> <p><b>Economic Literacy</b> Prior to starting a business, many people need a better understanding of basic money matters such as banking, saving, taxes and budgeting.</p> <p><b>Business Training</b> Starts by exploring a business idea and culminates in a business plan, closely reviewing the many steps in between, including market analysis, financing, legal issues and management.</p>	<p><b>Business plan review</b> Clients often need individual help to work out specific aspects of their business plans.</p> <p><b>Loan applications</b> Program staff often help clients prepare loan applications</p> <p><b>Mentoring</b> Programs match new entrepreneurs with experienced ones for advice and support</p> <p><b>Specialized help</b> Offered after training and through the life of the client's loan (if there is one) specific problem solving is needed in many areas including: * legal issues * accounting * accessing markets</p>	<p><b>Individual loans</b> Can support R&amp;D, start-up costs or business expansion. Loan amounts, terms and process for loan analysis vary with purpose.</p> <p><b>Peer Group loans</b> Individuals gain access to loans through membership in a peer group that guarantees members' loans and provides support and opportunities for networking.</p> <p><b>Seed capital grants</b> For very low income clients, capital may be provided in the form of grants instead of loans to encourage specific business activity that might otherwise represent too much risk for the client.</p> <p><b>Individual Development Accounts</b> Matched savings instruments that encourage capital accumulation for approved purposes, including business investment.</p>

manage their loans. Because it is in the business of lending, such a program will likely concentrate on the volume of loans and the performance of its portfolio, leaving less time and fewer resources to offer intensive technical assistance. In contrast, a program that chooses to respond first and foremost to clients' training needs may look to other institutions to provide loans. Different target groups — immigrants, welfare recipients, the unemployed — may require tailored curriculums and intensive technical assistance to help them surmount personal and financial barriers.

Finally, choices about the training, technical assistance and capital to be offered will determine the staff and budget that need to be secured. The reverse is, of course, also true; available resources may

### Box 2: Three Distinct Approaches

#### **Focusing on Credit**

The ACCION U.S. Network is comprised of six nonprofit organizations operating in 21 cities. Its target population is defined as “any business owner without access to credit,” and loans are its principle product. Since 1991 it has provided over \$23 million to 3,774 borrowers. Currently, the Network serves 1,700 active borrowers and is actively seeking to expand this portfolio by engaging in more aggressive outreach and increasing the efficiency of the lending process. Its training is incorporated into the loan application process and focuses on what a borrower needs to know to manage her loan. For more substantive business skills training, ACCION affiliates partner with other institutions in their communities.

#### **Business Development via Training and TA**

In Iowa, the Institute for Social and Economic Development helps low-income, unemployed, welfare recipients and immigrants to start small businesses and gain economic self-sufficiency. It serves over 1,000 clients across the state each year with training and technical assistance that covers a wide range of issues from self-esteem and other personal issues to the technical aspects of business planning, applying for loans and gaining access to markets. ISED does not make any loans itself, but rather, helps clients to secure financing for their businesses from cooperating banks.

#### **Combining Training and Credit**

Part of People, Inc., a Community Action Agency located in the Appalachian region of Virginia, *BusinessStart* is a training and lending program. It uses a 12-hour Business Basics class to introduce participants to small business ownership. Striving to reach clients in their own communities, this course is offered throughout the service area at different times of the day and week. In its seven years of operation, *BusinessStart* has lent \$1.7 million comprised of loans ranging from \$100 to \$25,000. Individual technical assistance is available to borrowers for the life of their loan. Most recently, *BusinessStart* has added an “incubator without walls” through which clients can get marketing assistance and other pro-bono or low-cost professional services.

influence the program design. Loan capital, currently, is easier to find than funds for training and technical assistance. (Microenterprise Fact Sheet Issue 5 provides a guide to sources of public funds for microenterprise development). Yet, because all three are critical, the challenge for microenterprise practitioners is to achieve a balance of services that is sustainable for the program and its higher risk target groups.

A number of microenterprise organizations decide to focus on one sector in the business economy. Staff have, or develop, expertise in this sector and use their in-depth knowledge of the industry (licensing, input supply, product, markets, etc.) to provide very focused training and advice to entrepreneurs. Commonly targeted sectors for these programs are family-based day care, construction and food products. Sector-based programs can result in significant value added to clients' businesses via new products, increased productivity or access to new markets. The disadvantage is that few organizations can develop and maintain expertise in multiple sectors, potentially limiting the number of businesses that can be served.

Box 3:  
A Sector Based Program Design

The Virginia Community Development Loan Fund (VCDLF) is a microenterprise program located in Richmond, Va., which has its roots in a low-income church-affiliated housing corporation. Through its Minority Contractors Assistance Program, VCDLF links minority contractors to this housing corporation and other public housing authorities. With loans, brokering services, advocacy and technical assistance, VCDLF is trying to build an effective model to match purchasers with minority suppliers — landscapers, general contractors, painters and excavation companies — and help the latter to expand their businesses to create more jobs. Through its close working relationship with the housing corporation, VCDLF gains valuable knowledge of the industry — its contracting process, management requirements and costs — that enhances its ability to help clients obtain and carry out their contracts. It also gains insights to client capacity that help it to assess loan applicants. By investing in this sector-based approach with general contractors, VCDLF Executive Director Tim Hayes believes that the loan fund is thought of more like a venture capitalist than a traditional lender.

## PARTNERSHIPS

Partnerships with other organizations — community development agencies, banks, Small Business Development Centers and social service agencies — are a critical part of the program design. Collaborating with other institutions enables a program to expand the number of services it can offer clients, reduce its costs and align itself more closely with the communities it serves. These partners can be a source of funding, training, clients, mentors and volunteers. For lending, several different models shape partnerships between microenterprise programs and commercial banks. In some cases, a bank makes loans to program clients that are guaranteed by the program's capital. Working Capital, a microlender in New England, seeks referrals from banks of those loan applicants who have been denied. Programs often seek partnerships with external training resources — consultants, firms, community colleges — to expand the training content they can offer clients.

Box 4:  
A Partnership with CDCs

The Neighborhood Development Center (NDC) in St. Paul, Minn., offers training and loans to small and micro entrepreneurs in an effort to get businesses on the street in inner city neighborhoods. NDC has built a dynamic partnership with 12 local Community Development Corporations (CDCs) that recruit participants for NDC's 16-week business training program, interview applicants, select the trainer and host the course. For its part, NDC provides marketing materials for the course, pays the training program costs and administers a loan fund for eligible training graduates. The relationship gives CDCs another tool for economic development while providing NDC with effective access to more local neighborhoods than it could reach on its own.

## ORGANIZATIONAL SETTINGS

Some microenterprise programs are stand-alone — that is, nonprofit organizations established with the sole purpose of promoting microenterprise development. While this type of organization dominated the field in its early days, it is now more common to find microenterprise programs incorporated into larger, multipurpose institutions including:

- ◆ Community Development Corporations, which have added microenterprise development to their activities in housing and commercial development.
- ◆ Community Action Agencies (CAAs), traditionally home to a variety of social service programs for low-income clients, the elderly and needy children, see enterprise development as another way to address the many needs of low-income individuals and families.
- ◆ Community Development Financial Institutions, such as nonprofit loan funds and community development credit unions.
- ◆ Chambers of Commerce, community colleges, university extension services, municipal and country governments, although less frequent, have sponsored microenterprise programs.

The sponsorship of microenterprise programs by multipurpose organizations is explained more by the strength and attraction of the strategy than by a conviction that such an incorporation is a superior model. There are numerous successful examples of each organizational option (stand-alone or housed within a larger institution) and no consensus as to the best one. The principle considerations of incorporating a program within a larger institution are summarized in Table 2.

Whether a microenterprise program stands alone or is housed within a larger institution, it will need strong leadership. Like any nonprofit organization, the leadership is called upon to leverage credibility

Table 2: Advantages and Disadvantages of Incorporating Microenterprise Programs in Larger Institutions

**ADVANTAGES**

- The microenterprise program can build on existing relationships with the potential clients.
- The program may be able to tap into the parent organization's relationships in the community for resources and expertise.
- Administrative costs can be spread over a wider range of activities, thus taking advantage of economies of scale.
- The parent organization may be able to offer clients complimentary services (childcare, health care, counseling) improving their opportunities to achieve self-sufficiency.
- The parent organization may be able to provide start-up funds for the microenterprise program.

**DISADVANTAGES**

- The parent organization may not have a long-term commitment to microenterprise development; if the program is not seen as central to the mission, it may be among the first to go when resources get tight.
- The existing staff may not have the technical skills that microenterprise programs require.
- The microenterprise program may have to compete with the parent organization's other programs for resources and management attention.
- The accounting systems may not be set up for lending and other business ventures.
- Clients may associate the larger organization with charity rather than business, creating challenges to building a commercial culture in the program.

and resources, opening doors for the program. To assume this role, the Board of Directors must fully understand the program and the challenges of this industry. Boards of multipurpose organizations taking on a new microenterprise program may need specific training that distinguishes this economic development strategy from the traditional social services often associated with low-income populations.

**CONCLUSION**

In a relatively new field that is experimenting with a host of innovative strategies as well as confronting significant challenges, there is no one proven program design. Key factors such as the target group, orientation and skills of the host organization and accessible resources should point designers in one direction or another. And with hundreds of microenterprise programs now in operation throughout the country, there are diverse experiences and models that can guide the program design process. No one has to proceed in a vacuum or re-invent the wheel. The Association for Enterprise Opportunity can identify those members whose location and specific program design would merit a visit or other contact for more information. It also organizes an annual meeting and a training institute where questions of program design can be raised.

**RESOURCES**

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