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# *Expanding Options:* **Comparative Analysis of DOL/ETA Experience with Microenterprise Training Initiatives**

**Final Report**  
**November 2001**

**Submitted to:**

**U.S. Department of Labor, ETA/OPR**  
200 Constitution Avenue, NW, Room N-5643  
Washington, D.C. 20210  
Contract No. G-7725-9-00-87-30

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# Expanding Options: A Comparative Analysis of DOL/ETA Experience In Microenterprise Initiatives

## Chapter 1: Introduction

Over the past ten years, ETA has funded numerous initiatives in support of self-employment and microenterprise.<sup>1</sup> Directly funded activities have included the Unemployment Insurance (UI) self-employment demonstrations, the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration, the Job Training Partnership Act (JTPA) Microenterprise Grants Program, and several competitively awarded welfare-to-work grants. Indirectly funded activities have included numerous state and local programs operated under the authority of the Self Employment Assistance (SEA) program and Job Training Partnership Act/Workforce Investment Act (JTPA/WIA). As indicated by this list, self-employment and microenterprise have received increasing visibility within the programs administered by ETA, and comprise a significant new initiative within the workforce development system.

Despite the growing attention to self-employment and microenterprise, many prospective participants do not have access to these services. Relatively few states have authorized SEA programs, and local Workforce Investment Boards (WIBs) have not typically included self-employment training programs on their lists of eligible providers. In general, the workforce development system has been slow to introduce these services.

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Note: This report presents Berkeley Policy Associates' (BPA) findings from *Comparative Analysis of DOL/ETA Experience in Microenterprise Initiatives* conducted for the Department of Labor Employment and Training Administration (DOL/ETA) under Contract Number: G-7725-9-00-87-30, Task Order 1.

<sup>1</sup>For the purpose of this paper, we define "microenterprise" as a sole proprietorship, partnership or family business that has fewer than five employees and is small enough to benefit from loans of under \$25,000. Microenterprises are a subset of small businesses, which may have as many as 500 employees. While this report focuses on microenterprise training and services—efforts that promote the development of these small business—it also includes "self-employment" initiatives supported by DOL.

To promote greater access to self-employment and microenterprise services within the workforce development system, DOL engaged BPA to provide (1) a review of ETA-funded activities in the areas of self-employment and microenterprise, and (2) a discussion of challenges and opportunities for state and local entities that wish to increase the accessibility of these services.

This study was not intended to address the question of whether or not it is desirable to provide microenterprise development training through the workforce development system. Instead, it assumed that this option is consistent with WIA's emphasis on customer choice, and investigated ways to make this option more available to customers.

## How This Study Was Conducted

BPA collected information for this study by conducting a review of relevant literature and telephone calls with key informants. The literature review focused on evaluation reports completed under previous ETA contracts and on research and publications on the microenterprise development field. With input from the Department, we compiled a bibliography (submitted with BPA's Design Report) that served as a starting point to guide our literature review. The intent of the literature review was to document the activities funded by ETA to date, and to summarize their results for an audience of state and local policymakers and practitioners.

To prepare for telephone data collection, we developed a series of discussion guides used in conducting structured phone discussions with key informants. BPA identified key informants with the assistance of the Department. The informants included:

- (1) self-employment and microenterprise experts—program and policy researchers, evaluators, implementers and planners.
- (2) state practitioners—state level workforce development professionals many of whom have consulted on self employment initiatives within the employment and training system.

- (3) local practitioners—local workforce development staff and local microenterprise training providers with experience serving disadvantaged workers and, in many cases, collaborating with workforce development staff.

We developed contacts among each of these subgroups, creating an iterative process or “snowball survey.” BPA staff conducted interviews with five self-employment/microenterprise experts, ten state practitioners, and ten local practitioners (See Appendix A). Using a national listserv on microenterprise, staff gathered additional information on collaboration between microenterprise and workforce development programs from microenterprise experts and local training providers.

## Organization of This Report

This report documents the outcomes of the literature review and key informant interviews. Chapter 2 provides background on the field of microenterprise development, including brief discussions of 1) the emergence and evolution of the field of microenterprise development in the United States, 2) key components of microenterprise programs, and 3) benefits of microenterprise development services for the service recipient. As an appendix to this chapter (See Appendix C) we include brief descriptions of promising research—studies that are likely to shed light on many of the questions raised in this report.

Chapter 3 moves to a summary of examples of DOL-funded microenterprise and self employment programs. In this chapter, we discuss findings from evaluations of the EDWAA Job Creation Demonstration Project, JTPA Microenterprise Grant Programs, Self Employment Assistance Demonstrations, and ongoing state SEA programs. For each program, this chapter offers an overview of 1) the project and service model, 2) services and participation, and 3) outcomes of the initiative. (More complete summaries of these programs are provided in Appendix B.) In addition to describing these initiatives and their results, this chapter highlights the most transferable lesson from each effort. We also include in Chapter 3 a description of microenterprise services offered in the context of the DOL Disability Employment Grants Program—findings drawn from a recently conducted BPA evaluation of this program for the Department.

Chapter 4 describes challenges and barriers to incorporating microenterprise services into the workforce development system and suggests solutions. The last section of Chapter 4, *Making It Work: Expanding Options* is offered as a guide for policy makers and state and local workforce development staff as they expand services to include microenterprise options for their customers. While findings are relatively preliminary—gathered at an early stage of WIA implementation—they point to several widespread barriers. These are discussed along with recommendations for strategies and solutions.

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## Chapter 2: Background on Microenterprise

### The Emergence of Microenterprise in the U.S.

The last two decades have witnessed the emergence and tremendous growth of a field of microenterprise development in the United States. While ingenuity and self-reliance, epitomized by business ownership, have always been a part of the American ethos, the widespread application of microenterprise development as anti-poverty and job creation strategies did not appear until the mid-1980's (Else and Gallagher, 2000).

Microenterprises are defined as businesses with fewer than five employees requiring start-up capital of \$25,000 or less (FIELD, 2000). Just as microenterprise is a subset of small business, microenterprise development programs represent a subset of self-employment training programs, which include public and private agencies (Small Business Development Centers (SBDCs), community colleges, etc.) that offer resources for entrepreneurs.

Microenterprise development and approaches to microlending and microcredit were first developed and tested in 1976, with the founding of the Grameen Bank in Bangladesh. The Grameen Bank was designed as a "village bank" through which individuals were lent small amounts of capital to start businesses within a supportive peer group. The peer group served as guarantor for the loan and provided training, advice and support (Tarpley, 1995). Models of microenterprise have since spread throughout the world, gaining particular attention in Asia, Africa and Latin America. While Asian and Latin American microenterprise programs have tended to be developed by non-government, non-profit organizations (NGOs), European programs have been initiated as government programs.

In the 1980's, a handful of North American human service and economic development non-profits sought to import these models to address poverty and unemployment in U.S. neighborhoods and communities. As the field of microenterprise development grew, a broad array of practitioners (e.g., community and economic development organizations, community action agencies, community development financial institutions, refugee service agencies, and agencies serving specific target groups) provided training and start-

up assistance. These agencies served a wide range of target populations, including women, minorities, youth and older workers, disadvantaged, dislocated and unemployed workers, workers with disabilities, immigrants, refugees, and welfare recipients (Else and Gallagher, 2000).

The Aspen Institute's *1996 Directory of U.S. Microenterprise Programs* reported that 328 organizations were involved in microenterprise activities, an increase of 68% since the initial microenterprise directory was published two years earlier (Severens and Kays, 1997). Microenterprise programs operated in 46 states and the District of Columbia and assisted more than 50,000 individuals in 1995 alone. By the year 2000, there were 700 microenterprise programs across the United States (FIELD, 2000).

Since the emergence of the microenterprise development field, financial support for microenterprise has also been highly diversified. Funders include various departments of federal government, state and local government, private foundations and corporations. Private foundations have played key roles in supporting the growth of the microenterprise field, and they continue to sponsor research and evaluation, practice, public policy, advocacy, and capacity building. Although government agencies have also increasingly invested in microenterprise development, total funding is relatively small, compared to funding levels for other social and economic development strategies (Else and Gallagher, 2000). It is estimated that between 1988 and 1999, federal agencies invested over 300 million dollars to advance microentrepreneurship (Else and Gallagher, 2000). These agencies included:

- \$ Department of Health and Human Services
  - Administration for Children and Families
  - Office of Community Services
  - Office of Refugee Resettlement
  
- \$ Department of Commerce
  - Small Business Administration
  - Economic Development Administration
  - Minority Business Development Agency
  
- \$ Treasury Department

- \$ Department of Labor
- \$ Housing and Urban Development
- \$ Department of Agriculture

Figure 1 provides a partial listing of federal initiatives supporting microenterprise efforts. Department of Labor initiatives are not shown in this chart, but are discussed in more detail in Chapter 3 and Appendix B.

The Small Business Administration (SBA) has provided the most support for entrepreneurs and micro-entrepreneurs. The SBA's 1991 Microloan Demonstration Program was the legislative initiative that targeted microenterprise programs for funding. The Microloan Demonstration Program has awarded a total of over \$100 million in funding to nonprofit microenterprise programs and individual entrepreneurs. Through a network of centralized and easily accessible SBDCs, the SBA provides a wide variety of information and guidance to small businesses.

**Figure 1**  
**Federal Support for Microenterprise**  
**(partial listing, excludes DOL initiatives)**

Department	Program
Health and Human Services	<ul style="list-style-type: none"> <li>&lt; Job Opportunities for Low-Income Individuals</li> <li>&lt; Microenterprise Development Initiative (Office of Refugee Resettlement)</li> <li>&lt; Temporary Assistance for Needy Families</li> </ul>
Commerce	<ul style="list-style-type: none"> <li>&lt; Microloan Demonstration Program (Small Business Administration)</li> <li>&lt; Revolving Loan Funds (Economic Development Administration, Economic Adjustment Program)</li> </ul>
Housing and Urban Development	<ul style="list-style-type: none"> <li>&lt; Community Development Block Grants</li> <li>&lt; Youthbuild</li> <li>&lt; Empowerment Zone/Enterprise Communities</li> </ul>
Treasury	<ul style="list-style-type: none"> <li>&lt; Community Development Financial Institutions (CDFI) Fund</li> </ul>
Small Business Administration	<ul style="list-style-type: none"> <li>&lt; Training and technical assistance through Regional Office Programs and through Small Business Development Centers</li> <li>&lt; Microloan and loan guarantee programs</li> </ul>

As Figure 1 illustrates, federal support for microenterprise consists of two major types of initiatives:

- (1) new grant programs that fund training or start-up costs for microenterprises, and
- (2) revisions of eligibility requirements or other provisions of existing programs to encourage microenterprise activities.

SBA's Microloan Demonstration Program offers an example of the first of these categories. Recent changes to the federal-state welfare program, Temporary Assistance for Needy Families (TANF), provide examples of the second category. In response to new federal legislation, many states have created TANF programs that encourage microenterprise by relaxing limitations on allowable assets and expressly permitting self-employment as an allowable work activity.

## Benefits of Providing Microenterprise Services

With the growth of the microenterprise development field, practitioners and researchers have increasingly sought to evaluate and document the benefits of implementing microenterprise programs. Research and a field of practice and observation point to a range of benefits for conducting microenterprise development programs.

The goal of most microenterprise programs is to provide people with access to the resources they need in order to attain economic self-sufficiency. The target population of most microenterprise programs has no other access to these critical resources. Therefore these programs function to create a new class of entrepreneurs and a set of businesses that most likely would not exist otherwise. Microenterprise programs also contribute to economic development outcomes indirectly, through the training they provide and economic literacy skills they teach.

—Servon, 1998

## Creating Jobs and Stimulating Growth

According to the U.S. SBA, small businesses employ 53% of the private workforce and provide virtually all of our nation's new jobs. Described as the fastest growing sector of our economy, the number of small businesses in the U.S. has increased 49% since 1982. Between 1987 and 1992, the U.S. saw a 61% growth in women- and minority-owned firms (including sole proprietorships, partnerships, and S-corporations). According to recent projections issued by the Bureau of Labor Statistics (BLS), small-firm-dominated sectors of the economy will contribute about 60% of new jobs between 1994 and 2005.

The primary goal of most microenterprise development initiatives is the creation of new jobs for unemployed, dislocated and disadvantaged workers, workers with disabilities, youth, minorities and women. New businesses represent new jobs for the business owner and in some cases for other disadvantaged workers (CFED, 1999). Outcome data from four evaluations of microenterprise programs suggests that microenterprise development can substantially improve the business survival rate of microbusinesses run by low-income workers, resulting in survival rates that range from 56% to 90% (FIELD, 2000).

While successful microenterprise development requires a longer term investment than wage employment, in comparing costs of microenterprise services with other interventions with low-income clients, the Aspen Institute's Self Employment Learning Project (SELP) found that costs for microenterprise

ranged from \$2,535 to \$ 9,075 per client. These costs are comparable to the costs of other anti-poverty employment training programs: \$5,300 for job placement thorough America Works and \$6,000-7,000 per participant for the San Jose Center for Employment Training (FIELD, 2000).

*From a social welfare and employment policy perspective, [microenterprise development] MED is a critical option for a small portion (2-5%) of low-income and unemployed people. The outcomes are modest but substantial, and the limited cost-effectiveness analyses that have been conducted suggest that the strategy is comparable in cost to public employment and training strategies focused on wage/salary employment.*

—Else and Gallagher, 2000

### **Increasing Income, Assets And Net Worth For Individuals In Poverty**

The SELP study documented increases in household income for entrepreneurs served by participating microenterprise programs. According to this study, microbusiness accounted for 37% of the increase in household income for those whose businesses stayed open (Clark and Kays, 1999). Specifically, SELP found that the average household income for the poor increased by \$10,507 over five years. Business assets increased by an average of \$18,706 among the poor and \$13,120 for the nonpoor. In addition to increased income and assets, poor microentrepreneurs “reduced their reliance on government assistance by 61% on average,” a reduction of average benefits by \$1,679 a year (Clark and Kays, 1999).

Findings from SELP and research conducted by the Institute for Women’s Policy Research suggest that many microentrepreneurs use self-employment as a “income patching” strategy—combining these earnings with income from wage employment—and that this is a critical component of anti-poverty strategies. SELP found that half of participating entrepreneurs had two or more sources of income (FIELD, 2000).

### **Providing Employment For Dislocated And Older Workers, Women, Minorities, And Youth**

Based on data from the Census Bureau's Survey of Women-Owned Businesses and Survey of Minority-Owned Business Enterprises, the U.S. SBA’s Office of Advocacy estimates that in 1997 there were almost 8 million women-owned businesses (8.5 million with C corporations) and 3.2 million minority-owned businesses. Their numbers have been increasing steadily, and more rapidly, than those in the economy as a whole.

The U.S. SBA Office of Advocacy reported (SBA, 1999) that small business ownership “opens doors for women and minorities to move into the economy less encumbered by traditional barriers to economic achievement.” Small firms are “more likely than large businesses to hire individuals that are on the margin of the labor force.”

As we discuss in Chapter 3, promising results from DOL’s SEA Demonstrations in Washington State and Massachusetts led to temporary SEA provisions under

the North American Free Trade Agreement (NAFTA) and a permanent state option under the Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998. An evaluation of these demonstrations found that participants were twice as likely as non-participants to launch a business successfully, had shorter unemployment spells, and had higher average subsequent employment rates and earnings than the control group (Messenger and Stettner, 2000).

### **Filling Gaps in Business Lending/Financing**

Accessing loans for less than \$25,000 and with less than 100% collateral can be a barrier to microenterprise start-up. To bridge this gap, microenterprise programs often combine training and technical assistance with access to credit, or with efforts to link microentrepreneurs with lending options in their communities. The SBA Microloan Program is the primary source of support for the microenterprise field and of capital for microenterprise lending. Recent research suggests that the demand for loans among microentrepreneurs is lower than early practitioners anticipated, because microentrepreneurs can in some cases access funds easily through credit cards and do not seek loans. Nevertheless, numerous institutions—including departments of larger financial institutions and programs within community development agencies—have established microlending programs to serve microentrepreneurs.

### **Other Benefits**

Numerous anecdotal reports describe a range of less tangible benefits of microenterprise development. These include, for example:

- \$ Increased self-esteem and confidence in creating and operating a new business. According to Barsky (Working Capital, 2000), involvement in a peer lending group increased participant self-confidence, improved family relationships and promoted the development of leadership skills.
  
- \$ New skills and abilities that result from an investment in “human capital.” Whether applied to running a small business or to traditional wage employment, microentrepreneurs acquire new sets of skills through the course of training for and operating a small business.

While business ownership often entails working long hours, including evenings and weekends, it can also offer flexibility to balance work and family responsibilities, or, depending on the business, offer an accommodation for workers who need non-traditional schedules.

## Key Components of Microenterprise Programs

As mentioned above, microenterprise development organizations are housed in a broad array of agencies and are designed to serve diverse target populations. As a result, these programs vary considerably in the ways in which training and service components are emphasized and delivered. Nevertheless, most microenterprise programs begin with a recruitment/screening process and include three basic services: training, technical assistance and access to capital. Many also offer peer support and mentoring opportunities. These components are outlined below:

### Recruitment and Screening

Approaches to recruitment vary significantly from one agency to another depending on an agency's mission and target population, the linkages between its microenterprise services and other services, its funding sources and requirements, and its contacts and agreements with other organizations. Common to all programs is the need to provide prospective participants with a clear sense of the risks and benefits of self-employment, the skills and competencies that promote success, and the commitment required to pursue this vocational option successfully. Microenterprise development programs often use some combination of intake/enrollment sessions, workshops and individual interviews to:

- \$ provide information on microenterprise;
- \$ orient prospective participants to the program;
- \$ describe advantages and disadvantages of microenterprise, reasons for becoming self employed, and common entrepreneurial traits;
- \$ provide an opportunity for self-assessment and/or staff assessment, allowing participants and staff to determine whether or not

microenterprise is a viable option and screening out participants who are not prepared to undertake this option; and

\$ discuss business ideas, business plans, and barriers to pursuing them.

## Training

The type and length of training after orientation and screening also vary across programs. Training providers may offer classes that range from 4 to 15 weeks in length with 1 to 4 hours per week of classes. Within this wide variation, training and services often address one or more of the following content areas:

- \$ **Economic Literacy**—training to increase economic literacy may be provided as a separate module or folded into other training components and often covers banking, saving, budgeting, and taxes.
- \$ **Business Training**—beginning with a business idea and progressing to the development of a business plan; includes training in market analysis, business marketing (developing and implementing a market plan), financing, financial management, operations, legal issues, employee management, inventory control, and business management.
- \$ **Business Plan Review**—the purpose of this review, which may be done by participants with staff, mentors, consultants or others, is to conduct feasibility research to test the business idea for viability and profitability. As part of this assessment, participants and staff or consultants may also discuss business structure, markets, financial needs and plans.
- \$ **Personal Effectiveness Training**—this may involve specific components or be woven into other training modules. In any case, the emphasis is on taking a holistic approach to entrepreneurship that empowers participants to identify and address needs and barriers to pursuing self employment and to build the skills, confidence and support systems to address them.
- \$ **Access to Markets**—helping participants find markets that will increase sales and profits. Topics of training may include developing and executing marketing plans, using advertising and public relations,

pricing, packaging, and distribution. Programs may help entrepreneurs publicize business products and services through their own program materials and directories, catalogs, trade shows, and the internet.

### **Technical Assistance**

While formal business skills training is a large and important component of microenterprise training, technical assistance and other supports are vital to successful business development for disadvantaged and dislocated workers. Ongoing business assistance is often needed to expand businesses and address challenges that arise after the start-up phase. Technical assistance may be provided by staff, consultants, or advisors. Technical Assistance includes a range of professional or legal advice, review and assistance with business and marketing plans, or loan applications.

### **Credit and Access to Capital**

Most programs provide training or assistance in obtaining access to credit for financing business start-up. This can include in-house lending programs, peer lending programs, or arrangements with banks, public loan funds, or other financing sources. Training programs may assist participants in preparing loan applications and may help participants to access low-cost financing from a variety of sources (commercial loans, state government loans, program loans/capital in the form of individual loans, peer group loans, seed capital grants, or individual development accounts).

### **Peer Support/Mentoring**

Many programs consider peer support and/or mentoring by entrepreneurs to be essential components of their program. Programs are often structured to promote the development of these relationships, for example, by hiring trainers and consultants who are themselves self employed (sometimes drawing from the pool of program graduates), promoting discussion and exchange among training participants, creating mentoring opportunities with business advisory committee members, and by linking businesses through incubators, and shared resources.

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## Chapter 3: Department of Labor (DOL) Funded Microenterprise and Self-Employment Programs

In this chapter we present brief summaries drawn from evaluations of five DOL-funded microenterprise and self-employment programs. These programs are:

- \$ the Unemployment Insurance (UI) Self-Employment (SE) Demonstrations,
- \$ the ongoing UI Self-Employment Assistance (SEA) Programs,
- \$ the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration Project,
- \$ the Job Training Partnership Act (JTPA) Microenterprise Grant Programs, and
- \$ the Disability Employment Grants Program.

For each program, we highlight the project and its service model, program participants and services provided, and participant outcomes. We also discuss lessons learned from each project and highlight (in bold text) the most relevant, transferable lessons for workforce development planners seeking to incorporate microenterprise services into employment and training programs. In Appendix B, we present more complete summaries of each of the five programs.

### Unemployment Insurance (UI) Self-Employment (SE) Demonstrations

Operating from 1989 to 1993 in Massachusetts and Washington state, the SE Demonstrations were designed to evaluate the feasibility and cost-effectiveness of self-employment assistance programs. The program allowed unemployment insurance claimants to receive financial assistance while devoting themselves full-time to starting their own businesses.

## Program Model and Outcomes

The SE Demonstrations served new UI claimants. In Massachusetts, eligible participants were identified—by using a statistical model, an early worker profiling model that was similar to the one used in the Worker Profiling and Reemployment Services (WPRS) system—as having more than 55% probability of exhausting their benefits. Participants in the SE Demonstrations received a self-employment allowance equal to most of their unemployment insurance benefits. The training and technical assistance they received consisted of a combination of group training and individual meetings with a business counselor.

As reported in Unemployment Insurance Occasional Paper 94-3 (1994), participation in the program was deemed by evaluators to increase self-employment, increase total time in employment, and reduce the length of unemployment. A benefit cost analysis indicated that both programs had significant net benefits for society.

## Lessons Learned

**SEA is a viable, cost-effective approach**, albeit for a small portion of the unemployed population. The Massachusetts program, which developed a statistical profiling mechanism, was deemed likely to be a cost-effective approach for providing SEA to UI claimants. **Self-employment assistance directly increased job creation by doubling the number of business starts**. Participation in the programs significantly increased total employment (combined self-employment and wage and salary employment) and total earnings) (Unemployment Insurance Occasional Paper 94-3, 1994).

## State Self-Employment Assistance (SEA) Programs

The 1993 North American Free Trade Agreement temporarily authorized states to create self-employment assistance programs through their unemployment insurance systems. In 1998, the five-year temporary program was made a permanent option for states under the Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998.

By 1998, SEA programs were implemented in eight states (New York, Oregon, Maine, Delaware, New Jersey, California, Maryland and Pennsylvania).

Currently, seven states operate programs as California has since discontinued its program due to lack of participation. These programs comprise the most well-established microenterprise initiative in the workforce development system. They pay unemployed workers a self-employment allowance in lieu of unemployment compensation to support them while they establish their business and eventually become entrepreneurs. Like the Massachusetts SE Demonstration project, SEA limits eligibility to those workers most likely to exhaust their UI benefits as determined using the WPRS system. Therefore, participation in the SEA is deemed unlikely to burden state UI systems with additional costs.

### Program Model and Outcomes

As Figure 2 shows, the SEA programs generally offer training, counseling, and technical support services. Four states work with Small Business Development Centers, which can conduct initial assessments of applicants and also review participants' business plans. Three states offer peer support groups, and some offer other entrepreneurial support services.

**Figure 2**  
**Overview of Program Characteristics**

State	Types of Services				
	Entrepreneurial Training	Counseling	Technical Assistance	Peer Support	Financial Support (besides UI payments and loan information)
California	yes	yes	yes	no	no
New York	yes	yes	yes	yes	no
New Jersey	yes	yes	yes	no	no
Oregon	yes	yes	yes	no	no
Maine	yes	yes	yes	no	no
Delaware	yes	yes	yes	yes	no
Maryland	yes	yes	yes	yes	no
Pennsylvania	information not available				

Source: Vroman, 1997.

Available data indicate that SEA participants are more likely than other UI beneficiaries to be non-minority, have high education levels, a professional, technical or managerial background and a history of high earnings. Program participants do start their own businesses; in 1996 the proportion of program participants with start-ups ranged from 65% to 77% (Messenger et al., 2002). In *Profiling in Self-Employment Assistance Programs*, Messenger et al., describe the lessons and findings described below.

### Lessons Learned

**Availability of Technical Assistance:** States no longer need to submit SEA program plans to the DOL (per UI Program Letter (UIPL) 11-99) for approval before initiating SEA programs. With the diminishing direct role of the DOL, states will need to turn elsewhere for help starting an SEA program. The availability of technical assistance and written materials such as a “how-to” manual will be critical to states' success in starting these programs.

**Linkages with Self-Employment Service Providers:** By forging ties with experienced self-employment service providers, such as the Small Business Administration's Small Business Development Centers and the microenterprise training providers under the Workforce Investment Act (WIA), UI self-employment programs can provide SEA program participants with access to extensive self-employment services such as training, business counseling and technical assistance.

**Pros and Cons of Profiling:** The use of profiling to restrict eligibility for SEA to those new UI claimants who are most likely to exhaust their UI benefit is an accurate mechanism for assuring that total SEA program expenditures do not exceed the amount that would have been spent in the absence of the program. Profiling **S** predicting the length of the UI claim based on a statistical model using personal and economic characteristics **S** does limit the pool of UI claimants who can enter the program. Some of the profiling-related issues that states have confronted as they have implemented SEA programs are discussed below.

**\$** *Does profiling deny access to self employment assistance for UI claimants who could have benefited from the program?* One of the greatest challenges faced by states in using profiling to determine eligibility has been to address the concerns of people who want to participate in an SEA program but are not eligible because the statistical

model predicts they are likely to find re-employment, or are not among the most likely to exhaust their benefits. The profiling model is abstract and complex, making it difficult for local UI office staff and claimants alike to understand and explain (Messenger et al., 2002). As a result, New York developed an appeals procedure allowing denied applicants to present their case before an Administrative Law Judge. Other states have lowered the profiling "score" used as an eligibility cutoff. In fact, several experts believe that the eligibility restrictions eliminate some claimants who would be successful entrepreneurs.

\$ ***Does profiling unduly limit the number of SEA participants?*** Only a small proportion (less than 3%) of eligible UI claimants are interested in participating in a self-employment program. For example, in the Washington experiment, absent the use of profiling, 7.5% of the UI claimants invited to attend initial program orientations actually attended; only 4% completed the application requirements and were determined eligible for the program. The 1993 enacting legislation stipulated that participation in SEA programs could not exceed 5% of the regular UI claimant population; in fact, participation in all but two states has been lower than anticipated. As an example, in 1996, enrollments as a percent of regular UI first payments ranged from 0.064 percent in Delaware to 0.405 percent in New York (Vroman, 1997). In an effort to increase SEA program participation in a time of low unemployment, some states have lowered the probability threshold applicants must meet in order to participate in an SEA program. While this increases the number of people eligible for the program, it diminishes the likelihood that the screening process will prevent states from spending more on self-employment allowances than they would have on traditional UI benefits.

\$ ***Does the combination of profiling and self-selection successfully target claimants who can benefit from self employment assistance?*** Some states feared that by eliminating claimants likely to find re-employment, profiling would screen out claimants with the skills and initiative to be successful entrepreneurs. There remain individuals with the motivation and ability to start their own businesses within the pool of those eligible for the SEA program. The self-selection and screening process used by SEA programs, in which only a small percentage of those eligible electing to participate, seems to be effective in identifying a group of

claimants who can benefit from the program's training and support and become successful at starting their own businesses.

**More recent findings:** DTI's *Comprehensive Assessment of Self-Employment Assistance Programs* (Kosanovich et al., 2001) concludes that the program "appears to succeed in enabling self employment" among the target population. Their report suggests the following areas for expansion and improvement:

- Framing SEA as a as an economic development strategy under WIA. SEA may be a particularly important option for employees who become free agents, consultants or contractors (e.g., dot.com employees) through specific industry shifts or broad changes in traditional employment.
- Integrating SEA into One-Stops. The One Stop environment and SEA program are generally compatible with some modifications. This would entail, for example, (as discussed in more detail in Chapter 4) the development of performance measures that are appropriate to self-employment.
- Re-evaluating the relative priority of promoting self-employment opportunities and ensuring budget neutrality. As discussed above, to the extent that low program enrollment is related to profiling models and eligibility thresholds, it will be important to examine these constraints if the program is to be expanded and create economies of scale.
- Aligning reporting requirements and creating standard methods for collecting earning's data. In order to effectively assess benefits and costs, SEA reporting requirements need to be aligned with other federal requirements and data collection systems for tracking self-employment earnings need to be developed.

## **The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration**

Operating between July 1991 and September 1993, the demonstration consisted of grants to six community development organizations. These private, non-profit

organizations had previous experience in economic development, and some also had a track record of working with the employment and training system. The results of this demonstration were summarized in *Evaluation of the EDWAA Job Creation Demonstration* conducted by Berkeley Policy Associates (Drury et al., 1994) for the U.S. Department of Labor.

### Program Model and Outcomes

Authorized under Section 324 of the Job Training Partnership Act, the purpose of the EDWAA demonstration was to explore the effectiveness of community development corporations (CDCs) in expanding employment opportunities for dislocated workers through entrepreneurial training and economic development activities. The program model was flexible; grantees were free to change and improve their programming during the course of the grant. Services began with outreach and recruitment, program orientation, and general assessment, followed by classroom training in business skills and personal development training, individual help with business plan development, and then technical assistance and start-up support. An important function of the programs was to provide basic entrepreneurial skills and guidance during business design and follow-up, the most successful instructors and counselors had practical business experience and a high degree of commitment. The final stage was the post-start-up period (which often overlapped with the business launch phase). If provided for by the program, this consisted of various types of on-going support for program graduates (e.g., advice on expansion and additional capital, hiring employees, and troubleshooting).

Screening and assessment procedures included at least some of the following:

- \$ written self-evaluations of business-specific skills, preference for self-employment, feasibility of business idea, and personal resources to support the applicant during the training period and to finance business start-up;
- \$ interviews with program staff experienced in business to assess candidates' "business potential";
- \$ an initial personal development training period, also used as a means of judging applicants' commitment to and suitability for the program; and

\$ psychological testing to identify characteristics of successful entrepreneurs and increase candidate's self-understanding.

Services included classroom training (between 6 and 13 weeks or up to 150 total hours of basic business skills), ongoing support of start-up businesses (using experienced counselors to help participants take practical steps such as developing a business plan, setting up an accounting system and obtaining needed licenses), and counseling and case management. Only a few participants received help with financing, since JTPA regulations prohibited the use of program monies for capitalizing loan funds.

Overall, the demonstration served 996 dislocated workers, and their total employment rates from the self-employment training compared favorably with outcomes from traditional EDWAA retraining programs (45% of self-employment participants started a business, and 74% were still in business six months later). However, initial earnings from self-employment were lower than the average wage at termination for participants in more traditional reemployment programs.

### Lessons Learned

**Screening: Self-employment is a viable strategy for a small subset of the dislocated worker population.** Because self-employment requires motivation and discipline, proactive screening processes are needed to ensure that participants understand the risks involved, can focus on their business plan, and are motivated to undertake starting a business.

**Access to Capital: Lack of access to capital has been a chronic problem in the microenterprise field, and was a barrier to success for Demonstration participants attempting to launch their own businesses.** Participants ready to launch a business needed micro-loans in the \$2000-\$10,000 range, but most banks do not find it profitable to service loans such small loans, even if the risks are low. Many dislocated workers do not qualify for commercial bank loans, and only 16% of the respondents at the follow-up reported receiving loans from banks or other commercial lending institutions, even after six months of operation. Undercapitalized businesses take longer to become established and to grow to a size that allow business owners to be self-sufficient; in addition, lack of

capital limits entrepreneurs to types of businesses that require small initial capital investments, leading to overcrowding and low survival rates.

**Services: Training for entrepreneurship is fundamentally different from reemployment training.** The grantees operating the Job Creation Demonstration Projects found several key elements to successful training programs:

- \$ Experienced staff: The most successful instructors and counselors were highly committed and had practical business experience.
- \$ Extensive support: Participants need extensive support from both peers and project staff to make the emotional transition from worker to business owner.
- \$ Business Plan Development: Programs should allow enough time for participants to make basic design decisions about their businesses and do critical background research. Business plan development should be integrated into classroom curricula.
- \$ Technical assistance: Particularly during the business plan development, startup and the first months of operation, participants require technical assistance such as help with a marketing plan, obtaining necessary licenses or advice about expansion or access to additional capital.

**Coordination with UI Staff:** Forging working relationships with Unemployment Insurance was crucial. Under NAFTA, the UI SEA program permits the collection of UI to continue while claimants are participating in state-approved training. Early and ongoing consultation with UI staff will be important to ensure that individual participation is approved, and that any individual benefits problems are resolved.

## **Job Training Partnership Act (JTPA) Microenterprise Grants Programs**

Authorized under Section 499 of the Job Training Partnership Act (and funded under JTPA, Section 324) the goals of the JTPA Microenterprise Grants Program were to provide training to potential entrepreneurs and business owners, and to

build capacity for microenterprise services within the workforce development system. The five participating states contracted with community agencies to provide training and support both to individual entrepreneurs and to staff within the workforce development system, using diverse program models. The following description of program models, services, outcomes, and lessons learned are drawn from Evaluation of the *JTPA Microenterprise Grants Programs* (Smith et al., 2000).

### Program Models and Outcomes

Common program elements included the following:

- \$ Since eligibility was limited to individuals who were both economically disadvantaged and dislocated—only five percent of the adult JTPA population—grantees had to use aggressive recruiting efforts such as presentations targeted at staff, posting fliers, and media announcements.
- \$ Assessing readiness for self-employment including one-on-one meetings with counselors and training sessions. Participants gauged the level of their experience, skills, commitment, resources, and self-discipline. In the typical model, self-selection for microenterprise training (through the assessment process) led to referral to microenterprise training; clients who realized that self-employment was not an appropriate career path typically dropped out of the program and/or were referred to other service providers to pursue traditional employment.
- \$ Training was provided by community action agencies, and other non-profit training providers, through courses at local community colleges, and by individual trainers. The length of training varied from single day seminars to 13-week courses and used workbook exercises, hands-on experiential learning, role playing, group discussion, and peer review.
- \$ Participants received one-on-one technical assistance to assist with completion of business plans. Grantees also provided case-management services to help participants address needs such as child care, transportation, and self-esteem.

\$ JTPA funds could not be used to provide start-up loans or grants, so some states provided referrals to appropriate lenders and sought ways to reward participants for completing their business plans.

The typical participant was female, non-minority, 42 years old, and well educated. At the 12-month follow-up, 51% of respondents indicated that they were operating their own businesses; of that group, 40% also worked for another business that was not their own (Smith et al., 2000).

### **Lessons Learned**

Because the pool of potential participants in the JTPA Microenterprise Grants Programs was small, and actual participation was also low, it was difficult to draw specific conclusions about the effectiveness of differing training models or support services offered for microenterprise. Instead, the evaluation of the JTPA Microenterprise Grants Programs (Smith et al., 2000) identified some key elements of successful program implementation, and provides insights into ways to build capacity for microenterprise in the workforce development system based on the experiences of the JTPA Microenterprise Grants Programs.

#### **Participant Services:**

\$ Experienced presenters: Trainers and guests presenters who had personal experience starting a business were best equipped to address participant needs.

\$ Training and one-to-one assistance: One-to-one technical support is an important complement to classroom training, and both kinds of services should be available to participants.

\$ Mentoring: Participants indicated a continued interest in mentorship programs, although these programs must be carefully designed to meet participants' needs. Transportation barriers and competing family demands hindered these relationships from forming.

**Define Success:** Wage and salary employment should be recognized as a positive outcome for microenterprise programs. Participants might choose such employment as the result of an assessment process to determine whether an

applicant is suited for self-employment. A wage or salary can provide income during business start-up. As mentioned above, the SE Demonstration in Massachusetts resulted in higher income, both from self-employment and from wages and salaries (Benus et al., 1994). (As Mark Schreiner (1999) underscores, however, this was not the case in the Washington SE Demonstration.)

**Access to Capital:** Federal job training funds cannot be used for business start-up, so local workforce development agencies need to explore and identify financing, funding, and loan sources outside this system and develop mechanisms for linking participants to these funding sources.

**Capacity Building:** Programs encountered resistance to microenterprise programs from local workforce development staff, who were uncomfortable referring clients to the programs. The evaluation suggested several strategies to increase awareness and support for microenterprise programs among workforce development agencies.

**Forge relationships:** Training efforts aimed at teaching workforce development staff about microenterprise can raise awareness of these programs, but personal relationships between microenterprise providers and workforce development staff seem to be more successful at leading to long-term support for self-employment programs within the workforce development system.

**Train from within:** Workforce development staff rather than microenterprise service providers should take the lead role in providing training and capacity building sessions for workforce development staff. Trainings led by microenterprise service providers were often viewed by workforce development staff as marketing efforts by these providers.

**Highlight positive outcomes:** Participant success stories were effective in helping workforce development staff overcome skepticism about the viability of self-employment for clients.

**Engage workforce development organizations and staff:** In most states, workforce development staff were asked to refer participants to the microenterprise programs but were not involved with planning, implementing or managing these programs. Enlisting the aid of workforce development agencies from the beginning could help increase buy-in from these agencies. In addition, when workforce development staff remained actively involved with participants

as case managers or in other capacities, they were often reassured that their clients were being served appropriately. Such strategies may allow staff to feel more comfortable referring their clients to the program.

## Microenterprise in Other DOL Initiatives: Lessons from DOL's Disability Employment Grants

Administered under Titles III and IV of the Job Training Partnership Act (JTPA), the Department of Labor awarded grants to thirteen organizations for employment and training demonstration projects for persons with disabilities. The DOL Disability Employment Grants were designed to address chronic unemployment and the lack of career opportunities for people with disabilities. The grants also include services to dislocated workers with disabilities who may require alternative job skills or employment assistance to re-enter the labor market (DOL, 1998). It is important to note that the DOL Disability Employment Grants fund a range of employment efforts, with no particular emphasis on microenterprise and self-employment. We highlight the following grantee (Montana Job Training Partnership, Inc.), for the purpose of this study, precisely because an emphasis on microenterprise grew out of the needs of constituents living in rural areas and was fostered by organizational partnerships and staff ingenuity.

The Montana Job Training Partnership, Inc. (MJTP) offers microenterprise training as part of a spectrum of employment services available to participants with disabilities. MJTP, the state's JTPA administrative entity, is responsible for managing and overseeing JTPA, welfare-to-work, and implementation of the WIA. This model, as well as outcomes and lessons learned, were documented in *Evaluation of the DOL Disability Employment Grants: Final Report* conducted for the Department of Labor by Berkeley Policy Associates (Almandsmith et al., 2001).

### Program Model and Outcomes

*Careers Through Partnerships* is a statewide voucher program in both Montana and Wyoming. Participants may choose to receive services from a number of qualified service providers, organizations that have participated in training presented by the grant's subcontractors, the Montana Rural Institute on

Disabilities (the Rural Institute) at the University of Montana, and the Wyoming Institute for Disabilities (WIND) at the University of Wyoming. The training emphasizes supported employment, job carving (working with employers to modify existing jobs or to create new jobs that are good match for a particular person), and entrepreneurship among participants. Service providers that have completed the training assist participants in developing an individualized service plan and, on the participant's behalf, submit grant applications to MJTP for the funds needed to cover planned services.

To be eligible for services, an individual must be a U.S. citizen, produce documentation of having a disability, and want to work. Of the 119 individuals served, 76 (64%) found employment and 26 were self-employed. On average, compared to other *Careers Through Partnerships* participants who worked, those who were self-employed earned more per month (\$1,026) than did participants who worked for someone else (\$828). The lower earnings for participants who were not self-employed probably reflects the limited job opportunities available in the rural areas served by this project. Because of the small number of cases, however, this difference was not statistically significant. *Careers Through Partnerships* participants who were self-employed also earned slightly more per month, on average, than did participants in all of the other DOL Disability Employment projects (\$1,008). Again, the difference was not statistically significant.

### Lessons Learned

MJTP demonstrates that microenterprise strategies can be effectively applied in the context of DOL-sponsored employment initiatives for specific populations when there is flexibility at the program and participant level to offer a range of employment options. MJTP's experience also shows that individuals with barriers to employment, given appropriate training and supports, can succeed in self employment, as well as wage and salary employment. Furthermore, given the relative paucity of traditional employment options in many rural areas, microenterprise is a particularly promising strategy for helping some individuals achieve self sufficiency.

**Strategic Collaboration: Collaborative relationships with a variety of community-based service providers can improve both the quality of services provided and participant outcomes.** These collaborations increase the resources—such as funding, guidance, ideas, and networks—available for

individual participants and improve their chances for finding and keeping the kind of job they want. At the same time, collaborations allow service providers to learn from the experiences of one another.

**Leveraging funds/resources from multiple sources: Costs to individual programs are decreased when funds are leveraged from several sources such as vocational rehabilitation (DVR) and state mental health agencies.**

**Leveraging can improve the quality of services to participants, and/or increase the number of individuals that can be served.** By promoting a collaborative approach among service providers, the *Careers Through Partnerships* program encourages agencies to draw on a wide range of funding sources.

**Customer choice and self-determination are keys to success:** Most individuals know what they want to do, and programs should focus on equipping clients to realize their self-identified goals. Flexibility in MJTP's funding allowed for staff and client innovation in supporting customer choice and business development. As one example, the program purchased a lawn mower for one customer who was starting a lawn care business and he was then able to use this equipment as collateral in getting a loan for a truck to grow his business further.

**Training that encourages and supports consumer-driven services, and creativity in designing service plans, can positively impact how service providers approach their jobs:** Service providers responded positively to the grant's training workshops' challenge to be creative in assisting participants to find work. They reported that the workshops were "motivating" and they approached their jobs with new enthusiasm after attending. Several providers noted that they looked forward to going to the training sessions to learning new ideas, even if they had been doing their jobs for years.

**Self-employment meets participant needs, particularly in rural areas:** Self-employment appears to be an effective way of overcoming lack of transportation, lack of large employers, and other barriers to employment common in rural areas. Individuals who want to start their own businesses, however, often need assistance with developing business plans, bookkeeping, and marketing.

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## **Chapter 4: Challenges and Opportunities: Guidance for Incorporating Microenterprise Services into the Current Workforce Development System**

While Chapter 3 discussed lessons learned through previous DOL initiatives, this chapter describes how microenterprise is being incorporated into the current workforce development system. With the passage of WIA, this system has undergone significant change. For this reason, we begin our discussion of challenges and opportunities for workforce development practitioners with a brief overview of this new legislation.

Our findings from key informant interviews constitute only a “first look” at these themes and issues, at an early stage of WIA implementation; nonetheless, interview respondents suggest that within current policy and programmatic contexts, program operators have already identified a range of challenges and strategies for incorporating microenterprise into the workforce development system. Effective approaches often build on earlier DOL demonstrations, validating the importance of these demonstrations in laying the groundwork for integrating a full range of options through the current system.

### **Implementation Challenges: The Workforce Investment Act (WIA) Context**

Passed in 1998, WIA replaces the Job Training and Partnership Act (JTPA) as the most important national legislation governing the structure and delivery of employment and training services. States could elect to implement WIA in whole or in part starting in July 1999; however all states were required to fully implement the law by July 2000. The new legislation places a premium on customer choice and focuses on the needs of businesses and job seekers alike. WIA requires that relevant employment and training information and services be easily accessible through a “one-stop shop.” Among other things, WIA also mandates that customers have the opportunity to access services tailored to their specific needs; that states and local boards have increased control over their

workforce investment system; and that state and local programs, as well as service vendors, meet the expectations of customers by being held accountable for their performance.

Customers who visit a One-Stop receive services based on their specific needs, as they progress through a three-tiered “pyramid” service structure. The first tier (“core services”) consists mostly of self-accessed services including employment, education and training, and labor market information as well as self-assessment tools and automated job-listings or job matching assistance. The second tier (“intensive services”) is available only to those customers who qualify under a particular WIA funding stream (i.e., adult, dislocated worker, or youth) and who have been unable to find employment through the core set of services. Intensive services include staff-assisted individual or group activities that are geared towards more comprehensive assessment and career counseling. Finally, for those customers who are unable to find employment after participating in the first two tiers, training and support services are available.

WIA also strengthens the role of local Workforce Investment Boards (WIBs) and gives states and local areas more flexibility to design and operate their programs. WIBs are the primary governing bodies that shape local employment and training systems. Responsibilities of WIBs include the development of local workforce investment plans and the identification of eligible local training providers. Local areas work with the state to develop eligibility criteria by which providers are judged.

Under WIA, states, local workforce investment areas, and training vendors are required to track core indicators of performance to assure that they are accountable for the delivery of effective services. Customer satisfaction and outcome measures for registered adult, dislocated worker, and youth program participants are used to determine performance. The four core outcome measures are: job placement, job retention, earnings, and skill attainment. Information about customer satisfaction is collected from program participants and employers. States and local areas that do not meet identified performance levels face sanctions that may include reductions in funding. Service providers that under perform may lose eligibility or certification to provide services to WIA participants.

## Challenges to Incorporating Microenterprise in the Workforce Development System

As described in Chapter 1 above, drawing on DOL/ETA recommendations and using an iterative "snowball" method, BPA conducted twenty-six interviews with microenterprise experts, and state and local workforce development professionals and training providers. Topic guides (developed for each category of respondent) were used to structure discussions. Based on the key

*We believe that the available evidence on the quality of self-employment jobs in the United States calls for a measured approach to public policies regarding self-employment. On balance, public support for self-employment as a socio-economic strategy for promoting employment and self-sufficiency appears to be justified, provided that appropriate supports are provided for individuals seeking to enter self-employment.*

—Messenger and Stettner, 2000

informant interviews, this section outlines challenges in several areas. First we discuss respondents' concerns about the potential incompatibility between WIA provisions and microenterprise training. Next this section describes the reported lack of knowledge and resources on microenterprise within the One-Stop system. Lastly, this section covers the need for increased capacity in the workforce development system to provide microenterprise services.

### WIA and Microenterprise Training: Incompatible Structures?

WIA establishes One-Stop employment and training centers that use a sequential eligibility structure to deliver rapid re-employment services. This progressively intensive three-tiered system seeks to ensure that job seekers receive the services that best suit them and that only those customers with a demonstrated need receive training. WIA's emphasis on immediate job placement means that most job-seekers will search for jobs in established businesses, offering traditional wage and salary employment. Particularly during recent years of economic prosperity, the work-first orientation of workforce development initiatives has made sense for many job-seekers, as they are able to move relatively easily into new jobs. Workforce development staff note that performance requirements, central to the WIA's emphasis on increased accountability and customer choice, reinforce the work-first approach by holding state and local workforce development programs accountable for participants' success in finding positions that can be easily documented, usually in traditional wage employment.

Microenterprise training programs often approach job development with very different goals in mind. Because microenterprise training programs are often rooted in anti-poverty strategies, these programs are often designed to serve low-income populations. In addition to promoting business development, programs are likely to emphasize empowerment through training, mentoring, and peer support. These programs are mostly located in and focused on particular geographical areas, and include aims of job creation and community development. Helping a training participant create a job of his or her own is one of the primary goals of microenterprise training; however it is often only one among many. Programs may also provide training, services, and supports that invest in and develop “human capital”—skills and abilities that promote economic growth, self-esteem and confidence, and reduce unemployment and inequality. While some providers only count jobs as outcomes, many others maintain that returns on an investment in human capital are difficult to measure, but are no less important than strictly quantifiable outcomes.

Interview respondents overwhelmingly point to performance measures as a major barrier to expanding access to microenterprise training. Although entrepreneurial training is specifically mentioned in the WIA legislation as an allowable activity, performance measures are clearly designed—and perceived by respondents to be—for employment and training assistance oriented to wage and salary employment in existing businesses. Respondents suggest that WIA’s pyramid service structure emphasizes work-first over all types of training, while microenterprise development necessitates training and a substantial investment of time and energy on the part of practitioners and participants. Interview respondents suggest that these structural differences affect the availability of microenterprise training through the workforce development system.

### ***Structure of One-Stop Services***

Given WIA’s pyramid service structure, customers entering the One-Stop receive a range of employment-related services, delivered in a progressively more intensive three-tiered system. While the institution of the core, intensive, and training tiers is an attempt to address the particular needs of individual customers, respondents report that this structure may be incompatible with the needs of potential microentrepreneurs. These respondents suggest that WIA’s focus on core services, as opposed to more intensive services, including training, is not well-suited to customers interested in self-employment. To the extent that core services are largely delivered through a self-service model and focused on

"labor exchange" activities, they do not typically involve a sufficiently in-depth assessment needed to evaluate whether self-employment is of interest and a good option to explore. One state level official suggested that WIA's emphasis on core services over intensive and training assistance has vastly reduced the number of clients undergoing training in general. Because microenterprise development relies particularly heavily on the availability of training opportunities for potential entrepreneurs, core services alone are unlikely to deliver adequate assistance to interested clients.

### *Performance Measurement*

Under WIA, performance measures hold local areas, states, and training vendors accountable for the effectiveness of the services they provide. Almost every respondent identified incompatible performance measures as a significant obstacle to increasing access to microenterprise training through the One-Stop system. Respondents indicate that front-line staff, concerned with tracking outcomes and meeting their performance goals, are unlikely to consider microenterprise training when discussing training options and referring clients. Believing that they will fail to meet performance standards also deters microenterprise providers from seeking to become certified One-Stop providers.

Because micro-entrepreneurs, like other entrepreneurs, often need a substantial amount of time to build

businesses that are fully operational and profitable, they will most likely "underperform" in the entered employment rate and earnings indicators. Other core indicators present similar problems. Indeed, respondents suggest that microenterprise is wholly different from traditional classroom training, and requires a different set of measures to rate performance.

Because participant outcomes from microenterprise are hard to measure, respondents suggest that workforce development staff are reluctant to promote this training option. Staff are often unsure how clients' participation in microenterprise training will affect performance. Concerned that "positive placement" or "positive termination," reported earnings, and job retention

*When should a microentrepreneur be considered "entered" into unsubsidized employment? Should it be when the participant completes training? After the participant completes a business plan? When the enterprise completes its first transaction? Or when it first turns a profit?*

—State Practitioner

indicators may be adversely affected by the long start-up period associated with microenterprises, they tend to be unwilling to offer this option. Because failure to meet core performance measures carries with it negative repercussions, One-Stop staff as well as state and local policy makers, have little incentive to encourage participation in these programs.

Similarly, microenterprise service providers must meet the same outcome measures to be certified or considered eligible to provide training to WIA participants. Respondents reveal that providers regard the certification process as daunting and potentially fruitless. Indeed, a minority of the service providers interviewed are approved training providers. Most providers have not attempted to gain certification, claiming that the process is too lengthy and complicated and requires data that the programs do not normally collect. Surprisingly, even in a few areas where microenterprise training organizations have had a history of collaboration with local workforce development staff, these groups have foregone certification. Some providers report that they see no incentive to certification because WIA participants represent a very small fraction, if any, of their client base. In fact, only a few interview respondents report having received client referrals from One-Stops, and even then the numbers are very small. With few microenterprise training organizations certified to provide training, One-Stop customers are left with limited choices when it comes to self-employment.

### ***Lack of Information and Resources***

With the growth of the microenterprise development field, information about assessment tools, training curricula, business planning, financing, and model programs is increasingly available to the public. A growing body of information is accessible online (for examples, see Appendix C) as well as through local public and private sector agencies aimed at promoting community economic development and microenterprise opportunities. Despite the increasing availability of information and resources, our interviews suggest that information about microenterprise is not yet well-integrated into the evolving workforce development system. As a result, many front-line staff lack the training, information, and resources to effectively assess their customers' interest in and aptitude for self-employment.

State and local respondents suggest that gaps in information and resources are the result of several key barriers and assumptions:

**Belief that microenterprise is not a**

**viable option:** Respondents report that many workforce development staff believe that microenterprise is not a viable employment option for disadvantaged and dislocated workers. Respondents indicate that local One-Stop staff are often unaware of or reluctant to consider microenterprise training because it is not consistent with the notion of traditional wage employment. Indeed, a number of respondents state that workforce development staff view their task as helping clients get jobs, and to many practitioners self-employment is not considered a “real job.”

*It's a cultural issue-the system is about getting jobs not creating jobs. There needs to be a cultural awareness of the role of small business as an economic engine. For a lot of people, working for someone else is not the answer.*

—State Practitioner

One respondent suggests that within the workforce development system there is a lack of awareness that microenterprise training can be used as both a re-employment strategy and a tool for job creation. Another respondent reports that “ninety-nine percent of workforce development staff don’t consider self-employment a viable option for long-term employment.” One respondent reports that state officials consider microenterprise to be an unrealistic option for disadvantaged workers who “face multiple employment barriers and have poor work skills.”

*Workforce Development staff view business development as a highly unconventional process incompatible with the way they usually do business.*

—Operator, Microenterprise Demonstration Program

According to other state and local officials, workforce development staff are leery of microenterprise training because they believe that:

- \$ participants do not have the required resources and are unable to borrow money to start new businesses
- \$ there are no sources of financial support for low income participants
- \$ business operation is complicated and too risky for the target population

Several respondents refer to concerns about the risks of self employment. Comments about risk tend to fall into three categories: 1) that the workforce development system is a “risk averse system” and tends to be poorly suited to supporting entrepreneurship; 2) that in prosperous economic times, there is little incentive for individuals to take on the risks associated with starting a business; and 3) that for clients transitioning from welfare to self sufficiency, “there’s a clock ticking” and it may be irresponsible for employment specialists to promote an employment option that does not lead quickly to a paycheck.

**Microenterprise is not a priority:**

Respondents at the state and local level report that a major challenge to making microenterprise opportunities more available through One-Stop Centers is that there are simply too many other competing priorities.

*In some cases the push for microenterprise was seen as yet another change in the midst of an increasingly dynamic period.*  
—State Practitioner

The need to expand capacity to provide microenterprise training through the workforce development system was a common theme among interview respondents. Many respondents suggest, however, that programs in the midst of responding to WIA regulations, establishing state and local workforce investment boards (WIBs), addressing the redesignation of service areas, and establishing co-located and integrated services, have been unable to make microenterprise—that is, adding this option to the menu of available services—a priority. Respondents suggest that, given the mismatch with performance measures and work-first emphasis under WIA (described above), workforce development staff are unlikely to engage in efforts to increase in-house capacity for microenterprise and to develop collaborative relationships that could strengthen capacity at the community level.

Microenterprise training providers working with state and local agencies to serve dislocated and disadvantaged workers suggest that because the workforce development system is in the midst of reorganization, staff roles and responsibilities have changed frequently making it difficult to build capacity to offer new services. One respondent reports, in the context of ongoing systems and administrative change, staff sometimes became jaded with administrative requests and in some cases believed that microenterprise was “just a fad.”

**Lack of awareness of microenterprise as an income patching strategy:**

Several respondents emphasize the need for workforce development staff to have more information on microenterprise not only as an employment option, but also as an income patching strategy (combining income from multiple sources, e.g., self-employment and wages/salaries). One respondent suggests that workforce development staff should support microenterprise primarily as an income patching strategy—that would allow low income clients to supplement part time work, augment household income, and increase their likelihood of becoming self-sufficient.

***Lack of Capacity***

Respondents suggest that workforce development programs currently lack capacity to make microenterprise a viable employment option. The kind of capacity needed, however, depends largely on what role respondents believe that workforce development staff should play in promoting or supporting microenterprise opportunity. One respondent states that front-line staff should serve as brokers and need mainly to make referrals to effective training providers and monitor services. Other respondents, who envision program staff becoming more involved in counseling and service provision (e.g. through the SEA models described above), emphasize the need for front-line staff to develop:

- \$ familiarity with microenterprise as an employment and income patching strategy;
- \$ knowledge of the core business skills needed for success, and characteristics of successful entrepreneurs;
- \$ knowledge of public and private sector resources and referrals (including training, technical assistance, financing, follow up, online information, mentoring, business service centers);
- \$ familiarity with a broad range of self employment options;
- \$ ability to offer/apply screening and self-assessment tools;

- \$ ability to identify effective training providers, establish working relationships with training organizations and to monitor training progress.

## **Strategies For Success: What Can State and Local Practitioners do to Make Microenterprise A Viable Option?**

This section describes strategies and recommendations from state and local practitioners and experts on incorporating microenterprise into workforce development programs. Strategies include creating performance measures specific to microenterprise, supporting and developing microenterprise advocates, and building capacity of workforce development staff.

### **Create Performance Measures Specific to Microenterprise**

While respondents report that WIA performance indicators create a barrier and disincentive to providing microenterprise training programs, respondents suggest that alternative measures specific to microenterprise can be developed.

One example of a way states and local areas can create alternative measures is the performance system created by the state of Pennsylvania. Under this system, performance is based on outcomes specific to business start-up and operation (Osborne et al., 1999). First developed under the state pilot project the Self Employment Assistance Program (SEAP), these measures are an expansion of the five milestones used by the Washington State Self-Employment and Enterprise Development (SEED) Demonstration (Benus et al., 1993). In the Washington Demonstration, treatment group members who completed the five specific milestones (completed the training modules, developed an acceptable business plan, set up a business bank account, satisfied all licensing requirements, and obtained adequate financing) were eligible for a lump-sum payment, equal to the participant's remaining UI entitlement (Benus et al., 1993).

In the Pennsylvania model, instead of target rates of performance, the state defined a set of fifteen outcomes, of which each program participant is expected to meet at least six to be considered “successful.” The identified outcomes are listed in Figure 3 below. Five of the outcomes, those that are highlighted, are required. Each participant is required to meet these five goals in addition to at least one additional outcome.

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**Figure 3**  
**Pennsylvania Self Employment Assistance:**  
*Required Outcomes for Success*

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- \$ **Successfully completed entrepreneurial training**
  - \$ **Developed business plan**
  - \$ Established legal entity
  - \$ **Opened business checking account**
  - \$ **Established a home office**
  - \$ Signed a lease
  - \$ Secured equipment/purchased supplies
  - \$ **Developed marketing package**
  - \$ Solicited customers/advertised product or service
  - \$ Purchased business insurance
  - \$ Obtained needed licenses/registrations
  - \$ Employees hired
  - \$ Filed schedule c for income tax
  - \$ Achieved other milestones specific to given business (e.g., buying franchise, franchise training, etc.)
  - \$ Devoted a designated amount of time (e.g. minimum of 32 hours/week)
- 

One state addressed the performance measurement issue by reassuring staff that the population of participants that chooses to pursue self-employment constitutes a small percentage of the overall service population, therefore any negative outcomes would not greatly effect performance. This reassurance, by focusing on the "lack of harm" rather than potential benefits, however, may leave staff with little incentive to promote microenterprise.

Creating performance measures that continue to hold program operators accountable for outcomes, but provide incentives for workforce development staff to include these employment options, will be an essential part of increasing the availability of microenterprise.

## Identify and Foster Microenterprise Advocacy

One of the most important lessons to emerge from our interviews is the importance of having a microenterprise advocate working to successfully establish these programs within the workforce development system. Respondents indicate that the presence of a self-employment advocate or advocates is a deciding factor in whether the training is available to clients.

Microenterprise advocates work through various channels to aid in the development of these programs. Microenterprise advocates can be state or local level practitioners,

*As career centers evolve and the “front-door” becomes increasingly diverse from one client to the next, there needs to be continued emphasis on ensuring that entrepreneurialship/self-employment remain a primary, viable, and visible option, regardless of their front-door.*

—State Practitioner

training providers, elected officials, foundation leaders, clients, advocacy organizations, or other interested parties. These advocates have been integral in: helping to pass legislation that encourages microenterprise, such as SEA; securing state or local priorities and/or funding for these programs; developing training programs in coordination with state and local practitioners; creating alternative performance measures; and educating front-line staff about the potential benefits of microenterprise training programs.

While it takes a host of partners to pass state legislation or create new service systems, a few examples of microenterprise advocacy described by respondents include the following:

- Dislocated miners in Tucson, Arizona helped to catalyze the development of the Small Business Entrepreneurial Training Program (SBETP) when they expressed interest in self-employment training. These workers had transferable skills but few opportunities in the mining industry and no experience in business ownership. Collaboration in Tucson between local JTPA staff and a state-level UI and NAFTA-TAA expert led to the development of the self-employment program.
- In Maine, the state’s involvement in past federal microenterprise demonstrations (e.g. the Microenterprise Resource Development Project) was critical to building the capacity and coalitions necessary to establish ongoing microenterprise services. Private sector microenterprise service

providers and advocates, such as Coastal Enterprises and MicroNet, and statewide Community Action Agencies were instrumental in helping to pass legislation authorizing Maine's permanently-funded Self-Employment Assistance program. Maine's Commissioner of the State Department of Labor was also a powerful advocate for authorizing the state's SEA provision.

- Governor Tom Ridge was a major proponent of SEA legislation in Pennsylvania. As program experts, Women's Opportunity Resource Center (WORC) staff also played a key role passing SEA in that state. WORC has provided self-employment training for low-income, under-employed and dislocated populations since 1984.
- The Wisconsin Women's Business Initiative Corporation (WWBIC), a statewide economic development corporation, has been providing training, technical assistance, and access to capital to entrepreneurs since 1989. In addition to providing approved training programs for Wisconsin Works (W2) clients, WWBIC trained financial employment planners or "frontline" caseworkers on identifying potential microenterprise candidates and recognizing self-employment as a way to supplement income. Wisconsin's Secretary of Workforce Development provided essential support by encouraging workforce development staff to incorporate this approach into job center (One Stop) operations.

Respondents suggest that identifying and fostering relationships with one or more microenterprise advocates is essential to the successful incorporation of these programs into the workforce development system. Specifically, respondents report that strong endorsements and policy direction from high-level state workforce development staff can provide much-needed leadership and lay a foundation for local areas to build upon. Front-line staff who are knowledgeable and enthusiastic about self-employment are also essential to ensuring that potential entrepreneurs are informed about their opportunities and that they have access to all available resources. These staff are particularly important as implementation of WIA continues.

Although state and local WIBs are still forming and developing their own policies for operation, several respondents indicate that advocacy to and within these bodies will prove extremely important in ensuring the availability of

microenterprise training in the future. Because WIBs have responsibility for provider certification and other policy direction their potential ability to influence microenterprise development is great. One respondent explains,

“The way the system works now, you have to apply [for provider certification] through the boards, if self-employment is not a priority, you [the provider] won’t get approval. Are organizations investing the time and energy in influencing those boards? [This] depends on local politics. I think there’s a disconnect between microenterprise and the WIA system as it exists now.”

In Massachusetts, where microenterprise training had a history of cooperation with the workforce development system including experiments with a Self-Employment Assistance (SEA) program and a JTPA program, a permanent SEA provision was not adopted. A respondent suggests that, in addition to a low unemployment rate and a large amount of job mobility on the part of potential clients, the SEA program failed to get approval because it lacked grassroots momentum and strong backing from policy makers. It should be noted that the presence of a State JTPA Title III program probably also lessened the sense of urgency for creating a separate SEA program within the state’s UI program (Vroman, 1997).

### **Build Capacity**

Building capacity of workforce development staff was described by respondents as critical to successfully integrating microenterprise into workforce development services. But what kind of capacity building? How can program planners and local operators increase staff capacity? Respondents’ comments suggest several approaches described below.

#### ***Provide Training and Orientation on Microenterprise***

Respondents report that workforce development staff need training and general information on: microenterprise development; the broad range of self-employment options; characteristics and skills of successful entrepreneurs; assessment techniques; training providers and community resources; and the use of microenterprise as job creation, long-term employment and income patching strategies.

Respondents suggest that addressing negative beliefs and preconceived notions about microenterprise is a crucial first step. Describing a successful program, one respondent stated that creativity and the belief that self-employment training is “a valid and viable path to a real occupation,” were essential to program success. Microenterprise should not be presented as a panacea for poverty, unemployment, or dislocation. Rather, practitioners need accurate information about risks, benefits and outcomes of microenterprise strategies as an essential part of introducing this employment option. Respondents indicate that presenting profiles of successful entrepreneurs, and information about the range and type of businesses operated by low income and disadvantaged workers, is an effective way to address preconceived notions about customer capability.

Respondents propose several cost-effective ways to deliver training:

- \$ “Train the trainer” sessions. Respondents from one state program suggest that in addition to “remaining attentive to the needs of local agencies,” states could encourage local staff to incorporate microenterprise services by providing a series of train the trainer sessions. This approach can increase sustainability by creating a cadre of trainers. This strategy also enhances future trainees’ receptivity to training because it will be delivered by a credible “insider.”
- \$ Engage local microenterprise development staff in providing presentations and information to One-Stop staff. This approach builds linkages between these agencies and draws on existing expertise in the microenterprise training community.
- \$ Provide business consultants to work with both participants and agency staff to increase their microenterprise knowledge and awareness of available resources.
- \$ Link participants with Small Business Administration (SBA) training and ongoing technical assistance through Small Business Development Centers (SBDCs) as done in some SEA programs.

### *Provide Training on Assessment and Screening*

Several respondents emphasize the need for workforce development staff to receive training in how to screen potential microenterprise participants. With respect to assessment and screening, it is important to note that assessment tools vary widely to meet the needs of a range of program objectives. Some programs rely more heavily on self assessment, while others emphasize staff assessment of participant skill, aptitude, motivation and resources. Some programs use a feasibility analysis of a participant's business idea or business plan as a major determining factor for participation. For example, workforce development staff in Tucson, Arizona developed a small self-employment training program with a relatively rigorous assessment process. To participate in this program, candidates must first attend a small business orientation, present a sound business idea, have the skills to run that particular business, and complete a feasibility analysis. This analysis includes a feasibility summary, budget worksheet, and informational interviews/competitor's analysis. If all of this is considered "realistic," then the client is recommended for the program and a training plan is completed. The assessment process is considered a key ingredient to the success of this program.

### *Create Strategic Partnerships*

Respondents emphasize that workforce development staff need not become experts in microenterprise training and technical assistance to be effective information specialists, "brokers" and case managers. To play these roles, front-line staff need information and resources to provide effective referrals, and, most importantly, effective relationships with trainers and service providers.

*The ideal role for One-Stops to play is as brokers, bridges to help from networks, which entails more than having a pamphlet on micro programs—although that's good too.*  
—State Planner

By developing strategic partnerships with a broad array of public and private sector agencies that provide microenterprise services, including microenterprise and community development organizations, Small Business Administration (SBA) offices, Small Business Development Centers (SBDCs), community colleges, Community Development Financial Institutions (CDFIs), One-Stop staff can become part of employment and economic development networks that build bridges between employers, trainers, and lending institutions and disadvantaged, dislocated, and minority workers. Working with community and economic development organizations, which tend to emphasize long term

investment in individuals and communities, One-Stops can come part of a continuum of community services that meet the needs of workers with a range of needs and backgrounds. One respondent suggests that resource guides developed by microenterprise training organizations may be a readily-available sources of information on local programs.

## Expanding Options: Making it Work

Over the past twenty years, policy makers have increasingly recognized the potential of microenterprise development as a tool to foster economic self-sufficiency. In particular, the U.S. Department of Labor - Employment and Training Administration (DOL/ETA) has invested in a series of demonstration and research projects that have strengthened program designers' knowledge about useful program strategies. DOL/ETA projects have tested service delivery models, identified barriers and critical components for success, and heightened awareness of microenterprise as a workforce development option. The stage is now set for heightened efforts to incorporate microenterprise options within the evolving workforce development system under WIA.

Given the availability of tremendous microenterprise resources, and experience from research, demonstration programs and other initiatives, the Department is well positioned to take the next step in promoting microenterprise opportunities in the current workforce development system. The study summarized in this report—which provides an overview of DOL self employment demonstrations and initiatives—is an important, albeit preliminary, step in this process. This study gathered information from a literature review and key informant interviews with microenterprise and workforce development practitioners and experts at the state and local level. Common themes emerge from these sources about the prospect of incorporating microenterprise services into the workforce development system; these are outlined below.

Experts agree that microenterprise development training is a worthwhile strategy for increasing employment and earnings. Offering microenterprise training is consistent with WIA's emphasis on customer choice. Studies of private sector microenterprise training initiatives, program evaluations of public sector demonstrations, and key informant interviews confirm that microenterprise development training expands the likelihood of business success. While self-

employment is “not for everyone,” it can be a vital job creation and income-supplement strategy for DOL target populations.

### Key Strategies

As summarized above, there are significant challenges to incorporating microenterprise options in the workforce development system. Nevertheless, microenterprise options can be expanded with concerted effort in several key areas:

**Policy review.** The policy review must identify and address structural barriers at the national and state levels. This review should include two considerations.

- How One-Stop structures (in particular, the structure of core and intensive services) can accommodate the need for early comprehensive assessment, as well as access to intensive training, technical assistance and supportive services for clients who choose self-employment.
- How performance measures can be adapted both to insure accountability of vendors, cost effectiveness and customer satisfaction, and to measure unique outcomes and signposts of success of microenterprise development. Resources for this review might include microenterprise-specific milestones developed through the SEA programs (as described above) and assessment tools for microenterprise training and technical assistance providers developed by the Aspen Institute. Respondents pointed out that it would be easier to create partnerships with microenterprise providers as vendors if mainstream workforce development programs were to adopt microenterprise-specific measures.

**Multiple funding sources.** The Montana Job Training Partnership, Inc. experience showed how access to unrestricted funds offers staff flexibility in developing microenterprise assistance for its customers. Such flexibility, however, is rarely possible outside the context of a time-limited demonstration. To compensate, program operators should be able to maximize their opportunities for funding from diverse sources.

- Have the option (mechanisms, vendors and measures in place) to allow eligible customers to use individual training accounts (ITAs) for self-employment training.

- Have information about a range of credit and financing options for entrepreneurs, including assistance in building (matching) assets through individual development accounts (IDAs), as well as vendors that have a proven track record in helping their clients access financing/credit resources.
- Be familiar with options for leveraging funds from a range of sources (for instance, customers with disabilities may have access to vocational rehabilitation funds, and recent immigrants may have resources available through refugee resettlement or assistance programs). Customers may be eligible for self-employment assistance through state SEA or dislocated worker programs.

**Training for state and local workforce development staff.** Training should address misconceptions about microenterprise and build the knowledge they need to help their customers. Interview respondents emphasized that state and local workforce development staff need not become experts in microenterprise to serve effectively in a broker or case management role. Capacity building efforts should emphasize orientation and assessment relevant to self-employment, along with in-depth knowledge of the local resources that can provide technical assistance, training, business incubation services, and access to capital. Additionally, staff should have specific information about monitoring performance of microenterprise training providers.

**Local linkages.** Fortunately, training and information on microenterprise is readily available in many communities. WIB members and front-line staff should be encouraged to identify and create linkages with a range of public and private sector agencies<sup>2</sup> that can provide information on self-employment resources. In the course of gathering information on community resources, it will be useful to create a collection of online (e.g. "bookmarked") resources and print information on self-employment and microenterprise training for customers.

**Marketing.** Marketing is needed at all levels to inform customers, staff, and program planners about expanded microenterprise options. At the local level,

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<sup>2</sup>Including, for example: SBDC's; CDFI's; local microenterprise service providers—often members of the Association for Enterprise Opportunity or in-state trade association directories; community action agencies; community development corporations; women's economic development organizations; community colleges, and refugee assistance programs.

once staff capacity is increased and vendors are identified, programs should market the availability of microenterprise services—along with other employment and training services—through meetings, flyers, and announcements. When customers start small-businesses, One-Stops can support these enterprises by creating a microenterprise directory, referring to One-Stop supported enterprises on local websites or in meetings with banks and businesses. In short, staff should be encouraged to publicize success and to adopt an entrepreneurial approach to marketing their programs and customer businesses.

**Widespread dissemination of information.** A number of respondents reported that they were unaware of the Department's self-employment demonstrations. DOL's website should provide a "home for state, local and national innovation," featuring resources and information on self-employment demonstrations and programs as well as the Department's interagency partnerships to expand microenterprise opportunities.<sup>3</sup> In addition to making existing efforts more visible, the Department should explore ways to expand these partnerships by, for example, identifying shared opportunities and barriers in making microenterprise opportunities available to welfare-to-work clients and One-Stop customers. A key resource for this analysis will be the Aspen Institute's study of microenterprise for TANF recipients (funded by the Mott Foundation).

**Advocacy within the workforce development system.** Knowledgeable advocates at the federal, state and local level provide essential leadership and support for incorporating microenterprise into employment and training programs. Capturing the initiative and expertise of these experts/advocates and transferring it from one location to another will be vital to making this option available to customers. As one state practitioner reported, identifying local microenterprise advocates (or coordinators) and using a train-the-trainer approach to help them share information and resources with other staff was a critical component of this effort.

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<sup>3</sup>As one example, through the Department of Labor, the Presidential Task Force on Employment of Adults with Disabilities engaged a range of government partners to expand employment opportunities—including self-employment—for people with disabilities. This approach can be a model for making partnerships and resources more visible to the general population of clients and to program operators.

**Replicate successful strategies.** At the national level, the Department might also want to consider the Corporation for Enterprise Development (CFED's) approach to promoting development of the individual development account (IDA) field. Through conferences and an online learning network, CFED identified innovative practices, promoted exchange of ideas, and linked national, state and local partners. By adapting some elements of this approach—for example—capturing and publicizing ways that workforce development staff are partnering with microenterprise programs, the Department can promote innovation and cross-fertilization of new ideas.

### One Promising Example

One statewide effort that has put many of these ideas into practice is the Microenterprise Development Project in Maine. Maine's CareerCenters were the focus of two self-employment demonstration projects aimed at building capacity within the CareerCenters to serve customers interested in self-employment. Maine's involvement in these DOL-funded microenterprise demonstration programs was critical to laying the foundation for their current success.

Permanently funded through state legislation, Maine's project features collaboration among four key partners:

- \$ Workforce Development Centers Administrative Office,
- \$ Coastal Enterprises, Incorporated,
- \$ Maine Small Business Development Centers, and
- \$ The Maine Centers for Women, Work, and Community.

Figure 4 below highlights best practices for making microenterprise services available through Maine's CareerCenters.

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**Figure 4**  
**Best Practices: Microenterprise Development In Maine**

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The following best practices are excerpted from "Taking Stock, Microenterprise Resource Development in Maine's CareerCenters," January, 2000.

- (1) Resources and Information:
    - Most CareerCenters developed a section of the Information Center to self-employment materials and Information Centers were staffed by a specialist that is familiar with self-employment materials.
  - (2) Public Information/Marketing
    - Most CareerCenters identify support for self-employment as a service provided at group or 1:1 orientations.
    - Centers use flyers, word-of-mouth and community presentations to market CareerCenter services to prospective customers.
  - (3) Orientation, Assessment and Case Management
    - The self-employment option is identified during intake consultations and orientation sessions.
    - CareerCenter staff track enrolled self-employment customers using the Comprehensive Information Management System.
    - Training opportunities for staff and customers are posted.
    - Staff has a checklist to follow the progress of customers pursuing self-employment goals.
    - CareerCenters provide supplemental support to the same extent as they do for job-seeking customers.
  - (4) Partnerships and Relationships
    - CareerCenter staff has relationships with a variety of local partners to facilitate training and business development and local business assistance resource providers are represented in the CareerCenters' Information Centers.
    - One program created a Dislocated Worker Referral List, which lists a number of self-employment resources both in the community and statewide.
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**A First Step**

To prioritize among the "starting points" mentioned above, the Department should convene an expert task force or sponsor a policy conference at which experts with varied perspectives can create a detailed plan of action for tapping into the unrealized potential for microenterprise services in the workforce development system.

## **Appendix A**

Key Informants: Self Employment/  
Microenterprise Experts, State and Local  
Workforce Development Professionals

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## **Appendix A: Key Informants—Self Employment/ Microenterprise Experts, State and Local Workforce Development Professionals**

### **Local Respondents:**

Mary Browne, Jewish Vocational Services

Richard Collazo, Mayor's office of Workforce Development (Chicago)

Lynne Cutler, Pennsylvania Self-Employment Assistance Program, Women's Opportunity Resource Center

Harry Dull, Merced Self-Employment and Job Opportunity Coalition, Merced County Community Action Agency

Ellen F. Golden, Microenterprise and Women's Business Development, Coastal Enterprises, Inc. (Maine)

Sheilah Rogers, The West Company (California)

Vanessa Rush, Detroit Entrepreneurship Institute, Inc.

Vicki Thomas, LWIA, Pima County, Arizona

Wanda White, Women's Self-Employment Project (WSEP) (Illinois)

George Yokoyama, Hawaii County Economic Opportunity Council

### **State-level Respondents:**

Marykay Cook, Colorado Department of Health Services

Steve Duval, State of Maine Department of Labor, Bureau of Employment Services

Jim Kooistra, Arizona Department of Economic Security

Peter Lent, Business and Economic Development Division, Connecticut Department of Economic and Community Development

Susan McKelliget, Massachusetts Department of Employment and Training

Kathy Mahoney, Colorado Department of Human Services

Wendy Werkmeister, Wisconsin Women's Business Initiative Corporation

Maria Valenzuela, Colorado Department of Labor and Employment

Eloise Vitelli, Maine Center for Women, Work and the Community

Jason Friedman, Institute for Social and Economic Development

### **Subject Experts:**

Maureen Conway, The Aspen Institute

Bill Edwards, Association for Enterprise Opportunity

Bob Horn, Center for Community Development, University of Colorado

Amy Kays, The Aspen Institute

Eric R. Pages, National Commission on Entrepreneurship

Members of the National Microenterprise Listserv, including:

- Bill Goldsmith, Helping Oregon's Smallest Businesses Succeed!  
Oregon Microenterprise Network (OMEN)
- Dennis Rizzo, New Jersey Developmental Disabilities Council
- James I. Masters, Center for Community Futures

## **Appendix B**

### Summary of DOL Funded Microenterprise and Self-Employment Programs

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## **Appendix B:**

# **Summary of DOL Funded Microenterprise and Self-Employment Programs**

Below we describe several microenterprise and self-employment programs funded by the U.S. Department of Labor over the past fifteen years. We have discussed these programs above in the main report; in this Appendix, we provide additional descriptive detail about the programs. We also indicate the main sources of information used to develop these program descriptions.

### **Unemployment Insurance Self-Employment Demonstration<sup>1</sup>**

From 1986 to 1996, the Department of Labor examined alternate uses of Unemployment Insurance by funding a series of demonstration projects around the country. One of these, the Unemployment Insurance Self-Employment Demonstration (see Figure B-1 for overview), was designed to evaluate the feasibility and cost-effectiveness self-employment assistance programs (SEAs), and allowed unemployment insurance claimants to receive financial assistance while devoting themselves full-time to starting their own businesses. The demonstration took place in two states: Washington State beginning in 1989, and Massachusetts starting in 1990. As a result of the success of these two programs, in 1993 Congress passed five-year provisional federal legislation as part of the North American Free Trade Agreement Implementation Act (NAFTA) providing all states with the option of initiating self-employment programs for unemployment claimants. Eight states chose to establish SEA programs between 1995 and 1998 under this provisional legislation: New York, Oregon, Maine, Delaware, New Jersey, California, Maryland and Pennsylvania. In October 1998 the state UI SEA option was made permanent through further federal legislation.

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<sup>1</sup> The program descriptions and outcomes reported in this section are based on Benus et al. (1993, 1994, 1995), and Messenger and Wandner (1994)

**Figure B-1**  
**Unemployment Insurance Self-Employment Demonstration**  
**Self-Employment Assistance (SEA) Programs**

<b>Programs</b>	Unemployment Insurance Self-Employment Demonstration Self-Employment Assistance (SEA) Programs
<b>Authorizing Legislation</b>	Washington: initiated by DOL, costs funded by DOL research resources as authorized by JTPA. Massachusetts demonstration authorized by Section 9152 of the Omnibus Budget Reconciliation Act of 1987
<b>Grant Period</b>	1989-1993
<b>Goal</b>	Evaluate the feasibility and cost-effectiveness of self-employment assistance programs (SEAs) allowing unemployment insurance claimants to receive financial assistance while devoting themselves full-time to starting their own businesses
<b>Services Offered</b>	Unemployment insurance payments, technical assistance and training to support business planning and start-up
<b>Grantees/sites/ program names/ locations</b>	Massachusetts: Enterprise Project Washington: Self-employment and Enterprise Development

### ***Program Model***

The basic program model included technical assistance and training to support business planning and start-up, and unemployment insurance payments accompanied by a waiver of regular UI job search requirements.

### ***Eligibility***

Both UI Demonstration programs were designed to be early interventions, and thus targeted new UI claimants. Claimants under 18 years, those filing interstate claims, and those on stand-by to return to their former employer were not invited to participate. In Massachusetts, the enacting legislation required that the project be budget-neutral: that is, participants would not receive more financial

assistance than they would have under a traditional UI regime. Some UI claimants return to employment after collecting just a few months of unemployment benefits. If these individuals instead entered the SEA program, the state would be paying them the entire UI benefits to which they were entitled rather than just a few months of assistance. Thus participation in the program by a large number of UI claimants who would normally have only collected benefits for a few months would have meant an increase in overall UI expenditures. As a result, the Massachusetts Enterprise Project developed a statistical model to help identify SE program applicants who were dislocated workers likely to use all of their UI benefits. Only applicants who were determined, based on this model, to have more than .55 probability of exhausting their benefits were eligible to participate.

### *Services*

**Training and technical assistance:** In Massachusetts, SEA program participants were required to attend a one day enterprise seminar upon entry into the program, and then meet individually with a business counselor two weeks later. Participants were also required to attend six other workshops over a twelve week period. In Washington, participants were scheduled to attend four training sessions a few weeks after enrolling in the SEA program.

**Financial assistance:** Participants in Washington's SE Demonstration received a self-employment allowance that could equal as much as the weekly unemployment insurance benefit to which they would have been entitled. In the original demonstration project, participants received regular biweekly unemployment benefits, and then could become eligible to receive a lump sum payment equal to the remainder of their UI benefit. To be eligible for a lump sum payment, participants were required to have completed five milestones: completion of training session, development of an acceptable business plan, establishment of a business bank account, meeting all licensing requirements, and obtaining adequate financing.

In Massachusetts, no lump-sum payment option was available. Participants were eligible for 30 weeks of UI benefits, but their job search activity waivers lasted only 24 weeks. After receiving 24 weeks of biweekly self-employment allowance payments, participants had to choose between returning to the regular UI program and fulfilling work search requirements, or devoting their energies full-time to their business start-up and foregoing the last six weeks of benefits.

### *Outcomes*

The demonstration projects in Washington and Massachusetts were formally evaluated using an experimental design. Program applicants were screened for interest and eligibility before being randomly assigned to either participate in the SEA program or receive traditional UI benefits. Both experimental and control groups were tracked with two follow-up surveys, at approximately 20 and 32 months after random assignment, with response rates at or above 80%. The final evaluation of the Washington and Massachusetts projects was completed in 1995.

The final evaluation of the Self-Employment Demonstration projects (Benus et al., 1995) concluded that participation in the programs increased self-employment, increased total time in employment, and reduced the length of unemployment. A benefit cost analysis indicated that both programs had significant net benefits for society, although only the Massachusetts program yielded net benefits from a taxpayer or governmental perspective. This is due in part to the effect of the lump-sum payment offered by the Washington SEED program and partly to the less stringent process used by SEED to target claimants likely to exhaust their UI benefits. As a result, individuals in the SEED program received approximately \$1,000 more in total benefits than control group members, while in Massachusetts program, participants received \$900 less in total UI benefits than control group members.

## **State Self Employment Assistance (SEA) Programs<sup>2</sup>**

In 1993, as part of the North American Free Trade Agreement (NAFTA), Congress temporarily authorized states to create self-employment assistance programs through their unemployment insurance systems. In 1998, the five-year temporary program was made a permanent option for states under the Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998. To date, SEA legislation has been enacted in eleven States: California, Connecticut, Delaware, Maine, Maryland, Minnesota, New Jersey, New York, Oregon, Pennsylvania and Rhode Island. Thus far, seven states have implemented a SEA

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<sup>2</sup> The program descriptions and outcomes reported in this section are based on Messenger et al. (in press, 2002), and Vroman (1997).

program: New York, Maine, Oregon, Delaware, New Jersey, Maryland, and Pennsylvania. (California offered a program for a brief period but it was discontinued for lack of participation.)

Self-Employment Assistance (SEA) programs (see Figure B-2 for overview) pay unemployed workers a self-employment allowance in lieu of unemployment compensation to support them while they establish their business and eventually become entrepreneurs. Building on the DOL's SE Demonstrations of 1989 to 1993, this program is targeted towards dislocated workers that are unlikely to gain re-employment in similar occupations. The SEA program is distinct from many other microenterprise experiments precisely because its objectives are not rooted in anti-poverty strategies, but rather in employment and re-training efforts for workers with significant experience with and attachment to the labor market. Currently, the SEA program is the most well-established microenterprise initiative in the workforce development system.

Eligible dislocated workers are identified out of the larger UI population through a "profiling" system. State SEA programs use the statistical profiling system established under the Worker Profiling and Reemployment Services initiative (WPRS), a program established to identify those claimants who are most likely to exhaust their benefits and refer them to reemployment services. Targeting the program to dislocated workers who are most likely to become long-term unemployed ensures that workers with the most need receive services and that the program is cost-effective and sustainable. SEA legislation requires that self-employment allowances not exceed payments that would normally be made through unemployment insurance. Because eligible participants are statistically likely to collect their entire benefit, participation in the SEA is deemed unlikely to cost the state UI systems additional resources beyond the amount they would have spent without the program. That the program does not present real added expense to states has also made the program politically attractive.

Information about the success of the programs in the states that have elected to implement SEA programs since 1993 is incomplete. These programs are required to report participant outcome information if the program operated for more than six months, and this information is available for New York, Oregon, Maine and Delaware for 1996 with the addition of New Jersey in 1997; however, outcomes reported by each state have varied and response rates to follow-up surveys ranged from 30-50% (Vroman, 1997).

**Figure B-2**  
**Self Employment Assistance (SEA) Programs**

<b>Program</b>	Self-Employment Assistance (SEA) Programs
<b>Authorizing Legislation</b>	Provision allowing states to establish self-employment assistance programs enacted under Title V (Transitional Adjustment Assistance) of the North American Free Trade Agreement (NAFTA) Implementation Act (P.L. 103-182); program made permanent by P.L. 105-306 (The Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998)
<b>Goal</b>	Promotes reemployment of dislocated workers by allowing states to provide participants with periodic self employment allowances while starting businesses and to offer self-employment assistance services.
<b>Services Offered</b>	Entrepreneurial training, counseling, technical support; some programs also offer links to financial support other than SEA allowances, and peer support sessions.
<b>Grantees/sites/ program names/ locations</b>	New York, Maine, Oregon, Delaware, New Jersey, Maryland, and Pennsylvania.

### ***Eligibility***

In all states, the SEA programs select applicants who are likely to exhaust their UI benefits before finding other employment. In Pennsylvania, this screening consists of turning down applicants with definite employment recall dates, who are already working part-time, or who have other characteristics that indicate that they are likely to be short-term UI beneficiaries. In 1993 legislation mandated the WPRS statistical model to estimate the likelihood that claimants will exhaust benefits. All but one SEA states use this model to determine entry into their SEA programs, denying eligibility to those who do not meet the probability threshold, which ranges from a minimum of .33 in Oregon to a maximum of .70 in New York (Messenger et al., 2002).

### ***Participant Characteristics***

Based on the data available from five of the states that have implemented SEA program since 1993, SEA participants are more likely to have been in professional, technical or managerial positions and had higher pre-unemployment wages than regular UI beneficiaries. Fewer minorities participate in the SEA programs, and program participants have a higher level of education than regular UI claimants (Vroman, 1997).

### ***Services***

The SEA programs in all states offer training, counseling, and technical support services. Four states work with Small Business Development Centers, which can conduct initial assessments of applicants and also review participants' business plans. Three states offer peer support groups. Entrepreneurial support services may not be available locally when the SEA program is offered statewide, in which case individuals claimants decide whether or not to travel to participate. None of the programs offers financial backing besides the self-employment allowance. Though many programs offer loan information, participants have actually secured very few loans.

### ***Outcomes***

Program participants do start their own businesses; in 1996 the proportion of program participants with start-ups ranged from 65% in Oregon in 1996 to 77% in New York, though the New York figure excludes program drop-outs (Messenger et al., 2002).

DTI's *Comprehensive Assessment of Self-Employment Assistance Programs* (Kosanovich et al., 2001) found that SEA participants achieved significant levels of self-employment and labor market attachment and expressed high levels of satisfaction with self-employment. While data was insufficient for an effective benefit-cost analysis, Kosanovich et al. found that the program "appears to succeed in enabling self employment" for the target population.

## EDWAA Job Creation Demonstration<sup>3</sup>

In June 1991, DOL awarded EDWAA Job Creation Demonstration Grants (see Figure B-3 for overview) to six community development organizations. Initial grants covered a period of 15 months with a chance to renew for an option year through September 1993. All grantees were private, non-profit organizations with some previous experience in economic development; two were community-based social service providers. MAN-TRA-CON (for “management, training, and consulting,” formerly Illinois Farmers Union-Training) was a Job Training Partnership Act substate grantee. The Muskegon Economic Growth Alliance (MEGA) was a major subcontractor for the local substate EDWAA grant.

**Figure B-3**  
**EDWAA Job Creation Demonstration Grants**

<b>Program</b>	<i>Job Creation Demonstration Project</i>
<b>Authorizing Legislation</b>	Economic Dislocation and Worker Adjustment Assistance Act
<b>Grant Period</b>	Initial: 15 months (7/91 -9/92) Option year: 12 months (9/92-9/93)
<b>Goal</b>	Explore the effectiveness of Community Development Corporations in expanding employment opportunities for dislocated workers
<b>Services Offered</b>	Self-employment training and assistance for starting microbusinesses
<b>Funding</b>	Grant allocations of \$607,000-\$927,000 per grantee, totaling \$4.9 million
<b>Grantees/sites/ program names/ locations</b>	MAN-TRA-CON: Business Entrepreneur Skills Training Program (BEST), Southern Illinois
	The Muskegon Economic Growth Alliance (MEGA): Job Creation Demonstration Project, Muskegon, Michigan
	Greater Atlanta Small Business Project (GRASP): Project New Ventures, Atlanta, Georgia
	HACER, Inc: Project Excel, Bronx, New York
	Friends of Children of Mississippi (FCM): EDWAA Project, Jackson, Mississippi
	Center for Practical Solutions (CPS), Hauppauga, Long Island

<sup>3</sup>The program descriptions and outcomes reported in this section are based on Drury et al. (1994).

### *Program Model*

The program model was flexible; grantees were free to change and improve their programming during the course of the grant rather than being held to a particular service design. Although the grantees made modifications to the length and content of the training curriculum they offered over the course of the grant period, all six demonstration models offered training and support for dislocated workers on how to start a small business.

Although there was considerable variation among the training and service models of the six grantees, a typical service pattern did emerge. The self-employment training model began with outreach and recruitment, program orientation, and general assessment. The next phase included classroom training in business skills and personal development training, followed by business plan development, and then technical assistance and start-up support. The final stage was the post-start-up period and consisted of various types of on-going support for program graduates.

### *Services*

**Recruitment/ Assessment:** Grantees tried to generate referrals from Unemployment Insurance, AFDC, and EDWAA programs, but for non-EDWAA grantees this approach resulted in few referrals.

All six grantees came to adopt comprehensive screening and assessment procedures for the Job Creation Demonstration Project that included at least one of the following:

- (1) All six projects implemented written applicant self-evaluations that asked applicants to assess characteristics such as business-specific skills, preference for self-employment over salary or wage work, feasibility of business idea, and personal resources to support the participant during the training period and to finance business start-up.
- (2) Several projects required interviews with program staff experienced in business (not just mainstream employment training) to assess interpersonal skills, explore the issues from the self-assessment more thoroughly, and appraise candidates' "business potential."

- (3) At least three projects used attendance during an initial pre-business, personal development training period to judge applicants' commitment to the program and to determine acceptance into the full program.
- (4) Two projects used psychological testing to identify characteristics of successful entrepreneurs and increase candidates' self-understanding.

**Training:** Revolving loan funds and business marketing programs made up the core services to promote business start-up offered by many community development organizations; however, the six agencies funded under the Job Creation Demonstration were primarily training organizations, and their service models reflected this focus. The six grantees offered classroom training, ongoing support of start-up businesses, and counseling and case management.

For the Job Creation Demonstration Project, all of the grantees offered training and support for starting a microbusiness. During the first year of the grant three grantees (New York City's South Bronx, HACER (operated by Project Excel); Friends of the Children of Mississippi, Inc. (FCM); and The Muskegon Economic Growth Alliance) also offered reemployment training and job search services aimed at existing businesses. During the year two option, in which all six grantees received continued funding, only HACER maintained a modified version of its reemployment component.

At the beginning of the demonstration, the formal classroom training programs varied in length from six to 24 weeks, consisting of anywhere between 40 to 200 training hours. Despite this initial variation the length of training had converged to six to 13 weeks (40 to 150 contact hours) for all the projects by the end of the demonstration grant period.

Some of the projects, such as the Business Entrepreneur Skills Training Program (BEST) operated by MAN-TRA-CON, a community-based nonprofit in southern Illinois, had very flexible training models designed to accommodate participant interests and schedules. They divided their training into modules that lasted one month each and that could be completed in any order. This allowed for an open-entry-open-exit structure so that participants would not have to wait, exhausting their unemployment insurance, before starting the program. Others, such as HACER, targeted a specific demographic group (Hispanic women) and offered short-term training (ten weeks) leading to a single occupation (preparing participants to become licensed family day care providers).

**Support and Technical Assistance:** Projects created various staff roles, such as business counselor, mentor, or business planner, to help participants take the practical steps needed to start a business. Technical assistance was particularly intense in the period before start-up, when participants needed help with general activities such as developing business plans and accounting and finance, as well as industry-specific requirements such as permits or licenses.

**Financing:** JTPA prohibited the use of program monies for capitalizing loan funds. Although grantees did attempt to identify alternate sources for financing loan funds, only four grantees were able to provide supportive services grants ranging from \$250-\$2,000. All grantees except one were able to assist a few participants to obtain loans from local banks, although these successful borrowers made up a small proportion of all business starters.

### *Outcomes*

The total employment rates from the self-employment training matched outcomes from traditional EDWAA retraining programs, but initial earnings from self-employment were lower than the average wage at termination for participants in more traditional reemployment programs.

**Participation:** Overall, 996 dislocated workers were served by the Job Creation Demonstration Project across the six sites, with 645 enrolled in the self-employment programs and 351 in re-employment track offered by three grantees. Participants in the Job Creation Demonstration Project differed from mainstream EDWAA clients in several ways. Demonstration participants were older than their mainstream Title III counterparts, and tended to be slightly better educated. Only 48 percent of participants were women. This overall gender balance matched the general EDWAA population, but it did not reflect the gender breakdown of other domestic microenterprise programs, which typically serve more women. When taken individually however, some projects were heavily skewed toward one gender, reflecting their service model and target population.

**Job creation and placement:** Business start-up outcomes should be interpreted with caution, because although grantees were given guidelines on start-up criteria, they were allowed to adopt their own definitions to reflect differences in program arrangements and type of businesses at startup.

Forty-five percent of participants in the self-employment tracks started a business (See Figure B-4, Participant Outcomes), and 74% of business starters who were eligible for and responded to the six-month follow-up survey were still in business when contacted. Seventy-two percent of all reemployment participants found employment.

**Figure B-4**  
**EDWAA Job Creation Demonstration Grants:**  
**Self Employment Participant Outcomes**

<b>Participants Enrolled</b>	645
<b>Business Startup</b>	293 or 45% of participants started businesses during time period of the demonstration
<b>#of weeks between enrollment and startup</b>	Mean: 17.9 Median: 15.4
<b>6 month follow-up</b>	74% of business starters who had started their businesses at least six months before the follow-up survey – and who responded to that survey – were still in business
<b>12 month follow-up</b>	76% of the 80 business starters who had started their businesses at least twelve months before the follow-up survey – and who responded to that survey – were still in business

## Job Training Partnership Act (JTPA) Microenterprise Grants Programs<sup>4</sup>

The JTPA Microenterprise Grants Programs (see Figure B-5 for overview) had two goals: to provide training to potential entrepreneurs and business owners, and to build capacity for microenterprise services within the workforce development system. Five states received grants. States generally contracted with one or more community agencies to provide training and support both to individual entrepreneurs and to staff within the workforce development system. The range

<sup>4</sup> The program descriptions and outcomes reported in this section are based on Smith et al. (2000).

of models points to the diversity of approaches possible in implementing microenterprise programs under JTPA/WIA.

**Figure B-5**  
**JTPA Microenterprise Grants Programs**

<b>Program</b>	JTPA Microenterprise Grants Programs
<b>Authorizing Legislation</b>	Job Training Partnership Act, section 499
<b>Funding Legislation</b>	Job Training Partnership Act, section 324
<b>Grant Period</b> <b>Round 1</b> <b>Round 2</b>	1995 Initial Funds: 15 months (6/97-9/98) Additional Funds: 12 months (10/98-10/99) plus four month, no-cost extension through 1/00
<b>Goal</b>	Develop states' capacities to support microenterprise
<b>Services Offered</b>	Technical assistance and business-related training to owners and potential owners of microenterprise
<b>Funding</b>	Five states received initial 15-month awards ranging from \$200,000 to \$300,000
<b>Grantees/sites/ project names/ locations</b>	Connecticut, Department of Labor: ACCESS: CBO responsible for training and capacity building Iowa, Workforce Development: Institute for Social and Economic Development: CBO responsible for training only in second year Maine, Department of Labor: MicroEnterprise Resource Development: management team drawn from three CBOs Michigan, Job Commission: Project INVEST: initiated and operated by workforce development center staff Vermont, Department of Employment and Training: 8 subcontracting agencies: 5 community action agencies provided individual training and 3 CBOs developed training materials and facilitated capacity building

### *Program Model*

While the partner agencies and service models varied across states, common elements among all the programs included recruitment, eligibility determination, assessment, training, support, and access to capital, as described below.

### *Eligibility*

The participant eligibility requirements for the JTPA Microenterprise Grants Programs were very precise. Because the grant program was funded and authorized under two different sections of the JTPA, participation in the Microenterprise Grants Program was limited to individuals who met the eligibility requirements of both Title II and Title III of the Act. Together, Titles II and III required that participants be both economically disadvantaged and dislocated, effectively limiting the pool of potential participants to 5 percent of the adult JTPA population. These requirements, combined with a strong labor market that limited the appeal of the training offered, forced the grantees to be aggressive in their recruiting efforts.

### *Services*

**Recruitment/Assessment:** Potential participants found out about and enrolled in the programs in several ways, and recruitment efforts were shared between JTPA offices and the community agencies. The community agencies operating the training programs made presentations targeted to staff but open to potential participants at the referring JTPA offices or One-Stop Centers. Several grantees conducted public outreach for the program such as posting fliers and using the media to publicize the trainings. JTPA clients who expressed interest in self-employment could be referred directly to the training providers. Individuals who contacted the community microenterprise agency directly were referred to the local JTPA office for eligibility determination.

Assessment activities were designed to help participants determine their readiness for self-employment, and often took place over a number of weeks at the beginning of training. Participants met one-on-one with counselors and sometimes attended training sessions as part of the assessment process. They were asked to reflect on their strengths and weaknesses, experiences and skills and the level of commitment, resources and self-discipline needed to start a business.

**Training:** The training models varied both across and within states. Training was provided by community action agencies, other non-profit training providers, through courses at local community colleges, and by individual trainers. The length of training varied from single day seminars to 13-week courses. Providers attempted to balance the need for training to be long enough to provide meaningful content against participants' need for training that did not conflict with their existing family responsibilities and could be completed within a limited time frame. Many grantees used existing training curricula that typically introduced participants to the key elements of business development and operation including marketing. None of the programs required completion of a business plan, but instead concentrated on ensuring that participants were familiar with its components. Classroom trainings incorporated workbook exercises, hands-on experiential learning, role playing, group discussion and peer review.

**Post-Training Support:** States provided one-on-one technical assistance to participants, usually to assist with completion of business plans. Some trainers met with counselors on a regular basis, while in other states assistance was provided as needed either in person or over the phone. Technical assistance was the only contact many participants had with the program after they had completed training. Grantees also provided case management services to help participants address needs such as child care, transportation, and self-esteem in addition to assistance with business start-up. Sites that were primarily based in community action agencies (such as Vermont and Connecticut) tended to refer clients to internal programs or community providers; those more strongly linked to the JTPA system (Iowa and Michigan) tended to refer clients back to that system. At least two states (Vermont and Maine) attempted to develop peer support groups to provide an opportunity for participants to share ideas, and offer guidance and support to each other outside of the classroom. Maine created a formal peer advisory group that met for three months after training sessions ended. However, few participants attended peer support groups on a regular basis. Similarly, plans to create mentoring relationships with established business persons were not fully implemented due to lack of participant interest and time.

**Access to capital:** Although JTPA funds could not be used to provide direct loans or grants to participants, some states provided referrals or direct access to appropriate financial lenders, and tried to find ways to provide financial incentives to participants for completing their business plans. In Connecticut, participants who completed their business plans received up to \$500 in supportive services that could be used to purchase equipment or materials for business start-up. Michigan's program operated its own loan fund and provided small loans of \$100 to \$3000 to participants who had completed microenterprise training. These initial loans, in addition to providing funds for start-up, also served as a first step in helping individuals secure loans from traditional commercial lenders.

### *Outcomes*

The evaluation of the JTPA Microenterprise Grants Programs used two types of participant data collected by grantees: baseline data collected when clients enrolled in the program, and outcome data collected from interview with participants conducted by program staff one year after enrollment. Grantees provided baseline data for 193 participants across all five states and provided 12-month follow-up data for 109 participants. Because of the small numbers served by the programs in each state and the variation in the number of responses to each of the questions on the 12-month follow-up survey, outcome data could not be broken out by site.

**Participant Characteristics:** More women than men participated in the JTPA Microenterprise Grants Programs, very few participants were minorities, and participants were generally well educated. Fifty-nine percent of participants in the JTPA Microenterprise Grants Programs were women, a gender balance typical of other domestic microenterprise programs. Ninety percent of participants were white, which is atypical of other microenterprise programs in the US and of JTPA Title II-A and Title III programs; however, the low number of minorities served by the Grant Programs reflected the ethnic composition of the grantee service areas with programs. On average, grantees served a slightly greater proportion of minorities than existed in their state or service delivery area as a whole. The mean age of participants was 42 years, similar to other microenterprise programs, with 84% of participants between the ages of 30 and 54. The high level of education among program participants is again typical of domestic microenterprise programs; 92% had at least a high school degree and 23% had a college or graduate degree. Finally, 24% of participants reported

having a mental or physical disability, although this proportion varied greatly by state.

**Employment and Business Startup:** At the 12-month follow-up, 51% of respondents indicated that they were operating their own businesses (see Figure B-6). This is slightly higher but similar to the 45% of EDWAA Job Creation participants who reported starting their own businesses during the period of the demonstration. Forty percent of these self-employed microenterprise participants also reported working for a business that was not their own. Overall, 44% of participants reported working for a business that was not their own at the 12 month follow-up.

The follow-up survey results also provide interesting information about how participants financed their businesses. Participants reported needing \$200 to \$300,000 in capital, with half of the respondents reporting needing less than \$3,000. Twenty-five respondents (69%) used their own money to finance their businesses, with expenditures ranging from \$200 to \$300,000 and a median expenditure of \$2,500. Eight respondents (22%) reported taking out loans of \$600 to \$80,000 to start their businesses.

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**Figure B-6**  
**JTPA Microenterprise Grants Programs**  
**Employment Outcomes**

<b>Employment Outcomes</b>	<b>% of Question Respondents</b>
Employed, not own business	44% (82 respondents)
Operating own business	51% (70 respondents)

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## Microenterprise in Other DOL Initiatives: Lessons from DOL's Disability Employment Grants<sup>5</sup>

Microenterprise strategies have also emerged within the context of DOL initiatives targeting specific populations. As an example, one of the 15 grantees operating a program as part of the Department of Labor's Disability Employment Grants is Montana Job Training Partnership, Inc. (MJTP). MJTP offers microenterprise training as part of a spectrum of employment services available to participants with disabilities. As the evaluator for the overall grant program, BPA studied MJTP's program operations and outcomes in detail and reported findings to DOL's Office of National Programs.

### *Overview and Program Model*

MJTP was established in 1990 as a private non-profit organization and is located in Helena, Montana. MJTP is the administrative entity for job training programs in both of Montana's Job Training Partnership Act (JTPA) service delivery areas. The agency is responsible for management and oversight of all service delivery area programs in the state, including JTPA, welfare-to-work, and implementation of the Workforce Investment Act. MJTP's organizational mission is "to prepare youth and unskilled adults for entry into the labor force and to provide job training for economically disadvantaged individuals, displaced workers, and others facing serious barriers to employment." Among the specific goals of the MJTP Disability grant are to increase the level of knowledge and expertise within the JTPA system for serving individuals with severe disabilities.

MJTP's Disability grant project is called *Careers Through Partnerships* and operates as a voucher program covering the states of Montana and Wyoming. Participants in the program may choose to receive services from a number of qualified service providers, organizations that have participated in training presented by the grant's subcontractors, the Montana Rural Institute on

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<sup>5</sup> The program descriptions and outcomes reported in this section are based on Almandsmith et al. (2001). The 15 Disability Employment Grants began operating in July 1998, supported by a combination of JTPA Title III and Title IV funds and sponsored by the DOL Office of National Programs. The grants were a continuation of that office's emphasis on providing employment-related services to people with disabilities, which had begun in the late 1970s.

Disabilities (the Rural Institute) at the University of Montana, and the Wyoming Institute for Disabilities (WIND) at the University of Wyoming.

### *Services*

The training emphasizes supported employment, job carving, and entrepreneurship among participants. Service providers that have completed the training assist participants in developing an individualized service plan and submit grant applications to MJTP on the participant's behalf. The project director approves grant applications and allocates to the participant's service provider funds sufficient to cover planned services.

Because both Montana and Wyoming are predominantly rural, self-employment has become a major emphasis of the grant. The grant's activities in Wyoming include bringing together key players from various employment and training systems (e.g., Vocational Rehabilitation, One-Stops, welfare-to-work) to improve service provision through collaboration.

*Careers Through Partnerships* targets unemployed and underemployed individuals with all types of disabilities, especially individuals with the most significant disabilities. The grant's service area covers Montana and Wyoming. Because both states have relatively small populations and low incidence of individual disability types, MJTP chose not to limit grant services to individuals with specific types of disabilities. To be eligible for services, an individual must be a U.S. citizen, produce documentation of having a disability, and want to work.

### *Outcomes*

The results reported in this section represent grantee outcomes through June 15, 2000. The grants continued through September 2001, and many participants were still receiving services as of the evaluation's cutoff date for data collection.

**Placement Rate:** Of the 119 individuals served by Careers Through Partnerships through June 2000, 76 found employment, for a placement rate of 64%. Fifty-seven participants (48% of the total participant pool) worked in positions of 20 hours or more per week. Twenty-six participants—over one-third of employed clients—were self-employed. (See Figure B-7 for employment outcomes information.)

**Figure B-7**  
**Employment Outcomes**  
**Montana Job Training Partnership, *Careers Through Partnerships***  
**July 1, 1998 – June 15, 2000**

	Number	Percent <sup>a</sup>
Number of Participants	119	
Employment Outcome		
Any employment	76	63.8%
Employed over 20 hours per week <sup>b</sup>	57	47.9%
Wages and Hours Worked <sup>c</sup>		
Mean hourly wage at placement (n=61)	\$7.29	
Mean hours worked per week (n=76)	24.4	
Self-Employment		
Proportion of all participants (n = 119)	32	26.9%
Proportion of employed participants (n = 61)	26	42.1%
Average monthly earnings	\$841	
Employment Retention		
Average number of weeks worked as of 6/15/00 (n = 61)	32.1	

<sup>a</sup>Percentages include only those participants for whom information was provided.

<sup>b</sup>Number of recipients who meet Department of Labor placement criteria by obtaining employment 20 hours per week or more at any time during the grant period. This variable is missing for all cases where hours per week at placement is not available or missing.

<sup>c</sup>Information about hourly wages was not available for participants who were self-employed, and thus these individuals are not included in our calculation of average hourly wages.

Source: BPA calculations based on MJTP data.

The Montana site had much better success than did Wyoming in assisting participants to find work; two-thirds of Montana participants entered employment, compared to just over one-third of Wyoming participants. This difference was not surprising given the slower start-up experienced by the Wyoming site.

**Wages and Hours Worked:** Project participants on average worked 24 hours per week and earned \$7.29 per hour. As noted above, more than one-third of participants who started work were self-employed. As of the end of the evaluation's data collection period, these individuals earned an average of \$841 per month.

On average, Wyoming participants worked fewer hours per week and earned lower wages than their counterparts in Montana. A much larger proportion of Montana participants who started work were self-employed (86 percent) compared to that in Wyoming (40 percent). On the other hand, Wyoming participants who were self-employed had higher average monthly earnings (\$1,400) than their peers in Montana (\$779).

At the end of the evaluation's data collection period, *Careers Through Partnerships* participants who were employed as of June 2000 had worked an average of 32 weeks, or about eight months.<sup>6</sup> Individuals who were self-employed had worked slightly longer (33 weeks) than those who worked for someone else (31 weeks).

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<sup>6</sup> MJTP was unable to provide the number of weeks participants had worked at specific time intervals (i.e., 180 days, 12 months). Instead, the project reported participants' employment status, wages, and hours per week as of June 15, 2000.

## **Appendix C**

### Promising Research and Sources of Microenterprise Information

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## Appendix C: Promising Research and Sources of Microenterprise Information

### Ongoing Research

*National Evaluation of the Implementation of the Workforce Investment Act of 1998 (WIA), Social Policy Research Associates, Oakland, California, publication expected 2001.*

Social Policy Research Associates is conducting an evaluation of the Implementation of the Workforce Investment Act of 1998. This evaluation includes a process study of a sample of states and local areas and their experience implementing WIA, and a quarterly tracking project aimed at documenting states' fulfillment of WIA's legislative requirements. The three-year evaluation will include detailed case studies of 16 states and 30 local workforce investment areas and will focus on implementation challenges and best practices. The study will look specifically at how well these areas are promoting the seven key principles of WIA (streamlining services through integration; empowering individuals; universal access; increased accountability; strengthened role for local boards; state and local flexibility; and improved youth programs). To identify how best to incorporate microenterprise training under WIA, it will be important to review this evaluation of WIA implementation. This report can provide insight into WIA implementation successes and challenges, thereby suggesting the extent to which local areas are prepared to expand services to include microenterprise training. To locate this publication, see:  
[http:// www.spra.com/publications](http://www.spra.com/publications).

*Comprehensive Assessment of State Self-Employment Assistance (SEA) Programs, DTI Associates, Final Report publication expected June 30, 2001.*

This report will present profiles of the eight states that have operated SEA programs. These profiles will be based on the programs' annual reports to the Department of Labor and other data findings from a survey of post-program participants in New Jersey, New York, and Maine.

***The Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) program of the Aspen Institute, ongoing publications of interest.***

The Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) is a program of the Aspen Institute and serves as the research and development arm of the microenterprise field, providing information to policymakers, practitioners and other organizations in the policy arena. The project conducts a broad range learning and evaluation activities that aim to address challenges to the effective delivery of microenterprise services to the poor. The program engages in best practice research, grant evaluation, and information-sharing conferences. More information on FIELD can be found at: <http://216.147.121.117/home/index.html>.

***Charles Stewart Mott Micro-enterprise Welfare-to-Work Grantees Learning Evaluation, FIELD project of The Aspen Institute, forthcoming.***

One upcoming evaluation expected from the FIELD project is the Charles Stewart Mott Micro-enterprise Welfare-to-Work Grantees Learning Evaluation. The project will evaluate 10 programs working under three-year grants. The evaluation consists of three components: longitudinal tracking of work experience of demonstration participants; case studies of state policy environments; and annual meetings of grantees and evaluation staff. The project aims to determine whether self-employment can offer supplemental income or full-time employment to former recipients. Case studies also identify state policies that create barriers or opportunities for self-employment of welfare recipients.

***Performance Counts, FIELD project of The Aspen Institute, occasional publication.***

This publication comes in the form of an occasional newsletter, which contains information about performance measures being tested, data collection tools, and definitions. Articles describe practitioner experiences and guest authors contribute to discussions about measuring performance in the microenterprise field. Publications can be found at <http://www.fieldus.org/publications/index.html>.

**Selected List of Online Resources:**

Aspen Institute - <http://www.aspeninstitute.org/>

Aspen Institute: FIELD - The Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination - <http://www.fieldus.org/>

Association for Enterprise Opportunity - <http://www.microenterpriseworks.org/>

Association for Enterprise Opportunity, microenterprise fact sheets -  
<http://www.microenterpriseworks.org/microdevelopment/factsheets/factsheetsindex.htm>

Biztalk - <http://biztalk.com>

Business Hotline-Online - <http://www.bizhotline.com>

Business Owners Toolkit - [http://www.toolkit.cch.com/text/P01\\_0100.asp](http://www.toolkit.cch.com/text/P01_0100.asp)

Business Publications - <http://www.bpubs.com/>

Business Resource Center - <http://www.morebusiness.com>

Community Development Financial Institutions (CDFI) Coalition -  
<http://www.cdfi.org/>

Consortium for Entrepreneurship Education - <http://www.entre-ed.org/>

Corporation for Enterprise Development - <http://www.cfed.org/>

Enterprise Foundation - <http://www.enterprisefoundation.org/>

Entrepreneur's Home Office Magazine - <http://www.homeofficemag.com>

Entrepreneur Magazine - <http://www.entrepreneurmag.com>

Ewing Marion Kauffman Foundation - <http://www.emkf.org/>  
With links to FastTrac—a business development training program

Federal Interagency Workgroup on Microenterprise Development -  
<http://www.sba.gov/microenter/>

Home Business Journal - <http://www.homebizjour.com>

International Labour Organization (ILO) - <http://www.ilo.org>

Job Accommodation Network: Self-employment and Small Business Services for  
People with Disabilities - <http://www.jan.wvu.edu/sbses>

Journal of Microfinance - <http://www.microjournal.com/>

Kauffman Center for Entrepreneurial Leadership  
Clearinghouse on Entrepreneurship Education—Writing a Small Business Plan -  
<http://www.celcee.edu/products/digest/Dig00-9.html>

Microenterprise programs (Association for Enterprise Opportunity list):

<http://www.microenterpriseworks.org/developmentprograms/>

Microenterprise, state associations (Association for Enterprise Opportunity list):

<http://www.microenterpriseworks.org/stateassoc/assolist/>

Microenterprise Strategies – from Wider Opportunities for Women, Family Economic Self-Sufficiency Project -

<http://www.sixstrategies.org/sixstrategies/microenterprise.cfm>

Minority Business Development Agency - <http://www.mbda.gov>

Minority Business Entrepreneur - <http://www.mbemag.com>

National Association of Women Business Owners - <http://www.nawbo.org/>

National Federation of Community Development Credit Unions (NFCDCU) –

<http://www.natfed.org/>

National Foundation for Teaching Entrepreneurship - <http://www.nfte.com/>

National Incubation Association - <http://www.nbia.org/>

SBA Business Planning Resource:

<http://www.sba.gov/starting/indexbusplans.html>

SCORE - <http://www.score.org>

Small Business Administration - <http://www.sba.gov>

Small Business News - <http://www.sbnpub.com>

Working Solo Online - <http://www.workingsolo.com>

## **Appendix D**

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## Appendix D: Bibliography

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