

# “Micro” Enterprise Development: Building Businesses from the Bottom Up

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**David E. Buchholz**

**D**ebby Deter did not set out to be an entrepreneur. It just happened that way. Debby was struggling to make ends meet, working several jobs in the food industry. One of them was with her friend Mari, who had started a catering business. “When she catered special occasions, she wanted to rent nice tablecloths, but the companies doing that were very unreliable. So I said, ‘Well, shoot, I can do that!’” Thus began Serviette Service.

Starting the business in her home, Debby found several interested customers. But she did not have the cash to buy new tablecloths. Banks would not help her because the loan amounts she needed were too small to “justify the paperwork.” She also needed help with marketing and accounting, but could not afford to hire professionals. It was a struggle to get the business off the ground.

Three years later, Debby was still struggling when she got a call from Mari. “Mari said, ‘Deb, I think I’ve finally found the answer to our problems,’” Debby recalls. She had just learned about a new program that “promised help with the exact problems we had.” Debby and Mari joined Good Work, a program which offered them access to loan capital, business training, technical assistance, and ongoing peer support. “There was this exchange of energy right off the bat. None of us had money, but we could share the same concerns. We started learning and kept learning all the time.”

Debby’s business has grown exponentially, and she has opened a second business selling handmade birdhouses. She has refinanced her home and reduced

her debt load. She has used four business loans with Good Work to buy inventory, build storage facilities, and get a truck. She is now setting her sights on an even bigger goal, opening an inn and a restaurant.

“A friend of mine started a business about the same time I did,” Debby says. “Because of the support I get in this program, I’m probably five years ahead of her now. She gets overwhelmed, and doesn’t know where to turn for help. She’s still struggling with questions that I had answered long ago.” Debby labels lack of capital as a “huge” problem for small businesses, but also thinks learning and support are critical. “How many small businesses fail? Some may have the money, but they don’t have the knowledge to succeed. Good Work not only gives us access to the capital, but also gives us the chance to learn from the experience.”

## **The Need for Microbusiness Development**

Most businesses, regardless of size, share Debby’s needs: start-up and operating capital until the business is profitable (often a period of years), management and technical expertise, and social and business support structures which provide encouragement, networking, and problem-solving. This is particularly true for “microbusinesses,” enterprises which begin very small and usually have fewer than five employees. Many entrepreneurs are able to succeed because they begin with these resources or at least have the means to pay for them.

This is not true, however, for everyone with a good business idea. Lower income people commonly lack these critical resources. Debby knew how to make tablecloths and had the drive and energy to succeed, but did not have the capital, the management expertise, or the peer support she needed. Without

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*David E. Buchholz is the Executive Director of Good Work, Inc. Good Work was one of eleven recipients nationwide of the 1996 Harry Chapin Self-Reliance Awards.*

assistance, she might have become one of the millions of business “failures” each year in the United States.

Many people like Debby have the potential to succeed at self-employment but are limited by this scarcity of resources. This is particularly critical when it comes to investable finances. Without substantial personal or family assets to invest or borrow against, it is much harder to get a business off the ground. Historically, this has been especially true for women and minorities, as illustrated by the following facts:

- African-Americans have an average net worth about 8% that of whites (Oliver and Shapiro 1995, 86).<sup>1</sup>
- 79% of black households, more than double the rate for white households, do not have a sufficient safety net to survive at the poverty line for three months (*ibid*, 88).
- About three-fourths of all African-American children (nearly double the rate of whites) grow up in households possessing no financial assets (*ibid*, 90).
- Females have significantly lower incomes and net assets than males, and female-owned businesses begin with half the capital of male-owned firms (NC Equity 1991, 5-25; U.S. DOC 1989).

This lack of investable capital seriously undermines the ability of new enterprises to get off the ground. The primary financial alternative—a bank loan—is often unavailable to newer businesses. A 1991 study by the Massachusetts Institute of Technology showed that 73 percent of businesses funded their start-up needs through personal savings, while almost none utilized banks (Roberts 1991). Banks rarely find what they are looking for in microbusinesses: flawless credit, highly secured and liquid collateral, a business track record of three to five years, and a highly polished business plan that speaks their language. Furthermore, \$1,000 to \$20,000 needed to capitalize many ventures is, ironically, much too small to be profitable to commercial lenders. As the North

Carolina Institute for Minority Economic Development put it:

Banks are traditionally conservative and are averse to doing business with new or small businesses requiring small loans or loans with longer repayment periods. The high transaction costs involved in such loans may make it economically unattractive for the lender. Lending institutions usually evaluate a potential customer’s credit risks using the three “C’s”—collateral, character, and credit. [Minority-owned businesses] are usually weak on collateral, their character is unfamiliar to bankers and they haven’t had the opportunity to establish credit (NC Institute for Minority Economic Development 1994).

This often proves to be a “chicken and egg” problem. Without capital with which to begin, lower income entrepreneurs cannot invest in their businesses (which would build capital). And without capital, they cannot borrow from traditional lenders.

In addition, lower income people often lack the technical expertise and support which is critical to turn a good business idea into a profitable venture. A shortage of cash to hire accountants, lawyers, and other professionals further exacerbates this information gap. The lack of capital, business expertise, and support represents a significant handicap. Without specialized assistance, many potentially successful entrepreneurs will fail.



Debby Deter started a second business selling handmade birdhouses from the North Carolina mountains.

## Learning From the “Third World”

In the 1980s, community leaders began searching for new models to assist low-income populations. For decades, various poverty alleviation strategies had focused on income supplements which were essentially redistributive. These strategies were very successful in ameliorating the worst excesses of poverty in the United States, but failed to make systemic changes which would enable the poor to move beyond subsistence. Attention thus shifted to models which promised “capacity building” economic development. These positive sum strategies focused on increasing the economic pie rather than simply changing the way it was distributed.

Small business creation was one strategy which offered several benefits at the same time. Small businesses can provide income, create jobs, provide training, build assets, and nurture hope and empowerment in low-income communities. Although self-employment offered such clear benefits, it was often difficult for lower income entrepreneurs to succeed for the reasons cited above. In developing programs to address these obstacles, program planners began looking at successful models from overseas.

The powerful examples of microbusiness programs in the developing world were hard to ignore. Programs in impoverished countries were showing dramatic increases in income, assets, and savings. The largest and best known program, the Grameen Bank, began in Bangladesh in 1976. The founder, a U.S.-trained Bangladeshi, recognized the potential and the obstacles for poor entrepreneurs in his country. Grameen began making tiny loans averaging \$40 to women who worked extremely hard but just barely made ends meet. An infusion of capital, even a small one, enabled borrowers to buy labor-saving equipment, purchase materials in bulk, or buy things that they had only been able to rent before.

The loans were made in “peer groups” which acted as loan committees and social support structures. Borrowers were accountable to one another, and were ready with assistance—and pressure—when needed. Grameen met a major need and grew tremendously. It not only offered loans but encouraged savings, promoted gender equity in a male-dominated society, and pushed public health and education reforms among its participants. By the mid-1990s, the Grameen Bank had 1.7 million members, a 98% loan repayment rate, and billions of dollars in money lent and saved.

The success of the Grameen Bank was not lost on others in the developing world. Similar programs popped up in Asia, Africa, and Latin America, some of which developed remarkable track records of their own. Eventually, organizers began adapting the same basic model to impoverished areas in more affluent countries. In 1987, there were about ten microbusiness programs in the United States. By 1993, the number had ballooned to about 200 (Self-Employment Learning Project 1994). Since then, the number of U.S. programs has grown even more sharply.

## One Local Response: Good Work

In 1991, community activists in Durham, North Carolina, began searching for ways to build local economic opportunities. They wanted to do this in a way that could reach people from different racial, economic, and educational backgrounds. With a few Grameen-type programs as models, they founded Good Work, Inc. Securing \$100,000 in loan capital from the Self-Help Credit Union, they developed a peer lending program tailored to local needs. Debby, Mari, and about a dozen others formed the nucleus for Good Work’s membership.

Good Work emerged in a local economy which appeared quite vibrant. With major research universities, renowned medical centers, and high-tech firms, the “Research Triangle” area of Durham, Raleigh, and Chapel Hill benefited from high and sustained growth in the 1980s and 1990s. The median income was roughly double that of the national average, the area had one of the highest concentration of Ph.D.’s in the country, and the unemployment rate was consistently in the low single digits.

Yet, like much of the nation, the local economy was becoming increasingly two-tiered. For those without advanced degrees, the economic growth was largely in the service sector, which offered low pay,

### National Results (Aspen Institute 1994):

- Over 200 programs
- Over 55,000 businesses assisted
- Over \$44 million in loans

### Good Work Results:

- 98% business survival
- 100% loan repayment
- Over \$1.8 million in local income generated in 1995





Good Work members at a training session.

few benefits, and little job security. The disparity between the “good” and “bad” jobs grew, and pockets of poverty deepened.<sup>2</sup> Despite generally high growth, whole sectors of the community were being left behind.

Good Work was offered as a viable economic development strategy in areas where few existed. Motivated individuals who dreamed of success could work with others to turn those dreams into reality. Good Work targeted individuals who most needed the program—low income persons, minorities, and women—but remained open to any potential entrepreneur. From the outset, this led to a program which brought together entrepreneurs from different backgrounds. This, in turn, led to a synergy of ideas and support which made the program particularly strong.

By early 1996, some 130 entrepreneurs had become full-fledged “members” of Good Work, and thousands of others had taken advantage of other training and assistance. Over time, the program developed a local reputation of helping those that could not find assistance elsewhere. As Governor James Hunt put it, “For many of these business owners, Good Work is the only means by which their business potential can be fulfilled.”

Thanks to growing assistance through the program, 98% of members and alumni are still in business. Although all of Good Work’s loans are consid-

ered too risky or unprofitable for banks, they have a repayment rate of 100%. Good Work has begun working with local banks to gain access to greater amounts of loan capital for expanding businesses.

### A Comprehensive Approach

Many microbusiness programs, including Good Work, have concluded that there is no single “key” to making businesses succeed. Rather, successful programs have provided an integrated set of resources to entrepreneurs, either in-house or through cooperation with existing organizations. The balance of loan capital, technical expertise, and peer support provides flexible assistance to entrepreneurs. Through partnerships and peer participation, substantial support can be offered

while keeping the program efficient. Good Work’s program combines several features:

*Outreach.* To be effective, microbusiness programs normally commit substantial resources to proactively seek potential clients in low income communities. Lacking big advertising budgets, programs like Good Work partner with community groups, churches, small business agencies, minority business associations, public housing councils, and the like. Most outreach and training is done at homes, businesses, and community centers. This first step is critical to overcoming the common perception that lenders and assistance programs will not help microbusinesses.

*Access to Loan Capital.* All small businesses need capital to get off the ground, but many needs go unmet by banks. Good Work provides “high risk” loans that the banks cannot or will not make. As the Federal Reserve Bank noted in 1995, “Good Work has made [loans] that range from \$500 to \$10,000. Business loans of this type are nearly impossible to get through the bank for microbusinesses due to lack of collateral, credit problems, age of the business, or because they are considered unprofitable by banks” (Federal Reserve Bank of Richmond 1990, 130). As of early 1996, Good Work had made over 70 loans with no defaults. Members are also assisted with problems

such as credit, planning, financial analysis, and so on, that limit their ability to obtain traditional loans.

*Business Training.* Up-front business training is critical to entrepreneurs who have had little exposure to formal business concepts. While training sometimes exists in the community, it often either assumes familiarity with business terminology and concepts, or is taught in a formal lecture-style format which gives participants few practical skills. After several years of experimentation, Good Work designed a highly effective training curriculum called *Building Your Business*<sup>TM</sup>. The training is hands-on, honing participants' nuts-and-bolts business skills. The interactive workshops cover such fundamentals as budgeting, cash flow, licensing, marketing, hiring, and business planning. A waiting list often forms for the training, which is now being used under license by other microbusiness programs around the country.

*Loan Circle Orientation.* Following the course, participants continue with training in their peer groups (called Loan Circles). This training offers participants feedback and advice on their businesses. Participants travel to one another's homes or places of businesses and review their financial and other information. They also organize their Circle, write by-laws, choose a name, and elect officers.

*Center and Network Meetings.* Good Work members meet every month. Upon entering the program, members join a "Center," at which they network with and advise one another. Outside speakers offer training in such issues as goal setting, tax planning, marketing techniques, business communication, legal protection, bank expectations, and so on. After cycling through the year-long training, members graduate into the "Network." The program for the Network is developed by the members.

*Mentoring.* Senior Good Work members, eager to give back to new participants, become mentors for new Good Work members. Having walked in their shoes, they are able to help them not only with business issues, but with guiding them through Good Work's program.

*One-On-One Consulting.* Good Work provides individualized consulting as an important component of membership. This one-on-one assistance has helped the program respond to the individual needs of busi-

In 1995, two evaluations were done through the University of North Carolina, Chapel Hill's Department of City and Regional Planning. The results showed that among Good Work's member businesses:

- They had an average revenue increase of 492% since joining Good Work
- They had an average profit increase of 217% since joining Good Work
- 82% reported that Good Work had helped "significantly" or "very much" with their overall business skills
- Between 71% and 82% had "improved" or "greatly improved" their self-confidence, ability to face challenges, sense of belonging to a community, and sense of personal fulfillment
- 87% rated Good Work's program overall as "excellent" or "very good"
- 92% said they were "committed" or "strongly committed" to Good Work
- 100% would recommend Good Work to a friend who was starting a small business

nesses which are struggling or planning for growth. Members seek assistance in writing business plans, doing market research, expanding their markets, and the like.

*Volunteer Technical Assistance.* Good Work relies heavily on community partners to make the program more effective. Good Work operates a Volunteer Technical Assistance Program, tapping the energies of business owners, accountants, lawyers, and marketing experts who meet one-on-one with Good Work members. This program acts as a critical supplement to in-house consulting.

Successful microbusiness programs do more than provide loan checks, they also offer a comprehensive program to support participants. Beverly El-Amin, an early Good Work member, says the integrated approach helped her develop her career consulting business, which now does work nationally:



As a minority, female entrepreneur I have benefited greatly from my affiliation with Good Work. The financial and technical support I have received from this organization is God-sent. Since becoming a member, I have applied for, received, and paid back three business loans, and am now paying back a fourth. Good Work has done and continues to do what commercial lending institutions have refused to do—give me a chance. The technical assistance I have received has helped me develop competence in developing a business plan, cash flow sheets, marketing plans, market research, taxes, and much more. My confidence in my ability to operate a business is strong. Income generated from my business has tripled since 1993. Without Good Work's assistance this would not have happened. They help people others won't.

### Challenges for the Future

Good Work, and programs like it, have celebrated some tremendous successes. Often working on a shoestring, microbusiness development programs have nonetheless been able to assist entrepreneurs who, statistics tell us, would likely have gone out of business otherwise. These businesses have increased incomes, built assets, created jobs, and developed leadership and self-confidence skills among participants and their families.

Despite the successes, microbusiness development programs face many challenges. A scarcity of operating support and loan capital hampers the ability of nonprofits to keep such programs operational. Regulations in some areas which discourage home-based businesses and which effectively prohibit welfare recipients from building a business safety net put additional obstacles in the way of participants. The ability of programs to deliver high-quality services while keeping costs for such services minimal will also be an important challenge for programs in cost-cutting times.

The potential of the field is also limited by the perception that these "little" businesses generate such small levels of economic activity that they are not taken seriously as a tool for economic development. In fact, the activity of entrepreneurs like Debby and Beverly has generated far more growth in the last decade than have "downsizing" corporations. Yet it is harder to visualize the community impact of their combined businesses than the impact of a newly relocated factory.

Much public policy by states and local communities continues to focus on high visibility projects, such as luring in large corporations with tax abatements and other incentives, which are essentially



Cynthia Williams-Hills opened a 24-hour child care business in her home.

"zero sum." Subsidized industrial recruitment is redistributive at its base, pitting one needy community against another. It is also increasingly expensive. Tax costs for corporate incentives have risen dramatically for subsidized industrial recruitment, with some recent deals costing over \$150,000 per job created (Schweke *et al.* 1994, 23).<sup>3</sup>

On the other hand, capacity-building strategies like microbusiness development have the potential to develop local economies without simply displac-

ing the problem from one community to another. While they often lack the glamour found at the ribbon-cutting of a new plant, the economic sum of thousands of home-grown businesses is an investment which can improve the whole community. This broader view of what constitutes "economic development" is challenging precisely because it is more complicated. Yet, just as we learned that redistribution on an individual level has its limitations, we must also learn that redistributing the benefits of industry from one community to the next has its limitations as well.

Meanwhile, the entrepreneurs forge ahead. Their visions, dreams, and hard work will continue to move their families and communities forward. With the support of microbusiness development programs, more people like Debby and Beverly will continue to succeed.

"I discovered that if no one's there teaching you, if no one's there struggling with you, then you're not going to build your business on a solid foundation," says Cynthia Williams-Hills. Before launching Genesis I Day Care, she was working long hours away from home to provide for her family. "I was working as an administrative assistant and waiting tables. But I knew I had to make a change. My son cried every morning and work was getting bad. My mentor convinced me that I could make it in business, and she sent me to Good Work." Because of her love for children, Cynthia decided to open a child care business in her home.

Cynthia's idea—the area's first 24-hour child care business—filled a void in the market. "I had the idea, but when I got into it, I discovered it wasn't that simple. I needed money, and I needed to build my skills. Good Work helped me learn about budgeting and advertising. And with my credit at the time, no one else would give me a loan." Cynthia planned for months and officially launched her business in 1995.

Today, Cynthia cares for 27 children over three shifts, seven days a week. Besides herself, she employs four people full-time. Pending an upcoming licensing review, she plans to be in a new house soon, renovating her current one to care for more children. By mid-1996, she expects Genesis I to care for over 80 children, with ten full time employees. She credits much of her success to the support she has received from fellow members. "It's good to be able to put yourself around a lot of positive people. Here, everybody's cheering you on; even when you're having a rough time, they're still cheering you on. I was talking to another Good Work member the other day,

and I said that I've finally gotten to the point where the business isn't running me any more. At last, I'm the one running the business." **GP**

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## Endnotes

1. The average white net worth is \$43,800, versus \$3,700 for blacks.
2. One large tract of Durham had a poverty rate more than 2.5 times the city average. Its household income was little more than a third of the county's as a whole, and its unemployment rate was over 4.5 times the county rate. Sources: Durham City/County Planning Department; North/East Central Durham Data Scan 1994; data and baseline comparisons from 1990 census.
3. Public incentives for luring the Mercedes-Benz plant to Alabama in 1994, for example, cost between \$153,133 and \$200,000 per job created.

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