

### **POLICY OPTIONS TO SUPPORT ENTREPRENEURSHIP AMONG LOW-INCOME AMERICANS\***

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#### **EXECUTIVE SUMMARY**

Starting a business is a principal way for a limited number of low-income people to accumulate assets that give them a stake in society. On an individual level, self-employment can help people exit poverty and build wealth. On a community level, small businesses help to anchor communities and provide diverse goods and services that respond to local needs. Low-income entrepreneurs are not well-served by either mainstream financial institutions or government programs. The diversity of these businesses and the people who operate them requires a range of policy tools to help these businesses achieve their potential.

This issue brief provides policy recommendations designed to help people start, maintain, and grow very small businesses so that they can accumulate assets, increase their security and contribute to the economy. The following table summarizes these recommendations:

**Table 1: Proposed Objectives and Policy Recommendations**

<b>Proposed Objectives</b>	<b>Policy Recommendations</b>
1) Provide new and informal businesses with better information about self-employed tax options	<ul style="list-style-type: none"> <li>• Explore the feasibility of using state and federal tax codes as delivery vehicles for microenterprise support</li> <li>• Develop a self-employment tax literacy campaign</li> </ul>
2) Create an alternative source of funding for small business, and create an incentive for saving	<ul style="list-style-type: none"> <li>• Allow penalty free withdrawals from IRAs for business start-up expenses and allow microentrepreneurs to capitalize their businesses with loans made against IRA assets</li> </ul>
3) Remove the obstacles preventing low-income people to pursue self-employment	<ul style="list-style-type: none"> <li>• Encourage microenterprise development by states in their implementation of TANF</li> <li>• Secure affordable health care for small business owners</li> </ul>
4) Help the Small Business Administration (SBA) better serve very small businesses	<ul style="list-style-type: none"> <li>• Restructure the SBA's Microloan Program</li> <li>• Amend the SBA's 7(a) Express Loan Guaranty Program</li> </ul>
5) Maintain programs that currently assist microentrepreneurs	<ul style="list-style-type: none"> <li>• Keep the CDFI Fund intact</li> <li>• Fully fund the SBA PRIME program</li> </ul>

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## INTRODUCTION

Starting a business is a principal way for a limited number of low-income people to accumulate assets that give them a stake in society. On an individual level, self-employment can help people exit poverty and build wealth. Assisting people who have the ideas and drive to start businesses but lack the access to capital helps put them on the path to ownership. On a community level, small businesses help to anchor communities and provide diverse goods and services that respond to local needs. Getting on the path to self-employment is not easy, however. Federal policy toward self-employed businesses is problematic, particularly regarding disadvantaged groups such as women, people of color, the poor, and refugees. The Small Business Administration (SBA), for example, defines a small business as one having 500 or fewer employees.<sup>1</sup> A microenterprise, on the other hand, is “a business with five or less employees, which requires \$35,000 or less in start up capital, and which does not have access to the traditional commercial banking sector.”<sup>2</sup> Accordingly, the lion’s share of SBA programs is not well-suited to microenterprise. This problem stems, in part, from the dearth of information that exists about the dynamics of and market for microenterprise. There is a vast difference between a business with five employees and one with 500 employees. The SBA programs that target microentrepreneurs—the PRIME and Microloan programs—are now threatened with elimination. The federal government, in rationalizing this agenda, argues that banks are now serving these businesses and that programs focused on this group are no longer necessary. The data to support this contention do not exist, however.

Further, the government’s reliance on employers to deliver important tax benefits that can support asset building completely leaves out the self-employed. By definition, small sole proprietors have no employer to take care of withholding, tally Social Security credits or educate them about tax-favored EITC, health insurance, lifetime learning, childcare or supplemental retirement options.<sup>3</sup> Policy designed to assist the smallest businesses is warranted not only because current programs and mainstream financial institutions often miss this group, but because these enterprises historically have served as a crucial sources of innovation in the broader economy. Microenterprise can be the first step in the formation of larger enterprises and provide a vital source of income to the people who start them.

Changes in the policy environment are warranted for several reasons. First, it is becoming clear that a market failure exists. Most banks do not have a product geared to microenterprises. Rather, they expect business owners to use consumer loans. This practice creates a mismatch between the sources and uses of funds. This problem is compounded by the poor job banks generally do in serving low-income people and the communities in which they live. Second, microenterprise development organizations (MDOs), the groups designed to assist very small businesses are mostly small organizations themselves and are spread unevenly across the country; they do not have the capacity to adequately serve the potential market for their services, in part because of a lack of resources. Third, the programs housed at the Small Business Administration to serve this set of businesses are too small relative to the need and are insufficiently tied to standards and performance. The lack of accreditation in the field, limitations on who can participate in the SBA programs, and need for incentives for MDOs to obtain repeat funding combine to make existing policy much less effective than it could be.

To put it simply, microenterprises are diverse, economically important, and critically underserved by existing public policy. The low-income entrepreneurs who run small businesses can use entrepreneurship as a way to help them exit poverty. Many of these businesses and the people who run them are not well served by mainstream financial institutions. The diversity of these businesses and the people who operate them requires a range of policy tools to help these businesses achieve their potential.

This issue brief provides policy recommendations designed to help people start, maintain, and grow very small businesses so that they can accumulate assets, increase their security and contribute to the economy.

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<sup>1</sup> Other entities define “small” differently, as less than 200 employees, for example. The lack of consistency around definitions makes policy in this area challenging.

<sup>2</sup> Association for Enterprise Opportunity website, [www.microenterpriseworks.org](http://www.microenterpriseworks.org), accessed 8 September 2005.

<sup>3</sup> Severens, 2005.

## CONNECTING SMALL BUSINESS DEVELOPMENT AND ASSET BUILDING

Current federal policy targeted at low-income people is oriented toward maintenance, providing them with basic first order resources such as food and housing. In order for people to exit poverty, however, they need support in acquiring a broad range of second order resources—for example, post-secondary education and financial literacy—that enable them to accumulate assets and stabilize their lives.

Starting a small business—along with purchasing a home and investing in higher education—is one way for a limited number of low-income Americans to build assets, get ahead and participate more fully in society. In order to achieve this goal, many need financial literacy and access to capital markets—second order resources that can enable these individuals and their families to leave poverty. Many entrepreneurs who use the services of MDOs are among the most asset poor; 51% of entrepreneurs in a five-year study had household assets of less than \$5,000.<sup>4</sup> Over the course of this study, household assets for those that continued to report increased an average of \$13,623. This study did not use randomized selection or a control group, so it is impossible to attribute these results solely to participation in an MDO. However, the evidence suggests that this strategy does contribute to household asset building. The low- and moderate-income people who start small businesses debunk the myths that the poor are lazy and do not save. Many low- and moderate-income people do save and, when they do, starting a small business is one of their primary goals.

Self-employment is neither easy nor glamorous. Many of these businesses do not provide benefits for their owners, and many cannot, by themselves, support their households. For many people, however, wage or salaried employment is not appropriate or possible, and self-employment is their best available option. This group includes people who would gladly work for wages if they could make enough money to support their families, and people whose life paths have been interrupted by a job layoff, the dissolution of a marriage, unplanned pregnancy or other unexpected event.<sup>5</sup> Starting a small business provides them with flexibility that traditional workplaces tend not to offer. Other small business owners are true entrepreneurs whose products and services lend diversity to local economies, and whose creativity spurs innovation in larger markets. For an important group, then, self-employment is the best way to build assets.

## THE IMPORTANCE OF SMALL BUSINESSES

The smallest businesses—those with five or fewer employees—are essential economic actors in our national economy. These businesses “play a crucial role in experimentation and innovation that leads to technological change and employment growth.”<sup>6</sup> In both rural and urban areas, small businesses respond to local needs and desires left unfilled by large chains. Very small businesses also contribute to the economy through employment. In twelve out of the last thirteen years, the 1-4 firm size class accounted for the largest share of net employment changes (or the largest increase in employment when net employment actually decreased).<sup>7</sup>

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<sup>4</sup> Clark and Kays, 1999.

<sup>5</sup> Servon, 1999.

<sup>6</sup> US Small Business Administration, “The new American evolution...”

<sup>7</sup> U.S. Small Business Administration: Office of Advocacy, “Firm Size Data...”

**Table 2: Employment Change by Firm Size**

Time Period	Employment Change by Firm Size (% of Net Change in Employment)					
	1 to 4	5 to 9	10 to 19	20 to 99	100 to 499	Over 500
2001 - 2002	31.63%	2.90%	-2.46%	-22.56%	-25.65%	-83.86%
2000 - 2001	84.92%	19.97%	6.23%	4.21%	-0.24%	-15.09%
1999 - 2000	29.63%	10.03%	7.77%	14.89%	12.26%	25.41%
1998 - 1999	37.35%	9.93%	5.40%	7.93%	6.75%	32.64%
1997 - 1998	33.93%	9.30%	6.05%	8.20%	4.18%	38.34%
1996 - 1997	33.04%	9.95%	7.18%	14.94%	10.72%	24.16%
1995 - 1996	52.58%	15.82%	8.48%	4.16%	-2.87%	21.84%
1994 - 1995	28.65%	10.04%	8.03%	16.05%	10.00%	27.24%
1993 - 1994	47.99%	12.83%	6.62%	9.42%	5.07%	18.06%
1992 - 1993	55.50%	14.79%	5.45%	3.53%	12.45%	8.26%
1991 - 1992	178.23%	34.61%	5.56%	-30.26%	-26.66%	-61.48%
1990 - 1991	66.01%	-0.06%	-18.53%	-65.03%	-43.30%	-39.10%
1989 - 1990	56.52%	17.35%	8.39%	-0.06%	-6.10%	23.90%

There are efficiency and dynamics arguments for small business. With respect to efficiency, small firms simply do some things better than large firms do. Regarding dynamics, the argument is that small firms “provide the entrepreneurship and variety required for macroeconomic growth and stability.”<sup>8</sup> Innovation and innovators thrive in the entrepreneurial sector. Supporting the critical startup and development stages of small businesses encourages the commercialization of the technology, product, or service, which, in turn, stimulates the U.S. economy. A strong small business sector, then, is important as a way to build individual financial stability and economic health on a larger level.

## MICROENTERPRISE DEVELOPMENT

Microenterprise development organizations (MDOs) provide business training and loans up to \$35,000 to low- and moderate-income people and other disadvantaged groups.<sup>9</sup> The US microenterprise development field has several roots, including the women’s economic development movement, and international microfinance programs such as the Grameen Bank in Bangladesh. The impressive growth rate of the US field—from 108 US MDOs in 1992 to more than 550 today<sup>10</sup>—illustrates the demand for the credit and technical assistance these programs provide. The Aspen Institute’s 2002 Directory of US Microenterprise Programs includes 554 programs that provide lending and/or training to entrepreneurs. This number is up from 108 programs in 1992, the first year that the directory was produced.<sup>11</sup> Using these figures, the field has grown at an average annual growth rate of 56%. However, these programs, which tend to be small, low in capacity, and geographically dispersed, cannot begin to serve the market of people who could benefit from them. Estimates of the size of the market of microentrepreneurs vary widely and range up to ten million individuals.<sup>12</sup> MDOs, which served between 150,000 and 170,000 individuals in 2000, have barely penetrated this market.

<sup>8</sup> US Small Business Administration, “The new American evolution...”

<sup>9</sup> This is the definition used by the Association for Enterprise Opportunity, the field’s trade association, and by the US Small Business Administration.

<sup>10</sup> 108 is the number of programs profiled in the Aspen Institute’s *Directory of Microenterprise Programs*.

<sup>11</sup> These numbers are not strictly comparable to the number of programs in 2002, because the U.S. Directory of Microenterprise Programs reported on only those programs that replied to surveys, rather than all programs, until 2002.

<sup>12</sup> Edgcomb and Klein, 2005.

Several microfinance organizations based in less developed countries (LDCs)<sup>13</sup>—such as the Grameen Bank, FINCA, and BancoSol—have posted truly impressive results in terms of their scale and progress toward self-sufficiency. The remarkable results and rapid growth achieved in LDC-based programs caught the attention of US policymakers and organizers in the mid-1980s. Some key similarities exist between the LDC and US contexts that made it reasonable to consider importing this strategy. These similarities include a population that is inadequately served by mainstream financial institutions, women who need economic alternatives, and intractable and persistent poverty. More people need credit than can obtain it. Individuals in both developed and less developed countries have the energy, drive, and wherewithal to start businesses. And in both contexts, the act of giving credit to a motivated, disenfranchised, potential entrepreneur can be a powerful step toward self-sufficiency.

At the same time, making the microenterprise strategy work in a developed country is much different—and in many ways more difficult—than making it work in a less developed country. Perhaps the most significant difference is the prevalence and strength of the informal economy in LDCs. In addition, entrepreneurs in the US need economic literacy to deal with the complex regulatory environment surrounding business ownership. Working in the formal economy means filing tax returns; it may also mean completing licensing, certification, and inspection requirements. Furthermore, US entrepreneurs require more capital and more advanced training than their counterparts in the developing world. The Grameen Bank’s average initial loan size is \$60. The average loan size for US programs is between \$5,000 and \$9,000. In the US context, these loans are extremely small. Some researchers and borrowers believe that the loan sizes are too small and that the businesses remain forever disadvantaged by undercapitalization.<sup>14</sup> Finally, US programs are far more expensive to operate than those in LDCs, for the reasons just mentioned and because of their emphasis on training.

The vast majority of US programs focus on training. To some extent, it makes sense to divide the field into programs that are primarily training programs and those that are primarily lending programs. Table 3 does just this. As this table shows, 100 programs, or nearly 36 % of those for which we have data, provide only training. Of those that provide credit, the thirteen largest lenders are in a class by themselves, making many more loans and serving many more clients than the typical US MDO.

**Table 3: Select Characteristics of MDOs by Program Type (All Values for 2000)**

	<b>Programs that provide only training</b>	<b>Minimal Lenders (Value of loans disbursed in 2000 &lt; \$100,000)</b>	<b>Larger Lenders (Value of loans disbursed in 2000 &gt; \$100,000)</b>	<b>Thirteen Largest Lenders</b>
Number of Programs	100	86	81	13
Median number of Clients Served	60	62	108	332
Median Loan Fund	-	\$100,000	\$518,560	\$1,765,000 <sup>a</sup>
Median Value of Loans Disbursed	-	\$30,000	\$293,932	\$1,200,000
Median Number of Loans Disbursed	-	6	25	165
Percent of Programs Providing Technical Assistance or Training	100%	97%	91%	77%

<sup>a</sup> n = 11

Source: U.S. Directory of Microenterprise Programs 2002.

<sup>13</sup> LDC-based programs tend to be called microfinance organizations rather than microenterprise development organizations because of their emphasis on credit as opposed to training.

<sup>14</sup> Bates, 1995.

US MDOs reach the truly asset poor—those with little or no collateral, or a credit history that causes banks to turn them away. The logic of these programs is that assisting targeted individuals to start and grow small businesses will make them less dependent on social services programs and help them to exit poverty rather than remaining in subsistence mode. Research shows that income from self-employment helps many households increase their income over the poverty line.<sup>15</sup> In one five-year study, 72 % of low-income entrepreneurs experienced increases in household income averaging \$8,484 over time. The microbusiness contributed an average of more than \$3,000 of this increase for those whose businesses were still operating in the fifth year of the study.<sup>16</sup>

Very small businesses also contribute significantly to local economies; a recent nine-state study showed that these businesses contributed 3.5% of total gross sales, 4.6% of total earnings, and 6.7% of total employment. When done right, the jobs created through microenterprise development organizations are also cost-effective.<sup>17</sup> These results should appeal to policymakers across the political spectrum.

Microenterprise development organizations serve groups—women, people of color, urbanites, and those at the very beginning of the business development process—that neither banks nor other government programs (such as Small Business Development Centers) do a good job of serving. According to the 2002 Directory of US Microenterprise Programs, reporting MDOs served a client base that was 65% women, 55% minority, and 59% low-income.<sup>18</sup> On average, banks and thrifts made loans to 38% of small businesses located in low- and moderate-income areas, and to 37% of small businesses in minority areas, whereas these financial institutions made loans to 46% of small business in middle- and upper-income areas and to 45% of small businesses in white areas.<sup>19</sup>

MDOs have also expanded access to the capital markets to a population that could not access them even ten years ago. Many microenterprise development organizations require their borrowers to have been rejected by a bank first, thereby performing the important service of helping a new group become bankable. In part because these programs have shown that these businesses are bankable, banks are now making riskier loans to a broader population—something only microlenders did previously. In other instances, entrepreneurs “graduate” to mainstream financial institutions after having proven that they can pay off a loan from a MDO. Some MDOs have begun to forge innovative relationships with banks. ACCION New Mexico, for example, markets its loan products through banks, which are not interested in making such small loans but recognize the value of connecting with this group of entrepreneurs. However, many businesses remain unserved by mainstream financial institutions. MDOs have begun to demonstrate the existence of a limited but important population of low-income entrepreneurs who are not well-served by the public sector or by traditional financial institutions. The importance of these businesses, both to the economy and to the individuals who start them, argues for more appropriate policy initiatives.

## **FEDERAL POLICY RECOMMENDATIONS**

The following recommendations attempt to address the issues identified above. Some, for example those addressing current SBA programs, focus on making existing policies and programs function more effectively. Others, such as the New Entrepreneur Tax Credit (NETC), are new policy ideas. Together, this set of recommendations can create a much more hospitable environment for the self-employed and small entrepreneurs. This issue brief focuses on federal policy recommendations because they have the broadest reach. However, some—such as the NETC—could potentially be applied at the state level as well.

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<sup>15</sup> Clark and Kays, 1999.

<sup>16</sup> Clark and Kays, 1999.

<sup>17</sup> Servon and Doshna, 2000.

<sup>18</sup> Low-income was defined as at or below 80 % of area median income, which is the low-income standard for the US Department of Housing and Urban Development.

<sup>19</sup> National Community Reinvestment Coalition, 2004.

## **1. Objective: Provide new and informal businesses with better information about self-employed tax options.<sup>20</sup>**

Filing taxes is a key formalizing event in the life of a business. Moving businesses from the informal to the formal economy could provide incentives for small business owners to invest more in their businesses, and also enable these entrepreneurs to access the tax-favored asset building features that are only available through filing. We know little, however, about the costs and benefits of filing to entrepreneurs and their businesses.

### **Recommendation: Explore the feasibility of using state and federal tax codes as delivery vehicles for microenterprise support.**

The tax code already delivers important but poorly understood benefits to low-income self-employed households. For example, many low-income self-employed households claim EITC benefits which can, in part, offset liabilities of the self-employment tax. A self-employment-specific tax credit could expand on this feature and function as an asset-building strategy to enhance self-employment as a tool for improving household assets and income. Through filing taxes, entrepreneurs could achieve a better understanding of the business' actual costs and a benchmark for multi-year business comparison. Filing would provide them with the essential business skill of navigating tax laws, and would provide them with access to faster growth by opening up the business to the "above ground" markets. The documentation from tax returns would allow them to verify the business' profitability; compared to wage-earners, self-employed individuals have added hurdles to establishing credit or applying for a mortgage. Filing would also potentially improve proprietors' household finances through tax-favored asset building programs. Finally, these small business owners would benefit from the satisfaction of "getting their business right"—knowing their business is "legal" and that they have accepted their share of citizen responsibility.

### **Recommendation: Launch a business and tax literacy campaign.**

Filing taxes for the first-time formalizes a business and, in most situations, exposes it to significant tax liabilities if the business had a profit. We know very little about why or when in the business start-up process a new business chooses to file for the first time. We do know that filing can have a big, if uncertain, impact on the business' future and that there are few sources of information to help the new filer balance and sort out their options. A new, high profile business and tax literacy campaign is needed to inform new sole proprietors about business taxation and asset-building options so they can make fully informed decisions about filing. The value of such a campaign stands on its own, but when coupled with the proposed new tax credit, it makes filing Schedule C all the more compelling. The proposed business literacy campaign would operate primarily at the state level and be led by appropriate microenterprise training programs and/or state microenterprise associations. Allying this campaign with IRS VITA tax preparation sites should be explored.<sup>21</sup> The Association for Enterprise Opportunity (AEO), which is the trade association for MDOs, could also play a lead role in teaching its members how to educate their clients.

## **2. Objective: Create an alternative source of funding for small business, and create an incentive for saving**

Individual retirement accounts—IRAs—are an important asset-building tool. Currently, penalty-free withdrawals from IRAs for small business start-up costs are not permitted, nor can individuals borrow against these assets to capitalize their businesses. IRAs currently allow several pre-retirement uses that promote asset building and retirement security, including first-time home purchase and post-secondary education. Expanding these uses to small business capitalization makes sense, as doing so could provide

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<sup>20</sup> Eugene Severens, director of the National Fund for Enterprise Development (NFED), has pioneered thinking in this area and the ideas that structure this recommendation. CFED, which houses NFED, has just received a grant from the Annie E. Casey Foundation to explore these ideas further.

<sup>21</sup> IRS VITA volunteers are not trained to do tax preparations that include Schedule C income even if the taxpayer is EITC-eligible.

another incentive for people to save and accrue assets. Amending the tax code to allow for penalty-free withdrawals would not be particularly complicated. It would basically require only the addition of “business start-up expenses” to the section of the code that lays out the exceptions to the 10% penalty tax on early distributions from IRAs. Lawmakers have already introduced several bills over the years that would have done exactly this.

**Recommendation: Incentivize savings in IRAs by providing a government match.**

Providing a match would provide low-income people with an incentive to save, and make the benefit of IRAs meaningful to this population. Studies of Individual Development Accounts (IDAs) show that such matches are an effective way to motivate people to save for specific purposes.<sup>22</sup>

**Recommendation: Allow microentrepreneurs to capitalize their businesses with loans made against IRA assets.**

Structuring funding as loans rather than as straight distributions would mitigate against the concern that low-income savers might dissipate their hard-earned assets on ill-conceived or risky ventures and thereby lose funds they could have used for education, a home, or retirement. This strategy would have the advantage of effectively requiring the return of the borrowed funds to the IRA account, and thereby help to guard against dissipation. If loans against IRA plans rather than distributions from the plans themselves were used to fund small business start-ups, then private lenders or the SBA could underwrite the loans and evaluate the merits of the proposed business plans, helping to prevent ill-conceived plans from going forward. To avoid perfunctory underwriting procedures (arising from the secured nature of the loans), minimum underwriting standards and procedures could be prescribed. More importantly, only partial security for the loan could be permitted, with the lending institution thereby assuming the risk of the loan balance.

**3. Objective: Remove the obstacles preventing low-income people from pursuing self-employment**

For the most part, this issue brief focuses on ways to help low-income people maximize the potential asset value of their self-employment ventures. At the same time, the current policy environment also includes significant obstacles that remove self-employment from the range of viable options available to low-income people. These obstacles include a lack of affordable health insurance and, in some states, TANF requirements that inhibit entrepreneurship.

**Recommendation: Secure affordable health care for small business owners**

Lack of affordable health care is one of the biggest issues facing the self-employed and small business owners. The premiums that small businesses (less than 200 employees) have for health insurance coverage are increasing at twice the rate that they are increasing for large (500+) employees.<sup>23</sup> According to the US Chamber of Commerce, “small business owners have faced five successive years of double-digit increases in health care premiums, which have eroded their ability to attract and keep qualified workers, decreased their international competitiveness, and limited their ability to grow and expand domestically.”<sup>24</sup> Not surprisingly, an estimated 40 % of small-business owners do without insurance, according to the Insurance Information Institute, because they believe they can not afford it.<sup>25</sup> On average, a worker in a firm with less than 10 employees pays 18% more for health insurance than a worker in a firm with 200 or more employees.

Health insurance is a particularly vexing problem for low-income entrepreneurs. A five-year study of microentrepreneurs conducted between 1991 and 1997 found that only 57 % had health insurance; among

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<sup>22</sup> CFED, 2001.

<sup>23</sup> [www.wmmercer.com](http://www.wmmercer.com).

<sup>24</sup> US Chamber of Commerce, 2004.

<sup>25</sup> [www.iii.org](http://www.iii.org).

the low-income group, fully half had no health insurance.<sup>26</sup> Most low-income entrepreneurs—67 %—received their health insurance from government sources; the current time limits imposed on welfare recipients mean that many of these have likely moved into the ranks of the uninsured. For those who do not receive insurance benefits through a spouse or a government program, the choice is to purchase individual insurance at prohibitively high rates, or remain uninsured.<sup>27</sup>

According to the General Accounting Office's October 2001 report on private health insurance, only 36% of employers with fewer than 10 workers offered health coverage to their employees despite the fact that they represent about 61% of small employer establishments.<sup>28</sup> The primary reason small employers gave for not offering coverage was cost.

In order to be able to afford health insurance, low-income entrepreneurs need: 1) subsidies; 2) an avenue to purchase health insurance that affords them access to administrative economies of scale and broad risk pooling and, in the long run; 3) broader health system reform that will lower the trajectory of health care cost growth relative to wages, prices, and incomes.<sup>29</sup> Association Health Plans (AHPs) are the most likely vehicles for fulfilling these needs. The Department of Labor, for example, advocates AHPs as a solution for insuring small businesses.<sup>30</sup>

The Small Business Health Fairness Act (SBHFA) would establish a regulatory framework and certification process for AHPs. AHPs could be established by trade, industry, and professional associations as a vehicle for providing health care benefits to employees of businesses that are association members. AHPs would not, in general, have to offer coverage of state-mandated benefits and would be subject in a limited way to state rules that compress health insurance premiums across a state's small group market. The problem with this legislation is that it could create adverse selection effects, making it harder for firms with older or less healthy employees to obtain insurance. SBHFA was introduced in 2001 by Senator Tim Hutchinson (R-TX) and Rep. Ernie Fletcher (R-KY).

The Small Employers Health Benefits Program (SEHBP) Act of 2004 attempts to avoid some of the problematic issues of the Small Business Health Fairness Act. SEHBP was introduced by Senators Blanche Lincoln (D-AR) and Richard Durbin (D-IL) in March 2004. Based on the successful Federal Employees Health Benefits Program, this program would offer small businesses (those with fewer than 100 employees) a range of benefit packages from a variety of insurance companies. To help businesses afford the cost of health insurance, a tax credit would be available to employers willing to pay at least 60 % of the premiums for their low-income employees. Although not perfect, SEHBP is currently the best interim measure for encouraging small businesses to continue to offer health insurance in the face of premium spirals. It is not likely to increase coverage significantly, nor does it address long run cost growth problems.

Since its introduction, SBHFA has been gaining momentum, and appears to be in a better position to move forward than the less problematic, Democrat sponsored SEHBP. The SEHBP has not made much progress since its introduction.

In addition, a few states have launched interesting programs that warrant close scrutiny as they begin to generate results. In Maine, Public Law 469, commonly referred to as the Dirigo Health Reform Act, is a system-wide health reform law designed to afford access to coverage to everyone statewide within five years of its 2003 enactment, to bring down the cost growth of health care in Maine and to launch initiatives to continually improve the quality of care provided to Maine residents. The Dirigo Health Reform Act is a broad strategy to improve Maine's health care system and includes three inter-related approaches: a new health plan (DirigoChoice) to achieve universal access to health coverage; new and

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<sup>26</sup> Clark and Kays, 1999.

<sup>27</sup> Black, 2005.

<sup>28</sup> US General Accounting Office, 2001.

<sup>29</sup> Email interchange with Len Nichols, 1 June 2005.

<sup>30</sup> US Department of Labor, 2005.

improved systems to control health care costs; and initiatives to ensure the highest quality of care statewide.<sup>31</sup>

New York State also offers innovative programs. The Healthy NY program helps small business owners to provide their employees and their employees' families with health insurance. In addition, uninsured sole proprietors and workers whose employers do not provide health insurance may also purchase comprehensive coverage directly through the Healthy NY program. With this program, eligible individuals can purchase the streamlined benefits packages that are available to employees of small businesses participating in the Healthy NY small business insurance program. The program creates standardized health insurance benefit packages that are offered by all health maintenance organizations (HMOs) in New York State. These packages are made more affordable through State sponsorship, so that more uninsured small employers and uninsured employed individuals are able to purchase health insurance coverage. The cost to individuals is lower than what they would pay privately, but can still amount to over \$200 per month.<sup>32</sup>

Health insurance is a thorny issue in general in this country; for entrepreneurs, it constitutes a huge obstacle to success. A single serious illness can have grave consequences for a small business. Significant creative thinking—and important experimentation at the state level—exists to fuel policy change at the federal level. Such policy change must address the need for subsidies, risk pooling, and long-run broader reform.

**Recommendation: Encourage microenterprise development by states in their implementation of TANF**

The National Survey of America's Families (NSAF) found that in both 1997 and 1999, 6.8 % of working TANF leavers were self-employed, a figure that equals the national rate of self-employment.<sup>33</sup> When the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) took effect in 1996, replacing Aid for Families with Dependent Children (AFDC) with Temporary Assistance for Needy Families (TANF) (better known as “welfare reform”), responsibility for moving people off of welfare and into work devolved to the states. Under this new law, states treat self-employment differently. The strong “work first” philosophy undergirding welfare reform has created a situation wherein many states do not consider self-employment as a viable option. For some welfare recipients—typically those who are more educated—self-employment income can, by itself or in combination with wages from work, help lift families above the poverty line. In the current environment of time limits, it is critical that all viable options be made available to those who can benefit from them.

States can allow TANF recipients to participate in microenterprise development activities, but federal law does not encourage states to make this option available, or assist them in doing so. Further, individual caseworkers are sometimes uncertain about how self-employment activities fit or do not fit into program requirements. Several changes to and clarifications of the federal TANF statute would allow states to better support the option of self-employment for low-income entrepreneurs, while maintaining decision-making power at the state level. Specifically, the following changes in this area may be beneficial:<sup>34</sup>

- Clarify that self-employment can count as employment in the list of TANF work activities.
- Clarify that self-employment preparation, which includes activities aimed at equipping an individual to engage in or expand existing levels of self-employment, can count toward satisfying TANF participation requirements, within the limits that apply to vocational training.
- Clarify that the job search period that can count toward TANF work requirements also includes the time spent in active exploration of self-employment potential.

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<sup>31</sup> See [www.dirigohealth.org](http://www.dirigohealth.org) for more information.

<sup>32</sup> FIELD Health Insurance brief. See brief for information on other state plans, and proposed national plans.

<sup>33</sup> Cited in Edgcomb and Klein 2005.

<sup>34</sup> These recommendations are derived largely from FIELD, 2002.

- Add language to the TANF state plan requirements specifying that a state’s TANF plan must describe the state’s approach to encouraging and supporting self-employment when feasible for parents receiving assistance, including a description of when participation in self-employment preparation activities will count in satisfying work requirements, and a description of income and asset rules applicable to self-employed individuals.

These proposed changes neither restrict existing state flexibility nor impose new federal costs.

Previously, the federal government placed restrictions on welfare recipients that made it difficult to start and grow businesses. These restrictions included a limit of \$1,500 on the value of assets a recipient could accumulate. Under TANF, individual states control important questions such as whether self-employment is an “allowable” activity and whether recipients are subject to asset limitations. Nearly all states raised their asset limits, most raised their asset limits on Medicaid above the federal minimum, and 44 states have waived asset limits for providing Medicaid for children. The intention of these asset tests is to ensure that limited federal funds are allocated to the people most in need. However, asset tests can also put low-income families in a precarious position, causing families to deplete their assets to low levels before getting help, or not building up adequate reserves after receiving assistance to achieve true self-sufficiency.<sup>35</sup> Asset accumulation also enables people not only to survive from day-to-day, but to truly exit poverty.

The US Department of Health and Human Services (HHS), which administers the program and to which states are accountable, should play a stronger role in encouraging states to view self-employment as work, and to allow welfare recipients to accumulate assets. Specifically, we propose the following changes in the area of asset limits:

- ***Allow entrepreneurs to accumulate assets that enable business growth and stability.*** Assets—such as equipment and a reliable vehicle—are often necessary for a business to become stable.
- ***Specify that restricted savings are disregarded.*** When creating or scaling up any restricted savings policy for the poor—such as for Individual Development Accounts—specify in the authorizing legislation that any amounts saved (along with any matching deposits and earning on the entire account) in the restricted account are disregarded in determining eligibility for any means-tested program.
- ***Specify that all retirement assets are disregarded.*** Clarify that defined-contribution savings plans are disregarded in determining eligibility for means-tested programs prior to retirement. Presently, the law excludes balances in defined-benefit plans, but not defined contribution plans—even if the applicant has to pay a penalty for early withdrawal, he or she is expected to drain their IRA, 401(k), etc. balances before qualifying for public benefits.<sup>36</sup>

#### **4. Objective: Help the Small Business Administration (SBA) better serve very small businesses**

The mission of the SBA is to “maintain and strengthen the nation’s economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from national disasters.”<sup>37</sup> However, the SBA defines a small business as one that has 500 or fewer employees. As a result, the very small businesses—or microbusinesses—that are the focus of this brief are all but overlooked. Microbusinesses, which have five or fewer employees, are very different from those businesses the SBA defines as “small.” Although the SBA has two programs targeted at microbusinesses, these programs could be greatly improved in order to better serve very small businesses.

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<sup>35</sup> Parrish, 2005.

<sup>36</sup> The last two bullets in this section are derived from Stuhldreher (2004).

<sup>37</sup> [www.sba.gov](http://www.sba.gov). Website accessed 7 September 2005.

## **Recommendation: Restructure the Small Business Administration's (SBA) Microloan Program**<sup>38</sup>

The SBA Microloan program provides loans and grants to nonprofit intermediary lenders. The Microloan Program is the largest federal program solely dedicated to supporting the credit needs of disadvantaged microentrepreneurs. The Microloan Program is unique from other SBA lending programs in that it combines training and technical assistance with loan capital under the assumption that training will improve chances of business success and aid in loan repayment.<sup>39</sup> The technical assistance microentrepreneurs receive through the SBA Microloan program is intensive, starting before the loan is made and lasting through the life of the loan (up to six years).

The program was first authorized in 1992 and became permanent in 1997. In FY 2004, Congress appropriated \$15 million for lending and \$14 million for technical assistance grants. The current Administration has slated the program for elimination—each year Congress has elected to preserve the program albeit at a minimal level. Program detractors insist private sector banks will make loans to microentrepreneurs currently served through the Microloan Program, and insist that the SBA 7(a) Community Express Program can serve the Microloan market better. Neither hard data nor the experiences of entrepreneurs support this contention. The Microloan and 7(a) programs serve different markets, and there is a role for each. See recommendation 4, below, for recommendations of how these two programs can better work together.

There are two components of the SBA Microloan Program, lending and technical assistance grants. The SBA Microloan Lending program makes loans to Microloan Intermediaries for microenterprise start-up and expansion. The maximum loan size is \$35,000 and the average loan is less than \$12,000. By the end of fiscal year 2004, over \$250 million had been lent by the intermediaries. Women and ethnic minorities make up more than 50 % of the Microloan Program's clients, and nearly 40 % of clients are operating business start-ups. SBA's Microloan Technical Assistance Grants enable Microloan Intermediaries to provide limited assistance to borrowers in becoming credit-ready, and to provide more extensive business technical assistance once borrowers have received Microloans.

As currently configured, the Microloan Program is available only to nonprofit lenders and lacks standards that would help to document performance. Opening the program to a wider range of entities would create more demand and more fully serve the potential market of very small businesses. These changes would help to grow the field and would likely broaden support for this important program.

### Proposals

- a. *Create a credit enhancement pool of \$500 million.* This pool would be based on the valuation of dead assets from the 7(a) program, which has an increasing number of defaulted loans. This move would raise the funding available to the industry to \$1 billion.<sup>40</sup> This credit enhancement pool would provide an infusion of new loan capital to the field and subsidize innovation.

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<sup>38</sup> Significant pieces of this recommendation are derived from conversations with Charles Tansey, Senior Advisor, NeighborWorks.

<sup>39</sup> The SBA 7(a) CommunityExpress program also provides technical assistance, but to a much more limited extent.

<sup>40</sup> This idea would work as follows: a \$500m credit enhancement pool is established to support \$1 billion in loans when there is an assumption that over the life of the loans, credit losses on the \$1 billion will amount to no more than \$500 million. The experience with these kinds of pools in the affordable housing sector shows investors requesting up to 100% credit enhancement (e.g., \$1 billion in the pool to support \$1 billion in loans) 30 years ago, but that the amount in credit enhancement required for these pools now is often below 5%. Capital Acces Programs (CAPs) in 17 states use a similar concept: the CAPS set aside a loss reserve at the outset of each loan to cover future credit losses. They have been very popular with banks.

Currently, MDOs need operating support more than they need loan fund capital. However, if the field is able to capitalize on opportunities to achieve greater scale, the need for more loan fund capital may not be far off. Furthermore, some of these funds could be used to support the testing of new innovation in the field among cutting-edge MDOs, such as schemes to regionalize loan funds or to outsource paperwork and processing in order to make such tasks more efficient.

- b. *Expand the target market of businesses, and allow a wider range of lenders to access Microloan funds.* Currently, only nonprofit organizations are eligible to receive Microloan funds. This stipulation limits the reach of these programs. Expanding the range of organizations that can access the Microloan program would help create the appropriate market dynamic for an expanded group of businesses to be served. The SBA should also expand the base it serves by seeking to serve a broader range of emerging businesses, such as businesses based on intellectual property and youth-owned businesses. Anecdotal evidence from those familiar with the Microloan program suggests that there are many others who could benefit from the Microloan product but who are not now being reached. MDOs do not target these groups directly. This proposal would also expand the constituency for this program, making it less vulnerable to changes in the political environment. Increasing the maximum Microloan loan size to \$75,000, with a maturity of up to 20 years and flexible payment terms at the front end based on cash flow would also help to expand the market of both borrowers and lenders. It will be important to maintain a product that takes risks that the private sector would generally not take on its own. To that end, there should continue to be flexible payment terms on the front end, and limited collateral (e.g., no pledge of the person's residence). Pursuing this recommendation would also necessitate increasing the appropriations for this program in order to accommodate the broader range of lenders, and of businesses that would be eligible for this modified loan product.
- c. *Establish standards for borrower, loan performance, and technical assistance.* Such standards might include credit score data and business data. These standards should distinguish the microloan field from the conventional banking field. Banks and other mainstream financial institutions routinely employ such standards. Yet these standards typically exclude the market MDOs target. Some innovative lenders—such as ACCION, Circle Lending, and Count Me In—have begun to experiment with alternative credit scoring mechanisms that take into account the situations of microentrepreneurs. These experiments should be followed closely to determine if there are standards that could be applied to the market—or some portion of the market—that MDOs and other very small business lenders serve.

AEO, the microenterprise trade association, is in the process of discussing standards and accreditation. The SBA should follow the development of these standards closely. If the standards and accreditation process truly distinguishes high performing MDOs, the SBA should consider only making Microloan awards to those MDOs that meet these standards and go through the accreditation process. Given the diversity of programs working in the microenterprise field, as evidenced by Table 3, above, it may be that there need to be more than one set of standards developed to suit the different categories of programs. For those that lend, it will be important to have standards that speak to the efficiency of loan production. By working together in this way, AEO and SBA could strengthen the field significantly by applying these standards to institutions that receive funds.

- d. *Reinstate the eligibility of Non-lending Technical Assistance Providers (NTAP) to receive Microloan awards.* SBA did away with the NTAP component of the Microloan program this year. NTAPs provide technical assistance to microentrepreneurs in order to help them obtain loans from private sector sources. Receipt of Microloan awards for this group should be contingent on performance. Standards should be developed—preferably with field experts and/or high performing practitioners—to ensure that those that receiving Microloan awards produce stable businesses and “graduate” clients to banks and other lending institutions. Only those NTAPs that demonstrate results should be eligible for continued funding.

**Recommendation: Amend the SBA’s 7(a) Express Loan Guaranty Program**

Many very small businesses need a bank loan more than anything else; availability and access to capital constitute a major obstacle to entrepreneurs’ ability to start, stabilize, and grow their businesses. However, key banking officials such as branch managers do not serve these businesses appropriately. Rather than making business loans, they tend to offer only consumer loans to this particular business population. The result is a mismatch when consumer loans are used to finance businesses. Even the smallest entrepreneurs should get business loans when they are being used to finance their businesses.

The US Small Business Administration, through its 7(a) program, currently offers several loan products through banks that are geared to small businesses—Regular 7(a), LowDoc, SBA Express, and Community Express. Table 4 compares these three programs with each other, and with the SBA Microloan program, which operates through MDOs.

**Table 4: Comparison of SBA 7(a) Programs for Small Businesses**

<b>Program</b>	<b>Maximum loan size</b>	<b>Guaranty</b>	<b>Technical Assistance Requirement</b>	<b>Credit Decision</b>
<b>Regular 7(a) with preferred lender status</b>	\$2,000,000	85% on loans less than \$150,000 and 75% on loans greater than \$150,000	No	Bank
<b>Regular 7(a) without preferred lender status</b>	\$2,000,000	85% on loans less than \$150,000 and 75% on loans greater than \$150,000	No	Bank and then SBA with credit decision
<b>LowDoc</b>	\$150,000	85%	No	By SBA with credit decision
<b>SBA Express</b>	\$350,000	50%	No	By lender
<b>Community Express</b>	\$250,000	85%	Yes	By lender (bank)
<b>Microloan Intermediary</b>	Under \$35,000	N/A	Yes	By lender (MDO)

Source: www.sba.gov.

Although the SBA 7(a) loan program plays a key role in providing funding for small businesses, this program has historically been “underfunded resulting in severe restrictions that deny entrepreneurs access to the funds needed to start, grow, and expand their businesses.”<sup>41</sup>

Both Community Express and Microloan provide technical assistance (TA). Under Community Express, banks partner with other organizations that provide the technical assistance, whereas MDOs provide it themselves. Community Express businesses also tend to be larger—the maximum loan size, for example is \$250,000—and require less technical assistance than do those entrepreneurs who use MDOs.

Proposals

- a. *Conduct further research to determine whether and how much overlap exists between these programs* Evidence suggests that the Microloan program works well for those entrepreneurs who have no experience with banks, who lack economic literacy, or who need technical assistance. (See above for a more complete discussion of the SBA Microloan program). If this is, in fact,

<sup>41</sup> US Chamber of Commerce, 2004.

true, the SBA could eliminate one or more of the 7(a) programs in order to create a more streamlined pipeline for very small businesses.

- b. *Create standards for the technical assistance component of Community Express.* If it is determined that the Community Express program serves a distinct population and should not be combined with another program, the technical assistance component of this program should be more standardized and subject to evaluation. Currently, the quantity and quality of technical assistance varies from bank to bank and TA provider to TA provider. Further, no evaluation exists to demonstrate the value-added of the TA component of this program, and whether it actually helps to create, stabilize, and grow small businesses.
- c. *Amend the SBA Express program to create a Very Small Business Loan Initiative with a 75% guaranty for loans of \$25,000 or less.* This change would represent a shift in the guaranty from the current 50% offered by SBA Express.<sup>42</sup> Doing so would create an environment in which banks would be more willing to make these small business loans through the SBA Express program, enabling many more of these businesses to be reached. It might also allow this program to enjoy greater penetration of the rural market. The entry of three banks into this market—Bank of America and Citizens Bank, which use SBA Express, and Innovative Bank, which uses SBA Community Express—has already driven down the average loan size of the 7(a) program. This change would be extremely easy to implement given that the programmatic infrastructure already exists.

## **5. Objective: Maintain programs that currently assist microentrepreneurs**

Currently, there exist some valuable policies and programs that create a more hospitable environment for low-income entrepreneurs. In recent years, some of these programs have been threatened. In addition to generating new, creative ideas to maximize the potential of entrepreneurial energy among low-income groups, it is important to retain and improve existing programs. These include the Program for Investment in Microentrepreneurs and the Community Development Financial Institutions Fund.

### **Recommendation: Continue to support the SBA Program for Investment in Microentrepreneurs (PRIME)**

The Program for Investment in Microentrepreneurs Act of 1999, or "PRIME Act," authorized the U.S. Small Business Administration to establish a microenterprise technical assistance and capacity building program. SBA PRIME is the first federal program to focus on providing training and business assistance to low- and very-low-income entrepreneurs, regardless of whether they seek loan capital.

Microentrepreneurs need training and technical assistance in areas such as financial management, book-keeping and marketing. PRIME addresses the funding gap between credit and training and ensures that adequate resources are targeted to very low-income entrepreneurs and the microenterprise organizations that serve them.

PRIME funds can be used by qualifying nonprofit organizations to:

- Provide training and technical assistance to low-income and disadvantaged entrepreneurs interested in starting or expanding their own business.
- Engage in capacity building activities targeted to microenterprise development organizations that serve low-income and disadvantaged entrepreneurs.

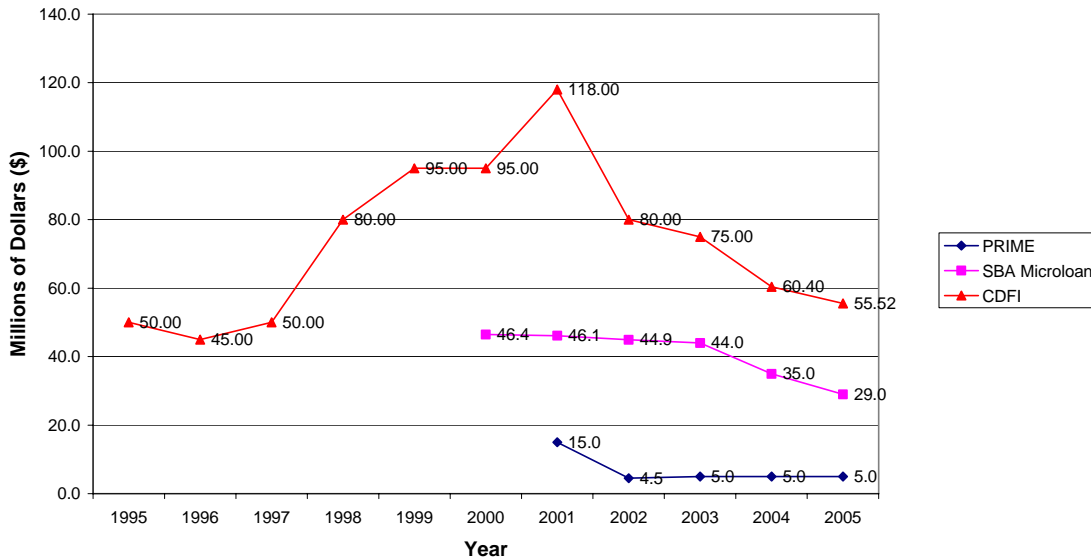
For the past four fiscal years (FY 2002-FY 2005), the Bush Administration has proposed the elimination of PRIME. Each year to date, Congress has appropriated \$5 million. This year, PRIME is in a bit more

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<sup>42</sup> This change would represent a slightly lower guaranty (from 85% to 75%) for the Low Doc and Community Express programs.

danger than usual, as the House voted to eliminate it; experts tend to believe it will most likely receive funding. Figure 1 illustrates trends in federal funding for the PRIME, Microloan and CDFI fund over the past several years.

**Figure 1: Federal Funding for SBA's CDFI Fund, PRIME and Microloan Programs (Millions of Dollars)**



Note: Data for the SBA Microloan program includes technical assistance funding and program-level funding.

Sources: SBA Press Office, U.S. Small Business Administration: FY 2002 Budget Request and Performance Plan, FY 2005 Budget Request and Performance Plan

## Proposals

- a. *Impose standards on PRIME recipients.* Specifically, programs that receive PRIME funds must be:
  - accredited, once accreditation protocols are in place (see above)
  - screened, with a program in place to ensure that training dollars go to those entrepreneurs most likely to start businesses
  - awarded on a performance basis in order to ensure that programs receiving PRIME awards produce stable businesses and “graduate” clients to banks and other lending institutions.
  
- b. *Establish a data collection system.* Currently, there is no data available on recipients of PRIME awards. This lack of data has made it impossible to gauge the impact of the program, and would make it difficult to implement proposal (a), above. This data collection system should track program outcomes, results, and performance. Increasing data will help us expand our knowledge base of this sector which is one of the broad issues of the field.

### **Recommendation: Keep the CDFI Fund intact**

The central purpose of The Community Development Banking and Financial Institutions Act of 1994 (the CDFI Act) was to create a CDFI Fund to promote economic revitalization and community development by investing in and assisting CDFIs through equity investments, capital grants, loans and technical assistance support. The Fund was authorized by the Riegle Community Development and Regulatory Improvement Act of 1994 as a bipartisan initiative. By stimulating the creation and expansion of diverse community development financial institutions (CDFIs) and by providing incentives to traditional banks

and thrifts, the Fund's investments work toward building private markets, creating healthy local tax revenues, and empowering residents.<sup>43</sup>

CDFIs are specialized financial institutions that work in market niches that have not been adequately served by traditional financial institutions; MDOs are one type of CDFI. These CDFIs provide a wide range of financial products and services, including commercial loans and investments to start or expand small businesses. In addition, these institutions provide services that help ensure that credit is used effectively, such as technical assistance to small businesses and credit counseling to consumers.<sup>44</sup> CDFIs can use this financial assistance to support an array of community development activities including housing for low-income people, businesses owned by low-income people, basic financial services, commercial facilities that promote job creation or retention, and technical assistance. People of color are underrepresented in the business community, and CDFIs assist this group to start, stabilize and grow small businesses. Although only two to three percent of Small Business Investment Company funds go to minority businesses, 48% of CDFI business financing assists minority customers.<sup>45</sup> The Fund seeks to build the capacity of the individual institutions it finances to bolster their ability to start, expand and improve their programs, thus strengthening and expanding the national network of CDFIs.

The President has proposed a dramatic change in the way the government supports community development. The "Strengthening America's Communities" initiative would effectively eliminate 18 programs from five agencies and replace them with a formula grant managed by the Economic Development Administration (EDA). This new initiative would be funded at \$3.7 billion, a nearly 33% cut from 2005 funding levels for the 18 programs. Specifically, the CDFI Fund would be cut from \$56 million to \$8 million. Fortunately, the House and Senate have generally rejected this approach.

The CDFI Fund supports a range of community development financial institutions—including community development banks, community development venture capital funds, community development loan funds (a category that includes MDOs), and community development credit unions—that provide critical financial services to emerging businesses and the people who operate them and therefore should be preserved.

## CONCLUSION

Despite the central role of very small businesses in our economy, and the opportunities these businesses provide for individual asset-building among low-income people, they are not being well-served or supported by either government or the private sector. Some of the recommendations made here could have a potentially powerful impact and are actually quite doable. Others require larger changes but would also create profound positive change. Some will create broader efficiencies. Policy in key areas should be promoted in order to enable these low-income entrepreneurs to get the training, capital, and health care they need in order to succeed. The legislative changes laid out in this issue brief would go a long way toward putting these businesses on a sound footing, and enable them to contribute to the economy to their fullest potential.

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<sup>43</sup> <http://www.cdfifund.gov/overview/index.asp>

<sup>44</sup> [www.cdfifund.gov/overview/index.asp](http://www.cdfifund.gov/overview/index.asp). Accessed 2 May 2005.

<sup>45</sup> US Department of Commerce Report on the Summit on Minority Business Financing, 2004.

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