Evaluation of the EDWAA Job Creation Demonstration

Research and Evaluation Report Series 94-G

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RESEARCH AND EVALUATION REPORT SERIES

The Research and Evaluation Report Series presents information about and results of projects funded by the Office of Policy and Research (OPR) of the U.S. Department of Labor's Employment and Training Administration. These projects deal with a wide range of training, employment, workplace literacy, labor market, and related issues. The series is published under the direction of OPR's Dissemination Unit.

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ACRONYMS USED IN THIS REPORT

AEO: Association for Enterprise Opportunity

AFDC: Aid to Families with Dependent Children

AISB: American Institute of Small Business

BEST: Business Entrepreneur Support and Training program (MAN-TRA-CON)

CDBG: Department of Housing and Urban Development, Community Development Block Grant

CDC: Community Development Corporation

CPS: Center for Practical Solutions (Hauppauge, NY)

CRA: Community Reinvestment Act

DHHS: U.S. Department of Health and Human Services

DOL: U.S. Department of Labor

EDA: U.S. Department of Commerce, Economic Development Administration

EDC: Economic Development Corporation (also LEDC)

EDWAA: Economic Dislocation and Worker Adjustment Assistance Act

ESL: English as a Second Language

EESS: Establishing Economic Self-sufficiency (FCM training)

FCM: Friends of the Children of Mississippi (Jackson, MS)

FSSW: Family Self-sufficiency Worker (FCM staff)

GED: General Educational Development equivalency degree

GRASP: Greater Atlanta Small Business Project (Atlanta, GA)

HACER: Hispanic American Career Educational Resources (New York, NY)

HUD: U.S. Department of Housing and Urban Development

IRS: U.S. Internal Revenue Service

ISS: Individual Service Strategy

JOBS: Job Opportunities and Basic Skills program

JOLI: Job Opportunities for Low-income Individuals program

JTPA: Job Training Partnership Act

LEDC: Local Economic Development Corporation

MBDA: U.S. Department of Commerce, Minority Business Development Agency

MEGA: Muskegon Economic Growth Alliance (Muskegon, MI)

MTC: Man-Tra-Con (Zeigler, IL)

NCCED: National Congress of Community Economic Development

ACRONYMS USED IN THIS REPORT (continued)

NAFTA:	North American Free Trade Agreement
OJT:	On the Job Training
ORS:	Department of Health and Human Services, Office of Refugee Resettlement
OCS:	Department of Health and Human Services, Office of Community Services
PIC:	Private Industry Council
SBA:	U.S. Small Business Administration
SBDC:	Small Business Development Center
SCORE:	Service Corps of Retired Executives
SEA:	Unemployment Insurance Self-employment Assistance program
SEED:	Self-employment and Enterprise Demonstration
SEID:	Self-employment Investment Demonstration
SELP:	Self-employment Learning Project
SSA:	Substate Area EDWAA program
TABE:	Test of Adult Basic Education
TJTC:	Targeted Jobs Tax Credits
UDAG:	Urban Development Action Grant
UI:	Unemployment Insurance

EXECUTIVE SUMMARY

INTRODUCTION

This report summarizes findings from a three-year evaluation of the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration. The purpose of this demonstration, authorized under Section 324 of the Job Training Partnership Act, was to explore the effectiveness of Community Development Corporations (CDCs) in expanding employment opportunities for dislocated workers through entrepreneurial training and linkages to other economic development activities. An evaluation component was created to examine the factors which impeded or contributed to the success of the demonstrations.

BACKGROUND

In June 1991 DOL awarded EDWAA Job Creation demonstration grants to six community development organizations:

- MAN-TRA-CON (formerly Illinois Farmers Union-Training) in southern Illinois;
- The Muskegon Economic Growth Alliance (MEGA) of Muskegon, Michigan;
- The Greater Atlanta Small Business Project (GRASP) of Atlanta, Georgia;
- Friends of Children of Mississippi (FCM) in Jackson, Mississippi;
- HACER, Inc. in the borough of the Bronx, New York City; and
- The Center for Practical Solutions (CPS) in Hauppauge, Long Island.

In addition to providing demonstration-funded services, one of the grantees also operates as a JTPA substate grantee, and another is a major subcontractor for the local substate EDWAA grantee. All grantees were private nonprofit organizations with some degree of prior involvement in economic development. The service areas of the six demonstration projects reflected the diversity of CDC service areas nationwide, ranging from rural areas covering several thousand square miles, to sections of an inner city.

Funding for the demonstration was provided in two stages: an initial fifteen month grant period ending in September 1992, and an option year extending through September 1993. Grant awards totaled $4.9 million across both periods, with individual grants ranging from approximately $607,000 to $925,000. Services provided by the six grantees centered on self-employment training and assistance for starting microbusinesses. During the first grant period, three grantees also offered re-employment training or job search assistance oriented to existing businesses.

Berkeley Planning Associates (BPA), and its subcontractor Cygnus Corporation, were awarded the contract to conduct a thirty-six month evaluation of the demonstration beginning in June 1991. The objectives of the evaluation were:

- To assess the effectiveness of the EDWAA Job Creation demonstrations, both in absolute terms and against the background of other CDC-led job creation efforts and mainstream EDWAA re-employment training;

- To provide technical assistance to demonstration grantees for data collection activities, information exchange, and dissemination as needed; and

- To examine CDC-linked job creation efforts as a whole, with special emphasis on projects which serve dislocated workers as a target group or have service models applicable to dislocated workers.

The evaluation team used several methods to meet these objectives. To track the projects' implementation and progress, and to provide help in setting up and maintaining data collection systems, four site visits were made to each project during the three-year demonstration period. These were supplemented by telephone contacts and two grantee conferences. Each project also submitted quarterly progress reports and self-evaluations. Quantitative information on participant characteristics and outcomes was collected by grantees, with technical help from the evaluation team to ensure consistent formats across all sites.

The Job Creation demonstration was conceived as an opportunity to explore new ways for community-based organizations to contribute to EDWAA through self-employment and other services. Grantees were not held to a specific service model, but were free to alter and improve their service arrangements as needed, within the general guidelines of the demonstration and the JTPA legislation. As the demonstration was not designed to yield net impact estimates, random assignment was not used and there was no experimental control group.

In addition to examining demonstration-funded activities, the evaluation assembled information about other projects operated by community-based organizations that served dislocated workers or had job creation as a major objective. Site visits were made to five supplementary projects operating without demonstration funding, and information on approximately 300 other job creation initiatives was collected through unstructured telephone interviews and reviews of existing data bases. These latter activities included examinations of a number of microenterprise programs operating outside the demonstration using EDWAA formula or discretionary funds. Interviews were conducted with staff from 11 substate programs in eight states, and state-level EDWAA staff in five states.

PRINCIPAL FINDINGS

The six EDWAA Job Creation projects came to an end in September 1993, after operating for twenty-seven months, enrolling 996 participants, and spending approximately $4.1 million. Four of the six grantees have continued to provide self-employment services on a smaller scale with support from other sources.

PARTICIPANT CHARACTERISTICS

The participant profile of each project was shaped by demonstration grantee goals, service areas and recruitment policies, and participant characteristics varied substantially from project to project. MAN-TRA-CON and MEGA served participants similar to the general dislocated worker populations in their service areas; individuals laid off from manufacturing jobs after 10 or 20 years with the same employer were common clients of these projects. CPS began with a focus on displaced defense professionals, but later broadened its outreach to non-defense and less technically oriented workers. HACER targeted demonstration services to low-income Hispanic women, and African-Americans made up the majority of participants in both FCM and GRASP. However, where FCM's population included many workers from low-paid jobs, GRASP tended to select individuals from white-collar backgrounds and those with higher levels of education.

When compared to the populations served by local EDWAA substate areas, the demonstration's self-employment participants were slightly older and better educated. While 22% of EDWAA participants nationally were under 30 years of age, only 12% of demonstration participants occupied this category. The differences in education levels are even more pronounced: 12% of EDWAA participants had college degrees compared to more than 27% of demonstration participants. Demonstration participants, on average, were a select group with more work experience and better educations than the mainstream EDWAA population.

SERVICE AND IMPLEMENTATION ISSUES IN THE DEMONSTRATION PROJECTS

PARTICIPANT ASSESSMENT AND SCREENING

The demonstration projects employed a variety of approaches for selecting applicants, ranging from highly selective screening procedures to self-selection. Relying solely on self-selection, however, proved inefficient due to the large numbers of dropouts it led to. Participants with unrealistic expectations or low commitment found employee jobs, and others failed to focus on workable business ideas. These participants required considerable attention from project staff, but had little chance of success, and distracted staff from participants who were more likely to start businesses.

The demonstration projects found they could reduce dropout rates and improve the likelihood of business startup with proactive screening procedures. By the end of the demonstration most projects had implemented such procedures, which typically included assessments of business ideas, financial resources for starting a business and entrepreneurial attitudes. Self-selection activities were valuable as an adjunct to these proactive screening procedures, and challenged participants to take stock of their own capabilities and motivations for pursuing self-employment.

CLASSROOM TRAINING AND TECHNICAL ASSISTANCE

An important function of programs like the Job Creation demonstrations is to expand the range of people equipped to engage in self-employment, by providing basic entrepreneurial skills and guidance during the difficult process of business design and startup. Grantees found that doing this well required an **adult learning approach** to curriculum design and classroom instruction, and extensive **staff and peer support** to help participants make the emotional transition from worker to business owner. Individual **technical assistance** was also an essential feature of the demonstration projects, especially during business plan development, startup, and the first months of operation. Staffing proved especially important, and the most successful instructors and counselors had **practical business experience and a high degree of commitment.**

The demonstration projects offered classroom training over periods as short as six and as long as 24 weeks, with total training lasting 40 to 200 hours. These training models converged over the course of the demonstration and by its end most grantees had settled on training lasting ten to 13 weeks. This period was sufficiently long for participants to make fundamental design decisions about their businesses and to complete crucial background research. It was short enough for participants to complete without exhausting unemployment insurance (UI) benefits or delaying the startup of their business.

Business plan development was a critical component of training, and participants completed their plans most efficiently when these activities were integrated with classroom training. By the end of the demonstration most projects had integrated business plan development and classroom training.

In addition, our review of non-demonstration microenterprise programs revealed that **formal classroom training, though appropriate for many dislocated workers, is not absolutely necessary for successful business development.** A number of microenterprise programs operate successfully without classroom training. Such programs provide technical assistance on an individual basis, and frequently emphasize lending as their major service to participants.

ACCESS TO CAPITAL

Although dislocated workers as a group may be better credit risks than other JTPA populations, most still will not qualify for commercial bank loans. Some dislocated workers can finance their business ventures without outside capital, but for many others complete self-financing results in businesses that are critically vulnerable and inefficient, if they are started at all. Chronically undercapitalized businesses take a very long time to grow to a size that permits the owner to become self-sufficient; lack of capital also restricts the types of businesses that can be created, leading to overcrowding and low survival rates.

Lack of access to revolving loan funds and other sources of capital was perhaps the most important single barrier faced by the Job Creation demonstration projects. Four grantees provided supportive services grants ranging from $250 to $2,000, but these amounts were insufficient for capitalizing most participant businesses. Only 16% of participants at follow-up reported obtaining loans from banks or similar institutions, even after six months of operation. Grantees did make good-faith efforts to locate sources of capital, but were hampered by their own lack of access to capital for establishing project loan funds. JTPA specifically prohibits the use of program monies for capitalizing loan funds and grantees had difficulty securing capital from other sources during the demonstration period.

Organizational Issues

The demonstration provided an intensive learning experience for grantees. There was a great deal of experimentation with different curricula and service delivery models, and grantees benefitted from their early mistakes as well as their successes. One of the most noteworthy findings from the evaluation was the extent to which grantees' ideas about service design began to converge over the course of the demonstration.

Along with this evolution in service models, however, the demonstration projects experienced a great deal of flux in day to day operations. Two grantees began operations several months later than anticipated due to delays in hiring key staff, setting up facilities, and establishing coordination linkages. Three programs went through one or more serious crises of leadership, and five of six projects moved their facilities or training venues at least once. Three grantees reported long delays in obtaining authorization for support services payments or essential computer equipment. One grantee that sought to place re-employment participants in customized training positions with a local employer had to change its basic service strategy when the employer lost a key contract. Across the demonstration these various organizational problems led to interrupted services, hasty hiring decisions, poor communication with participants, and a general loss of efficiency in some projects.

Coordination with EDWAA, UI, and Economic Development Groups

The projects met with mixed results in establishing coordination linkages with local EDWAA substate grantees. Two demonstration grantees were already EDWAA substate administrative entities or subcontractors, and experienced few problems; a third overcame early coordination problems and later expanded its operations with a subcontract to a local substate area. The other three projects had few linkages to their EDWAA substate areas, other than receiving occasional referrals.

UI regulations can affect self-employment programs by requiring work search for participants in unapproved training, and by disallowing benefits for claimants deemed "in business." Although all grantees eventually forged good working relationships with UI, early problems with regulations led to changes in training arrangements for several projects and resulted in the loss of benefits for a small number of participants. Concerns about UI sanctions also affected data collection for the evaluation, as some participants refused to admit earlier self-employment experience or understated earnings from businesses started up under the demonstration.

In general, the Job Creation grantees were more experienced with training than with economic development. Although all grantees could claim some prior experience in business development or entrepreneurial training, three programs had very limited histories of cooperation with other business development organizations, and the demonstration projects as a whole were not closely linked with other economic development efforts in their service areas. Among other things, this made it difficult for the projects to find loan capital for participants, or to coordinate their training efforts with local economic development activities.

MICROBUSINESS TRAINING IN ONGOING EDWAA PROGRAMS

A number of EDWAA state and substate programs engaged in microenterprise training were also contacted as part of the evaluation. Several had been operating for periods of two to four years, using EDWAA formula funds, state 40% or National Reserve discretionary funds. These programs employed a variety of service delivery models, but most—like the Job Creation demonstrations—were based on a combination of classroom training and individual technical assistance. Total entered employment rates for these programs were on par with outcomes from traditional re-employment training.

Without exception, respondents reported that the performance standards and other administrative requirements posed barriers to establishing and operating microenterprise programs within JTPA. Problems cited included difficulties in defining the point of business startup and termination from the program, defining business earnings at "placement" and follow-up, and collecting suitable documentation for earnings and startup. Related problems included the "90 day rule" requiring placement within 13 weeks after the completion of training (business startup often takes much longer), and relatively high costs per participant. In addition, the standard JTPA 13 week follow-up period was seen as far too short to draw meaningful conclusions about businesses survival or growth. State EDWAA officials have been unable to provide clear guidance on these matters. Access to startup capital and coordination with UI were also cited as problems.

Demonstration Outcomes for Self-Employment Participants

Business Startup and Survival Rates

The Job Creation demonstrations were successful in fostering new businesses and creating secondary employment, at least in the short term. Of the 645 participants enrolled in the six projects' self-employment tracks, 45% started up businesses during the time frame of the demonstration and another 29% found wage and salary employment. Businesses started by participants reported total sales of over $3.5 million during the grant period, and provided full or part time employment for at least 97 people in addition to the owners. Among the businesses contacted for follow-up six months after startup, 74% were still in operation; and of the early cohort eligible for 12-month follow-up, 76% were still in business after one year.

It was not possible to estimate net impacts of the demonstration, due to the lack of an experimental control group. However, a rough comparison with the Washington and Massachusetts UI demonstrations and five other projects suggests that gross outcomes such as business startup and short-term survival rates recorded by the Job Creation projects are on a par with other microbusiness programs undertaken at about the same time. Business startup rates for the demonstration projects ranged from 34 to 54%, while startup rates for these other programs ranged from 30 to 60%.

Businesses begun under the demonstration occurred in a range of industries, but service businesses were especially prominent. Even though only 22% of participants had been laid off from service businesses, 46% of new businesses were in this sector.

EMPLOYMENT OUTCOMES AT FOLLOW-UP IN RELATION TO LOCAL EDWAA SUBSTATE AREAS

We also examined outcomes from the demonstration projects' self-employment tracks in relation to PY92 WAPR data for EDWAA programs in each project's service area. The employment rate from business startups alone (45%) did not produce employment outcomes comparable to mainstream EDWAA. But when all employment outcomes for these participants are considered (i.e., placements in wage and salary jobs as well as business starts), employment rates at follow-up for five of the six demonstration projects averaged 74%, as compared to the 67% who were employed at follow-up in nearby substate areas. This finding appears to confirm the conviction, held by many program operators, that entrepreneurial training produces marketable skills even if it is not immediately used to start a business.

SELF-EMPLOYMENT EARNINGS

On the other hand, many businesses started under the demonstration did not operate full-time and did not generate enough income to provide a living wage, even after six to 12 months of operation. Net business income averaged only $1,193 per month at the six-month follow-up, and $582 per month for an earlier cohort contacted twelve months after startup. Earnings also varied widely from business to business. Although these results are typical of new businesses, they diverge from the outcomes of traditional re-employment programs: the average wage for participants at nearby EDWAA substate areas, 90 days after follow-up, was $10.55 per hour (about $1,815 per month). Self-employment earnings also fell far short of the $12.41 average hourly wage demonstration participants had earned prior to layoff. Self-employment outcomes for the six grantees are summarized in Table 1.

OUTCOMES FOR RE-EMPLOYMENT PARTICIPANTS

Except for one grantee, training explicitly designed for wage and salary re-employment was not a major focus of the demonstration. Early attempts by two grantees to do customized training for existing businesses ran into serious implementation problems, and were abandoned. Outcomes for the grantee with the largest formal re-employment track were almost identical to

Table 1
Self-employment Participants: Outcomes

Characteristics	MTC	MEGA	FCM	HACER	GRASP	CPS	Overall
Number of Participants	67	104	142	118	66	148	645
Started a business							
Number	36	48	66	41	30	72	293
Percent	53.7	46.2	46.5	34.7	45.5	48.6	45.4
Still in business:[A]							
Six months after startup	100.0	90.3	47.7	--	94.4	65.9	73.7
Twelve months after startup	88.9	78.9	63.9	--	100.0	--	76.3
Average number of weeks between enrollment and startup							
Mean	16.9	18.2	14.0	--	25.7	18.6	17.9
Median	12.6	17.7	13.1	--	24.3	12.3	15.4
At time of follow-up:[B]							
Wage or salary employment (%)	34.4	46.6	22.8	--	41.4	29.9	33.7
Operating a business <u>or</u> employed(%)	87.5	89.7	52.6	--	89.7	68.0	74.0
Operating a business <u>and</u> employed(%)	15.6	6.9	7.0	--	13.8	5.2	8.1

[a]Twelve-month rates are higher than six-month rates, in some cases, because they are based on an early cohort of 80 business starters who were eligible for and responded to the twelve-month follow-up interview. Six-month rates are based on 156 business starters who were eligible for and responded to the six-month follow-up interview.

[b]Based on 273 responses to the six-month follow-up, including both business starters and those who terminated without starting a business.

those for non-demonstration clients in the local substate area (e.g., 79% entered unsubsidized employment). Smaller re-employment components operated by two other projects (one of which was abandoned after the first year) were less successful, yielding positive termination rates of 46% and 53%, respectively.

COSTS

Total average cost per demonstration participant was relatively high, at about $4,100, versus $3,182 for the surrounding EDWAA substate areas. As in any demonstration, however, costs were inflated by project startup, development and dissemination activities.

CONCLUSIONS AND RECOMMENDATIONS

(1) ***The EDWAA Job Creation demonstration produced significant results, although its net impacts are not known. Microbusiness training under the demonstration produced total employment rates that matched outcomes from traditional EDWAA retraining services, but initial earnings from self-employment were much lower than the average EDWAA wage at termination.***

Findings concerning self-employment income should always be interpreted with caution, as earnings are often under-reported, entrepreneurs may supplement their income through part-time employee jobs, and low initial earnings are typical for all small business ventures. Even so, if immediate wage replacement is an important goal for the participant, self-employment does not appear to be a feasible alternative, at least in the short term.

(2) ***Microenterprise strategies offer a number of longer-term benefits for individuals and communities if program sponsors are prepared to accept the risks involved.***

Our review of job creation efforts across the country suggests that microbusiness training has the potential for producing longer term outcomes that will benefit both individual participants and communities hit by dislocations and economic restructuring. Apart from reducing immediate competition for available employee jobs, microbusiness development can create new employment opportunities for other workers and help diversify local economies. It can inculcate entrepreneurial and management skills even for those who do not start businesses, create local role models, and act as a catalyst for community renewal.

But all these benefits come at a price: business is inherently risky, for experienced entrepreneurs as well as newcomers. A poorly designed or poorly run program can set participants up for failure, leading to a waste of public resources and a loss of personal fortunes. The microenterprise field is learning rapidly, and techniques for effective business training, lending, and technical assistance are steadily coming into wider use. Business development is still far from becoming an exact science, however, and public agencies that invest in it must be prepared for failures both at the program level and among the individuals they seek to help.

(3) Self-employment is a viable strategy for a small subset of the dislocated worker population.

Programs need to develop selection and screening procedures to ensure that participants are highly motivated, aware of the risks and work involved, and are prepared to focus on a specific business idea.

(4) Training for entrepreneurship is fundamentally different from re-employment training. Its goal is not merely to provide business skills, but to help develop a new and viable <u>organization</u>—a business entity—that will support the participant.

This basic difference has a number of implications for program design and service delivery. Among other things, successful business development requires individual assistance from business counselors or mentors, even if classroom training in business skills is provided.

(5) It is vital for self-employment programs targeting dislocated workers to provide access to capital. For many participants, training alone is not sufficient to ensure successful outcomes.

In the microenterprise field as a whole, capital is considered an input that is at least as important as training. Like other microbusiness programs that focus primarily on training, the Job Creation demonstrations and most initiatives within mainstream EDWAA have had serious problems gaining access to capital. This has reduced their effectiveness and limited the range of businesses that can be created.

(6) ***Establishing good working relations with state and local Unemployment Insurance offices is particularly important for self-employment programs targeting dislocated workers.***

Programs that fail to reach a firm understanding with UI about allowable activities risk the loss of benefits for their participants. However, most UI problems are avoidable if programs keep in regular contact with state and local UI officials, design services to minimize conflicts with UI, and counsel participants about activities that may jeopardize their benefits status.

(7) ***Although the Job Creation demonstration projects were not subject to EDWAA performance standards, these and certain other administrative requirements have posed serious obstacles for mainstream EDWAA programs seeking to become involved in microbusiness training.***

Concepts that are central to the re-employment process, such as placement, termination and wage, have no true analogues in self-employment. Attempts by program operators to construct fair and accurate self-employment measures consistent with JTPA standards have met with little success. DOL clarification of performance standards and administrative requirements relating to self-employment would remove an important barrier to expansion of this option. The Department may also wish to consider developing separate performance standards for microbusiness training, or allowing States to do so.

(8) ***If DOL wishes to expand the scope of self-employment training for dislocated workers, there are several other initiatives that could be pursued at the federal, state or local level. These include:***

- Provide training and technical guidance on administrative issues for States and substate areas interested in offering microenterprise training.

- Encourage substate areas to expand local linkages with CDCs and similar organizations that are experienced in microbusiness and other forms of job creation.

- Support the expansion of microlending opportunities for dislocated workers.

I. INTRODUCTION

This report summarizes findings from a three-year evaluation of the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration. In 1988, EDWAA substantially amended Title III of the Job Training Partnership Act, which provides for retraining and re-employment services for workers who have lost their jobs due to layoffs and plant closings. In recent years the U.S. Department of Labor (DOL) has sponsored a series of studies examining retraining and re-employment services for special populations such as farmers and defense workers, as well as services to the general dislocated worker population. The purpose of this demonstration, created under Section 324 of the Act, was to explore the effectiveness of Community Development Corporations (CDCs) in expanding employment opportunities for dislocated workers through entrepreneurial training and linkages to other economic development activities. An evaluation component was created to examine the factors which impeded or contributed to the success of the demonstration.

CDCS AND JOB CREATION

The EDWAA Job Creation Demonstration was a reflection of policy makers' concern for forging closer links between dislocated worker training services and local economic development efforts. In targeting Community Development Corporations and similar organizations as grantees, the demonstration also recognized the major role that CDCs have come to play in job creation activities ranging from commercial development and incubators to microenterprise lending and entrepreneurial training.

CDCs are nonprofit development organizations governed by a community-based board, but this definition encompasses a wide variety of organizations with disparate aims, clients, and activities. Some CDCs work in inner-city neighborhoods while others work in rural areas, or on Indian reservations. Some concentrate their efforts on specific racial or ethnic communities. According to estimates from the National Congress for Community Economic Development, CDCs created over 54,631 permanent jobs between 1986 and 1990, and helped retain an additional 35,888 jobs in their communities during this same period.[1] A major goal of the demonstration was to explore the potential of community development groups, working in conjunction with EDWAA, to expand employment opportunities.

THE EDWAA JOB CREATION DEMONSTRATION AND THE NATIONAL EVALUATION

In June 1991 DOL awarded EDWAA Job Creation demonstration grants to six community development organizations:

- MAN-TRA-CON (formerly Illinois Farmers Union-Training) in southern Illinois;
- The Muskegon Economic Growth Alliance (MEGA) of Muskegon, Michigan;
- The Greater Atlanta Small Business Project (GRASP) of Atlanta, Georgia;
- Friends of Children of Mississippi (FCM) in Jackson, Mississippi;
- HACER, Inc. in the borough of the Bronx, New York City; and
- The Center for Practical Solutions (CPS) in Hauppauge, Long Island.

In addition to providing demonstration-funded services, one of the grantees (MAN-TRA-CON) also operates as a JTPA substate grantee, and another (MEGA) is a major subcontractor for the local substate EDWAA grantee. All grantees were private nonprofit organizations with some prior degree of involvement in economic development.

The service areas of the six demonstration projects reflected the diversity of CDC service areas nationwide, ranging from rural areas covering several thousand square miles, to sections

[1] National Congress for Community Economic Development, *Against All Odds*, March 1989; *Changing the Odds,* December 1991, Washington, D.C.

of the inner city. In Illinois, the MAN-TRA-CON demonstration covered the five-county area served by Illinois SDA 25. The other rural demonstration, operated by FCM, spanned seven counties in eastern and western Mississippi. Service areas for the Atlanta and Muskegon projects covered metropolitan regions, and CPS served a two-county suburban area to the east of New York City. HACER, by contrast, focused its services on the Port Morris neighborhood of the South Bronx. Locations and service areas of the demonstration grantees are shown in Figure I-1.

Funding for the demonstration was provided in two stages: an initial fifteen month grant period ending in September 1992, and an option year extending through September 1993. Grant awards totaled $4.9 million across both periods, with individual grants ranging from approximately $607,000 to $925,000.

Services provided by the six grantees centered on self-employment training and assistance for starting microbusinesses. During the first grant period, three grantees also offered re-employment training or job search assistance oriented to existing businesses. During its twenty-seven months of operation, the demonstration projects enrolled a total of 645 self-employment and 351 re-employment participants.

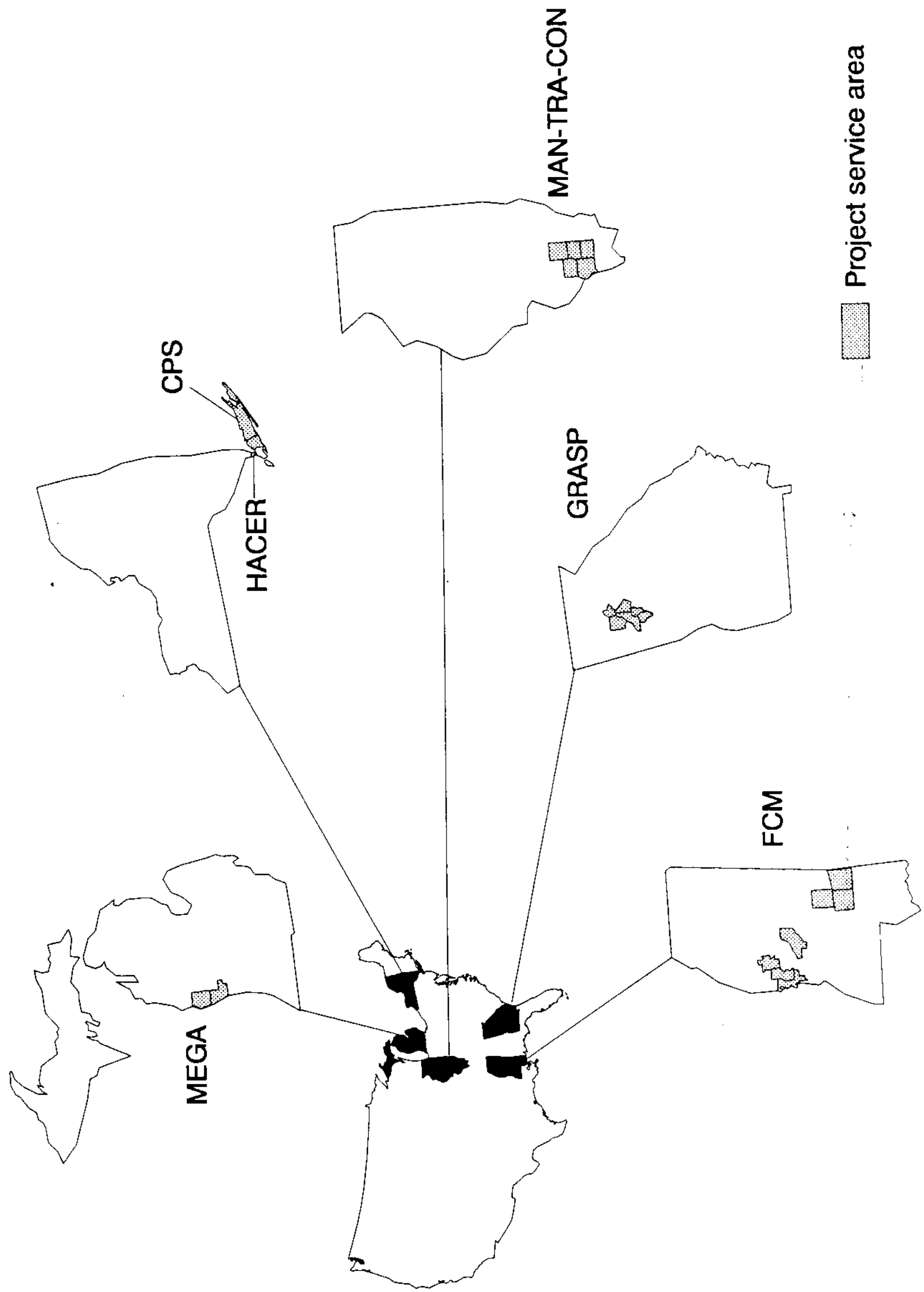
Berkeley Planning Associates (BPA) and its subcontractor Cygnus Corporation were awarded the contract to conduct a thirty-six month evaluation of the demonstration beginning in June 1991. The objectives of the evaluation were:

- To assess the effectiveness of the EDWAA Job Creation demonstrations, both in absolute terms and against the background of other CDC-led job creation efforts and mainstream EDWAA re-employment training;

- To provide technical assistance for data collection activities, information exchange, and dissemination to the EDWAA demonstrations as needed; and

Figure I-1

Service Areas of the Demonstration Projects



- To examine CDC-linked job creation efforts as a whole, with special emphasis on projects which serve dislocated workers as a target group or have service models which are applicable to dislocated workers.

EVALUATION METHODS AND DATA COLLECTED

The Job Creation demonstration was conceived as an opportunity to explore new ways for community-based organizations to work with EDWAA through self-employment and other services. Grantees were not held to a specific service model, but were free to alter and improve their service arrangements as needed, within the general guidelines of the demonstration and the JTPA legislation. As it was not designed to yield net impact estimates, random assignment was not used and there was no experimental control group.

Working within this overall design, BPA and Cygnus used a variety of methods to address the evaluation objectives. To learn about the projects' implementation experience and provide help in setting up data collection systems, members of the research team visited each project four times during the demonstration period, staying on site for three to four days. The first round of site visits occurred between December 1991 and April 1992, to capture the projects' experiences during the first months of operation. A second round of visits occurred in summer 1992, toward the end of the initial funding period. Additional visits occurred during the middle and end of the grantees' Option Year. During these visits BPA and Cygnus researchers interviewed demonstration project administrators, trainers, counselors and other service delivery staff, curriculum designers and participants. Site visitors observed training sessions and other activities, and reviewed participant case files and data collection procedures. To learn more about the context of the demonstrations and their relationship to ongoing EDWAA services, we also interviewed EDWAA staff in the substate areas served by the demonstrations, and collected information about substate area client characteristics and outcomes.

In addition to the site visits, the research team kept informed about the activities of the demonstration projects through quarterly progress reports and monthly telephone conversations with project staff. Demonstration grantees were also given an opportunity to exchange ideas and discuss issues of common concern with DOL staff at project startup and mid-point conferences organized by BPA/ Cygnus in September 1991 and October 1992.

To complement this qualitative information, the National Evaluation helped grantees to set up systems for collecting comprehensive participant-level information on client characteristics, services received, and outcomes. Although each grantee used its own MIS system to record information, BPA staff provided technical help as needed to ensure that participant information would be collected with consistent formats across all sites.

A final goal of the evaluation was to assemble information about other projects operated by CDCs which serve dislocated workers or have job creation as a major objective. In the first phase of the study we collected information on nearly 300 state and local initiatives, using telephone interviews as well as data bases and directories from the Community Information Exchange, the National Congress for Community Economic Development, the Association for Enterprise Opportunity and other groups. During the evaluation's final year we contacted state and substate EDWAA grantees currently operating microbusiness programs, to discuss the administrative aspects of managing self-employment training within mainstream EDWAA. In addition, we commissioned special-purpose analyses of national data on CDC job creation activities, collected through the National Congress for Community Economic Development's 1991 survey of CDCs.

This information was used to expand our knowledge of the full range of job creation techniques employed by CDCs and EDWAA programs, and as a backdrop for assessing the effectiveness of the demonstrations. It was also used to select five comparison case study programs to be examined in more detail. The five organizations selected were:

- Coastal Enterprises, Inc. of Wiscasset, Maine;
- The Community Development Corporation of Kansas City, Missouri;
- The San Jose Development Corporation of San Jose, California.

- The Self-Employment Training Program operated by the University of Texas at San Antonio's Center for Entrepreneurial Development; and

- Private Ventures Incorporated of Flint, Michigan.

The supplementary case studies were selected partly because they operate in a range of environments similar to those of the demonstrations—inner city, rural, suburban, metropolitan—but also because of their links to JTPA, involvement with dislocated workers, and broader range of job creation approaches. The Maine, Missouri and California sites were visited for three days each during the demonstrations' initial grant period and the Option Year. The Texas program was discontinued in 1992, and was replaced by the Michigan site for the second round of visits.

ORGANIZATION OF THIS REPORT

The remainder of the report is organized as follows:

- In Chapter II we offer an overview of the job creation field as a whole, with special emphases on CDCs, self-employment training, microbusiness lending, and programs targeted to dislocated workers and other disadvantaged populations.

- Chapter III presents individual profiles of the six demonstration projects, their contexts, organization, and services.

- Chapter IV draws on the site visits and grantee self-evaluations to discuss recruitment, curriculum design, the search for business startup capital, coordination with Unemployment Insurance and EDWAA, and other implementation issues faced by the Job Creation demonstrations.

- Based on quantitative data collected by grantees for the National Evaluation, Chapter V describes the quite diverse set of participants served by the demonstration, along with analyses of both short term and longer term outcomes.

- Chapter VI explores the potential of job creation for dislocated workers in mainstream EDWAA, with examples of alternative service delivery models used by some current state and substate self-employment programs, and a frank discussion of the difficulties posed by current performance standards and other JTPA regulations.

- Chapter VII completes the report with a comparison of outcomes from the Job Creation demonstrations and other self-employment programs, a summary of major conclusions, and recommendations for the Department of Labor.

- Appendix A presents profiles of the five supplementary case study programs. Appendix B summarizes participant-level data items collected from the demonstrations, and discusses the principal data collection issues encountered in the evaluation.

II. Job Creation: A Review of the Field

In funding the Job Creation demonstrations, the Department of Labor sought to explore new forms of cooperation between employment training and economic development. Although these two fields are linked in a wide variety of ways in practice, direct federal responsibility for programs to support training and business development has traditionally been divided among several agencies. In addition, many of the nation's most innovative job creation efforts are not widely known at the federal level, as they operate with state or local funds, or with help from private foundations. With this in mind, we begin the report with an overview of the job creation field as a whole, to provide some common background for an understanding of the EDWAA demonstration projects. In this chapter, we outline the kinds of activities typically undertaken by community development corporations, the main public and non-profit actors in economic development, and the current "state of the art" in microenterprise training and lending efforts. Although they represent a wide range of strategies and service models, we would emphasize that the groups discussed here comprise only a small fraction of the job creation activities now underway in the United States.

Job Creation and the Goals of EDWAA

Job creation strategies have the potential for addressing problems of dislocation at several levels. First, they can target new, expanding or relocating industries to take advantage of skills already acquired by a community's dislocated workers. The employer benefits from access to a pool of experienced workers with a demonstrated attachment to employment, and workers find they can transfer many of their existing skills to the new job. The same is true for self-employment and microbusiness ventures[1] that build on machining, engineering, management, word processing and other skills acquired in the previous job.

[1]Although this report will generally use the terms *self-employment* and *microenterprise* interchangeably for simplicity's sake, there is a conceptual difference. Strictly speaking, self-employment refers to the working status of the business owner, while microenterprise refers to the size or capitalization of the business itself (defined later in this chapter). In practice, most self-employment training programs are designed to develop microbusinesses, which may employ several people in addition to the owner.

Secondly, from the community's point of view, job creation in any industry results in much more than employment opportunities for individual workers. New businesses buy or lease space, purchase equipment and services from other local firms, and augment the local tax base; owners and employees recycle their income throughout the community by purchasing goods and services. This "multiplier effect" of job creation can play a crucial role in promoting a self-sustaining recovery in a locality.

Lastly, job creation efforts help to promote organization and capacity-building at the local level. Communities forced to "pull together" to replace lost employment are motivated to overcome turf battles and to develop more effective forms of cooperation between public agencies, the business community, and the non-profit sector. This spirit of responsiveness and cooperation can have positive effects on re-training efforts as well.

Economists have long understood that job creation through small businesses and individual self-employment is a counter-cyclical phenomenon: that is, the proportion of small and microenterprise employment tends to rise in recessionary periods when employment in large firms and the economy as a whole is falling. In the trough of the 1980-82 recession, for example, enterprises with fewer than 20 employees accounted for all net new jobs created in the American economy.[2] Some larger firms with 20 or more workers may have added positions during these years, but overall this class of employers eliminated more jobs than it created. The exceptional performance of smaller firms can be attributed in part to the flood of entrepreneurial energy released in the economy by the layoffs of the late 1970's and early 1980's. Some 2.3 million jobs were created in the smallest firms, many of them due to the individual efforts of displaced executives and workers, and to the collective efforts of communities hit by the contraction of their historical large-firm employer base. There is hope that a similar effect will be noted during the recent recession and its aftermath, which has seen large employers continuing to lay off workers who have no expectation of returning to their previous jobs, even

[2] B.A. Kirchhoff and B.D. Phillips, "Employment Growth in the Decade of the Entrepreneur," Paper presented at the Babson College/ University of Pittsburgh Entrepreneurship Research Conference, April 1991; Storey, D.J. and S. Johnson, *Job Generation and Labor Market Change*. London: MacMillan, 1987; U.S. Small Business Administration, *The State of Small Business: A Report of the President, 1985*.

as other signs of economic growth return. Thus, it is not surprising that interest in job creation strategies is again high.

Community Development Corporations and Other Actors in Local Economic Development

Economic development may be defined as efforts to expand the productive capacity of an area through better management of land use, labor and human capital, financial capital, and available technology. To the extent that public policy and actions are involved in economic development, the most common focus is on activities that will ultimately result in increased earning opportunities for workers in the area.

In the United States, economic development nearly always involves planned, cooperative efforts between the public, non-profit, and private sectors. Although policy direction and funding often originates at the state or national level, most employment-oriented economic development efforts are organized and implemented at the neighborhood, city, or county level. In many respects this is a strong point of the American system, as it allows local areas the flexibility to forge organizational linkages appropriate to the goals, resources and economic conditions of the community. At the same time, the "patchwork" nature of our system often leads to delays or chronic shortages of funding from higher levels, and to be effective requires considerable self-organizing and coordinating capacity by local groups.

For job generation to occur, a number of fundamental ingredients or conditions must be present, or must be created. If one key element is missing, job creation can be stunted, even if other elements are present in abundance. They are sometimes summarized in the literature as "the five M's"—*materials* (infrastructure and natural resources), *manpower or labor, markets, management,* and *money*. These elements must be carefully and dispassionately assessed in developing any successful job creation strategy, and all are relevant when examining job creation strategies for dislocated workers. A variety of organizations may be involved in pulling together these elements to achieve community development.

Community Development Corporations and other Local Economic Development Corporations are often at the center of job creation efforts. These terms refer to a fairly wide range of non-profit locally based groups engaged in employment and housing-related activities. In the classical sense of the term, the Community Development Corporation is a private non-profit organization, governed by a board of local residents, business and civic leaders, with by-laws or a mission statement affirming a focus on economic development. CDCs deal primarily with low-income areas and populations, including communities affected by plant closures. Their service areas can be quite small—often encompassing only a few neighborhoods—although these groups can also operate city-wide or over multi-county regions in rural areas. About 20% of all CDCs are rural, and another 17% operate in mixed urban and rural environments.

Local Economic Development Corporations (variously termed EDCs, LDCs, or LEDCs in the literature) are a broad category of organization that is usually defined to include CDCs. In practice the distinction between CDCs and other LEDCs has blurred considerably over the past ten years, and there is now a great deal of overlap in the types of activities they engage in.

According to estimates from the National Congress for Community Economic Development (NCCED), there are between 1500 and 2000 CDCs and related groups now active in the United States. They are found in all parts of the country. The 1100 CDCs surveyed by NCCED in 1991 reported creating nearly 55,000 permanent jobs between 1986 and 1990, and helped retain an additional 36,000 jobs in their communities during this same period.[3] As a group, CDCs and LEDCs are engaged in an extremely wide range of services to businesses, other organizations, and individuals. They include:

- Acting as developers for commercial real estate ventures (individual buildings, strip developments, and shopping malls), as well as industrial parks and low or moderate income housing projects;

[3]National Congress for Community Economic Development, *Changing the Odds: The Achievements of Community-Based Development Corporations*, December 1991.

- Owning and operating business ventures in private spin-off companies, or making equity investments in firms managed by others;

- Conducting entrepreneurship training classes for new ventures, or business improvement seminars for existing firms;

- Providing direct management assistance for start-ups, expansions, and troubled firms (including business plan development, accounting, marketing, and permits/licensing assistance, franchise referrals, government procurement, and other functions);

- Administering revolving business loan funds capitalized from a variety of local, state, federal, and private foundation sources;

- Packaging loan applications for SBA and other loans, as well as capital sourcing from venture capital firms, commercial banks, and industrial revenue bonds;

- Making referrals to local JTPA entities for OJT slots and customized training;

- Acting as property developers, managers, or technical assistance providers for small business incubator facilities; and

- Providing facilities for social service programs (e.g., Head Start) and community meetings.

Housing development is the main focus of many CDCs, and was an important activity for nine out of ten of the organizations responding to the 1991 NCCED survey. Increasingly, however, CDCs have expanded to include economic development, and one-third of those surveyed cited business enterprise development as a major focus of the organization. More than 13% of CDC respondents administered a revolving loan fund for business development, and another 12% provided businesses with loan packaging assistance. About 25% were active in commercial and industrial real estate development; 15% owned and operated businesses themselves, and 7% held an equity stake in one or more local businesses. Lastly, 13% of these CDCs trained entrepreneurs to start their own businesses.[4]

CDCs are not alone in their job creation efforts. They often work closely with **City or County Economic Development Offices and Redevelopment Agencies** operating from city or county general funds or Community Development Block Grant (CDBG) funds, with additional funding from state grants and other sources. Depending on the division of labor worked out with CDCs and other local groups, these agencies may sponsor revolving loan funds and industrial revenue bond programs, fund CDCs through CDBG or General Fund monies, engage in industrial attraction, support incubator programs, or establish "one-stop shops" for helping business startups comply with permitting, licensing, and insurance requirements. Other actors can include local **Chambers of Commerce**, many of which provide business counseling through the **Service Corps of Retired Executives (SCORE)** as well as sponsoring seminars for potential entrepreneurs.

At the state level, **Enterprise Zones** are a strategy to provide comprehensive financial incentives for attracting business to redevelopment areas of cities. Well-run enterprise zone programs have strong linkages to city agencies and CDC/LEDCs for management and technical support to firms in the zone.

Federally-sponsored organizations that cooperate in community development efforts include **Small Business Development Centers (SBDCs) and Minority Business Development Centers (MBDCs)**. The SBDCs are a national network of business assistance centers funded through the U.S. Small Business Administration. SBDCs may be located on community college campuses or in independent offices, or may operate with a local economic development corporation as its host organization. Although they do not provide loan packaging, they offer a wide range of technical assistance for startups and existing firms, and sponsor pre-business/ entrepreneurship seminars. MBDCs are a network of contracted organizations established by the U.S. Department of Commerce to provide management assistance to minority entrepreneurs.

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[4]Figures from special tabulations of NCCED 1991 survey data performed for Berkeley Planning Associates.

Services include business plan and marketing assistance, SBA 8(a) minority certification packaging, and capital sourcing.

Other actors in community economic development include **community colleges** (which may have Small Business Institute programs or entrepreneurship classes); state **guaranteed loan and industrial revenue bond** programs, and **private foundations** such as the Ford or Hewlitt Foundations, which sponsor innovative loan and technical assistance programs for startups. **JTPA Title II and Title III** programs are also prominent actors in many areas, as providers of customized and classroom training, subsidized OJT positions, and Targeted Jobs Tax Credits.

TYPES OF JOB CREATION PROJECTS

Although the focus of this report is on training for microenterprise development, we begin with brief descriptions and examples of other job creation activities typically undertaken by CDCs.

COMMERCIAL AND INDUSTRIAL DEVELOPMENT

CDCs and similar organizations often act as developers or general partners for retail, office, and industrial development projects in their service areas, working with cities to conduct marketing studies, assemble financing, select general contractors, and attract business tenants. Increasingly, the latter activity has involved coordination with JTPA, by working with local Title II and Title III programs to provide trained workers. Jobs are created in construction (often with substantial requirements for minority firm participation), as well as permanent jobs when the project is completed. Some developments are designed in part as small business incubators. From the CDC's perspective, an important advantage of commercial development is that equity holdings in successful projects generate regular income to support future activities, thereby reducing the organization's dependence on grant funding.

EXAMPLES OF JOB CREATION THROUGH COMMERCIAL DEVELOPMENT PROJECTS

The **Heritage Square Project** in Durham, North Carolina, resulted in a 15-acre shopping center in a previously under-served area of the city with a large minority population. It created upwards of 140 new jobs. It was developed under the direction of the Hayti Development Corporation, a neighborhood-based CDC, with extensive cooperation from other community organizations, the MBDC, and the city. Equity financing came in part from a local syndicate, and these funds were used to leverage a much larger loan from the National Cooperative Bank. The CDC was also successful in attracting strong anchor tenants, including a Wynn Dixie supermarket. An initial training program for 40 Title IIA and Title III participants was organized in conjunction with the development, and the project has generated a steady stream of placements since that time.

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The **Las Tiendas Market** in San Antonio, Texas, combined neighborhood and tourist-oriented commercial development with incubator facilities for self-employed crafts people. The project was led by the Avenida Guadelupe Association, a neighborhood CDC in an historic Latino section of the city. The development took advantage of its location close to the Plaza Guadelupe, a cultural attraction increasingly visited by tourists, by self-consciously promoting the feel of a Mexican-American open-air marketplace. Other neighborhood businesses have benefitted from spin-off expenditures in restaurants, theaters, and stores. Funding for the project came from a Department of Commerce Economic Development Administration (EDA) grant and an Urban Development Action Grant (UDAG), with the city providing parking and landscaping improvements.

Perhaps the most noteworthy feature of Las Tiendas was its planned incorporation of facilities for low-capital business ventures. The project included 55 retail spaces rented in increments of 150 square feet, each providing marketing space for artisan families who produce their wares on-site or in local workshops. An important adjunct to Las Tiendas was the Retail Institute developed by the CDC to provide business management training to market tenants and other entrepreneurs in the neighborhood. By providing solid management training in conjunction with practical advice, it is hoped that the tenants will be able to expand production and sell through other outlets.

BUSINESS ENTERPRISES

Like commercial and industrial development projects, direct participation in business enterprises is a form of job creation that can generate funds to support other CDC programs as well as providing employment and training opportunities. For-profit ventures may be wholly-owned and closely managed affiliates of the CDC, or the CDC may make equity investments in a number of businesses managed by others. In either case, such investments have the best chance of success if they are tied to market demand, especially to growth sectors of the economy. Good management of CDC-run businesses is crucial, as balancing the program's multiple objectives (job creation, training, providing a needed service or product to the community) can be a difficult task. In developing their own enterprises CDCs can take advantage of the very resources that they offer to others, such as management and marketing assistance, and access to capital.

·EXAMPLE OF JOB CREATION THROUGH BUSINESS ENTERPRISES

Esperanza Unida ("United Hope") in Milwaukee, WI, developed an Auto Repair Training Center to accomplish several objectives: job creation, job training, economic development, and revenue generation. The organization serves unemployed persons from the entire Milwaukee area, but its target population is the South Side Hispanic community. Proceeds from all of Esperanza Unida's ventures generated $800,000 of its $1.5 million budget in 1993.

Housed in a formerly abandoned auto dealership, the Auto Repair Training Center reuses and rebuilds vehicles donated by individuals and companies who in turn receive tax deductions for their gifts. The center is also the largest full-service auto mechanical repair and auto body shop on the near South Side of Milwaukee. It services 10 to 20 cars daily, and generated $407,000 in revenue in 1992.

The organization received donated equipment from a closed Firestone shop, and startup capital was provided through foundation grants. Space was provided rent free for the first year, and the group eventually purchased the building using CDBG funds and revenue from the business. The repair business has created 15 full-time jobs for mechanics and body specialists. Under their supervision the shop also gives on the job training to 15 to 20 trainees at any one time, who may be learning English concurrently. Trainees spend three to six months in training, and 70% find jobs in the community.

CUSTOMIZED TRAINING

Customized training is probably the most common form of linkage between economic development and JTPA training at present, although not all such efforts qualify as job creation by strict definition. In this approach an EDWAA substate area or community organization contacts a startup business—or more often an established business that is relocating[5] or expanding—and arranges to provide training geared to the specific needs of the employer. Customized training packages can also be developed for groups of companies in the same industry, with similar labor needs. Training may take place entirely on site at the workplace, or may involve a combination of on-site and classroom work. The employer is usually involved in curriculum design and screening of prospective candidates, and employees of the company often participate as instructors. Targeted Jobs Tax Credits (TJTC) or OJT subsidies may also be provided.

In return for subsidized training, the employer agrees to some form of first-source hiring agreement. Most often, this involves an undertaking to hire a given number of participants who successfully complete training, at a specified entry wage. Some agreements also specify step increases in wages over time, given satisfactory performance. Customized training often takes place in conjunction with other industrial attraction and business assistance activities undertaken by economic development agencies, which might include attractive loan packages, waiver of certain permit requirements or zoning/land use restrictions, or (in the case of certain enterprise zone and redevelopment areas) tax exemptions.

MICROENTERPRISE DEVELOPMENT

Microenterprises are generally defined as businesses with less than five employees and with initial credit needs of under $15,000. Microenterprise development is a rapidly expanding strategy for job creation, especially for those left out of the economic mainstream. Many

[5] As amended by the Job Training Reform Amendments of 1992, Section 141(c) of JTPA sets limits on the use of JTPA funds to provide services for relocating employers. For example, if the relocation involved any job losses in the original place of business, services cannot be provided for the first 120 days after operations have begun at the new location.

participants in microenterprise development programs are public assistance recipients, laid-off workers, or people living in communities with high rates of unemployment and poverty. According to the Association for Enterprise Opportunity (AEO), a national consortium of microenterprise development programs, "The creation of very small businesses is only one goal of microenterprise programs. They are designed just as often to fight poverty, increase incomes, raise self-esteem, stabilize families, introduce hope, develop skills, create role models, and spark a process of community renewal."[6]

EXAMPLES OF JOB CREATION USING CUSTOMIZED TRAINING

In **San Jose, California**, the city's Office of Economic Development put together a $3 million financing package to induce an expanding computer chip manufacturer to locate a 50-job expansion facility in the Silicon Valley rather than relocating it to Oregon. The package included a SBA 7(a) loan guarantee, and a locally syndicated equity component. In return, the city obtained a first-source hiring agreement for the 50 jobs, which were to be filled by EDWAA-eligible production workers displaced in earlier plant closings. The local PIC applied for a $150,000 state Title III discretionary grant for customized retraining of these workers. Training occurred on-site, using instructors from a community college as well as supervisors from the employing company.

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In **Cattaraugus County, New York**, the county redevelopment agency was instrumental in attracting a furniture manufacturing plant with 150 jobs to the rural area. Part of the agreement specified that 30 of the craft and production slots were to be filled by JTPA Title III and IIA participants. Candidates for the positions were jointly selected by SDA staff and company representatives, and were trained through a customized classroom training module coupled with further on-site training. The company received TJTC credits and some OJT subsidies.

Microenterprise development has been shown to be an effective form of job creation in many countries, although only recently has attention been focused on this strategy in the United

[6]"Opening Enterprise Opportunity: Expanding the Microenterprise Development Field," Position Paper of the Association for Enterprise Opportunity, 1992, p. 2.

States.[7] It is seen as especially appropriate for places where large-scale job creation by mainstream employers is unlikely to occur, such as inner cities and isolated rural areas. The field of microenterprise assistance has grown dramatically over the last few years. As reported by the Aspen Institute, the ***1992 Directory of Microenterprise Programs*** recorded 108 programs in 38 states; the number of programs qualifying for the 1994 Directory was nearly double that number.

Microenterprise programs may be operated by CDCs, by other community-based organizations, or by governmental entities such as states or cities. They may target the general public, people living in a depressed community or region, ethnic groups, women, or participants in specific government assistance programs such as AFDC, UI, or EDWAA. Programs offer business training, access to capital, or both, and may augment these basic strategies with extensive personal development training, counseling, and support groups. Thus, there is no such thing as a "typical" program, although all have as their goal self-employment and the eventual employment of others in the microenterprise.

There is some skepticism that microenterprise development is a realistic option for poor people who may be receiving governmental assistance and living in areas of extreme poverty. Critics have argued that disadvantaged populations do not have the knowledge or motivation to become self-employed, that they should not be asked to take the risks involved, or that the few possible candidates do not warrant the establishment of programs to assist them. Microbusiness practitioners respond that the entrepreneurial spirit is distributed across all economic and ethnic groups, and in fact may be particularly prevalent among the poor. Establishing microenterprises in depressed areas can lead to reductions in transfer payments, provide role models for other potential entrepreneurs, and formalize underground enterprises. Microenterprises can serve inner-city and rural markets that are under-served by mainstream businesses. It is notoriously

[7]International experience with microenterprise is summarized in John G. Robinson, *New Forms of Activity for the Unemployed and Measures to Assist the Creation of Self-Employment,* U.S. Department of Labor, Unemployment Insurance Occasional Paper 93-2, 1993; Frank Fratoe, *Microenterprise Programs in the United States,* U.S. Department of Commerce, Minority Business Development Agency, 1994; and Kenneth Louks, *Training Entrepreneurs for Small Business Creation.* Geneva: International Labour Office, 1988.

hard to predict the success of newly-established businesses, proponents argue, so disadvantaged entrepreneurs should be given "the same chance to fail as anyone else."[8]

While many microenterprise programs are supported by funds from local, state or private foundation sources, others receive direct or indirect funding from the federal government. The Department of Labor has entered the world of microenterprise development on three fronts: by funding demonstrations operating within the Unemployment Insurance system, through the Microenterprise Grants Program authorized under the 1992 Job Training Reform Amendments, and by funding the Job Creation demonstrations under JTPA Title III. Other governmental agencies have also operated self-employment programs, either on a demonstration basis or as part of an ongoing strategy to help disadvantaged individuals improve their lives. Federally-funded initiatives include:

- The Demonstration Partnership Program and the Job Opportunities for Low-Income Individuals Program (JOLI), both funded by the Department of Health and Human Services' **Office of Community Services** (DHHS-OCS). The former program is targeted to all low-income individuals (up to 125% of poverty level), and the latter program is targeted to AFDC recipients and other low-income individuals. These programs had appropriations of $3.8 million and $5 million, respectively, in FY 1993. JOLI has been re-funded for $5.5 million in FY 1994. OCS grants have also been used by CDCs for job-generating equity investments in commercial development projects and business ventures, and to capitalize revolving loan funds.

- The **Office of Refugee Resettlement**, also within DHHS, funds refugee resettlement organizations working with local development organizations to operate microenterprise programs, using agency funds. There were 13 projects funded through FY 1993, as well as two technical assistance providers, at a cost of $2.3 million. The projects primarily target refugees receiving public assistance.

[8]Moffat, L., "The Self-Employment Debate: Responding to the Critics," Paper presented at the Conference on the Self-Employment Strategy: Building the New Economy, Toronto, Canada, October 1989.

- The **Department of Housing and Urban Development** (HUD) used $2 million of CDBG funds to support 13 projects for 18-month demonstrations ending in 1993. The Self-Employment Demonstrations for Public Housing Residents were run by public housing authorities. CDBG funds may also be used to support microenterprise training and lending activities under both the entitlement and Small Cities programs. HUD has recently created a new position for a Deputy Assistant Secretary for Economic Development, and has revamped its Urban Development Action Grant program to facilitate entrepreneurship and economic development by CDCs.

- Another major supporter of microenterprise development activities is the **Small Business Administration**, which operates the $58 million Microloan Demonstration Program, established in 1991. Funds are distributed in the form of low-interest loans to 110 non-profit intermediary organizations in 49 states. These intermediaries then make loans to startups and existing microbusinesses, with a current average loan size of about $10,000. Through January 1994, over 1,100 loans had been made and over 3,000 jobs created. In addition, up to 7% of the program's loan subsidy dollars may be used to provide training for lending intermediary organizations.

- A four-year microenterprise grants program was created as part of the 1992 reauthorization of **JTPA**. The Secretary of Labor is authorized to make grants of up to $500,000 per year to ten states for the fiscal years 1993 through 1997. Grants are to be used by the states to implement or enhance community-based microenterprise activities for economically disadvantaged persons. $1.5 million has been appropriated for this program in FY 1994.[9]

In the remainder of this chapter we describe the lending, training and other aspects of microenterprise assistance programs in more detail, and provide examples of current programs.

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[9]Association for Enterprise Development, *Opening Enterprise Opportunity: Expanding the Microenterprise Development Field*, 1993, Appendix B; *Building Bridges: Community Development Corporations and the World of Employment Training*, Ford Foundation, October 1993; Job Training Reform Amendments of 1992, 29 USC 499 (a) through (g).

MICROENTERPRISE PROGRAM STRATEGIES

LENDING COMPONENTS

Microbusiness entrepreneurs typically require small amounts of capital, but often lack the income and assets to qualify for commercial loans. Banks may also be reluctant to make microbusiness loans, because the small amounts involved do not cover their loan servicing costs. Many microbusiness practitioners believe, in fact, that lack of access to capital is the greatest single barrier to starting businesses, and that capital is an input even more important than general business training. There is, however, considerable variation in the sources of funding and the financing mechanisms used to provide microenterprise capital. For example, lending programs may provide only limited technical assistance in-house, offer capital in connection with substantial classroom training and individual help, or may do both. Loans differ in terms of their size, eligibility requirements, and the terms of repayment. Funding can be provided from local, state, federal, private foundation, or commercial capital sources. Programs may make loans either to individuals or to peer groups.

SOURCES OF LOAN FUNDS

One of the most common forms of microenterprise lending is through revolving loan funds capitalized from public or private foundation sources. Principal is repaid into the fund, and interest may be used to help pay administrative costs or to cover defaults. Because fees charged to low-income borrowers and interest from small loans generally do not cover administrative and portfolio management costs, such funds usually need ongoing subsidies for operational support. Some sources of loan funding include:

- **State Funds.** A number of states active in microenterprise development programs (including Montana, Vermont, North Carolina, and New York) have used state monies to establish revolving loan funds. Funds can be capitalized from state general revenues, or from specific sources such as Montana's Coal Tax Trust Fund. In most cases, states distribute these funds in the form of grants or low interest loans to regional organizations which are responsible for lending and administering loans to small- and microbusinesses.

Maximum loan amounts vary from $8,000 to $50,000. In most states, lending intermediaries also offer technical assistance and training.[10]

- **Federal Funds.** Sources of federal funds include the Small Business Administration's Microloan Demonstration Program (described above), which makes capital available in the form of loans to CDCs or other designated intermediary organizations. These organizations then make microloans of up to $25,000 to startup, newly established, and growing small businesses. Women, low-income, and minority entrepreneurs are important target groups of the program. As in many state programs, intermediaries are required to raise small amounts of matching funds. Other revolving loan funds may be capitalized directly or indirectly through federal grant funds, such as Community Development Block Grants, the Rural Development Administration's Intermediary Relending and Rural Enterprise grants, and grant programs operated by DHHS's Office of Community Services and the Economic Development Administration of the U.S. Department of Commerce.

- **Private Foundations.** Some of the most innovative microlending programs of recent years have been capitalized by the Mott, Ford, Irvine, Hewlitt, and other foundations. Dozens of smaller foundations play similar roles at the local level.

- **Commercial Capital.** Some commercial lending institutions provide capital for microenterprises, although the supply is still quite limited in relation to demand. One of the few regulatory instruments available to encourage cooperation from banks is the Community Reinvestment Act (CRA), enacted in 1978, which requires banks to meet credit needs in their communities. One way for banks to meet their obligations under CRA is to make individual loans to local entrepreneurs or to provide capital for a microenterprise development loan fund. For example, the MICRO program in Arizona has an agreement with Valley National Bank in Yuma County to establish a $100,000

[10]See also Corporation for Enterprise Development, *State Support for Microenterprise Development: Three Case Studies*, November 1993.

loan fund guaranteed by MICRO's own equity. The bank will disburse loans using underwriting criteria developed by MICRO.

TYPES OF LOANS

Loans may be made to individuals, or to groups known as "peer lending circles." Some programs limit their loans to one or the other kind, while others offer both types, but with different size limits and repayment terms.

Although microloans to individuals are similar to conventional financing in most respects, the amounts borrowed may be very small (usually less than $5,000), payback periods tend to be short (typically less than three years), and underwriting requirements are less stringent than those established by banks. In place of traditional criteria for borrower income and assets, microlending programs may have low (or no) collateral requirements, but instead impose requirements such as completion of a business plan and receipt of technical assistance, review of borrowers' credit ratings, or demonstrated attachment to the community. Many programs use a "step" approach to lending in which the client is first given a small loan (e.g., $500) and is eligible for larger loans only when the first has been successfully repaid. This helps participants establish a credit history as well as limiting the lender's liability. Initial loans may also have very short repayment periods (e.g., 90 days), especially when capital requirements are small and the loan is needed only for startup costs such as obtaining supplies.

Because microbusiness lending is a relatively new field, little systematic information is available on its success rates. However, an evaluation of 21 lending programs supported by the Mott Foundation found that they had made 1,466 loans totaling $3.6 million. These loans financed 1,166 businesses, which created 625 jobs in addition to self-employment for the owners. The delinquency rate for outstanding loans was 16%, and the charge-off rate amounted to 5.8% of total loan value. After 20 months of operation, the SBA Microloan Demonstration program reported making 1,123 loans for a total of $11.5 million. On average, 2.7 jobs (including the owner's position) were created or retained for each loan approved, for an average cost of about $3,785 per job. Although default rates are expected to rise somewhat as the portfolio matures, delinquency rates were running at less than 1% in early 1994, and the charge-off rate amounted to only 1.4% of total loan value.[11]

Peer lending circles are coming into increasing use as a way to guarantee loan repayment and provide support to new entrepreneurs. They are based on models from developing countries, such as the Grameen Bank in Bangladesh. Grameen began in 1976 as an experimental research project to test the effectiveness of supplying the poor with working capital in order to create opportunities for self-employment.[12] Most of the borrowers are landless women, and today the bank lends over $70 million annually to 700,000 borrowers with a default rate of less than 2%. This extraordinary performance is due in large part to Grameen's lending practices, which involve forming groups of five borrowers who guarantee repayment of each other's loans. In addition, the bank requires participation in an intensive training program covering its philosophy and rules.

In the United States, peer lending groups generally consist of groups of four to six borrowers who agree among themselves on the order in which they should each get a loan. In many programs using this model, part of the first person's loan must be repaid before the next loan can be made. Borrowers monitor each other's business development and problem-solve together. Loan limits for peer lending circles are generally lower than those for individuals, and may be as small as a few hundred dollars. Programs offering both individual and group loans may start participants in a peer lending circle, followed by a small individual loan and then a larger loan as the business becomes established. Programs can also help individuals apply for conventional financing.

Working Capital, based in Cambridge, Massachusetts, is a successful example of the peer lending model. A non-profit organization founded in 1990, Working Capital borrows capital from commercial banks and then re-lends it in small amounts usually ranging from $500

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[11]*Small Steps Toward Big Dreams: Enterprise Development Programs for the Disadvantaged*, Flint, MI: Charles Stuart Mott Foundation, 1992; Cassandra Pulley, Testimony before the Committee on Small Business, U.S. Senate, March 17, 1994.

[12]J. Novogratz, *Hopeful Change: The Potential of Micro-Enterprise Programs as a Community Revitalization Intervention*, New York: The Rockefeller Foundation, 1992.

to $1,500. Loans are given to individuals as members of business loan groups of four to ten people, and further access to funds depends on the group as a whole being current with its loan repayments. Business loan groups are formed by a variety of affiliating organizations, including CDCs and some EDWAA subcontractors (e.g., Berkshire Enterprises, discussed in Chapter VI), who usually also provide training and technical assistance. By 1993, Working Capital had made 680 loans totaling about $450,000, with a 2% default rate.

In the past several years, CDC lending efforts as a whole have focused increasingly on microenterprise, as opposed to loans for larger established businesses. In its national surveys of CDCs, NCCED found that business development loans of $10,000 or less represented 47% of all lending activity, as opposed to 29% in 1988. Equity investments of $10,000 or less also increased to 27%, up from 17% in 1988.

TRAINING COMPONENTS

Lack of access to capital is not the only problem facing potential entrepreneurs. Many persons may have the desire to become self-employed, but lack the knowledge and skills needed to start and operate a business. Microenterprise development programs address this need by offering a variety of training activities.

Microenterprise training efforts, like lending, vary on a number of dimensions. Training may be offered on a one to one basis or to groups, in classroom settings with a set curriculum, or informally on an as-needed basis by a business mentor. It may focus on purely business topics (such as marketing, financing, accounting, and management) or include personal development and self-esteem work. Two or more types of training can be combined; a common pattern is for participants to receive classroom training as a group for general business topics, and then work one on one with mentors to develop their business plans. Length and intensity of training can range from a few hours per month of consulting to intensive full-time courses that continue over several weeks or months.

Another important dimension is the degree of integration between training and lending activities. Community college courses and JTPA-linked programs tend to offer training alone, referring participants to other institutions for financing. Community-based organizations are more likely to offer access to revolving loan funds or other forms of capital in addition to training. Many microenterprise programs are primarily lending programs, but require potential borrowers to receive some form of training and assistance as a prerequisite to applying for loans and during the payback period. Of the 195 programs listed in the ***1994 Directory of U.S. Microenterprise Programs***, for example, 97% provide some form of training or technical assistance to clients. Among other things, training is understood as an effective way to keep default rates under control. Peer borrowing circles may also be used to help members develop their business plans, which are then monitored by the group after participants have received loans.

Chapter IV of this report presents a step by step description of entrepreneurial training, using a classroom-based model that applies to most of the Job Creation demonstrations and to a number of programs funded through mainstream EDWAA. We would emphasize, however, that successful microenterprise development need not be based on formal classroom training. Small Business Development Centers, Minority Business Development Centers, and many programs run by community-based organizations rely instead on individual technical assistance, supplemented in some cases by group workshops or referrals to community college courses for those who want a more systematic introduction to basic business concepts.

Technical assistance is usually provided by an experienced business counselor or mentor, and is designed to focus on the specific practical problems facing the entrepreneur at a given stage in the business's development. Such counseling is widely used to help with business exploration (i.e., deciding on and refining a business idea), business plan development, marketing, and gaining access to capital. For more advanced candidates, it may also involve help in purchasing an existing business, dealing with legal requirements for hiring employees, or product development. Technical assistance can be provided as a stand-alone service or as a complement to classroom training, and should ideally be available to the entrepreneur both before and after startup.

Well-designed training and technical assistance is always tailored to the needs, skills and experience of participants, be they AFDC recipients or other low income individuals, dislocated workers, or more experienced entrepreneurs seeking to expand existing microbusinesses. AFDC recipients and other low income persons, for example, may have had little contact with banks and need an overview of the basic financial concepts of borrowing and interest as well as attention to crucial basic skills deficits. Dislocated workers are an exceptionally challenging group in this respect, as they range from low-skilled individuals with little work or self-employment experience, to highly educated managers and technicians. The SEID demonstrations for AFDC recipients and most current programs for dislocated workers include personal development training as an important part of the curriculum, to help participants develop a capacity to think and act like business owners.

Although most microenterprise programs are organized to assist a broad spectrum of businesses, training may be designed to concentrate on a particular industry or group of industries. One example is the **Appalachian Center for Economic Networks (ACEnet)**, a group in southeastern Ohio that assists microenterprises in the areas of specialty food production and products for persons with disabilities. ACEnet has created programs that combine basic self-employment skills with specific training geared to these industries—for example, on-the-job training in existing specialty foods firms, and a "Kitchen Incubator" which allows participants to test out new products.[13] One advantage of this sectoral approach is that it can be used to target emerging market niches that offer the potential for rapid growth and regional or national markets.

SMALL BUSINESS INCUBATORS

Small business incubators are designed to enhance the survival chances of startup businesses by providing a supportive and affordable work environment. At a minimum, this means providing suitable facilities at a low (often subsidized) rent. In addition, some incubators provide office support for accounting and purchasing, access to copying and fax machines, bulk purchasing pools to obtain lower prices on materials, help in locating capital, and management guidance. Technology-oriented incubators may also offer specialized tools and facilities for product development, and linkages with corporate or university-based research groups. By

[13]Appalachian Center for Economic Networks, "A Market-Niche Approach to Microenterprise Development: The Specialty Foods Initiative," 1993.

making optimal use of common resources, an incubator can reduce startup and operating costs, allowing more retained earnings to be invested for later expansion; easy access to technical assistance also encourages expansion. The amount of space leased by individual businesses is typically small, and the business is expected to relocate—preferably within the incubator service area—as it outgrows the facility.

Business incubators have been experiencing considerable growth over the last decade or so and now number more than 500.[14] Incubators may be sponsored by local governments, economic development agencies, universities, community colleges, or combinations of these groups. Some are co-sponsored by large corporations. Although early incubators were generally designed for a combination of light industrial, technology and service firms, a number of new facilities have targeted industries such as food processing, medical technologies, crafts, software development and retail sales.

Incubators can create jobs in two ways. First, short-term construction jobs and training opportunities may be created as the incubator facility itself is rehabilitated and prepared for use. (Many incubators are set up in renovated older properties in redevelopment areas where the need for jobs is great and property costs are low.) As an example of this strategy, a Tennessee SSA used an incubator renovation project to provide training in construction and maintenance trades for 83 EDWAA participants over a two year period. A second and more lasting form of employment is created through the new businesses themselves. Small numbers of employees may be hired while the firms are located in the incubator, and more are expected to be hired as businesses expand out of the facility.

Although relatively few incubators are targeted to microbusinesses per se, some microbusiness training programs have established links with small business incubators and selected graduates may become incubator tenants. Other programs maintain more limited space and office facilities of their own to support participants during the startup phase. It is quite

[14]National Business Incubation Association (NBIA), *State of the Business Incubation Industry, 1991.* Athens, OH: NBIA, 1992.

common for CDCs and LEDCs to be involved in incubators, either as property developers, equity partners or operators of the facility, or as purveyors of technical assistance.

Examples of Microenterprise Development Programs

As discussed above, many microenterprise efforts are targeted to specific groups such as women, minorities, welfare recipients, or dislocated workers. While this targeting is often a byproduct of the program's funding streams or the ethnic makeup of the local community, it may also make sense from a service design standpoint. With more homogeneous groups, program staff can tailor training curricula and support services more closely to the particular needs of the group; participants, too, may be more comfortable with others like themselves, and respond better to programs that are sensitive to their strengths and limitations. This can be particularly important for people with barriers due to ethnicity, gender, or poverty. Other resources, such as the SBA's Small Business Development Centers and SCORE counseling programs, are available to the general public; but these tend to be oriented to entrepreneurs with higher levels of income, education, and business experience. In the following sections we briefly describe some microenterprise programs oriented to disadvantaged groups.

Programs Targeting Women

The Ms. Foundation for Women established a consortium of companies and foundations to support 15 organizations engaged in job creation work with low-income women. **The Collaborative Fund for Women's Economic Development** is a three-year $2.9 million project that offers support to microenterprise development programs and efforts to create employee-owned businesses employing primarily women.[15] Low-income women are an important target group for job creation activities, as their alternatives in the mainstream economy may be limited to low-skilled jobs or welfare. Self-employment for women is seen as a way to increase self-esteem, demystify the world of business, and create an entrepreneurial culture in poor

[15]Collaborative Fund for Women's Economic Development, *Low-Income Women: The New Entrepreneurs*, New York: Ms. Foundation for Women, undated.

communities that will have impacts on later generations. The organizations taking part in this initiative serve women in both inner cities and rural areas.

One of the urban programs is the **Coalition for Women's Economic Development (CWED)** in Los Angeles. From 1988 to 1993, CWED provided technical assistance for over 1,700 women and 150 loans totalling about $350,000. Many of the program's participants are Latinas engaged in very small retail businesses selling clothes, jewelry or handicrafts. Loans can be made to individuals or through "solidarity circles" modeled after the Grameen Bank's peer lending circles; the maximum loan amount is $2,000. As in the case of Working Capital, discussed above, the peer lending approach has worked well, and the default rate stands at about 2%. In 1992 CWED became an SBA Microloan intermediary capitalized at $750,000. Loans under the SBA program are available to men as well as women, but all borrowers must be low-income people who have been in business at least six months. Progressively larger loans may be made after the borrower has repaid an initial small loan.

Another foundation-supported microenterprise initiative for women is the **Women's Economic Development Initiative (WEDI),** supported by the James Irvine Foundation. This $2.5 million program provided multi-year financial support and technical assistance to four self-employment projects and two cooperatives located in urban and rural areas of California.

PROGRAMS TARGETING ETHNIC GROUPS

The **Micro Industry Credit Rural Organization (MICRO)** was begun through a Ford Foundation grant and technical assistance from ACCION International, and operates in Arizona and California's Imperial County.[16] This program is an affiliate of Portable Practical Educational Preparation, Inc. (PPEP), a community-based organization that currently manages $8 million in grants to provide services in the areas of housing development, employment training, literacy, and services to persons with mental illness and mental retardation in addition to the MICRO program. MICRO has operated since 1985, and has lent nearly $1.6 million to

[16]PPEP & Affiliates 1967-1992 Annual Report. Tuscon, AZ: Portable Practical Educational Preparation, 1992.

900 microenterprises with an average loan of about $1,750. Most loans are made to enterprises operating at least one year. About half the loan recipients are women and 80% are Latino; most of the areas served are very rural. MICRO does not use peer lending methods, but establishes local loan committees which give greater weight to the growth potential of the business than to standard measures of credit worthiness. Default rates are running at about 3%. To encourage closer interaction with banks and the probability of obtaining future commercial loans, borrowers make repayments to local commercial banks acting as MICRO collection agents. MICRO has also encouraged mutual support networks by forming merchants' associations which meet monthly; sub-groups within these associations have leased space together and launched joint advertising campaigns.

The Lakota Fund is a microenterprise development fund serving the Oglala Sioux tribe residing on the Pine Ridge Indian Reservation in South Dakota.[17] Founded by the First Nations Development Institute in 1985, the fund had to do a considerable amount of training and technical assistance so that the residents of the reservation could manage the fund, and did not begin lending operations until 1987. A peer lending approach was added in 1989, in response to high default and charge-off rates generated by initial loans to individuals. As of 1992, the fund had made 30 loans (average size $375) to members of peer lending groups, and 12 loans to individuals (average size $6,000), with a current default rate of about 7%. Loans have been used for such enterprises as hog raising, firewood sales, food concessions, and crafts. Technical assistance and entrepreneurship training is provided formally by project staff, and informally through peer lending groups. Partly as a result of the fund's activities, three-quarters of the enterprises operating on the Pine Ridge reservation are now Native-owned.

PROGRAMS TARGETING RECIPIENTS OF INCOME SUPPORT PAYMENTS

The **Self-Employment Investment Demonstration (SEID)** program was a multi-state demonstration testing the feasibility of moving recipients of Aid to Families with Dependent Children (AFDC) support off the welfare rolls through self-employment. Funded through a

[17]J. Novogratz, *Hopeful Change: The Potential of Micro-Enterprise Programs as a Community Revitalization Intervention*, New York: The Rockefeller Foundation, 1992.

variety of state sources and by supplemental funds raised by the Corporation for Enterprise Development (CFED), SEID was initiated by CFED and operated from 1988 to 1992. The implementation phase of the demonstration was evaluated by the Manpower Demonstration Research Corporation (MDRC) with support from the Ford Foundation.[18]

The SEID program model combined training in business and personal skills, technical assistance for the business, and help in securing startup financing. DHHS provided waivers of AFDC regulations regarding income and assets, permitting SEID participants to continue receiving AFDC benefits for 12 months while undergoing training and starting their businesses. Five states participated in the demonstration: Iowa, Maryland, Michigan, Minnesota, and Mississippi. With assistance from CFED and the states, site-level organizations were selected in each state to provide training and support services; the program operated in one to three sites per state, yielding a mix of urban and rural sites for the demonstration as a whole. Small amounts of startup capital were provided through linkages to existing revolving loan funds or by creating new funds. Some participants also obtained loans from commercial banks.

MDRC's interim evaluation of SEID found that only a small proportion of all recipients in the study sites (about 1% in urban areas and 6% to 7% in rural areas) expressed an interest in participating in the demonstration. Compared to other AFDC clients in the study sites, SEID participants were older, had more education and employment experience, and were more likely to have received welfare for more than two years. However, in other respects they were similar: they were largely female, and minorities were enrolled in proportion to their incidence in local caseloads. Implementing the program was difficult, because it required offering an array of services to address participants' unfamiliarity with the business world, weak self-esteem, and life management skills. In addition to entrepreneurial training and technical assistance, the SEID model emphasized peer support for building personal effectiveness.

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[18]*Self-Employment for Welfare Recipients: Implementation of the SEID Program*, MDRC, August 1991; "Interim Lessons from the Self-Employment Investment Demonstration, Executive Summary," Corporation for Enterprise Development, 1991; J. F. Else and S. Rheim, "AFDC Clients as Entrepreneurs," *Public Welfare*, Fall 1992.

Through December 1990, 699 participants were served at all sites, and of these 30% had started businesses. As pointed out by the Corporation for Enterprise Development in its assessment of the project, benefits from the SEID program extended beyond the rather small number of businesses actually started during the implementation phase. After deciding that self-employment was not appropriate for them, some participants found wage and salary employment, while others pursued additional training or education. If these outcomes are included, SEID recorded positive outcomes for about 53% of its initial enrollees. In the absence of longer-term follow-up, it is not known how many of those without immediate positive outcomes will go on to start businesses at a later time.

Assessments of the SEID demonstration identified four major barriers which must be addressed for self-employment to become an effective strategy for welfare recipients. First, the waivers granted by DHHS (which permitted participants to accumulate business assets and receive income without affecting their AFDC grants) were only for 12 months. This did not allow adequate time for training and personal development, startup, and building a sustainable business. Second, the costs of child care and medical insurance continued to act as strong deterrents to leaving AFDC. Third, access to capital remained a problem, despite the small loans made available through the program. Lastly, many participants could not work out of their homes because of public housing regulations or local zoning laws, and found it impossible to find an affordable place to do business. While it is clear that self-employment is not a way to move a large proportion of the welfare caseload off the rolls, it is a feasible alternative for some, and SEID provided valuable experience for future efforts.

PROGRAMS TARGETED TO LOW INCOME INDIVIDUALS

Like Title II of JTPA, many microenterprise programs are generally designed for low income populations, with no specific focus on ethnicity, income support status, or gender. The ***1994 Directory of U.S. Microenterprise Programs*** from the Aspen Institute's **Self-Employment Learning Project (SELP)** lists 195 initiatives operating in 44 states and the District of Columbia. Of these programs, 64% work with persons receiving AFDC and 71% work with any low-income individual. SELP is also conducting a four-year research and evaluation effort with seven experienced self-employment agencies across the country, operating in both urban and rural areas. This evaluation, to be completed in 1995, is based on aggregate data collected by the participating programs, along with longer-term follow-up on a random sample of clients. A sample of 302 clients from the seven programs will be interviewed three times over a two-year period by an outside research firm. The study will generate data about the characteristics of microentrepreneurs, the types of businesses and number of jobs created, and the extent to which earnings from microbusinesses allow owners to become self-sufficient.[19]

One of the programs participating in the Self-Employment Learning Project is the **North Carolina Rural Economic Development Center (NCREDC)**, funded from state revenues and private foundations. The NCREDC model combines entrepreneurial training and lending services, using a small group approach. The program has established a $3.6 million revolving loan fund, with loans for startup businesses ranging from $500 to $8,000. In place of collateral requirements, NCREDC forms teams of four to ten prospective borrowers who together go through a five-step entrepreneurial training process. Where available, community colleges or other organizations are contracted to provide business training and technical assistance.

Typically, the borrower group is responsible for deciding which members will receive loans first, and a loan is not made until all members of the group approve a candidate's business plan. Other group members will not receive loans until the first two borrowers have made at least four repayments on schedule. If any member defaults, others in the group must wait one year before they can borrow, although members do have the option of collectively repaying any shortfall. Delinquency problems soon become apparent, as loans are repaid in small, frequent payments, and first-time loans generally have repayment periods of one year. From 1989 to 1993, NCREDC loans supported 181 startups and expansion for 184 microbusinesses. A complementary program has been established to serve the state's urban counties.

[19]Margaret Clark and Tracy Huston, *Assisting the Smallest Businesses: Assessing Microenterprise Development as a Strategy for Boosting Poor Communities*. Interim Report from the Self-Employment Learning Project. Washington, DC: The Aspen Institute, August 1993.

Programs Targeting Dislocated Workers

Among the western industrialized countries, the United States has had a relatively late start in developing microenterprise programs for dislocated workers. By the mid-1980s there were programs in 17 countries belonging to the Organization for Economic Cooperation and Development.

Since 1985, Canada has provided the **Self-Employment Incentive Option,** one of five options offered under the Community Futures Program of the Canadian Job Strategy. Its purpose is to provide income support to previously unemployed individuals for a period of one year while they attempt self-employment. This program is available in all provinces in areas of high unemployment, and is open to recipients of unemployment insurance or income assistance (welfare) payments. Participants must have a small amount of equity capital available to finance the business, and must prepare comprehensive business plans; in addition to monthly support payments, they are eligible for free business counseling. The program is administered locally by Canada Employment Centers with assistance from Business Development Centers (similar to SBDCs). By 1990, the Self-Employment Incentive Option had helped more than 6,000 people start their own businesses.

European countries have a much longer history of self-employment initiatives for unemployment insurance recipients, beginning with the French **Chomeurs Createurs** (unemployed entrepreneurs) program, implemented on a national scale in 1980. The main financial benefit provided under Chomeurs Createurs is a lump-sum payment received about two months after application. These payments currently range from about US$ 1,400 to US$ 6,000, and depend on the length of time unemployed and the type of unemployment benefit the worker previously received. Additional incentive payments are given for each employee job created by the business. Participants may use payments to start new firms, or to purchase existing businesses; claimants may also pool their lump sum payments to create new ventures or take over firms facing closure. Formal business training is not offered as part of the program, but participants have access to government-sponsored local centers for entrepreneurship training and counseling. Chomeurs Createurs enrolled an estimated 55,000 participants in 1989; of these, about 53% were still in business three years after startup.

Great Britain followed with its **Enterprise Allowance Scheme (EAS)** in 1983. In contrast to the French approach, the British model features bi-weekly payments to support entrepreneurs while they establish and begin operating businesses. Payments are available for up to one year, and are provided in lieu of regular unemployment or Supplementary Benefits (welfare) support. Participants are also required to invest at least £1,000 (US$ 1,500) of their own money in the enterprise. Formal business training is not required, but applicants must attend a one-day seminar, and are eligible for free counseling from the national Small Firms Service or local Enterprise Agencies. In most cases, however, training and technical assistance support is minimal. An estimated 80,000 participants were enrolled in EAS in 1989, and 57% were still in business three years after enrollment. An estimated 114 jobs (including owners' positions) were created for every 100 businesses that survived at least one year.[20]

Beginning in 1988, the U.S. Department of Labor funded self-employment demonstrations for recipients of Unemployment Insurance (UI) in two states: the **Washington Self-Employment and Enterprise Development (SEED) Demonstration**, using a lump-sum payment approach based on the French model, and the **Massachusetts Enterprise Project,** with support payments structured like the British model. The demonstrations were designed to test the effectiveness of using money from the UI system in new ways to help displaced workers become productive again through self-employment.

Although the two demonstrations both provided training and technical assistance as well as financial support, they followed somewhat different service models. In the Massachusetts program, the training component consisted of an overview Enterprise Seminar, followed by six two-hour workshops on business topics over a 12-week period. This group instruction was supplemented by business counseling and technical assistance, in which participants were encouraged to develop business plans with help from their counselors. UI provided financial support for up to 24 weeks during this process; participants received self-employment allowances in lieu of regular benefits while working full-time to establish their businesses. In addition, a microloan program was developed through a commercial bank with branches in each of the

[20]John G. Robinson, *New Forms of Activity for the Unemployed and Measures to Assist the Creation of Self-Employment.* Washington, DC: U.S. Department of Labor, Unemployment Insurance Occasional Paper 93-2, 1993.

demonstration sites. Applicants were not guaranteed to receive loans, but the bank did agree to consider applications even if the loan amounts were smaller than the normal minimum size.

In the Washington program, participants attended a one-week, 20 hour classroom course on business feasibility, marketing, finance, and management. They then developed business plans with help from business development specialists funded by the program, and group support was provided through monthly Entrepreneur Club meetings. Participants received regular bi-weekly UI payments during training and business development. Unlike the Massachusetts model, however, Washington claimants were eligible to receive lump-sum payments equal to their remaining UI benefits, which could be used to help capitalize the business. These payments were made available when the participant completed five milestones, including completing the training modules, developing an acceptable business plan, setting up a business bank account, satisfying licensing requirements, and obtaining adequate financing if needed. The average lump-sum payment received by workers enrolled in 1989-90 was $4,225. After startup, the program's business development specialists provided further technical assistance as needed, and conducted a business status review.

Both demonstrations were statewide efforts with services provided at multiple sites. Both began by contacting the universe of new claimants (over 26,000 in Massachusetts and 42,000 in Washington); of those contacted, about 4% and 7.5%, respectively, expressed an interest in participating. Both demonstrations were conducted using experimental designs, which allowed evaluations of net impacts of the projects. Using random assignment techniques, the Washington demonstration involved 755 treatment group claimants ("participants"), and 752 controls who received no services apart from regular UI benefits. The Massachusetts program's first two cohorts included 263 participants and 258 control group members.

Interim results from the demonstrations are encouraging in many respects. Among treatment group members, 47% in Massachusetts and 52% in Washington started businesses at some time during the observation period, versus 27% and 29% for controls. At average follow-up periods of 19 months and 21 months respectively, 77% of the Massachusetts and 66% of the Washington treatment group members who had started businesses remained in self-employment. Neither program, however, had an effect on the chances that a business, once started, would fail. Both demonstrations had positive impacts on the overall likelihood of being employed during the observation period (i.e., in either a wage and salary job or in self-employment), and on the total time spent employed.

With regard to earnings, Washington participants had significantly higher earnings from self-employment than did controls; earnings were also higher in Massachusetts, but the difference was not significant. However, the Massachusetts program did produce a positive impact on combined income from wage and salary and self-employment, while Washington showed no effect. Lastly, if Washington's lump-sum payments are not included, both demonstrations reduced the cost of benefits paid out by the UI system during the first year. If lump-sum payments are included, the Washington program increased total payments by an average of about $1,000 per claimant.[21]

To date, the UI demonstrations and the EDWAA Job Creation demonstrations are the only large-scale federally-sponsored microenterprise efforts focusing on dislocated workers as such. However, SBA's Small Business Development Centers, community colleges and other groups do serve dislocated workers as members of the general public, and they are often served by state and locally funded programs as part of other target populations defined in terms of income level, ethnicity or gender. In addition, a number of state and substate EDWAA grantees have offered microenterprise training funded from formula allocations or state 40% discretionary grants, and some of these programs have been operating continuously over the past two to four years. We present short profiles of five such programs in Chapter VI.

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[21]Jacob Benus et al., *A Comparative Analysis of the Washington and Massachusetts UI Self-Employment Demonstrations*, Abt Associates, January 1994; Steven Wandner and Jon Messenger, "From Unemployed to Self-Employed: Self-Employment as a Re-employment Option in the United States," In *Self-Employment programs for Unemployed Workers*, U.S. Department of Labor, 1992.

III. THE EDWAA JOB CREATION DEMONSTRATION PROJECTS

The U.S. Department of Labor funded six grant proposals under the EDWAA Job Creation Demonstration. Funding for the first phase of the demonstration began in July 1991 and continued through September 30, 1992. All six projects were awarded funds for an Option Year, which ran from October 1, 1992 to September 30, 1993. In this chapter we present short synopses of each demonstration—its setting, organization, major services and distinctive features. Selected features of each demonstration are also summarized in Table III-1 at the end of this chapter. Chapter IV draws more explicit comparisons between the projects, discussing their goals, service models and implementation problems encountered.

MAN-TRA-CON, BUSINESS ENTREPRENEUR SKILLS TRAINING PROGRAM

MAN-TRA-CON's BEST program provided self-employment training to dislocated workers in the five-county area served by Illinois Substate Area (SSA) 25. The project received a total of $908,000 in demonstration funds over the two grant periods, and served 67 participants. Fifty-four percent of enrollees started businesses during the grant period, and created 18 additional employee jobs. Though the number of participants was relatively small, the program developed an impressive service model and training curriculum suitable for disseminating to both urban and rural areas.

SETTING

MAN-TRA-CON's 2,400 square-mile service area in southern Illinois has a total population of about 220,000. The largest town in the region is Carbondale, with a population of 25,000. The area has been hard-hit by the decline in high-sulfur coal production, a traditional mainstay of the region's economy. During the demonstration period, major layoffs also occurred in retail department stores, printing, and service industries such as the General Telephone Company. Mining and manufacturing have been declining steadily since 1986.

Unemployment in the five counties averaged 11.4% in August 1993, one of the highest levels in the state. There have been marked increases in Food Stamp and AFDC receipt. Average income has fallen as higher-wage industries leave the region.

Compared to many other rural areas, however, southern Illinois is well-endowed with skills training and business development resources. There are two community colleges within the project's service area, as well as three Small Business Development Centers, several Service Corps of Retired Executives (SCORE) chapters, and the Southern Illinois Small Business Incubator in Carbondale.

ORGANIZATION

MAN-TRA-CON (for "management, training and consulting") is a non-profit community-based organization that was affiliated with Illinois Farmer Union, Inc. until 1992. MAN-TRA-CON is the substate grantee and administrative entity for Illinois SSA 25. Among its other activities, MAN-TRA-CON administers the Big Muddy Community Action Agency, which receives Community Development Block Grant funds for regional economic development and operates a small revolving loan fund.

Throughout the initial grant period, business training and follow-up were coordinated by subcontracted staff of the Small Business Incubator Program operated by the Office of Economic and Regional Development at Southern Illinois University. Entrepreneurship classes were held at a community college site in the northern part of the service area, as well as at the Incubator facility. However, administrative changes at the Incubator during the summer of 1992 led to the training subcontract being shifted to American Enterprise Systems (AES), and all business training activities were consolidated at the AES site near the center of the service area. This reorganization caused little disruption, as all key BEST staff from the Incubator were immediately hired by AES.

Staffing included a BEST Project Coordinator from MAN-TRA-CON (who was also Dislocated Worker Coordinator for the SSA), project coordinators from AES, two business instructor/counselors, and part-time curriculum developers and data collection staff. All instructor/counselors had MBA degrees, and one was qualified as a Certified Public Accountant. Eight training cycles were completed during the 27 months of the grant.

SERVICES

Although a third of its participants were former coal miners, BEST was designed for the general dislocated worker population. Recruitment was done largely through the SSA, which advertised the program through its rapid response orientations and Client Service Centers on community college campuses and in Employment Service offices. Other candidates were referred through the SBDC, or entered BEST training after completing occupational skills training through the SSA.

After eligibility determination and a basic skills assessment, workers interested in self-employment were asked to attend one of the monthly BEST orientation sessions. Candidates filled out an application describing their business idea, previous training and experience, and financial resources; they were then interviewed and rated on nine criteria by program staff. Candidates who showed a low probability of success were referred back to mainstream EDWAA for job search or skills training.

All BEST participants were co-enrolled in mainstream EDWAA, to make them eligible for support services and occupational skills training if needed. Eligibility determination, assessment and Individual Service Strategy (ISS) development were handled by SSA staff. BEST participants also went through a two- to three-day workshop covering job search skills and stress management.

After an unsatisfactory experience with the Ohio PACE curriculum in the first cycle of training, staff developed their own training model and materials. BEST training consisted of three phases, each of which lasted 13 weeks. The classroom training phase involved one formal three-hour meeting per week, supplemented by BEST Club and individual sessions with a staff business counselor. The classroom training curriculum was modularized into marketing, management and finance units, each geared to specific sections of the business plan and lasting about one month. Participants could begin training at the start of any unit. This open-entry open-exit approach reduced the amount of waiting time, permitting participants to make maximum use of unemployment benefits during training. Staff instructors were supplemented by guest speakers and videotapes. Each weekly session was integrated with a self-study assignment in which classroom concepts were applied to the participant's individual business plan; assignments were discussed in one to one meetings with the counselor.

A second component of the training was BEST Club, an adaptation of the job club concept for entrepreneurs. These less formal meetings were attended by participants in the business plan development and startup phases as well as those in classroom training, and covered such topics as time and stress management, and business-related computer skills. In addition to BEST club and classroom training, the program offered monthly seminars covering topics such as taxes, market research and franchising in more depth.

After completing classroom training, participants were eligible for 26 weeks of business plan development and startup assistance. As they refined their business plans and began operations, entrepreneurs had ongoing support from individual counseling sessions, BEST Club, and the seminar series. Technical assistance was available on request for up to two years after enrollment.

Optional computer seminars were added to the program early in the demonstration, and soon became an important part of the training curriculum. Few participants had been exposed to computers in their previous jobs, and they were able to master this new technology in a non-threatening environment. A computer lab was set up at the AES site, offering intensive training in word processing and accounting software. Project staff also developed a computer package to assist in developing business plans.

As in the other demonstration projects, the lack of suitable loan funds caused serious problems for some participants. MAN-TRA-CON had originally planned to make capital available from the Big Muddy Community Action Agency's revolving loan fund, but the fund's requirements for the immediate creation of employee jobs made this source unworkable. During the final nine months of the project, small supportive services payments from demonstration funds were made available to cover specific startup expenses such as tools, licenses, or business stationery. Applications from candidates who had completed business plans were reviewed by a staff committee. Twenty participants were granted supportive payments, at an average of $1,500 each.

Realizing that the number of participants served under the grant would be small, BEST channeled part of its effort into developing a comprehensive dissemination package with detailed instructor guides and participant self-study materials, as well as materials for program administrators. During the Option Year of the demonstration they presented the package at a number of state and national conferences, and supervised a pilot test of the BEST model in another Illinois SSA. The completed package is now being marketed by MAN-TRA-CON and AES.

SUMMARY

The BEST model featured very close ties with mainstream EDWAA, open entry/ open exit classroom training, multiple approaches to training (permitting more in-depth coverage of specific topics as needed), startup counseling from highly qualified staff, and business-oriented computer training. BEST staff paid special attention to the task of refining their service model so that it would be coherent at all levels—from staffing and administration to the details of curriculum design—and could be easily replicated. Recruitment and lack of access to loan capital were the major problems encountered.

MUSKEGON ECONOMIC GROWTH ALLIANCE (MEGA), JOB CREATION DEMONSTRATION PROGRAM

MEGA provides self-employment and re-employment services to dislocated workers primarily from Muskegon and Oceana counties in Western Michigan, the same geographic area as the local SSA. In addition to its role as one of the largest economic development organizations in the area, MEGA serves as the main EDWAA service provider for the SSA. A major goal of the MEGA project was to demonstrate how local economic development entities could work closely with mainstream EDWAA programs to provide more comprehensive services. Funded at $804,800 for the two grant periods, MEGA accepted 104 self-employment participants and 263 re-employment participants. Forty-six percent of the self-employment trainees started businesses, and 79% of re-employment terminees found unsubsidized employment.

SETTING

Unfavorable employment conditions have plagued the Muskegon/Oceana SDA for more than a decade, and for many years its unemployment rate ranked among the nation's top ten. While an increase in job opportunities is expected over the next several years, during the demonstration period the unemployment rate remained well above the national average at 10% to 12%. With a population of 160,000, Muskegon County provides the main industrial base for the SSA. In contrast, Oceana County, with a population of only 22,000, is almost completely rural and relies primarily on seasonal, migratory agriculture as its main source of employment.

The area's economy has historically relied on the manufacturing sector. Although manufacturing still accounts for 27% of the area's employment, this has declined from a high of 46% over the past decade. The two major manufacturing industries, primary metals and nonelectrical machinery, have suffered the largest portion of job losses due to shutdowns of major foundry and smelting facilities and nonelectrical machining plants. During the demonstration, the SSA's typical dislocated worker was a white male, between the ages of 35 and 50, with a high school diploma and 20 to 25 years of experience with the same employer.

ORGANIZATION

MEGA is a private nonprofit community organization formed in 1988 to address the serious economic problems confronting Muskegon County. The unusual degree of coordination among government and business organizations in the county has been due in large part to MEGA's role as a focal point for economic development and training efforts. During the demonstration period MEGA was organized with major service areas in Economic Development, Employment Services, Membership Services, and a Convention and Visitor Bureau. It also served as the Chamber of Commerce for the Muskegon area and operated the local Small Business Development Center. As the SSA's principal EDWAA subcontractor, MEGA's

Employment Services staff have provided intake, assessment, referral, and placement services to dislocated workers since 1989.

MEGA designed its job creation demonstration project in conjunction with the Muskegon County Department of Employment and Training (MCDET), the administrative entity for the SSA. MCDET staff conducted eligibility assessments and oversaw data collection efforts for the demonstration; MEGA staff handled recruitment and service tracking, self-employment counseling, job development and placement activities. Contracted staff taught the project's self-employment classes. During the grant, MEGA completed four self-employment cycles and provided ongoing services to re-employment participants.

SERVICES

MEGA recruited through rapid response presentations at local companies, media coverage of MEGA programs, and referrals from other organizations and service providers. Given the concentration of dislocated workers in the area, there were few problems in recruiting participants. During intake interviews, MEGA staff explained the range of available EDWAA services, including re-employment and the new self-employment activities offered through the demonstration.

Applicants who expressed interest in self-employment received an assessment, followed by a group orientation session. Applicants then scheduled individual interviews with the project coordinator to discuss their business ideas. Although the self-employment coordinator provided honest opinions concerning the viability of those ideas, during most of the demonstration applicants were allowed to make the ultimate decision regarding enrollment in the self-employment track.

Once enrolled, self-employment participants attended a twelve-week, or more intensive six-week, business class covering such topics as marketing, legal issues, management, and financing. Regular classroom sessions were supplemented by group meetings featuring speakers from the business community. Participants could also meet individually with the self-employment coordinator or counselors from MEGA's SBDC program to refine their ideas and work on their business plans.

Participants who had completed their business plans could apply for supportive services payments of up to $3,000 (later changed to $1,000). The payments covered specific expenses related to business startup, such as the purchase of supplies or tools, inventory or lease payments. Requests for start-up assistance were evaluated by a committee composed of the MEGA self-employment coordinator, local bankers, the business training instructor, and other MEGA staff. Payments were provided to 47 ventures. Arrangements were also made with a local bank to provide microbusiness loans, although only a few such loans occurred.

During the business start-up phase, participants were eligible for ongoing technical assistance from the SBDC, supportive services, and classroom training for work-related skills, supplemented by entrepreneur support group meetings. Participants who dropped out of the self-employment track were encouraged to enroll for re-employment-oriented training and job placement, although few actually did so.

Participants in the demonstration's re-employment service track received basic readjustment services and classroom training or OJT, and all were co-enrolled in EDWAA. There were few differences between the services received by these re-employment and mainstream EDWAA participants, apart from more intensive assessments provided during the first grant year and wider access to support services such as child care and transportation allowances. Demonstration participants went through an extensive 2½ day assessment that included reading and math tests, values clarification exercises, interest and ability surveys, and career exploration. MEGA also used demonstration funds to expand its OJT and job development efforts in a four-county area, with special targeting of new and expanding employers. The OJT contracts that resulted from these efforts were then funded through the SSA using Title III formula funds. The re-employment track was dropped in the grant's Option Year as the program focused on self-employment training.

SUMMARY

With its close ties to the business community as well as the SSA, MEGA was able to offer a wide range of both re-employment and self-employment training. Like MAN-TRA-CON, the program was in a position to take full advantage of existing EDWAA arrangements for occupational skills training, OJT, and basic skills training. Through its ties to the SBDC and other economic development activities, MEGA was well placed to offer training services to relocating and expanding businesses, and to provide support for EDWAA participants interested in microbusiness. The chief implementation problems encountered were lack of access to capital, problems in coordinating individual technical assistance for startups, and staff turnover in key positions.

FRIENDS OF THE CHILDREN OF MISSISSIPPI, INC. (FCM), EDWAA PROJECT

The FCM EDWAA Project took on the difficult task of serving a relatively low-skilled dislocated worker population in a large underdeveloped rural service area with pockets of very high unemployment. Operating largely within Mississippi's 74-county Balance of State SSA, the project offered microbusiness training and referrals for basic skills and occupational training, as well as an extensive personal motivation and life-skills workshop. Over the course of the demonstration, the program was awarded $677,565 in DOL funds, enrolled 142 participants in its self-employment track, and 19 in re-employment. Of those in self-employment, 47% started businesses, creating 35 full or part-time jobs in addition to owners' positions. Fifty-three percent of those in the re-employment track found employment or entered academic training programs.

SETTING

The project operated in a dispersed seven-county area of central Mississippi, including three counties in the depressed Delta region along the Mississippi River, one rural county to the north of Jackson, and three in the Eastern part of the state. This service area covered about 4,200 square miles, with a total population of 175,000. The largest town had about 20,000 people.

Farming and transfer payments are the largest sources of income in these counties, although there is also some manufacturing employment in food processing and textiles. Much of the available work is seasonal, and per-capita incomes are among the lowest in the United States. Official unemployment rates ranged from 6% to 25% during the demonstration period, but the true extent of unemployment was obscured by the area's low labor force participation rates. Economic growth is at a standstill, and the net number of functioning businesses decreased in 1992. Historically the region has benefited from an influx of low-wage, low-skilled industries from the North, but in recent years such firms have relocated outside the U.S.

As in many rural areas, the service infrastructure for training and business development is very thinly spread. Although six community college districts serve residents of the service area, their campuses are often located in adjacent counties, and course offerings are limited. No Minority Business or Small Business Development Centers are located in the seven counties. Ongoing EDWAA services for most of the area were handled by the Balance of State SSA, which operated primarily through local Employment Service offices. However, the SSA did recognize the need for job creation efforts in the area, and independently funded self-employment training programs by two non-CDCs during PY89-91.

ORGANIZATION

FCM is a non-profit corporation originally chartered "to implement programs consistent with the Equal Opportunity Act of 1964." Although the bulk of its activities center on the Head Start program, FCM has also operated a Self-Employment Initiative Demonstration (SEID) grant for AFDC recipients, and a SEID-type program for dislocated workers under a Title III subcontract to a Jackson-area SSA. The group's philosophy is to emphasize integrated services to families, as opposed to the individual mother, worker or entrepreneur; this approach has been especially successful in working with low-income and minority clients.

FCM's service delivery arrangements were the most decentralized of all the demonstrations. The Project Director and two staff were centrally based north of Jackson. Apart from its administrative functions, this office also served one county during the demonstration's first year. Program activities in the other six counties were run from FCM outreach centers. Each was staffed by a Family Self-Sufficiency Worker (FSSW) who served as counselor, job developer, instructor for part of the introductory workshop, and all-purpose local coordinator. Self-employment training was done by part-time instructors under contract, and staff from Jackson State University were contracted to assist with the project's self-evaluation.

SERVICES

Recruitment was done largely through brochures, notices posted in Employment Service and other service agency offices, public service announcements, and word of mouth; relatively few participants were referred by the SSA. All together, there were three recruitment and training cycles. By the end of the demonstration, two counties had been dropped from the service area due to low recruitment.

After intake, all participants were required to complete a three-week, 27 hour workshop entitled Exploring Economic Self-Sufficiency (EESS). The EESS training, which was first used in FCM's SEID project for AFDC recipients, was considered a key element in the project's approach to working with its low-skilled, long-term unemployed target population. The workshop combined stress management, personal finances, basic skills testing, job search and World of Work training with a healthy dose of self-motivation training, to provide the basic skills and attitudes necessary for any further career move.

On completing EESS, participants could enter either the microbusiness training or re-employment track. The latter originally offered immediate job search and placement assistance, referral for GED, and referral for occupational skills training or academic course work leading to a two-year Associate's degree. There were difficulties in fully implementing the re-employment track (discussed in Chapter IV), and it was dropped in the grant's Option Year. Microbusiness candidates were screened using the SBA Entrepreneurial Quiz, a family needs assessment, and a personal interview.

Recognizing that most participants would have very limited skills and financial resources, the microbusiness track was oriented primarily toward simple enterprises that would help workers become economically self-sufficient with relatively little startup capital. It was a six-week, 72 hour course providing a basic introduction to marketing, production (purchasing, inventory), business management, and accounting. A noteworthy feature of the original curriculum was the "Sabrina series," a set of case study materials describing the experiences—and mistakes—of Sabrina, an imaginary AFDC recipient who decides to open her own catering business. Discussion of Sabrina's problems, and the decisions she must make, provided a memorable and non-threatening way to make participants aware of the pitfalls they too were likely to encounter.

After completing classroom training, participants received three further weeks of individual help in refining their business plans. This was done by the class instructor, or by the Family Self-Sufficiency Worker (FSSW) for the county. Ongoing startup assistance was provided mostly by the FSSWs, with some assistance from the project headquarters staff, instructors, or referrals to Small Business Development Centers outside the service area. In the grant's final year, the program began providing supportive service payments for startup expanses. Fifty grants were made, for an average of about $1,130 each. A few participants also obtained loans from banks or revolving loan funds.

Two other notable features of the program were the ACCESS groups and informal "incubators" developed by participants. Developed toward the end of the grant, the ACCESS groups (for "Assist, Comfort, Cultivate, Encourage, Support and Sustain") were independent peer group lending and mutual assistance organizations formed with help from FCM staff. Membership was not limited to project participants, and at least two county-level groups incorporated as non-profit organizations with the aim of starting revolving loan funds. In addition, two groups of participants created incubator-like agreements among themselves, sharing space and facilities.

SUMMARY

The FCM project demonstrated ways to use grassroots-level organizing techniques to promote microbusiness training in poorly served rural areas. Many aspects of the program were designed to meet the special needs of low-skilled long term unemployed participants; there was a strong emphasis on self-help, family and community needs, and modest but practical steps to overcome difficult circumstances. Apart from external obstacles like the lack of capital and a stagnant local economy, the project's greatest problems stemmed from its highly decentralized organization. The task of operating five widely dispersed field offices multiplied the already difficult challenges of staffing, quality control, and forging strong ties to other community organizations.

HACER, INC., PROJECT EXCEL

In New York City's South Bronx, HACER, Inc. operated Project Excel, a program designed to provide both self-employment and re-employment training to Spanish-speaking dislocated workers. As originally planned, Project Excel offered these services in two distinct tracks. Self-employment candidates were trained and certified to provide child care services in their own home. Re-employment candidates were to be trained as employees of a medical supplies company. This company's loss of the contract under which it planned to hire re-employment track participants was a formidable obstacle to Project Excel's successful implementation. Nevertheless, 118 self-employment participants and 69 re-employment participants received training, resulting in 41 home-based child care businesses and 39 job placements. HACER received a total of $935,428 in funding over the course of the demonstration.

SETTING

Project Excel served individuals from across the Bronx, but targeted individuals from the South Bronx, a community of low-income and minority residents struggling against a daily tide of crime, drugs, and violence. According to the Bronx Overall Economic Development Corporation, 30% of the residents of the congressional district within which the South Bronx lies received some form of public assistance, the highest such rate for any congressional district in the country. Drug-related violence and crime discourage new business investment, and jobless rates are typically much higher than the city-wide average. Indeed, on almost any index of social or economic well-being, the South Bronx would rank at or near the bottom.

Despite these difficulties, Port Morris, the central neighborhood of Project Excel in its first year and a state-designated Economic Development Zone, was a local employment center with nearly 400 businesses and over 20,000 workers. Warehousing, shipping, packing, and industrial supply businesses accounted for many of these positions, as did a number of small manufacturers. Project Excel rented space from a local medical supplies manufacturer during its first year, and planned to place re-employment participants in jobs with the company. When it became clear that these jobs would not become available, Project Excel moved its offices to a more central commercial location in the South Bronx, and looked for jobs for re-employment participants wherever they could be found.

The general employment picture in the South Bronx was discouraging, however, and a persistent local recession made finding jobs extremely challenging. Jobless rates in the South Bronx were as high as 12% during the demonstration: this figure does not even include the area's large number of discouraged workers, who no longer count themselves in the labor force.

ORGANIZATION

HACER, Inc. was established in 1979 as a nonprofit community-based organization. Its name is an acronym for Hispanic American Career Educational Resources, and coincides with the Spanish verb *hacer*, "to take action." As an organization, HACER focuses on the needs and concerns of Hispanic women, but men are also served in many of its programs, including Project Excel. HACER programs have included job training for single mothers, a business skills refresher course under contract to EDWAA, a mentoring program for high school students, and family day care provider training combined with a day care referral network. Except for Project Excel, all of HACER's programs are based in Manhattan. Project staffing varied during the course of the demonstration, but core staff included a Project Coordinator, several part-time instructors, and a full-time case manager.

SERVICES

Many Project Excel participants first heard about the program through public service announcements on a local Spanish-language radio station. Local unemployment insurance offices also referred clients to the project. These two sources, supplemented by word of mouth referrals, provided the demonstration project with almost all of its participants.

Excel's assessment procedures consisted of a math test, a vocabulary and reading test, and a test of oral proficiency. These tests helped Project Excel staff measure basic skills to determine where applicants needed the greatest attention, but were not typically used to exclude applicants from the program. Applicants were required to be literate in Spanish or English to participate, but except for this condition and standard EDWAA eligibility rules, Project Excel had no entrance requirements. Indeed, Project Excel targeted applicants who were in the greatest need of their services. This strategy may have had negative effects on Excel's outcomes relative to other demonstration grantees, and project results should be viewed in light of this approach.

After assessment, participants began self-employment or re-employment services, depending on their preference. Project Excel's self-employment track was unique among the demonstration projects in that it trained participants for only one occupation. Rather than offer a general business course and allow participants to choose their own business, Excel offered one course on in-home day care provision, and helped participants gain state certification and find clients of their own.

Becoming a certified family day care provider was an attractive opportunity for Project Excel's target group. Most importantly, it offered all the advantages of operating one's own business, but required little startup capital. In addition, it was designed to be operated in the home, an especially attractive option for participants with young children of their own. Family day care providers can also charge higher rates after certification, an important advantage for any business.

The family day care provider course met twice a week for two hours, over a period of ten weeks. Outside of these classes, participants also attended GED and ESL courses, depending on their needs and interests. One of the reasons HACER targeted family day care was that participants could operate this business without learning English, unlike most re-employment opportunities. After completing the course, participants worked with Excel staff on applications for certification, a substantial task complicated by several regulatory changes that occurred during the life of the project. Participants typically required several weeks and multiple meetings with Excel staff to complete these applications. After certification, participants began to seek out clients of their own through HACER's day care referral network, an innovative system for matching parents with day care providers.

To help self-employment participants get their new business started, Project Excel also provided them with an in-kind stipend of equipment required for certification. Participants who completed training and their applications for certification received cots, fire extinguishers, and other equipment they would need to pass their certification inspection.

Project Excel's re-employment track proved less successful than the self-employment track. As originally designed, the re-employment track would train and place participants with a local medical supply firm. Project Excel would provide training in pre-employment skills, English as a Second Language/Job-Related English, and GED preparation, as well as classroom and customized on-the-job training for semi-skilled positions in packaging and processing. These jobs never materialized, and the customized training component was never implemented. The basic skills classes, supplemented with job search assistance, continued for the life of the project on an open-entry/open-exit basis, while HACER job developers tried to find alternative employment for re-employment track participants.

In the final months of the demonstration, Project Excel began work on a new venture to employ re-employment participants in a worker-owned home cleaning business. A small group of participants attended a 30-hour, two week cleaning course, and Excel staff began helping them pursue funding. Although the business had not started by the end of the demonstration, HACER had succeeded in attracting a small pool of capital for a revolving loan fund, and planned to make their first loan to these participants.

SUMMARY

HACER's Project Excel offered an innovative approach to self-employment for disadvantaged clients in an extremely troubled community. It did so through fairly short-term training in a single occupation, combined with substantial individual support. Project Excel also sought to re-employ participants with a local manufacturer, but this plan foundered when the expected employer lost a key contract, leading to disappointing re-employment results.

GREATER ATLANTA SMALL BUSINESS PROJECT (GRASP), PROJECT NEW VENTURES

Project New Ventures provided self-employment training and startup business consulting for dislocated workers in the metropolitan Atlanta area. Participants received 220 hours of classroom training, followed by up to 80 hours of one-on-one technical assistance. GRASP received $607,426 in demonstration funding and served a total of 66 clients, 30 of whom started businesses.

SETTING

Although GRASP served the entire Atlanta metropolitan area, with a population of 2.7 million, 80% of its clients and businesses are located in Fulton County, which includes the city of Atlanta. Atlanta is primarily a service city, although industry and manufacturing also have a large presence, and serves as headquarters for many Fortune 500 companies. The city's overall economy remains healthy, with an unemployment rate below 5% in late 1993. However, several large-scale layoffs and business closings have also hit the area. Since the end of 1990, Atlanta has seen the loss of over 13,000 jobs in large-scale dislocations alone, including thousands of positions in the airline industry.

ORGANIZATION

GRASP is a nonprofit organization, founded in 1987 as a joint project of Fulton County and the City of Atlanta, with a mandate to expand and stabilize the local economy by fostering small business growth. GRASP serves both existing and startup businesses in several programs, and receives funding from a number of local and federal sources. In addition to Project New Ventures, GRASP operates: a business development project providing technical assistance and mentoring to new and existing businesses in economically depressed areas; a management assistance program providing services and training to owners of existing small businesses; Market Smart!, an SBA-funded program providing marketing assistance to existing businesses; Project Independence, a demonstration project providing entrepreneurial training to low-income individuals; and Project Entreprise, which is designed to assist entrepreneurs in two low-income target areas.

Although GRASP has always provided mentoring, technical assistance and counseling for existing small businesses, they did not offer classroom training. Prior to the demonstration clients interested in classroom training were referred to local colleges or SBA workshops. In 1990, following research that found that small business owners are more responsive to pragmatic rather than academic or theoretical training, GRASP began to develop its own classroom training capacity. It developed curricula which emphasized practical knowledge, and recruited trainers from the business world who had hands-on experience in the area of business they were teaching. GRASP has since developed a comprehensive marketing program for existing businesses, and for Project New Ventures, created an entirely new curriculum for startup businesses.

Staffing for Project New Ventures included a Project Director, who was also a trainer and mentor, a staff trainer and mentor, a contracted mentor, and an administrative assistant. The curriculum was developed and refined by Project New Ventures staff and several GRASP staff members. The Project Director, staff trainer, and GRASP's Director of Marketing taught most classes in the 24-week training program, with occasional guest lecturers for special topics. All trainers had MBA degrees and some entrepreneurial experience. During the classroom training phase, the Project Director and the two mentors provided personalized counseling and assistance. For technical help during the business startup phase, additional mentors were sometimes drawn from other GRASP business assistance programs.

In addition to receiving demonstration funds, Project New Ventures was supported by other funding sources and served non-demonstration clients. In the first year, in addition to serving 30 demonstration clients, New Ventures served 25 low income clients with funding from the Department of Health and Human Services, 15 dislocated workers with Title III formula funds, and five additional clients with funding from the City of Atlanta. In the second year, New Ventures served 36 clients with demonstration funding, 41 low income clients with funding from the Department of Housing and Urban Development, and five additional clients with funding from the City of Atlanta. All Project New Ventures clients received the same entrepreneurial training and mentoring services. The combination of funding sources, however, provided GRASP with a larger resource base for developing a training program, and exposed participants to a wider variety of fellow entrepreneurs.

SERVICES

Project New Ventures recruited most clients through print ads and public service announcements. A local SSA also supplied a list of recently laid-off Eastern Airlines employees who had expressed an interest in self-employment. Prospective candidates attended an orientation seminar, completed an application, and went through an initial assessment that included personality, vocational interest, and aptitude tests. GRASP found that the best candidates for entrepreneurship have good basic skills, some work or business experience, a strong desire for achievement, a good business idea, and some savings, assets, or other personal financial resources. Staff considered these factors and looked closely at personality and motivation in selecting participants.

Project New Ventures business training involved two phases. The first phase was classroom training, which lasted 22 weeks, plus two weeks of business plan refinement. Participants attended three three-hour classes per week. Training consisted of four modules—Business Feasibility (eight weeks), Business Basics (eight weeks), Marketing (six weeks) and Business Plan (two weeks). Training culminated in a final business plan, which was developed through exercises presented in class and finalized during the Business Plan module. During training, clients were assigned a mentor for individualized counseling and support.

The second phase, business development and startup, began at the end of classroom training. Clients worked with a mentor who provided ongoing technical assistance and counseling throughout the business startup phase. Most participants continued to work with the same mentor assigned to them in the classroom training phase, but other mentors were available from GRASP's large pool of business advisors. Contacts with business development mentors lasted an average of one year.

During most of the demonstration, GRASP did not have the resources to provide startup capital for demonstration-funded participants, but with the assistance of the Small Business Administration, was able to begin providing loans in July, 1993. Five clients from the second year of the project received loans during the demonstration period.

SUMMARY

GRASP offered substantially longer training than its counterparts in the demonstration, and served dislocated workers side by side with low income individuals. The training program was 24 weeks long, and demonstration-funded clients were actually a minority of all participants served. Major implementation problems faced by GRASP included staff turnover during the first year of the program and a lack of startup capital for participants.

THE CENTER FOR PRACTICAL SOLUTIONS (CPS)

The Center for Practical Solutions, based in Hauppauge, Long Island, operated an innovative self-employment program that underwent a series of changes during its twenty-seven month existence. CPS's initial goals were ambitious, and included the economic revitalization of its service area. To accomplish this goal, CPS planned to retrain dislocated defense workers as entrepreneurs and cooperate with local industries to develop new products and services. CPS received $972,248 in demonstration funding and served a total of 148 clients, helping 72 of them create new businesses.

SETTING

CPS's service area consisted of Long Island's two suburban counties, Nassau and Suffolk. This area, with a total population of more than 2.6 million, witnessed explosive employment growth during the defense boom of the 1980s. In some years, more than 40,000 new jobs were created. Many of these were high-paying engineering positions, and the region experienced a period of relative prosperity. In the early 1990s, however, defense cutbacks combined with a lengthy recession resulted in successive years of record job losses for Long Island, and the loss of numerous manufacturers. By the end of 1993 Long Island's employment situation had improved slightly, and unemployment stood at 7%.

ORGANIZATION

CPS was founded in 1990 as a nonprofit membership organization with a mission to work with dislocated professionals and local businesses to advance peacetime economic growth on Long Island. Volunteers staffed CPS for its first year (prior to the demonstration), and during the course of the demonstration CPS's only major source of funding was its demonstration grant. By the time the grant ended, CPS had lost virtually all staff who had participated in the demonstration project.

In the first year of the demonstration CPS organized its work within a matrix of business areas and industry areas. On the business side, CPS employed business planners with special expertise in technology, engineering, marketing, public relations, information services, and research. To help provide assistance targeted to the needs of specific industries, CPS business planners organized participants into industry area groups, composed of five to ten CPS participants developing businesses in the same technical area, such as biotechnology, trade, or information processing. Many staff members played multiple roles, serving as both business-area directors and industry-area planners. Some staff members were dislocated workers themselves, while others were successful business people attracted by the CPS mission to revitalize Long Island's economy. Although most of CPS's staff were employed on a part-time basis, a majority of them volunteered additional hours of unpaid time.

CPS experienced a number of changes at the beginning of its second year that affected the project's organization. Industry areas were dropped because they were seen as a distraction to clients who needed to spend more time working on their business. CPS's large staff was also pared back to improve the organization's overall efficiency. Finally, new project administrators scaled back CPS's initial goal of revitalizing the region's economy, and re-oriented the project to better meet the business needs of individual participants.

A major focus of CPS services in the initial year was the development of business ideas among participants. CPS made itself available to all interested and eligible applicants. The self-employment program was designed not only to help participants start businesses, but also to help them develop ideas for what sort of business to pursue. CPS staff abandoned this effort during the project's second year, and became more selective in their acceptance of new applicants. If new applicants could not present at least one business idea clearly, they were not accepted for entrepreneurial training.

After the project's first year, CPS also decided to broaden its target group from defense professionals to dislocated workers in general. Many of the first-year participants were seen as too product-oriented and insufficiently people-oriented to become entrepreneurs; their business ideas were frequently capital intensive, which made them extremely difficult to implement. During the project's second year, CPS sought out participants from a wide range of backgrounds, and encouraged them to pursue realistic business goals.

SERVICES

CPS began its recruitment efforts with a mix of press releases, paid advertising, and presentations to professional and business associations. These efforts, combined with referrals from several local EDWAA offices, were extremely successful, and led to a project caseload of more than 200 at one point. Many of these individuals, however, were participants in name only, and dropped out shortly after application. In CPS's second year such cases were reclassified from participants to early dropouts, simplifying the administration of the project.

As originally designed, the CPS self-employment training combined classroom training with an innovative team approach to business development. Instead of promoting individual startups, CPS encouraged first-year participants to form business teams, a strategy designed to provide mutual support and foster the creation of businesses with greater sales and expansion potential. This team concept was dropped in the second year when project administrators recognized that participants spent more time and energy on managing team interactions than on developing their businesses.

Upon enrollment, new CPS members were directed to a number of activities. First, they were guided toward the Entrepreneurial Skills Training class, a comprehensive course addressing the various components of a business plan, that met for 78 hours over 26 weeks during the project's initial year. The class was intensified in several subsequent training cycles, after project administrators concluded that lengthy training could be an obstacle to startup, and at its shortest involved 36 hours of training over six weeks. After the demonstration ended, project administrators conceded that six weeks may have been too short, and recommended a class length in between these extremes.

In addition to training, CPS also offered self-employment participants a range of complementary services, including weekly meetings devoted to entrepreneurial concepts, sales, and public speaking, plus occasional seminars on topics such as team-building or goal-setting. At different points in the project's life these activities were presented as multi-session seminars or as special events. During the first year of the project, such activities were a major feature of the CPS program, and occurred on a daily basis. With the scaling back of the project in its second year, these meetings were held less regularly in order to focus on the project's more basic functions, such as the Entrepreneurial Skills Training course.

A consistent feature of the CPS project was its use of business planners. During both years of the project, CPS assigned business planners to serve as mentors to participants. Business planners were experienced business people, employed part-time by CPS to help guide participants through the complex path to business startup. Typically, business planners met with participants for one hour per week, but often spent more time with them if necessary.

In addition to these self-employment efforts, CPS attempted to work with existing businesses during the project's initial year. As originally conceived, CPS participants would approach local employers with business ideas, and the two would work together to develop them. Several participants entered negotiations with employers on such ventures, but no agreements were signed and the idea was abandoned during the project's second year.

SUMMARY

CPS began the demonstration with an ambitious and innovative model for regional revitalization, but ended with a self-employment program quite similar in approach to several other demonstration grantees. The project's major service was self-employment training, but a variety of additional services, including business planning, sales training, and goal setting seminars complemented this effort. CPS's major implementation difficulties resulted from an overly ambitious organizational mission, an open admissions policy in the project's first year, and a lack of startup capital.

Table III-1
Demonstration Project Characteristics

Characteristics	MAN-TRA-CON	MEGA	FCM	HACER	GRASP	CPS
Number of Participants						
Self-employment	67	104	142	118	66	148
Re-employment	0	263	19	69	0	0
Total Demonstration Funding	$908,000	$804,800	$677,565	$935,428	$607,426	$925,648
Formal Ties to EDWAA	EDWAA substate Grantee	EDWAA SSA subcontractor	--	--	EDWAA service provider	--
Coordinating Organizations[a]	SSA, For-profit training subcontractor	SSA, Community College, SBDC	--	--	--	--
Number of Service Sites	1	1	5	1	1	1
Specialized Service Staff	2 FT counselors/ instructors 1 PT curriculum developer	1 PT job developer, 1 PT instructor, 1 PT business dev. coordinator	5 FT counselors, 5 PT instructors	3 PT instructors, 1 FT case manager	2 PT instructors, 3 PT mentors	1 PT instructor, 9 PT business planners
Service Area						
Description	5 rural counties	1 urban, 1 rural county	7 rural counties	urban county	12 county metro. area	2 suburban counties
Population, 1990	218,000	182,000	175,000	77,000	2,736,000	2,600,000
Unemployment Rate, 1993	11.4%	10.5%	6.6% - 14.7%	8.7%	6.5%	6.4%

[continued]

Table III-1 *[continued]*

Characteristics	MAN-TRA-CON	MEGA	FCM	HACER	GRASP	CPS
Major Services						
Self-employment						
• Classroom training	X	X	X	X	X	X
• Entrepreneur support group	X		X		X	X
• Business plan development	X	X	X		X	X
• Ongoing support for start-ups	X	X	X	X	X	X
Re-employment and Skills Training						
• Job readiness training	X	X	X	X		
• Classroom occupational skills training	X[b]	X				X[b]
• Basic skills training		X[d]		X		
• OJT		X[d]				
• Job development/job search assistance		X	X	X		
Other Participant Services						
• Counseling/case management	X	X	X	X	X	X
• Crisis adjustment services[c]	X	X	X			
• Supportive services	X	X	X			

[a]Refers to formal contractual arrangements using demonstration funds.

[b]Provided to self-employment participants as needed.

[c]Includes stress counseling, personal financial management, family counseling and referrals to social service agencies.

[d]Provided through ongoing EDWAA program.

IV. SERVICE MODELS AND IMPLEMENTATION ISSUES

This chapter builds on the project profiles presented in Chapter III to highlight some specific issues of targeting and design, service models and implementation encountered in the demonstration. It is based on the four rounds of site visits conducted by BPA/Cygnus staff between December 1991 and August 1993, and on the projects' own Quarterly Reports and self-evaluations.

GOALS, TARGETING, AND OVERALL PROJECT DESIGN

WHERE THE EDWAA DEMONSTRATIONS FIT IN THE LARGER UNIVERSE OF JOB CREATION

As discussed in Chapter II, job creation encompasses a broad spectrum of activity, ranging from microenterprise development to assistance for small business expansions, commercial and industrial real estate development, industrial attraction, incubators, technology and product development, targeted loan funds and import/ export assistance. These efforts can involve close linkages with local and state government agencies, banks and other sources of capital, business associations and trade groups, educational institutions and a variety of community-based organizations, including CDCs. The EDWAA job creation demonstrations were designed to address only a small part of that spectrum, both in terms of their service models and in the range of organizations represented.

The demonstrations for the most part employed two basic service models: training and support for microenterprise development, and occupational or job search training for individuals seeking work in existing businesses.[1] All six demonstrations had a self-employment training component, and this was usually the main emphasis of the project. MEGA, FCM, and HACER

[1]Other job creation approaches were proposed by several grantees but were never fully implemented. These included worker training linked to expansion plans for existing employers, use of incubator facilities, and establishing a cooperative business that would employ several participants. They are discussed briefly in the project profiles in Chapter III, and in the sections on Incubators and Training for Re-employment later in this chapter.

also provided training for re-employment. As the NCCED survey results in Chapter II suggest, entrepreneurial training is one of the most widespread forms of job creation activity. Training for re-employment is not unknown, but is a relatively unusual service for mainstream CDCs.

Viewed against the backdrop of job creation as a whole, then, the demonstration grantees were engaged in an appropriate but somewhat narrow set of activities centered on individual training. In part this was due to limitations on the way JTPA funds may be used; for example, the legislation clearly prohibits capitalization of businesses and other income generating activities. But it was also a function of the kinds of organization chosen as grantees. Although all grantees were non-profit organizations with missions that encompassed economic development in some form, none was a "classic" CDC of the kind described in Chapter II.

Many CDCs are primarily <u>business development organizations</u>: they operate revolving loan funds or marketing programs, engage in commercial development, and provide help for expanding businesses in addition to doing entrepreneurial training. (For profiles of mainstream CDCs, see the supplementary case studies of Coastal Enterprises and the Community Development Corporation of Kansas City, in Appendix A.) In contrast, at the outset of the demonstration most of the grantees were primarily <u>training</u> organizations, with some experience in self-employment training but no access to capital and few linkages to other economic development activities. This is not meant as a criticism of either the selection process or the grantees, but it does help to explain many of the practical organizational, staffing and coordination problems encountered by the demonstrations. Those will be discussed later in the chapter.

TARGET POPULATIONS AND GOALS

The overall design of each project was shaped to some degree by its goals and specific target populations. There were substantial differences in the types of dislocated workers recruited by the various demonstrations, and many of these differences can be traced to the grantees' traditional missions as well as characteristics of the eligible population. As established substate EDWAA grantees or administrative entities, MAN-TRA-CON and MEGA designed broadly-based programs suitable for the skill levels and experience of their general Title III populations. The primary goal for self-employment was to achieve self-sufficiency for participants, but some of these businesses were expected to generate additional jobs during the grant period. As substate grantees, they took care to ensure that "fallback" re-employment training was readily available for those who found business not a viable option. MEGA operated a re-employment track within the demonstration, and both grantees facilitated referrals to and from their mainstream Title III programs.

CPS, a new organization at the start of the demonstration, viewed its self-employment and business expansion activities as a catalyst for a wider restructuring of the Long Island economy. Its main target population—engineers and managers displaced from high-technology defense firms—was relatively well-educated, and many had advanced technical skills. Thus the expectation was that many participants would band together in work teams to found companies with high growth potential, and joint ventures could be developed with existing firms. CPS later broadened its targeting policy to place less emphasis on defense workers and technology-oriented businesses.

In contrast, FCM and HACER both recognized from the outset that they would be working with hard-to-serve dislocated worker populations in extremely depressed local economies. Both had done extensive earlier work with low-income populations, with HACER focusing primarily on women. Accordingly their service models included both self-employment and re-employment tracks, and emphasized self-esteem building and goal setting, along with attention to basic skills deficits. Their goals for self-employment were also relatively modest, geared toward microbusinesses that would require little or no capital, but would generate an income for participants and their families. Secondary job generation was not a major goal.

GRASP had previous experience in providing technical assistance for existing small businesses. Its goal for the demonstration was to create microbusinesses which would employ an average of three jobs, a majority of which would be filled by participants and family members. Like HACER and FCM, GRASP served a relatively large percentage of minority participants. Through its screening process, however, it tended to select individuals from white-collar backgrounds and those with higher levels of education. Although it did include substantial training on personal motivation, the GRASP model was not designed to deal with basic skills deficiencies or provide re-employment training.

SERVICE MODELS

A GENERAL MODEL OF SELF-EMPLOYMENT TRAINING FOR DISLOCATED WORKERS

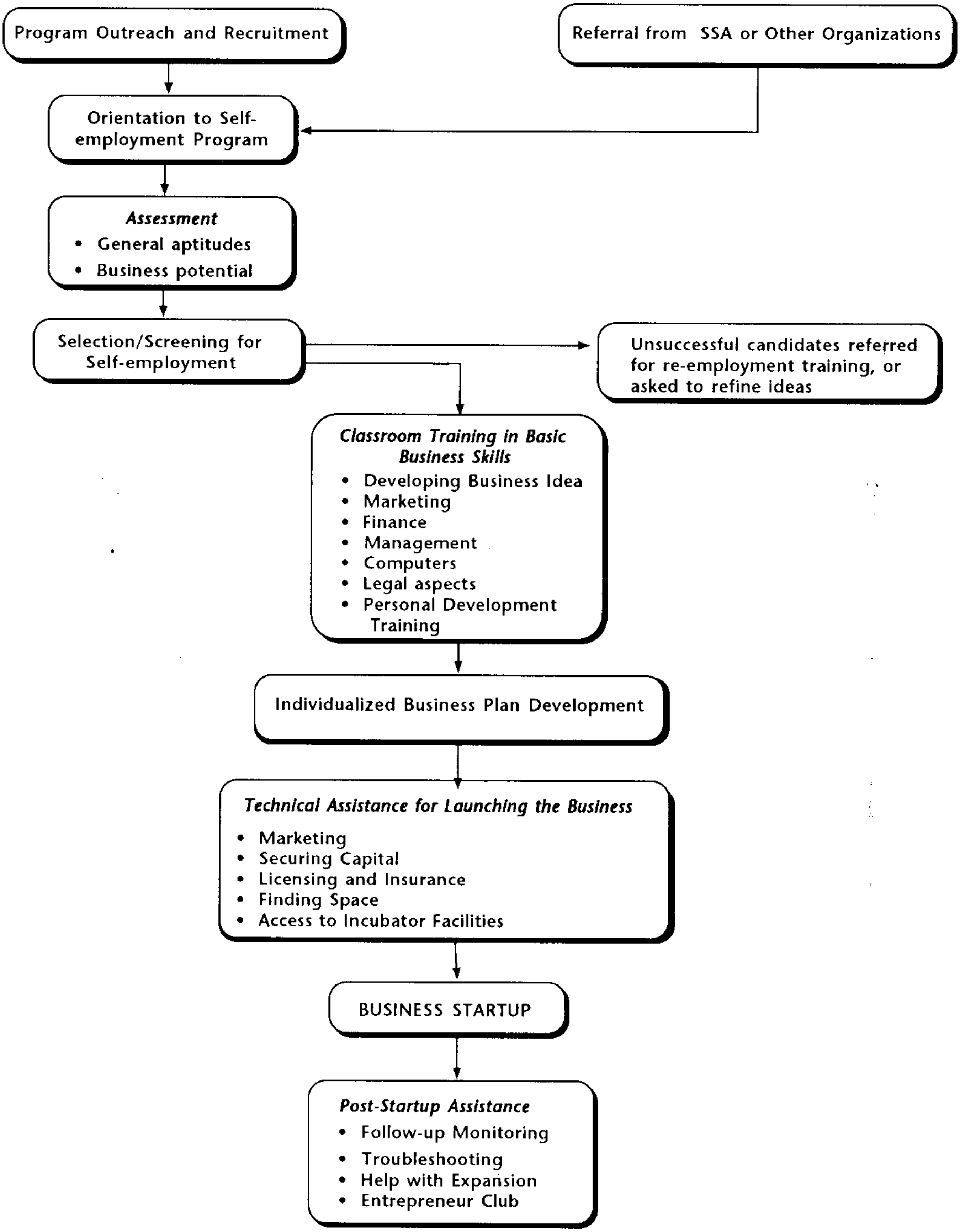
Figure IV-1 presents a generalized model of a self-employment training process often used for dislocated workers. Although it does not capture the experience of any one grantee with precision, all the demonstrations' self-employment programs were variations on this model. We offer it as an overall guide to the service process discussed below, but would note that this is only one approach among several that are currently used in the microenterprise field. Other approaches—such as individual business counseling in combination with lending activities but without classroom training—are discussed briefly in Chapter II.

Like standard EDWAA services, self-employment training in this model begins with ***recruitment, orientation, and general assessment.*** Participants are recruited through advertisements through the media and referrals from UI, Social Services, and community colleges. If there are close ties to the EDWAA substate grantee, the program may be discussed in Rapid Response orientations or as part of the SSA's general intake process. After eligibility determination, applicants are asked to attend a specialized orientation meeting to hear about the self-employment program, the advantages and risks of being in business, and criteria for selection. Assessment and selection sometimes take place at orientation, or separate meetings may be arranged.

Assessment usually has two components: a general assessment of the candidate's basic skills and interests, and a specific assessment of suitability for self-employment. The latter can include standardized test of personality traits, but it almost always involves a set of written questions and a personal interview with program staff. The questionnaire and the interview cover such areas as the candidate's motivation ("Is self-employment your first priority?"), previous work and self-employment experience, specific business ideas, and financial resources. Program staff evaluate test and interview results and make decisions about who will be admitted.

Figure IV-1

Generalized Service Model of Self-employment Training for Dislocated Workers



Unsuccessful candidates may be referred to EDWAA or to the program's own re-employment track for retraining, or may be invited to try again after developing the business idea further.

The second phase of the process involves ***classroom training in business skills and personal development training.*** The classroom training portion includes lectures, class exercises and homework assignments on the basics of refining one's business idea, marketing, finance, management, and legal aspects such as taxes and licensing. The length and intensity of class sessions vary; they might involve 40 contact hours over a six week period, or more than 200 hours over six months. In many programs instructors, business counselors or mentors are available for individual help. Enrollment most often takes place at the start of class training.

Complementing this instruction on the technical side of business is a component dealing with personal issues of motivation, self-esteem, time and personal budget management, goal-setting and similar topics. Many dislocated workers need help to work through the anger and shock arising from losing their jobs, and since business requires a great deal of autonomy and self-motivation, most programs consider personal development to be important for success. Such training takes many forms; it can occur in workshops before or concurrent with classroom business training, and in the context of classroom work, Entrepreneur Club, meetings with counselors, or contacts with other participants.

Business plan development is the next major phase. In this stage, the entrepreneur begins to apply business knowledge to create a fairly detailed blueprint for his or her own venture. The plan generally includes a description of the product or service, a marketing plan, projections for cash flow and capital needs, equipment, space, and other practical matters. The ostensible reason for developing a business plan is to support an application for a bank loan. But it is also a useful learning exercise in itself, as it forces the entrepreneur to confront potential problems and re-think the design of the business to make it more feasible.

The business plan is a serious and often difficult creative exercise, and many participants falter at this point in their training. To complete it successfully usually requires one on one help from an instructor or mentor, and many hours of individual research to acquire information about potential markets, prices, suppliers, and the like. In the sequencing of services, business plan development may be integrated into the classroom curriculum—for example, on completing each major topic area students can be asked to draft the corresponding parts of their business plans—or there may be a period of several weeks set aside for it after classroom training is completed. Many programs do both.

Technical assistance and support for the Launch Phase. The period after completing the business plan, and before the business becomes fully operational, is often referred to as the "launch phase." This too is a critical point in the training process, as the entrepreneur must take concrete steps and make financial commitments for the business to become a reality. Program staff can provide invaluable help at this point, in the form of loan packaging assistance, marketing advice, contacts with commercial real estate brokers or bank officers, obtaining necessary licenses, and fine-tuning the business plan. The mode of training also changes in fundamental ways, becoming less abstract and more oriented toward practical action. Depending on the participant and the program's support capacity, contacts between the entrepreneur and trainers may be frequent or sporadic. The timing of events now depends largely on the entrepreneur, not the program.

Lastly, there is the ***post-startup period.*** This stage has no clear boundaries, and often overlaps with the launch phase and even with refinement of the business plan. If provided for by the program, graduates who are now operating their own businesses can turn to former instructors or mentors for advice on expansion and additional capital, hiring employees, or troubleshooting the broad range of problems endemic to new firms. Using phone calls, newsletters or evening seminars on taxes and other advanced topics, programs may also take the initiative to keep in touch. They may conduct informal longer-term follow-up on the business's progress, or bring graduates in as role models for a new cohort of trainees.

RECRUITMENT, ASSESSMENT, AND SCREENING ISSUES IN THE DEMONSTRATIONS

RECRUITMENT

The demonstrations followed two basic approaches in recruitment. As established substate entities, MAN-TRA-CON and MEGA relied on existing recruitment channels used by the SSA for the general Title III population. The new self-employment option was advertised at Rapid Response orientations and in the general EDWAA orientations conducted at intake. There were also efforts to educate staff in local community colleges or UI offices about the program, as they could refer workers considering self-employment who might not respond to regular EDWAA recruitment. MAN-TRA-CON also produced a very effective 20 minute video presentation on the BEST program, for use in recruitment and orientation sessions.

The other demonstrations did not initially have close ties to mainstream EDWAA programs, and recruited largely through independent channels. Newspaper advertisements and public service announcements were the most widely used and successful tactic, and could be tailored if needed to specific target populations. HACER, for example, advertised in Spanish-language newspapers and radio stations. GRASP recruited for the EDWAA demonstration and a DHHS sponsored program for low-income entrepreneurs simultaneously, and sorted applicants according to their eligibility. In addition, most of these grantees tried to set up referral paths from UI, AFDC, and the EDWAA program(s) in their service areas. CPS and FCM also made presentations to libraries, Chambers of Commerce and other groups, partly as a recruitment technique and partly to make their organizations better known. However, direct referrals from UI, EDWAA and other organizations produced only a trickle of referrals for the non-EDWAA grantees except for GRASP. Word-of-mouth advertising later became an important source of referrals for at least two grantees.

Recruitment was a significant problem only for the two rural grantees, MAN-TRA-CON and FCM. FCM's recruitment arrangements were highly decentralized among the seven counties of its service area, and in some areas the supply of willing and eligible entrepreneurs had already been depleted by earlier programs such as SEID. Word of mouth advertising worked against this project as well as for it, as applicants who had been rejected on eligibility grounds told others that they had been turned away. MAN-TRA-CON's recruitment efforts were centralized and well-designed, but fell short of expectations in both phases of the demonstration. One problem noted was a seasonality of applications, related to the timing of semesters at community colleges. A large influx of applications occurred at the very end of the grant, as JTPA counselors at the colleges referred clients who had just completed occupational training and wanted to open a business. More generally, MAN-TRA-CON found that it took time for the program to become fully understood and trusted by "front line" staff in UI, community colleges and other recruitment points.

Lastly, mode of recruitment did have implications for the types of applicants targeted. Recruitment through Rapid Response and UI tended to attract more recently dislocated workers; general media announcements and referrals from Social Services produced higher proportions of the long term unemployed. Although both groups are eligible, they present somewhat different challenges: recently dislocated workers are more likely to have access to financial support from UI, but are also more likely to be working through the anger and career uncertainty arising from dislocation. The long term unemployed have fewer sources of support, and the selection process must guard against those considering business as a last resort; but a subset of this group have used their time profitably to define goals and develop plans for a specific business.

ELIGIBILITY DETERMINATION

Eligibility determination procedures can be complex for CDCs and other organizations with no prior EDWAA experience, and they did pose some early problems. Initially, two grantees were lax in requiring documentation from applicants, and a third nearly enrolled several ineligible applicants because of inadequate training or monitoring of its various intake workers. All grantees soon became reasonably well informed about the principles of EDWAA eligibility, but problems were encountered in trying to translate that knowledge into specific procedures. For example, there was uncertainty in some projects about applicants who had not been employed for five years or longer, seasonal workers, and those who had left their previous jobs voluntarily. Grantees with eligibility problems were generally unaware of it until pointed out by the DOL Project Officer or others. They usually resolved the problem by adopting their home state's definitions and procedures. No problems were encountered in the two programs run by experienced EDWAA entities.

ASSESSMENT AND SCREENING

All demonstrations except CPS tested applicants for basic literacy and mathematical skills; some form of the TABE was the most commonly used instrument. For HACER's population basic skills tests were in Spanish, but applicants also took an oral test of English proficiency for ESL placement. During the first phase of the demonstration MEGA employed standardized tests of basic skills, career aptitudes and preferences, and the Michigan Occupational Information System for vocational exploration. The logic behind this extensive battery was that participants could make better informed self-employment or career choices after exploring their interests and abilities. However, program staff felt that the information was not contributing much to service planning decisions, and this component was later dropped.

Arrangements for screening self-employment candidates changed considerably over the course of the demonstration. With the exception of MAN-TRA-CON, which remained relatively consistent in its screening procedures, all demonstrations felt that they had not been selective enough in choosing early cohorts of entrepreneurs. Self-employment is not for everyone; early "open arms" policies led to excessive numbers of dropouts and stalled business plans, as participants with unrealistic expectations or low commitment found employee jobs, and others failed to focus on workable business ideas. As a result, three grantees which had had no formal screening procedures introduced them, and two others became more selective. While still differing in their details, the selection processes used by the grantees tended to converge over time. All or some of them included the following four elements:

A written assessment of business-specific abilities and interest. By the end of the demonstration, all programs except HACER were administering some form of self-evaluation covering such areas as commitment to self-employment as opposed to wage or salary work; personal resources available for support during training and for financing the business; commitment from spouse and family; previous business experience and work skills; and an outline of the candidate's business idea with specific questions on expected markets, financing, etc. to determine its feasibility.

Self-assessments were used in two ways. One function was to encourage self-selection out of the entrepreneur track for those who did not feel sufficiently committed or prepared. (Several grantees designed the questions to be somewhat hard-headed and daunting for just that purpose.) In addition, answers allowed staff to make a rough assessment of the business idea and the level of prior preparation, and would form the basis for a personal interview.

An interview with experienced program staff. Candidates were then asked to do an open-ended interview with an intake panel or individual program staff. In general these interviews covered the same topics as the written self-assessment, but allowed staff to probe more deeply or expand on the risks and demands of being in business. They also provided an opportunity to better assess communications skills and business acumen. To be effective, however, such interviews do require staff who are experienced in business and aware of the qualities needed in a successful entrepreneur. As at least two grantees found, experience in mainstream employment training does not qualify staff to make informed judgments about business potential.

Demonstrating commitment and reliability by attending personal development training. At least three of the demonstrations also used attendance in pre-business workshops as a further screen for personal commitment to the program. Applicants to FCM's entrepreneur training were admitted only after completing three weeks of Exploring Economic Self-Sufficiency (EESS) training; CPS in its second year introduced a three week introductory class, which combined personal goal setting with steps to refine the business idea. MAN-TRA-CON required candidates to attend the SSA's job search workshop. All of these workshops had substantive content, and none was primarily designed as a screening mechanism. They did work that way, however, by demanding a minimal level of commitment and organization on the applicant's part.

Psychological testing. GRASP and CPS introduced formal psychological testing as part of the selection process, although in both cases the amount of testing was later scaled back.

After reviewing the literature, GRASP staff identified a series of traits—for example, hard working, likes change, risk taker, autonomous, not impulsive—that are characteristic of successful entrepreneurs. These were measured through the Personality Research Form test, type E, developed by Sigma Assessment Systems. GRASP staff reviewed profiles for each candidate, and used them in combination with business self-assessment to make screening decisions. Early in the demonstration shortlisted candidates were also interviewed by a professional psychologist, but this step did not contribute enough additional information to be worth its cost. CPS and GRASP also administered the Myers-Briggs Type Indicator, not so much as a screening device, but as an aid to the candidate's self-understanding. (CPS later dropped the test.) As a final step, GRASP asked for personal references to permit reference checks as needed.

The exact criteria used for selection varied from program to program; for example, not all projects required a well-developed business idea as a prerequisite for enrollment. However, all demonstrations reported that dropout rates declined and the quality of candidates improved after additional screening steps were implemented.

Classroom Training and Business Plan Development

It is important to keep in mind that self-employment training differs from other forms of job training in fundamental ways. Training for re-employment seeks to give individuals the skills they need to find appropriate jobs in the economy and function well in them. A good curriculum always takes into account individual differences in prior skills and learning abilities, but the knowledge imparted can be fairly standardized for a given occupation. Further job-specific training normally takes place after termination, as the new employee grows into the job.

Training for entrepreneurship must also provide a good general foundation of business skills, but that is only the first step in the process. The ultimate goal is to bring into being a new and viable organization, a business entity. To do that, the participant's skills must be combined with inputs such as capital, land, equipment, and other people's labor. It must operate within the law, and within the more difficult constraints of the marketplace. There are many ways to design a business that will succeed, but many more ways to fail. To develop this new entity requires a process of creative design that is unique for each person and each venture. Every step of the design requires a series of interdependent decisions and practical actions; for each decision there are several possible courses of action, and only general guidelines for making the best choice. As one instructor put it, "It's like we are putting together a whole neighborhood full of custom-built houses, from the blueprints on up. The raw materials are pretty much the same, but each board has to be sawed to size."

Training in Basic Business Skills

All grantees offered some form of classroom training for self-employment, but the courses differed considerably in their length and format, particularly during the demonstration's first year. GRASP's and CPS's classroom training components were originally 26 weeks in length, and in GRASP's case amounted to over 200 contact hours. The CPS course was later condensed to six weeks, and GRASP decided to compress its course to 13 weeks at the end of the demonstration. FCM's course was 6 weeks long, with 12 contact hours per week. MAN-TRA-CON's and MEGA's original classroom schedules were broadly similar, with two three-hour meetings per week for 12 to 13 weeks. One session covered business basics in a traditional classroom setting, while the other used a more varied and informal format to present special topics with videos, discussions and guest speakers. In both cases the second session later evolved from a weekly feature to a bi-weekly or monthly supplement. MEGA also experimented with a compressed 6 week, 78 hour class. HACER's family daycare provider class met twice weekly for two hours over ten weeks.

The curricula used for the classroom component were similar in their broad outlines, except for HACER. The typical curriculum covered:

- Business feasibility or refining the business idea;
- Marketing (e.g. developing a market strategy, advertising, site location);
- Finance (financial planning, budgeting, recordkeeping);
- Management (equipment, suppliers, employees); and
- Legal aspects (taxes, licenses, insurance, forms of ownership).

There were differences in emphasis, however. For example, the GRASP curriculum included a six week module on marketing, and FCM paid special attention to defining a workable business idea. Curricula were not oriented to any specific type of business, although they were designed for small- and microbusinesses and examples were mostly taken from the retail and service sectors. With the exception of HACER and CPS, the "customizing" of business knowledge to a particular industry was done through one on one counseling, or by class examples and discussions focusing on individual participants' business ideas.

HACER's self-employment track was centered on a single type of business—family daycare provider—and the class focused on the skills specific to that occupation, using a state-certified curriculum developed by Child Care, Incorporated. Although the class did address business-related questions of management, pricing and accounting, these issues are more straightforward for home daycare than for many other types of business. Accordingly, much more of the curriculum was oriented toward occupational training for the daycare provider job. Similar combinations of job skills and business training may be appropriate for a number of other service occupations with self-employment potential and limited business requirements, such as word processing.

Most of the demonstrations' classroom components were organized as a single course, or (as in the case of MAN-TRA-CON, GRASP and MEGA) a course offered alongside weekly sessions on special business topics or personal development. CPS took a more complex approach for its population of dislocated professionals, by designing a core course in business fundamentals supplemented by a wide variety of optional activities. These supplemental courses varied over the life of the project, and at times included ongoing support groups for entrepreneurs, a multi-week module on improving sales skills, short introductory seminars on biotechnology, environmental consulting and other new fields, and the formation of Industry Area Groups.

This last feature allowed participants with similar business interests to explore new technology areas together, and to meet with university researchers and company executives working in these fields. It was hoped that regular contact would help in refining business ideas and lead to co-ventures among participants or with existing companies. Reflecting back on the project, many CPS staff felt that the welter of training options may have done more harm than good. They were not especially successful in developing practical business ideas or co-ventures, and often distracted participants from the central task of putting a business together. Participants themselves favored a simple schedule with clear goals and deliverables.

While most demonstrations had fixed beginning and ending points for classroom training, MAN-TRA-CON designed its curriculum to permit open entry/ open exit on a monthly basis. This was done to minimize the amount of waiting time between dislocation and the start of training, allowing dislocated workers to make maximum use of their UI benefits to support the long process of business formation. To accomplish this the course was divided into four-week modules on marketing, finance and management, and curriculum materials were designed so that participants could enter at the start of any module. A short introductory workshop was offered every month. On the whole this approach worked quite well: participants never had to wait very long for the next class to begin, and MAN-TRA-CON recorded the shortest times by far between dislocation and start of training. However, it did require a continuous cycle of classes, resulting in small class sizes and some diseconomies of scale when recruitment was low. It also required special attention to the emotional problems of dislocation, as participants had less time to work through these issues beforehand.

Although the major topics addressed in business training did not vary much, the details of curriculum content and teaching methods were in a constant state of flux during most of the demonstration. After experimenting with teaching materials pieced together or adapted from other sources, MAN-TRA-CON and GRASP set about designing their own curricula from the ground up. FCM originally used locally designed materials put together for the SEID program, but shifted to a version of the American Institute of Small Business (AISB) curriculum. MEGA began with a community college curriculum relying heavily on SBA materials; later they also adopted the AISB materials, but were not satisfied with them. CPS participants did not follow a unified curriculum, and the core course and optional modules were redesigned several times. Grantees tried longer and shorter hours, morning and evening sessions, guest speakers or team teaching versus a single instructor, lecture formats versus class discussion and exercises.

GRANTEE RECOMMENDATIONS ABOUT CLASSROOM TRAINING

As a result of this experimentation, many of the grantees' ideas about appropriate classroom training tended to converge over the course of the demonstration. The consensus was never perfect, but there was broad agreement on the following points:

Length and intensity of training. Classroom training in business skills works best if it is relatively short. Dislocated workers are less likely to founder if they do not get caught up in training as such and move purposefully into the action phase. Classroom training times among the grantees converged on six to 13 weeks, and 40 to 150 contact hours. But grantees also found that there are limits on how far the duration of basic training can be condensed, regardless of the number of hours logged in the classroom. That is because entrepreneurs need time to make fundamental design decisions about their own businesses, and must do a great deal of "legwork"—market research, investigating products and suppliers, making financial projections—as an integral part of their business education. The need to move quickly toward action steps puts a premium on selecting applicants who have marketable skills and are prepared to focus on a particular business idea.

The need for an adult learning approach to classroom instruction was stressed in all the grantees' self-evaluations. Dislocated workers have a very wide range of backgrounds and basic skill levels, and for some the self-employment class will be the first structured learning they have encountered since leaving school. Participants can not be relied on to read lengthy materials or to "naturally" apply general principles to their own businesses. Thus it is essential to avoid academic styles of presentation. Grantees made a number of specific recommendations in this area:

- Emphasize active learning through guided discussions, exercises, and hands-on activities (such as working step by step through a financial statement). Short lectures are appropriate, but only if reinforced by other methods.

- Make frequent use of examples and case studies; encourage participants to provide examples from their own businesses to stimulate discussion, while highlighting the larger points being illustrated.

- Reinforce key points with audio-visual materials.

- Time spent in class need not be highly structured, but the curriculum itself should have a clear structure with attainable goals, assignments and milestones.

- Team teaching by two or even three instructors can work, but there must be continuity in curriculum and staff. Classes can not be taught effectively by a series of guest lecturers.

- Do not expect participants to take notes. All important material should be set forth concisely in a handbook or workbook format.

- All elements of the learning process should eventually focus down to the participant's own business. Business knowledge and theory that does not have a clear practical application should not be covered in class.

- If possible, provide performance incentives as participants pass critical milestones. (For example, GRASP provides a set of business cards and letterhead stationery when the participant completes an acceptable marketing plan.)

The need to supplement classroom instruction with individual business counseling. Participants need help in understanding complex business concepts and in applying what they have learned to plan their own ventures. Self-employment programs must provide opportunities to talk over class material and assignments on a one to one basis during the classroom instruction phase as well as afterward. That help must come from someone knowledgeable and experienced in business, not from a general-purpose case manager. This aspect of training is discussed further below in the section on Technical Assistance for Startup.

The importance of emotional and group support. Dislocated workers need time and help in making the emotional transition from worker to employer/ business person. The personal development side of entrepreneurship involves three overlapping goals: first, programs must help to resolve personal issues arising from the dislocation experience to build commitment and self-esteem. If this does not happen, many participants will not make it through the difficult creative process of founding a business. Secondly, participants must learn to think and act like entrepreneurs. Among other things this means coping with high levels of uncertainty and risk, becoming self-motivated and "on target," and cultivating organized work habits. Lastly, students learn better where there is a sense of cohesiveness and teamwork; they help each other with assignments, exchange ideas, and learn from others' mistakes. From a pedagogical standpoint, working in groups also helps participants see beyond their individual businesses to understand how the general principles of marketing, finance etc. apply in a variety of situations. This in turn helps them apply principles to their own plans.

All grantees agreed on the need for such support and tried a number of different ways to provide it, although not all approaches were equally successful. FCM, CPS and MAN-TRA-CON dealt with dislocation issues and self-esteem building in their up-front workshops. MAN-TRA-CON's BEST Club, MEGA's bi-monthly support group, and CPS's Success Group and Entrepreneur's Circle combined personal development and business topics in a more informal setting. However, MAN-TRA-CON and MEGA both reported that these activities became less well-attended over time and did not function as expected. One possible explanation is that as settings for networking and support those formats were somewhat artificial, as they were divorced from both the nitty-gritty of classroom work and from work on the individual's own business.

In addition, some degree of personal development and support was provided informally by all grantees in the classroom setting (by encouraging participant mutual support) and in individual business counseling.

GRASP's "Lifestyles" component was the demonstration's most systematic attempt to foster personal development, involving a mandatory 1.5 hour session each week. It covered goal setting, time management, communications skills, personal budgeting and other topics, and was supplemented by a series of Success Motivation tapes. In future projects GRASP plans to integrate this material into the business curriculum itself, and will introduce the notion of personal action plans with target dates for completing major tasks.

Diversity of Participants. This was an issue for several grantees. In addition to the challenge of participant differences in learning styles, basic skills and previous experience—problems also faced in re-employment training—self-employment programs must also confront differences in the types of businesses participants plan to start. For example, a marketing class focused on strategies, concerns and examples relevant to retail firms may be irrelevant or even misleading for participants planning to open consulting or manufacturing businesses. Topics appropriate for larger small businesses (e.g. venture capital, dealing with employees) may be considered a waste of time for those interested in one-person operations.

In general, the grantees addressed this problem through individual business counseling, written curriculum materials drawing examples from a variety of businesses, special seminars, and in some cases separate work groups for broad industry areas. Several grantees noted that some degree of diversity among participants was a positive asset if handled correctly: for example, students learned to communicate their business ideas to people from outside the industry, a valuable skill in dealing with loan officers and others. Even so, it remained a constant source of tension.

Although several projects dealt with participants from a broad range of skill levels, GRASP's was the only program to experiment with an explicit mix of dislocated workers and low-income participants; this occurred in classes that combined demonstration participants with those funded from DHHS. The combined classes were too slow for the dislocated workers and too fast for the DHHS population, which also needed more attention to personal development and more support structure. In the future GRASP will separate these two groups.

Ethnicity and Gender Issues. Several grantees noted the need for greater attention to the cultural backgrounds and gender barriers faced by participants going into business. HACER's and FCM's guiding philosophies explicitly recognized that participants must be viewed as members of families and communities. Accordingly, HACER took care to make all aspects of the program accessible in Spanish and adapted to Latino culture. FCM and GRASP incorporated the motivational text Think and Grow Rich: A Black Choice into their curricula to help participants confront the "victim syndrome" and break through to practical solutions. GRASP recognized the need for successful black role models in recruiting instructors and mentors, and plans an optional seminar on business from a minority entrepreneur's standpoint.

MAN-TRA-CON noted the need for self-employment programs to address gender barriers stemming not only from external prejudice but from women's own work histories, upbringing and self-image, particularly in conservative rural areas. For example, women are less likely to have management backgrounds, and may be more risk-averse and less assertive in their working styles; they are more likely to face competing demands from work and family. Programs need to take these factors into account in designing training and business counseling in such areas as networking, marketing, management, and obtaining capital.

Computer literacy. Personal computers are now widely used in microbusinesses, and are important tools for developing business plans as well as day to day operations. Several grantees concluded that it is important to offer computer skills training as an option, especially if participants have not yet been exposed to computers. During training participants have a unique opportunity to master this new technology in a non-threatening environment.

MAN-TRA-CON, GRASP and CPS all encouraged computer training for those who wanted it. Computer facilities were made available to participants with software for word processing, accounting and financial projections, and generating business plans. MAN-TRA-CON also ran a special program in which participants were given the equivalent of an IBM 286 computer and printer (bought with non-demonstration funds) after completing an intensive course in word processing and spreadsheet programs.

Integrating the business plan into the classroom curriculum. Four grantees originally designed business plan development as a separate step after the end of classroom training. By the close of the demonstration, all recommended that it be addressed earlier in the process by linking each section of the classroom curriculum to appropriate parts of the business plan. This is discussed further in the next section.

Business Plan Development

The business plan plays an important part in making the transition from general business training to concrete startup activities. By requiring a concise description and documentation for all essential elements of the proposed business, it forces the entrepreneur to confront issues of feasibility, underlying assumptions about markets, and profitability; all aspects of the venture must work together in a coherent way. Traditionally, business plans have been required by banks in order to assess the feasibility of making a loan. Over the past ten years, however, they have become a common feature of microbusiness training programs if only for their value as teaching, planning and diagnostic tools.

All the demonstrations' service models included a business planning step in some form.[2] The most common format was to allow two to three weeks at the end of classroom training, during which instructors or business mentors would work with participants to put draft plans together. In most cases participants had done some prior research on their business ideas by this point, and had worked through some preliminary financial projections, but had not given much thought to the plan as a whole. In some demonstrations the classroom curriculum did not even cover the basic form and purposes of the business plan until the very end.

Without exception, all grantees that tried such arrangements considered them a major mistake. To produce a good business plan requires a very clear business idea, a great deal of background research, good communications skills, and some fairly complicated financial projections. Even when all these elements are in place, the plan still needs to go through a series of revisions and refinements—some of them quite major—to make all the pieces fit. This is as true for experienced business people as it is for beginners. Two to three weeks was not sufficient time for participants' plans to jell, and the task of consulting on a dozen or more plans simultaneously placed an extraordinary burden on staff. Students did not get the intensity of help they needed.

[2]The HACER project was a special case with regard to business plans. Due to the simpler requirements of the family daycare field, no formal business plans were really necessary. Instead, HACER participants did physical planning to ensure that their homes met requirements for space and equipment, and developed budgets to determine whether the business would be financially viable. More energy was put into helping candidates get through the lengthy state/local certification process.

Although the demonstrations eventually produced some very professional business plans, many plans were delayed, put off indefinitely, or produced to a low standard "to get them done." This in turn made it harder to find loan capital (or to justify support grants made from demonstration funds), delayed many startups, and probably prevented some. Three grantees found they had to relax their standards, and allowed participants to proceed without formal plans if no outside capital was required.

The one exception to the pattern was MAN-TRA-CON, which took steps early in the grant to design its entire classroom curriculum around requirements of the business plan. An overview of the business plan was presented in the class's introductory module, and the participant self-study guides for each topic area required students to research and describe precisely the kinds of information about their own business—e.g., seasonality, pricing, distribution, target markets—that would later go into the corresponding section of the business plan. MAN-TRA-CON staff developed computer software to assist in putting finished plans together, and participants were supposed to meet with business counselors each week to discuss progress and troubleshoot problems. In effect, participants produced the initial drafts of their business plan week by week.

But even with this level of attention and program preparation, getting students to complete their business plans was no easy task. Some participants did not start writing their business plans until halfway through the class, as their business ideas became more focused. Others needed to make major revisions to the plan as one or more elements changed. Counseling sessions sometimes centered on personal problems rather than the business topic at hand. Even so, participants were thoroughly familiar with the business planning process and most were nearing completion by the time classroom work ended.

Other Business Support

Relatively intensive ongoing support from business counselors is one of the features that distinguished the EDWAA demonstrations' service models from community college business classes, and from Small Business Development Center assistance directed to more knowledgeable clients or existing firms. In this section we discuss three forms of support:

technical assistance provided before and after startup, access to sources of capital, and incubators or other facilities.

TECHNICAL ASSISTANCE FOR STARTUP

All grantees provided individual help during the startup phase, but the intensity and quality of that help differed considerably. Providers of technical assistance were called by different names—business counselor, mentor, business planner—but all were meant to perform similar roles in helping participants take the practical steps needed to get their businesses started. (These functions are discussed in more detail in the General Service Model section above.) Individual help is especially important in meeting the industry-specific needs of each business, and in difficult areas such as accounting and finance, which are generally covered too quickly to be mastered in classroom training. In all the projects some degree of technical assistance was available both before and after startup, although contacts usually became much less frequent after startup.

GRASP and MAN-TRA-CON had the most structured systems for providing technical assistance. For business plan and startup mentoring, GRASP used a pool of three to four staff mentors (some borrowed part-time from the organization's Management Assistance Program for existing businesses), supplemented by a pool of contracted specialists in such areas as accounting, marketing and law. Mentors spent an average of six to ten hours per month with each client. MAN-TRA-CON used two to three MBA-qualified business counselors, who doubled as classroom instructors. Counselors contacted participants at least once a month, but meetings could be more frequent depending on need. Both programs had systems for recording next steps to be taken by the client and for tracking progress against a longer-term action plan.

At CPS, businesses planners assigned to each participant were expected to provide ongoing support for business plan development and startup. Contacts averaged about one hour per week, but—as in all the projects—varied considerably according to the participant's immediate needs. During the first grant year CPS's Industry Area groups provided an opportunity for peer mentoring, but the groups were later dropped out of concern that they distracted participants from focusing on their own businesses.

FCM's efforts to provide technical assistance were hampered by its decentralized structure, spread over seven counties. Limited one-on-one help from business instructors and consultants was supplemented by small group formats and the Family Self-Sufficiency Worker at each site. The FSSWs provided abundant encouragement and some practical help, but had limited business experience. Participants seeking outside loans tended to get more intensive help.

Technical assistance at MEGA also did not work out as expected. At various times participants did get individual help from class instructors, the Project Coordinator, SBDC staff (who are also under the MEGA umbrella) and SCORE volunteers. Some counseling was of high quality, but a consistent system for providing assistance was never worked out. The project itself did not have enough qualified business staff to meet participants' needs, and the "borrowed" SBDC counselors and SCORE volunteers (already overburdened) were not reliable. The shortage of individual help became a bottleneck that delayed business plans and startups. HACER staff were not experienced business people, but did work extensively with family daycare entrepreneurs to help them through the difficult certification process. For those who did manage to become certified, HACER staff conducted home visits to check on the quality of facilities and care.

Three grantees used newsletters, seminars or entrepreneur support groups to reach out to program graduates and promote longer-term contact. These efforts were only partly successful, as graduates became very busy once their businesses began operating. A possible exception was FCM's ACCESS groups, which organized former participants to provide mutual support. As the demonstration ended, two groups were applying for non-profit status as permanent organizations, and were trying to develop revolving loan funds for members. Such self-help groups hold particular promise for rural areas poorly served by formal business assistance programs.

Grantees offered several recommendations on the characteristics of a good mentor or business counselor arrangement:

- It is important to have personalized, recurring contact over a long period. Specialists can be brought in for specialized problems, but participants need some consistency over time to build up trust and a base of shared knowledge. For this reason, volunteer mentors are less desirable than in-house staff or contracted business counselors, unless they can be relied upon to stay with the participant.

- Technical assistance should be available on an as-needed basis for as long as practically possible after startup.

- Mentors need to have practical business knowledge and experience with very small enterprises. General purpose case managers, like those normally employed by SSAs, may be able to help with personal problems, but should not be expected to provide business advice.

- It is helpful to have mentors with experience in the specific industries or types of businesses participants plan to pursue. However, for entrepreneurship programs designed for a broad range of business ideas this usually requires volunteer mentors and is very difficult to organize successfully.

- Mentors function best when they act as sounding boards, helping participants to solve their own problems. It is a mistake to have the mentor perform too many direct services for the client. The business must be developed to suit the participant, not the mentor.

- A good mentor relationship helps to improve accountability. Participants are more likely to complete assignments if prompted by the mentor. They are also more motivated to keep in touch with the mentor than with the program as a whole, making it easier to track progress and collect follow-up information.

- However, programs should not expect all participants to take the initiative in asking their mentors for help; advertising the mentor's availability is not enough. Participants need to be prompted and instructed in how to take best advantage of intensive one-on-one technical assistance, as few will have had any prior experience with it.

MICROLOANS AND FINANCIAL SUPPORT

Lack of access to startup capital was a significant problem in all the demonstrations, and without exception the grantees stressed the need for federal action in this area. As one grantee put it, "The loan piece is so important. We need a way to jump-start clients. If no loans are available, we are forced to select participants who do not need as much money up front. We have prepared people well to succeed in their ventures, but without startup money they are all dressed up but with nowhere to go."

Although EDWAA participants as a group have better credit histories than other JTPA populations, few are able to qualify for commercial bank loans. During most of the demonstration this problem was made worse by the poor economic climate, especially in areas where dislocation was severe. Participants were also at a disadvantage due to their lack of prior business experience, and by the need for micro-loans in the $2000 to $10,000 range. Most banks do not find it profitable to service such small loans, even if their risks are low. As discussed in Chapter II, the lack of capital has been a chronic problem in the microenterprise field, and was by no means unique to the demonstration projects.

The demonstrations were not very successful in linking up with revolving loan funds and other sources of capital, although they made concerted efforts to do so. The grantees made presentations to local banks, investigated state small business loan programs, made proposals to private foundations, and in two cases applied to become lenders for the SBA Microloan program. There were some successes: MEGA secured a commitment from an area bank to fund a number of small loans, although only a few loan applications were submitted, HACER obtained a $5000 grant to start a loan fund, and FCM had two participants funded from the Delta Foundation's revolving fund. GRASP eventually succeeded in becoming an SBA microloan intermediary capitalized at $750,000, but this breakthrough came only in the final month of the demonstration. FCM also became a microloan intermediary, capitalized at $300,000, after the demonstration ended. Although all grantees except HACER were able to assist a few participants to obtain loans from local banks, these successful borrowers made up a small proportion of all participants starting businesses.

For the grantees, one of the more frustrating aspects of looking for money resulted from the highly fragmented set of arrangements that currently exists to provide capital outside the commercial banking system. There are many small streams of funding, each with its own eligibility and performance requirements. These requirements often made capital inaccessible for dislocated workers, even for sound business ventures. For example, MAN-TRA-CON was unable to use its Community Action Agency revolving loans for participants because they required one employee job to be created immediately for every $5000 lent. GRASP operated a small revolving loan fund, but most of this capital was provided by program sources that allowed only their own clients to be served. GRASP's DHHS-funded Project Independence participants could get loans, but EDWAA demonstration participants generally could not.

Having exhausted the alternatives, five of the six grantees eventually obtained DOL approval to provide supportive services payments that served some of the same functions as working capital grants. (GRASP did not apply.) These payments, which were usually for $2000 or less, were distributed to participants who had completed the business planning stage and submitted formal applications. In most of the demonstrations applications were reviewed by a screening committee composed of staff and (sometimes) outside members such as bank loan officers. In all cases they were used for specific startup-related expenses such as tools, permits and licenses, business stationery and similar items. HACER did not provide cash payments, but used part of its supportive services budget to purchase required equipment for family daycare operations, such as cots and fire extinguishers. Further detail on the number of participants receiving support payments is provided in the project profiles in Chapter III.

It is important to note that none of the grantees preferred to provide capital through supportive service payments. Although $1000 to $2000 may be sufficient for a narrow range of low-capital service businesses, it is no substitute for the larger microloans handled by revolving loan funds or commercial banks. More fundamentally, the support service payments had to be grants, not loans; money spent in this way could not be recycled back to help future participants, and it did not help to establish participants' credit histories. The whole idea of grants (as opposed to loans or equity financing) ran contrary to the philosophy of self-help that the programs tried to instill. Several grantees did approach DOL to see if demonstration funds could be used to capitalize revolving loan funds, but requests could not be granted as this was clearly prohibited in the JTPA legislation.

Another problem with supportive services grants was that some participants were apt to focus too narrowly on "the money," even to the point of considering it an entitlement. In at least two projects, some cohorts of participants were under the impression that they would automatically be given startup money once they completed training. Regardless of how that impression was created, it caused a great deal of frustration and disappointment when the "promised" funds did not materialize. Perhaps to avoid such disasters, two other grantees tried to delay telling participants about the grants for as long as possible. That strategy also worked poorly, as some participants floundered around for months looking for capital, and word about the grants eventually leaked out anyway.

Still, the grantees were grateful for the opportunity to offer supportive service payments, even as a second-best alternative. None of the projects encouraged participants to take on debt if it could be avoided, but several grantees noted that there was more demand for capital than they had expected. Even small injections of capital proved effective in moving participants out of the talking phase and into business. Four of the self-evaluations specifically noted that a number of their startups would never have occurred had support grants not been available.

INCUBATORS AND OTHER FACILITIES

Some form of incubator facility can be a valuable addition to a self-employment program. It is important for many fledgling ventures to operate in a business environment; unemployed participants often have trouble transacting business at home, due to lack of equipment or space, household distractions, and an inability to see clients at home. Providing "a place to go to work" also proves a great morale booster. If properly run, incubators allow facilities and support services to be shared, and thus provided at lower cost. Lastly, an incubator allows program staff to observe participants as they do business. Work habits, time spent on the business, and appearance can better monitored and corrected.

Although four of the original grantee proposals highlighted ties with incubators, the effects of these linkages on demonstration services were indirect at best. MAN-TRA-CON, MEGA and GRASP all had access to incubator facilities through other wings of the grantee organization or through a subcontractor. In MAN-TRA-CON's and MEGA's case, facilities were used for classroom training or other meetings, and provided common-use computers. GRASP's incubator offered a library and resource center available to participants, and some of the incubator tenants either provided services to the demonstration businesses or became markets for EDWAA client businesses. However, in each case the incubator's main function was to serve businesses which, although small, were relatively well-established. Only two participants from these projects actually became incubator tenants during the demonstration. In short, incubators did not fulfill the roles they are usually expected to play in self-employment programs.

CPS did have a small incubator facility with space for four developing businesses. Office facilities as well as some secretarial and advertising services were provided along with space. Although admittance was restricted to the most promising and complete business ventures, this was a true "entry-level" incubator. Unfortunately, space was too limited to make much difference for the dozens of CPS participants, although others were allowed some use of the program's telephones and photocopiers. In its self-evaluation, CPS also noted that there was a great but unmet need for more specialized equipment and facilities geared to the technology-based businesses that many participants wanted to start.

Consistent with its grassroots self-help philosophy, FCM helped to organize two "incubators" run by participants themselves. For example, in one county four participants with similar ventures (two clothing retailers and two customized clothing shops) pooled their supportive services grants to set up in a four-room commercial space in a strip mall, sharing phone and utilities. Being located together made it easy to share ideas, and program staff were able to visit regularly to provide technical help.

TRAINING FOR RE-EMPLOYMENT

In addition to their self-employment activities, four of the six grantees initially provided some form of training oriented to re-employment in existing businesses. The GRASP and MAN-TRA-CON demonstrations were designed for entrepreneurial training only. Apart from MEGA's, these components were not very successful in producing positive outcomes, and most were later abandoned.

During the first grant period, FCM offered job search training along with referrals for remedial and occupational skills training to participants not interested in self-employment. Job search skills were covered as part of the up-front Exploring Economic Self-Sufficiency workshops, and several participants were sent out on job leads developed by FCM staff. Participants with basic skills deficiencies—including some enrolled in microbusiness training—were referred for GED training at Adult Education programs, and a few others were referred for academic coursework in Associate's or Bachelor's degree courses. There were also attempts to refer a number of participants for nurse's aid training at a community college, but in the end the course was never offered. In this as in many other areas of operation, the effort was frustrated by the region's thinly-spread facilities for training. Although FCM staff helped in finding Pell grants and other sources of support, there was no attempt to develop individual referrals or skills training classes using demonstration funds. Re-employment was dropped in the grant's second year.

HACER's original model for the re-employment track called for a seven week class in World of Work and job related English skills, to be followed with OJTs in an expanding local company. GED classes for math and reading were also provided in-house. However, the company did not get the new contracts expected, and could not hire additional workers. HACER redesigned the class to a 29 week course with more intensive ESL training and more emphasis on job search skills. A job developer was hired to provide individual help with job search and to develop alternate OJT contracts; no new contracts were signed, but several participants found jobs without OJT. During the grant Option Year, the program also proposed to start a cleaning business to employ a group of participants who had still not found jobs in the depressed local market. This proposal was rejected by DOL, and HACER elected to pursue other funding sources, but the business had not started up when the demonstration ended.

In its original proposal CPS planned to help 20 existing technology-related businesses to expand, by providing market research and matching them up with participants trained to develop new product niches. CPS participants would then be hired by the companies or would develop joint venture agreements. After an initial survey of employers, this component was abandoned. CPS found that the expertise needed to consult with existing businesses and persuade them to accept help and new workers was quite different from the expertise needed to foster new startups. Moreover, the companies most likely to benefit were in deep financial or market trouble and needed capital to diversify. CPS was unable to provide that capital; but without it, companies were unable to hire new workers even with deferred payment. The program did help to find jobs for several participants who dropped out of microbusiness training, but had little overall success with re-employment.

MEGA's re-employment activities under the demonstration centered on extended assessment (described above), classroom training in occupational skills, and expanded OJT outreach. The classroom training component served large numbers of participants, but was almost indistinguishable from training provided under the SSA's regular Title III program. Participants were trained at the community college and a vocational-technical center in such areas as machining, office occupations and automobile repair, using individual referral contracts. One customized training class was established for computer-assisted design. Demonstration-funded classroom training for new participants was discontinued in the demonstration's Option Year.

In the OJT component, MEGA job developers expanded their outreach to area employers and contacted about 500 companies. Special energy was put into targeting OJTs for new and expanding firms assisted through MEGA's other economic development efforts, and a number of placements were made in this way. However, this group made up only a small fraction of the businesses contacted. Demonstration funds were not used for the OJTs themselves; training costs were covered through the SSA's formula funds. The demonstration's OJT participants were co-enrolled in the regular Title III program, and differed from other EDWAA participants chiefly in the more generous support services allowed. Overall MEGA produced far greater outcomes than the other grantees' re-employment tracks, but demonstration activities per se broke little new ground in exploring the relationship between economic development and worker training.

ORGANIZATIONAL ISSUES

STAFFING

Recruiting counselors and instructors on short notice is always a difficult challenge for demonstration projects that do not have staff already in place, as was the case for most Job Creation grantees. For self-employment programs this task is critical, as the success of entrepreneurial training depends to a great extent on finding staff with the right combination of small business experience, technical knowledge in areas like finance and marketing, teaching skills, and an ability to work well with dislocated workers and novice entrepreneurs. We found that demonstration staff at all levels were, for the most part, extremely committed and hard working. Even so, commitment can not always make up for lack of experience or for flaws in the program's organization and service model.

The demonstrations' basic staffing arrangements are described in their Project Profiles in Chapter III. In this section we focus on some specific implementation problems encountered, including recruitment, management, and matching staff expertise to the needs of participants at different stages of training.

FCM and HACER found it difficult to recruit qualified people for instructor or case manager positions. For HACER the problem was not in identifying qualified candidates, but in finding staff willing to work in the South Bronx. The project's original location was in an industrial area difficult to reach from elsewhere in the Bronx and with a high crime rate. After relocating the demonstration site to the commercial center of the borough, HACER's recruitment problems decreased.

FCM's challenge was to find appropriate instructors and staff for its five field offices, located primarily in rural areas with very little training infrastructure. The solution adopted was to contract with two to three outside instructors to teach self-employment classes and provide some one on one business counseling. Five different instructors taught in the various counties over the two grant periods. The arrangement had two unfortunate side effects. First, there was a great deal of variability in the way classes were taught, even when the same base curriculum was being used. That made it difficult to build on past mistakes and perfect a unified methodology and approach. Secondly, instructor contracts were short term and provided for little individual assistance. As a result, the burden of guiding participants through business plans and into startup fell largely on the Family Self-Sufficiency Workers and program administrators, none of whom had much business experience. The FSSWs were extraordinarily committed, and did offer a good deal of common-sense business advice. The level of help was probably sufficient for participants with very modest business goals, but would not be appropriate for more sophisticated ventures.

The other rural grantee, MAN-TRA-CON, adopted a more centralized approach. After the first training cycle, all classes and follow-up support were provided at a central location. Unlike FCM's population, MAN-TRA-CON's participants generally had their own transportation. Experienced staff were available locally, and the program was able to employ two to three well-qualified counselor/ instructors full time, resulting in a high quality of technical assistance.

GRASP's greatest staffing challenge was at the administrative level. In the early months of the demonstration project New Ventures had only a director, with no other full time designated staff. Instead, work on the demonstration was added to the responsibilities of existing staff, and the quality and timeliness of project startup work suffered as a result. Later a full-time administrative assistant and mentor were added. The MEGA program also suffered at times from having too few designated staff and too many others dividing their time with other branches of the organization, including the SBDC.

Staffing and administrative matters were a major concern for CPS in the first grant period. There were twenty part time staff, most of whom volunteered substantial amounts of time in addition to their paid hours. This number proved far too high for effective coordination, and the original project proposal was overly ambitious concerning what could be accomplished.

When a new problem was identified, a new committee was created; working groups proliferated, but few problems were eliminated. Staff became overstressed, and participants were sometimes confused and lacking in focus, making it difficult to move forward with their individual ventures.

Grantee experience suggests a number of basic staffing principles for self-employment:

- All staff responsible for business instruction, individual technical assistance and the business aspects of assessment should have small- or microbusiness experience. Ideally, business counselors or mentors should also be prepared to act as case managers, since personal and business problems are often closely linked.

- If possible, participants should also have access to limited amounts of specialized expertise in the areas of finance/ accounting, marketing and law, as needed. This can be done through qualified in-house staff or through contracted consultants.

- All staff must be accountable to the program in some way, even if they are not employed by it. If outside organizations such as SBDCs are relied upon to provide crucial services (e.g. instruction or mentoring), there should be a clear written agreement describing the scope of services and number of hours to be devoted to EDWAA participants. Service designs should be extremely cautious about relying on volunteers for any task requiring a regular commitment.

- If warranted by the size of the program, the roles of director, administrative assistant, and instructor/ mentor should all be full-time positions. Self-employment training is different from both re-employment training and from business development activities oriented to existing firms, and people with core functions in the program should be able to concentrate their attention on it.

In practice, it is difficult to follow staffing principles like these in the context of a one-time short-term project. To find staff willing to participate in a single three to four month course (e.g. in connection with an EDWAA plant-specific project) usually requires major compromises. Optimum staffing arrangements call for self-employment programs to be designed with funding commitments for at least one year, or to be operated under contract with an organization that maintains permanent qualified microenterprise staff.

Organizational Capacity and Experience

The demonstration was an intensive learning experience for all grantees. Over the course of the grant there were innumerable—and sometimes quite fundamental—changes in curriculum and service design, staffing, organization and training venues. Especially with regard to service models for self-employment, most of those changes were ultimately positive: gradually, and with much trial and error, most of the demonstration projects did get significantly better at serving their target groups. Along the way they learned a great deal about what not to do, as well as what can be done successfully, and in most cases active organizational learning continued right to the close of the demonstration. Project staff made many thoughtful recommendations for future practice, and we have tried to convey these ideas in this report.

But along with this evolution, turbulence in day to day operations made it difficult to evaluate the effects of the demonstrations' service models. Two of the grantees began client intake three to four months later than expected due to delays in hiring key staff, setting up facilities, establishing coordination linkages and working out the details of curriculum and service delivery. Three programs went through one or more serious crises of leadership as their demonstration project coordinators resigned or were dismissed, and another was hobbled by a long-standing dispute between its two top staff. Five projects moved their facilities or shifted training venues at least once. Three grantees reported long delays in obtaining authorization for support services payments or much-needed computer equipment, due to a combination of their organizations' own contracting procedures and DOL procurement regulations. HACER faced serious external problems, as its key source of OJT positions did not win expected contracts and responsibility for certifying family day care providers was twice transferred between government agencies. Even MAN-TRA-CON, which probably had the smoothest organizational history of all the grantees, changed its subcontractor arrangements and training venues part way through the grant.

Although this kind of turbulence contributed to organizational learning in some cases, it also led to delayed or interrupted services, hasty hiring decisions, poor communication with participants, and a general loss of efficiency. In two of the worst cases, BPA site visitors met with participants who had to share essential workbooks and reading materials because there was "no money for copying." Neither project spent out its allocated funds during the grant period.

Organizational growing pains are inevitable in any initiative like the Job Creation demonstration, which sought to explore the effectiveness of new types of grantees and service models. However, the degree of flux might have been reduced if the grantees had had longer experience in self-employment training and technical assistance, and stronger organizational linkages to other major players in local community development. Although all grantees could claim some prior experience in business development or entrepreneurial training, this experience was often limited to a single project, such as a SEID demonstration or a contract with the state economic development entity. Moreover, the staff who had worked on prior job creation projects were not necessarily those employed to run the EDWAA demonstration. HACER, FCM and CPS had very limited histories of cooperation with other business development actors, and the demonstration projects as a whole had few contacts with other economic development efforts in their service areas.

Coordination Issues

Links to Mainstream EDWAA Programs

Good coordination with the local EDWAA substate grantee can lead to improved services in at least three areas: referrals into the demonstration program from EDWAA; referrals from the demonstration to EDWAA (for those who drop out of self-employment or need skills training not provided under the grant); and obtaining informal technical assistance from the SSA on eligibility and similar matters.

The four grantees that did not have earlier ties to EDWAA generally had a slow start in forming good relationships with local dislocated worker programs. Although letters were sent out by the U.S. Department of Labor immediately after the grant award to inform state agencies of the demonstration, in several states this information did not filter down to the appropriate substate areas. Several grantees were also occupied with internal issues of staffing and organization, and did not make a concerted early effort to develop meaningful links with EDWAA. In one case relations were soured by a dispute arising from a subcontracting arrangement with the SSA that was outlined in the original demonstration proposal but later dropped when the project refined its service design.

Perhaps a more fundamental reason for the lack of early coordination was that close links with EDWAA did not seem particularly relevant to the demonstration's specific service arrangements, either from the SSA's perspective or the demonstration grantees. The lack of prior experience with EDWAA and its potential as a provider of complementary services for entrepreneurs certainly contributed to this perception. But a number of grantees also had genuine concerns about the appropriateness of mainstream EDWAA services for their populations, or about the SSA's ability to deliver timely services when it was already overstretched. Some local EDWAA programs were also seen as being too focused on quick placements and short-term training (making them reluctant to get involved with entrepreneurship programs), and too slow in making decisions and following up on commitments.

From a service perspective, the greatest danger of poor linkages to EDWAA is that participants who drop out of self-employment will not be referred to the SSA for retraining services. Partly for the reasons discussed above, we saw little evidence of such out-referrals in FCM, CPS or HACER. However, most grantees did establish closer ties with EDWAA over the course of the demonstration, especially for referrals into self-employment. CPS and FCM both accepted a number of referrals from EDWAA. GRASP overcame early coordination problems to obtain a subcontract to train 15 additional participants with funding from the Atlanta PIC. However, the area's two other PICs showed less interest in the program. CPS also negotiated an agreement to provide entrepreneurial training for the local SSA, but the demonstration ended before the contract began.

The MEGA and MAN-TRA-CON demonstrations were both designed in conjunction with local SSA operations; in both cases participants were co-enrolled, and for the most part there were smooth referral paths to and from the demonstration. These grantees were also able to take full advantage of their EDWAA experience in carrying out eligibility determination and initial assessment. MAN-TRA-CON did note that even with close working ties it took a long time before the demonstration received significant numbers of referrals of EDWAA participants graduating from technical training in the community colleges.

UNEMPLOYMENT INSURANCE

Unemployment Insurance regulations can affect self-employment programs by denying benefits for participants in unapproved training, and cutting off or reducing benefits for claimants deemed "in business," regardless of any income received or whether the business is fully operational.[3] The fear of UI sanctions may also lead participants to misinform the program about their business activities. Establishing good relations with UI is especially important for initiatives targeting dislocated workers, as this is the major source of financial support for many participants.

Unlike DOL's state-administered self-employment demonstrations for UI recipients in Washington state and Massachusetts,[4] the Job Creation Demonstration grantees were responsible for making their own arrangements with local Unemployment Insurance offices. Although problems with UI were not as serious as expected overall, they did call for adaptive responses on the part of some grantees and had tragic consequences for several participants.

Four of the six projects were able to secure approved training status from their respective states, either formally or de facto. GRASP had to increase its training hours to qualify for approved status. MAN-TRA-CON's request was not approved by the local UI office because it did not meet the minimum requirement for classroom hours per week. As a consequence, all classes had to meet in the evenings to leave participants free to meet their UI job search requirements during the day. MAN-TRA-CON staff tried to handle coordination with UI at the program level, to eliminate this unwelcome source of stress for participants. However, the UI

[3]The effects of UI regulations is discussed further in Chapter VI.

[4]Steven Wandner ed., *Self Employment Programs for Unemployed Workers*, U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Occasional Paper 92-2, 1992, Washington, D.C.

office at one point insisted on approving each participant individually for entrepreneurship training; this led to some delays in participants' receiving benefits, and may have discouraged some applicants from enrolling. Several FCM participants were required to take classes in the evening for similar reasons.

CPS did get its classroom training approved, but inadequate early attention to other UI regulations resulted in the loss of benefits for several participants. New York state's UI system has adopted an operational definition of being "in business" that makes it particularly hard for new entrepreneurs. For example, the act of incorporating a business, obtaining a business telephone, or offering one's services as a consultant may be sufficient to deny benefits. One project team that incorporated its venture lost UI support, and at times the local office stopped benefits for days when participants engaged in program activities, considering them "work." These problems were reduced in the second year of the grant, as CPS cultivated a stronger relationship with the state Department of Labor.

Participants' fears about UI sanctions also had effects on data collection for the demonstration. Grantees reported cases of participants refusing to admit earlier stints of self-employment on intake forms, or distorting information about hours worked or earnings from business started up under the program.

Lastly, two grantees noted that unemployment insurance and other benefits sometimes had a negative rather than positive impact on business success. Extensions in benefits could cause participants to become complacent and lackadaisical in proceeding with startup plans. This disincentive effect of support can be found in other forms of employment training, but it is especially troublesome where training is less highly structured and requires tough creative decisions by the participant, as in self-employment programs.

Grantees offered three recommendations concerning UI:

- Problems can be minimized by consulting state and local UI representatives in the up-front planning and design of the program.

- Due to the constant turnover of front-line staff at UI offices, the program also needs to maintain good ongoing communication with the agency.

- Federal action is needed to reduce the wide disparities in states' UI policies on self-employment, and to reform provisions which discourage business training and startup activities. (As noted in Chapter VI, some of these concerns were later addressed in the Self-employment Assistance Program created under the NAFTA Implementation Act.)

DISSEMINATION ACTIVITIES

All grantees took steps to generate local publicity about their activities during the demonstration. Most projects had brochures printed, made presentations to local organizations, and prepared newspaper releases about their programs. Graduation ceremonies for participants were found to be an especially good "hook" for newspaper coverage.

Toward the end of the demonstration, GRASP staff prepared two short working papers on their experiences with dislocated workers and DHHS-funded low income participants, for distribution to interested organizations. Its revised curriculum is suitable for wider dissemination, but no attempts to do so were made during the grant period.

MAN-TRA-CON was the only grantee to make dissemination an integral part of its project objectives. Early in the first grant period MAN-TRA-CON evaluated several self-employment curricula in common use and found them unsuitable for entry-level training of dislocated workers. Over the next 12 months it then developed its own integrated set of participant and instructor materials, and an administrator's guide. Feedback from BEST participants and instructors was used to refine the materials. With assistance from a local university Media department, MAN-TRA-CON also produced a videotape which proved very useful in explaining the program.

In the demonstration's Option Year, the curriculum package was presented to three SSAs in a train-the-trainers workshop, and was later pilot tested in one SSA with results similar to those achieved in the parent program. A final round of revisions took into account lessons learned in the pilot test. The BEST package has since been presented at several conferences, and is being marketed by MAN-TRA-CON. Despite the interest generated by these activities, other Illinois SSAs have thus far been cautious about taking on self-employment training.

V. Analysis of Participant-Level Data

Introduction

As part of the evaluation, grantees were asked to provide information on participants served with demonstration funds. All grantees cooperated with this request, using formats developed by the National Evaluation team and data from their own MIS systems. These data span the entire period of the demonstration, from July 1991 through September 1993, and were collected for each client served by grantees. Demonstration grantees completed intake forms upon enrollment, maintained service forms throughout the period of participation, and conducted individual follow-up discussions after participants had started businesses or terminated from the program. Data from these forms were transmitted to Berkeley Planning Associates via diskette, and this chapter reports findings from the analysis.[1]

Participant Characteristics

By design, the characteristics of demonstration participants varied widely across grantees. The demonstration projects operated under very different geographic and economic contexts, and targeted a variety of dislocated worker sub-populations. Demographic characteristics and employment histories for self-employment participants are documented in Tables V-1 and V-2.

Demographic Characteristics

Sex

Only one demonstration grantee, HACER, explicitly targeted grantees according to their sex, but a number of projects clearly served unequal proportions of women and men. Indeed, only GRASP served equal proportions of the sexes. Women were more likely to participate at

[1]Data collection procedures are described in Appendix B.

Table V-1

Self-employment Participants: Demographic Characteristics at Time of Application

Characteristics	MTC	MEGA	FCM	HACER	GRASP	CPS[a]	Overall
Number of Participants	67	104	142	118	66	148	645
Sex (%)							
Female	25.4	24.0	67.1	100.0	47.7	12.7	47.6
Male	75.6	76.0	32.9	0.0	52.3	87.3	52.4
Age (%)							
Less than 30	3.0	7.7	17.9	19.1	0.0	0.0	11.5
30 - 44	53.7	71.2	52.9	44.3	73.2	21.4	54.7
45 - 54	34.3	16.3	19.3	26.1	19.5	35.7	23.2
55 and older	9.0	4.8	10.0	10.4	7.3	42.9	10.5
Mean (years)	42.5	39.5	38.9	40.1	40.9	52.1	40.7
Race/ethnicity (%)							
White, not Hispanic	97.0	81.7	26.4	0.0	29.5	84.2	45.0
Black, not Hispanic	3.0	15.4	72.9	5.1	62.3	0.0	31.1
Hispanic	0.0	1.9	0.0	94.9	6.6	7.9	22.8
Asian/Native American	0.0	1.0	0.7	0.0	1.6	7.9	1.1
Highest grade completed (%)							
Less than high school	3.0	2.9	12.9	51.3	0.0	0.0	13.0
High school diploma or GED	61.2	26.9	46.4	30.8	3.1	6.8	28.5
Post-high school	23.9	57.7	30.0	15.4	28.1	30.6	31.1
College grad	7.5	11.5	7.9	1.7	32.8	30.6	15.0
Post-college	4.5	1.0	2.9	0.9	35.9	32.0	12.4
Mean (grade)	13	13	13	10	16	16	13

[a]Totals may differ from the Interim Report due to the exclusion of early dropouts from these calculations. See Appendix A.

Table V-2

Self-employment Participants: Work History at Time of Application

Characteristics	MTC	MEGA	FCM	HACER	GRASP	CPS[c]	Overall
Occupation at layoff (%)							
Professional/tech./managerial	19.4	33.7	25.8	7.5	69.6	80.6	39.2
Clerical/sales	7.5	14.4	25.8	17.2	26.1	15.3	17.7
Service	7.5	5.8	10.5	28.0	2.2	0.8	9.3
Machine trades	26.9	21.2	8.1	0.0	0.0	2.4	9.5
Fabrication/assembly/repair	3.0	6.7	11.3	33.3	2.2	0.8	10.0
Transportation/mining/misc.	28.4	4.8	5.6	10.8	0.0	0.0	7.3
Other[a]	7.5	13.5	12.9	3.2	0.0	0.0	6.8
Industry at layoff (%)							
Mining	34.3	0.0	3.1	--	0.0	0.0	5.9
Manufacturing	37.3	57.7	25.0	--	16.7	60.5	42.6
Transportation/utilities	10.4	7.7	3.1	--	9.5	4.2	6.1
Wholesale/retail trade	6.0	7.7	18.8	--	7.1	5.9	10.0
Services	9.0	18.3	34.4	--	42.9	12.6	22.1
Other[b]	3.0	8.7	15.6	--	23.8	16.8	13.3
Hourly wage at layoff ($)							
Mean	13.58	10.79	5.80	6.35	13.17	23.36	12.41
Median	13.64	11.00	5.00	6.00	11.50	23.00	9.45
Number of years in prior job							
Mean	8.9	6.1	3.7	4.5	2.7	7.0	5.6
Median	9.0	4.0	2.0	2.0	2.0	5.0	3.0
Ever self-employed (%)	3.0	16.3	16.4	4.3	36.6	32.0	17.8
Number of participants	67	104	142	118	66	148	645

[a]Includes agricultural, fishing, forestry, structural work, and processing occupations.

[b]Includes agriculture, fishing, forestry, construction, finance, insurance, real estate, and government.,

[c]Totals may differ from the Interim Report due to the exclusion of early dropouts from these calculations. See Appendix A.

FCM and HACER, while men were more likely to participate at CPS, MAN-TRA-CON, and MEGA.

At these latter three grantees men were not explicitly targeted, but the industries from which participants were drawn were male-dominated. CPS originally targeted professionals dislocated from the defense industry, MEGA tended to serve professionals and production workers laid off from manufacturing firms, and MAN-TRA-CON had a high proportion of dislocated miners. Men are highly represented in each of these target groups, which helps to explain their predominance as self-employment participants.

The greater proportion of women at FCM and HACER reflects these organizations' broader efforts to serve the disadvantaged. As community-based social service providers FCM and HACER stood out from their counterparts in the demonstration. FCM and HACER have long histories of providing social services to their respective communities, particularly services to children and parents, and made special efforts to reach out to women. HACER's concentration on child care businesses further insured that no men would participate, given the sex-role stereotypes associated with such activities.

AGE

The age profiles of participants varied substantially across projects. Four grantees served a majority of participants under the age of 45, but almost three quarters of the participants at one project, CPS, were 45 or older. More than 40% of CPS participants were over 55, in striking contrast to the remaining projects, where 10% or fewer occupied this category. At the opposite end of the spectrum, only HACER and FCM had substantial proportions of participants under 30 (19 and 17%, respectively), and overall most participants (78%) were between 30 and 54 years of age.

ETHNICITY

Demonstration projects also differed according to the ethnicity of the participants they served. Some of these differences were due to explicit targeting, while others were due to the predominance of a single ethnic group in a given project's service area, or the background of the grantee organizations. HACER is an organization of and for Hispanic Americans and explicitly targeted this group, which comprised 95% of their self-employment participants. MAN-TRA-CON identified no target group, but due to the homogeneity of its rural Illinois service area, served whites almost exclusively (97%). Overall, the demonstration served large proportions of whites, African-Americans, and Hispanics (45%, 31%, and 23%, respectively), but individual grantees tended to serve participants from a predominant ethnic group.

EDUCATION

Participants entered the different demonstration projects with widely divergent educational backgrounds. The differences among demonstration participants are particularly well illustrated by a comparison of these backgrounds. More than 60% of participants at GRASP and CPS were college graduates, compared to no more than 12% for any other project. At HACER, over half of the participants did not complete high school. Overall, 60% of participants were high school graduates or had some post-high school training, but this cross-project view obscures a great deal of variation.

WORK HISTORY

Along with education, work experience provides a useful measure of the human capital participants bring to their self-employment training, and is often an important predictor of the size and types of businesses started by entrepreneurs. Table V-2 summarizes the prior jobs and self-employment experience of demonstration participants at the time they applied for the program.

OCCUPATION AND INDUSTRY AT LAYOFF

Eighty-one percent of CPS participants, and 70% at GRASP, were dislocated from professional, technical, or managerial occupations. In contrast, this category contained no more than a third of any other project's participants. Substantial proportions of participants at all grantees other than MAN-TRA-CON came from sales occupations, a professional background which may serve new entrepreneurs especially well. Blue collar occupations, such as those in machine trades, mining, and assembly, were most common at HACER, MAN-TRA-CON, and MEGA. Many participants at HACER had also been employed as home health aides or other health-related positions, which explains the high proportion of participants in service occupations.

Given the decline in manufacturing employment in the U.S. it should come as little surprise that the greatest number of demonstration participants (43% overall) were dislocated from this sector. Service industries, despite their growth relative to manufacturing, also contributed large numbers of participants (22%). Several other industries provided small numbers of participants to the overall demonstration, but substantial numbers for individual projects. For example, more than 34% of MAN-TRA-CON's participants came from the mining sector, while more than two-thirds of GRASP participants had been employed in service, FIRE, or government jobs.

EARNINGS AT LAYOFF

Participant wages at layoff appear closely related to differences in education, occupations, industries, and regional wage differences. CPS's participants were the highest paid prior to layoff, earning a mean of more than $23.00 per hour (nearly $48,000 per year); participants at FCM and HACER earned approximately $6.00 per hour (about $12,500 per year). Participants at the three remaining sites, MAN-TRA-CON, MEGA, and GRASP, fell in between, earning $11.00 to $14.00 per hour.

JOB TENURE

Average tenure in the job at layoff tended to be longest for projects which served large numbers of workers from manufacturing industries. MAN-TRA-CON participants had the longest average tenures at nine years; CPS and MEGA participants had job tenures of seven and six years respectively. GRASP, with the lowest proportion of participants from manufacturing industries, had the lowest average job tenure, at 2.7 years. These results also reflect the relative ages of participants since, all other things equal, older workers have a greater chance than younger workers of being employed in a single job for an extended period.

Self-Employment Experience

In addition to these prior jobs, a substantial proportion of participants had also operated their own business at some point before enrollment. For the demonstration as a whole, almost 18% of participants noted prior self-employment experience, and the true proportion may be still higher due to under-reporting. Anecdotal evidence suggested that some participants failed to acknowledge prior self-employment experience out of fear that they might be disqualified from participation, or that they might become liable for income not reported to the Internal Revenue Service.

Unemployment Insurance and Other Benefits

Unemployment Insurance

As shown in Table V-3, 40% or more of all participants were receiving unemployment insurance compensation at the time of enrollment at all projects except FCM. At three projects, MAN-TRA-CON, MEGA, and CPS, more than 60% of participants received UI. These payments are particularly significant to candidates for self-employment because starting a business typically requires personal financial investment.

Unemployment insurance will be most useful to potential entrepreneurs if they can begin working on their business immediately after layoff. Most new businesses take time to return a profit, and by avoiding delay, dislocated workers can take maximum advantage of their UI benefits to get their businesses off the ground. Across all projects, however, applicants had been unemployed for a median of 30 weeks before applying for services.[2] UI recipients had collected

[2]Mean times between layoff and application, and for weeks of UI receipt at application, were generally much higher than median times due to the effects of a small proportion of participants with extremely long periods of unemployment. Medians are reported here because they represent the typical experience of demonstration participants more accurately than means.

Table V-3

Self-employment Participants:

Unemployment Experience at Time of Application

Characteristics	MTC	MEGA	FCM	HACER	GRASP	CPS[c]	Overall
UI status (%)							
Currently receiving	67.2	61.5	21.4	43.4	42.9	65.3	49.2
UI exhausted	7.5	21.2	9.3	23.9	16.7	11.8	14.9
Did not file	9.0	5.8	50.7	17.7	21.4	11.8	21.1
Other[a]	16.4	11.5	18.6	15.0	19.0	11.1	14.7
Number of weeks on UI[b]							
Mean	9	15	16	--	18	18	15
Median	8	16	12	--	16	16	13
Reason for eligibility							
Recent layoff	32.8	50.0	36.4	75.7	17.5	31.8	43.6
Large-scale layoff	62.7	43.3	5.0	3.5	10.0	43.2	26.6
Long-term unemployed	4.5	4.8	46.4	6.1	70.0	14.4	21.2
Dislocated self-employed	0.0	1.9	4.3	1.7	2.5	9.1	3.8
Displaced homemaker	0.0	0.0	7.9	13.0	0.0	1.5	4.7
Time between layoff and application (weeks)							
Mean	25.0	47.5	75.9	49.6	90.9	46.3	54.6
Median	12.0	30.7	34.0	30.3	47.3	28.6	29.6
Benefits received							
AFDC	1.5	1.9	12.7	35.6	0.0	0.0	9.8
Food Stamps	3.0	4.8	32.4	39.0	0.0	0.0	15.3
Number of Participants	67	104	142	118	66	148	645

[a]Includes participants who were not eligible for UI, or whose UI eligibility was pending at the time of application.

[b]Applies only to participants receiving UI at the time of application.

[c]Totals may differ from the Interim Report due to the exclusion of early dropouts from these calculations. See Appendix A.

this benefit, on average, for a median of 13 weeks before applying. Compared to other grantees MAN-TRA-CON managed to enroll participants relatively quickly, but even MAN-TRA-CON's median time between layoff and application was twelve weeks.

These results confirm the difficulty of enrolling recently dislocated workers into self-employment programs, but they are not necessarily a negative finding. Although dislocated workers who delay entering self-employment programs will receive unemployment benefits for a shorter proportion of their startup period than they might have, this time can be useful as a self-selection period. Dislocation is frequently traumatic, and potential entrepreneurs may benefit from a post-layoff recovery period during which they can consider their options fully, before committing themselves to the challenge of starting a business.

Reason for Eligibility and Time between Layoff and Application

Whether a worker receives UI during training depends primarily on two interrelated factors: whether the worker is eligible for UI at all, and the amount of time elapsed from layoff to the start of services. (These factors are interrelated in that if the time between layoff and application exceeds the period of UI eligibility, workers will not be receiving UI). As shown in Table V-2, projects serving large proportions of the long-term unemployed had predictably higher average times between layoff and application. Projects with high proportions of workers from recent and large-scale layoffs had somewhat shorter average times between layoff and application. GRASP participants had the longest median time between layoff and application at 47 weeks, while MAN-TRA-CON's mean stood at 12 weeks. Correspondingly, 70% of GRASP participants were enrolled as long-term unemployed while only 5% of MAN-TRA-CON participants occupied this category.

The differences in eligibility reasons across grantees largely reflect targeting practices. MAN-TRA-CON and MEGA's high proportions of recent and large-scale layoffs (close to 95% for both projects) is consistent with their recruitment of participants from the mainstream EDWAA system. FCM and GRASP's high proportions of long-term unemployed participants can be explained by their targeting of relatively disadvantaged individuals.

AFDC and Food Stamps Receipt

In the demonstration as a whole, relatively few participants received Aid to Families with Dependent Children (AFDC) or Food Stamps. Those who did were concentrated in two demonstration projects, HACER and FCM, and formed substantial proportions of participants. More than a third of HACER's participants received AFDC at the time of application, and a slightly higher proportion received Food Stamps. At FCM almost a third of participants received Food Stamps, while 13% received AFDC.

Comparing Demonstration Participants to Mainstream EDWAA Clients

Self-employment attracts individuals who would rather work for themselves than for others, so it should come as no surprise that demonstration participants differed from mainstream EDWAA clients in several important dimensions. Characteristics for this latter group, drawn from Worker Adjustment Program Reports for Program Year 1992, are presented in Table V-4. Figures for mainstream EDWAA clients are reported for substate areas (SSAs) having the greatest overlap with the demonstration projects, and include only terminees served with formula funds. The total on this table is the national average for all substate grantees.

When compared to their nearest substate area, several grantees had relatively extreme proportions of men and women. This trend is pronounced for CPS and HACER, both of which had sex distributions that were noticeably more skewed than their respective substate areas. At FCM, by contrast, the proportions of males and females were reversed. Three out of five EDWAA clients in the SSA were male, but two-thirds of FCM project participants were female.

These differences disappear when looking at the demonstration as a whole: overall the projects served males and females in proportions very similar to the national average for Title III programs. Men outnumbered women by several percentage points in both cases.

Demonstration participants differed notably from their mainstream Title III counterparts in terms of age. While 22% of EDWAA participants nationally were under 30 years of age, only 12% of demonstration participants occupied this category. For all grantees but one,

Table V-4

Selected WAPR Results for Program Year 1992, by Substate Area[a]

Characteristics	MTC	MEGA	FCM	HACER	GRASP	CPS	Unweighted Average	U.S. Total for Substate Grantees
Sex (%)								
Female	27.5	37.3	39.2	59.0	45.7	32.6	40.2	46.4
Male	72.5	62.7	60.8	41.0	54.3	67.4	59.8	53.6
Age (%)								
Less than 30	21.1	10.1	42.7	24.4	22.5	14.0	22.5	21.7
30 - 44	56.9	59.1	44.6	35.2	52.6	37.3	47.6	50.0
45 - 54	17.3	18.5	10.4	32.6	18.8	30.8	21.4	20.7
55 and older	4.7	12.3	2.4	7.8	6.1	17.8	8.5	7.6
Race/ethnicity (%)								
White, not Hispanic	95.6	90.2	56.8	27.9	65.0	83.2	69.8	73.4
Black, not Hispanic	4.0	8.3	43.0	39.2	29.6	8.3	22.1	14.1
Hispanic	0.2	1.4	0.0	21.6	1.5	6.3	5.2	9.4
Asian/Native American	0.4	0.0	0.3	11.3	3.9	2.3	2.9	3.0
Highest grade completed (%)								
Less than high school	3.6	2.9	12.3	10.1	7.6	4.3	6.8	9.9
High school diploma or GED	60.3	33.0	58.9	62.3	61.6	44.1	53.4	47.1
Post-high school	36.1	64.1	28.9	27.6	30.8	51.6	39.8	42.9
College grad	4.7	7.2	3.0	27.0	10.3	21.1	12.2	12.0
Average hourly wage -- pre-program ($)	11.21	10.76	7.16	9.25	8.84	16.07	10.55	9.80
Total terminations	527	276	1050	1788	409	399	4449	111,416

[a]Figures reported in this table are for EDWAA terminees in the substate area or areas having the greatest overlap with individual demonstration project service areas, and are for terminees served with formula funds only.

individuals under 30 were served in smaller proportions than in the corresponding SSA. Workers over 55 were also over-represented in the demonstration versus Title III, but the trend is less pronounced than for younger workers. It is not clear whether the demonstration projects screened out younger, less experienced workers, or whether younger workers did not respond to recruitment efforts, but their absence in the demonstration is notable.[3]

In three demonstration projects the ethnic mix of participants paralleled that of the corresponding substate area, but three other projects served higher proportions of ethnic minorities. FCM and GRASP served African-Americans in substantially higher proportions than local SSAs, while HACER served substantially more Hispanics. As a result, African-Americans and Hispanics participated in the demonstration in proportions roughly twice those of the mainstream EDWAA program.

Demonstration participants also tended to be better educated than their Title III counterparts. Twelve percent of Title III participants had college degrees, but more than 27% of demonstration participants had completed college. Every project except HACER had higher proportions of college graduates than the corresponding SSA, and in most cases the demonstration projects' proportions of college graduates was two or three times higher. Less educated individuals were not, however, excluded from the demonstration: participants without high school degrees were present in roughly equal proportions (compared to their respective SSA) at MAN-TRA-CON, MEGA, and FCM, and were relatively over-represented at HACER.

Pre-program wages offer some of the strongest evidence that demonstration participants are unrepresentative of Title III clients. Only one grantee, MEGA, had an average layoff wage within $1.00 of the average pre-program wage for its corresponding SSA. Participants at MAN-TRA-CON, GRASP, and CPS all earned substantially higher wages than their EDWAA counterparts, with hourly differentials between $2.37 and $7.29 (21% to 49% higher). These higher wages are likely to correspond to greater wealth and capacity to invest in a new business.

[3]The general population of entrepreneurs appears to share a similar age distribution. In an analysis of the Characteristics of Business Owners Survey, Bates (1988) found that among white male owners of firms less than six years old in 1982, about 12 percent were 55 years or older and 25 percent were between 44 and 54. These proportions were very similar for black entrepreneurs of both sexes.

Participants at FCM and HACER were less fortunate, earning $1.36 and $2.90 an hour less than their Title III counterparts (19 and 31% lower, respectively). Across all demonstration projects the mean wage at layoff was $12.41, compared to $9.80 for mainstream EDWAA participants.

SUMMARY

The Job Creation Demonstration projects served substantially different populations of dislocated workers. Some parallels across projects are evident, such as the relatively high levels of education among demonstration participants and their older ages, but along most dimensions there was substantial cross-project variation. Comparing participant characteristics of the demonstration projects with their corresponding SSAs suggests that the variations across grantees were the result of explicit targeting or client screening policies. Two projects (FCM and HACER) served participants who were disadvantaged relative to their EDWAA counterparts, while four projects (MAN-TRA-CON, MEGA, GRASP, and CPS) served participants who were relatively advantaged. Overall, demonstration participants are similar to the national population of EDWAA participants, but this comparison obscures substantial variation among the individual demonstration projects.

SELF-EMPLOYMENT OUTCOMES

The EDWAA Job Creation Demonstration projects operated for a total of twenty-seven months, serving 645 self-employment participants during this period. Participant-level outcomes collected by grantees included whether the participant started a business, whether the business was still in operation six months and twelve months after startup, and a range of business characteristics measured at these same follow-up points. All outcomes data on participants were collected by the demonstration grantees, based on formats developed by the National Evaluation team.[4]

[4]Follow-up data were not available for participants at HACER. See Appendix B.

Startup outcomes should be interpreted with some caution, due to differences in the definition of startups employed by demonstration grantees. Although grantees were given guidance on startup criteria by the National Evaluation team, they were allowed to adopt their own definitions to reflect difference in program arrangements and the types of businesses started by participants. Participants at HACER, for example, were considered to have started a business upon the receipt of their license to operate as Family Day Care Providers. MAN-TRA-CON considered participants to have started up after a first sale, but only if this occurred after the participant had decided "to hold oneself out to the public as a business seeking to make a profit." CPS's definition of startup depended on the type of business involved. Participants starting retail or service businesses were considered to have started up after a first sale, but participants involved in research and development businesses could be considered to have started up at the time they incorporated or registered the business. The conceptual problems involved in defining business startup are discussed further in Chapter VI.

The short time period of the demonstration (27 months from initial funding to closeout) also made it difficult to collect outcomes data on large numbers of participants. Many participants started businesses too late in the demonstration to be eligible for a six-month follow-up, and far fewer were eligible for twelve-month follow-ups. But even if twelve-month follow-up information were available for all participants, any conclusions would still be preliminary. Making a business successful takes time, and twelve months is too short a period in which to assess the long-term effects of demonstration services.

BUSINESS STARTUPS AND SURVIVAL RATES

Of the 645 self-employment participants served in the demonstration 293, or 45.4%, started businesses. As shown in Table V-5, startup rates ranged from 34.7 to 53.7%, with four projects clustering between 45.5 and 48.6%.

Although these percentages are fairly close, the actual number of businesses started varied widely across projects, from 30 at GRASP to 72 at CPS. These variations reflect differences in the scale and service models of the various demonstration projects, which are discussed in

Table V-5

Self-employment Participants:

Outcomes

Characteristics	MTC	MEGA	FCM	HACER	GRASP	CPS[c]	Overall
Number of Participants	67	104	142	118	66	148	645
Started a business							
Number	36	48	66	41	30	72	293
Percent	53.7	46.2	46.5	34.7	45.5	48.6	45.4
Still in business:[a]							
Six months after startup	100.0	90.3	47.7	--	94.4	65.9	73.7
Twelve months after startup	88.9	78.9	63.9	--	100.0	--	76.3
Average number of weeks between enrollment and startup							
Mean	16.9	18.2	14.0	--	25.7	18.6	17.9
Median	12.6	17.7	13.1	--	24.3	12.3	15.4
At time of follow-up:[b]							
Employed (%)	34.4	46.6	22.8	--	41.4	29.9	33.7
Operating a business <u>or</u> employed(%)	87.5	89.7	52.6	--	89.7	68.0	74.0
Operating a business <u>and</u> employed(%)	15.6	6.9	7.0	--	13.8	5.2	8.1

[a]Twelve-month rates are higher than six-month rates, in some cases, because they are based on an early cohort of 80 business starters who were eligible for and responded to the twelve-month follow-up interview. Six-month rates are based on 156 business starters who were eligible for and responded to the six-month follow-up interview.

[b]Based on 273 responses to the six-month follow-up, including both business starters and those who terminated without starting a business.

[c]Totals may differ from the Interim Report due to the exclusion of early dropouts from these calculations. See Appendix A.

Chapter IV. For example, GRASP provided in-depth services to a small group of participants, while CPS enrolled much larger numbers but offered less intensive services.

Of 132 participant businesses eligible for the six-month follow-up, 74% were still in operation six months after startup. Eighty participant businesses started early enough in the demonstration to be eligible for the twelve-month follow-up; of this early cohort, 78% were still in operation six months after startup and 76% were in operation after twelve months.

Six and twelve-month survival rates appear to be inversely related to the number of businesses started by the demonstration projects. Survival rates were lowest for CPS and FCM, which reported the greatest numbers of businesses started, and were highest for MAN-TRA-CON, MEGA, and GRASP, which started far fewer businesses. This relationship may be related to the relative intensity of services available from these projects. It is possible that business starters at MAN-TRA-CON, MEGA, and GRASP, faced less competition for project resources (e.g., time for business counseling or individual attention from training instructors) compared to their more numerous counterparts at CPS and FCM.

As documented in Table V-5, participants who started businesses took an average of 18 weeks after enrollment to do so. Because some participants took much longer than 18 weeks, the mean value is much greater than the median, which reflects the more typical startup time of 15 weeks. For CPS, FCM, and MAN-TRA-CON the median startup time was even shorter, at close to 13 weeks. GRASP, by contrast, had relatively long mean and median startup times, corresponding to its much longer training course.

Business Characteristics Six Months after Startup

Grantees completed six-month follow-up interviews for 72% of all eligible business starters, asking them a range of questions regarding their progress since startup. In total, follow-up information was available for 132 participant businesses.

TYPES OF BUSINESS

Dislocated workers and other individuals with limited investment opportunities have relatively few choices when it comes to starting a business. Faced with a lack of startup capital, many entrepreneurs must undertake businesses that require minimal financial investment. This phenomenon was clearly present in the EDWAA Job Creation Demonstration, as almost half of new businesses were in the service sector, the fastest growing sector in the U.S. and one which requires relatively little investment. Even though only 22% of participants had been laid off from service businesses, 46% started new businesses in this sector. Typical service businesses involved home improvement, vehicle repair, and business services—such as word processing, computer training, or accounting. Somewhat surprisingly, manufacturing was also well-represented, with 17% of all participant businesses. Anecdotal evidence, however, suggests that most manufacturing businesses were small-scale and operated out of the home. Retail businesses also proved popular, accounting for 13% of all businesses.

HOURS

The businesses started by participants were generally full-time occupations six months after startup. The mean time spent working on the business, across all projects, was 39 hours per week. Participants at two projects, FCM and MAN-TRA-CON, spent less time on their businesses (33 and 32 hours per week, respectively) than participants at the remaining projects, suggesting they were supplementing their business income with part-time employment. Eight percent of business starters across all demonstration projects, and 16% at MAN-TRA-CON, reported part-time employment in addition to working on their business.

BUSINESS INVESTMENTS

During the six-month period between startup and follow-up, participants invested a mean of $8,200 from their own savings in their businesses. As detailed in Table V-6, personal investments ranged from $3,900 at FCM to $13,300 at CPS, a ranking that corresponds to the pre-layoff incomes of self-employment participants at these projects.

Table V-6

Self-employment Participants:

Business Characteristics at Follow-up

Characteristics	MTC	MEGA	FCM	GRASP	CPS	Overall
Industry of business (%)						
Construction	18.2	14.3	17.6	0.0	2.7	9.9
Manufacturing	13.6	14.3	23.5	5.9	21.6	16.5
Retail Trade	22.7	7.1	29.4	5.9	8.1	13.2
Services	40.9	50.0	11.8	76.5	48.6	46.3
Other[a]	4.5	14.3	17.6	11.8	18.9	14.0
Hours worked in business per week						
Mean	32	43	33	42	43	39
Median	33	45	40	40	40	40
Average investment by participant in business ($)						
Mean	6,457	8,029	3,927	4,541	13,356	8,264
Median	4,000	5,000	1,000	2,000	8,000	4,000
Other sources of financial support for business (%)						
Family	25.0	29.4	42.1	100.0	63.6	43.1
Friends/other individuals	0.0	17.6	0.0	0.0	27.3	10.3
Bank or other lending institution	31.8	29.4	10.5	0.0	9.1	16.3
Support services payments	36.4	41.2	84.2	0.0	27.3	37.2
Average gross sales since startup ($)						
Mean	20,847	21,320	5,106	16,925	13,385	15,276
Median	3,766	12,000	2,600	2,500	4,500	3,704
Average net business income since startup ($)						
Mean	4,354	6,191	-19	17,383	8,649	7,156
Median	200	2,800	0	1,550	0	200
Any paid employees? (%)	22.7	13.8	14.3	11.1	4.8	12.2
Any owners other than participant? (%)	18.2	7.1	14.3	22.2	18.6	15.9
Location of business (%)						
Home	72.7	60.7	55.0	88.9	69.0	68.5
Incubator	0.0	7.1	10.0	0.0	11.9	6.9
Commercial space	13.6	28.6	30.0	11.1	16.7	20.0
Other	13.6	3.6	5.0	0.0	2.4	4.6

[continued]

Table V-6 (continued)

Characteristics	MTC	MEGA	FCM	GRASP	CPS	Overall
Organization of business						
Sole proprietorship	77.3	85.7	90.5	61.1	57.1	72.5
Partnership	0.0	0.0	9.5	5.6	11.9	6.1
Subchapter S corporation	18.2	3.6	0.0	5.6	14.3	9.2
Regular corporation	4.5	10.7	0.0	27.8	16.7	12.2
Number in business at follow-up	22	29	21	18	42	132

[a]Includes agriculture, fishing, forestry, transportation, utilities, wholesale trade, finance, insurance, real estate, and government.

The majority of participants obtained no outside funding for their businesses, either by selling equity stakes or by taking on debt. Five to ten participant businesses, however, attracted substantial outside investments, resulting in means of $1,200 for outside equity and $2,800 for debt.

Although a few participants were able to find outside funding, most cited project funds or family (including personal savings) as sources of financial support for their business. Participants at every project relied on their families, and participants at GRASP cited family exclusively as a source of support. Support service payments made from demonstration project funds (discussed in Chapter IV) were common sources at the remaining projects, particularly FCM, where 84% of participants cited this source of support. Institutional sources of funding, such as banks or venture capital firms, were much rarer, which is typical for microbusinesses.

BUSINESS SALES AND EARNINGS

The six-month period between startup and follow-up was too short to assess the long-term viability of participant businesses, but measures of gross sales offer some hope for their success. On average participant businesses had attained cumulative gross sales of more than $15,200 during the six-month follow-up period. Twenty-four percent of participants, however, reported sales of less than $500. Thirty-three percent reported sales between $500 and $5,000; 28% reported sales between $5,000 and $20,000; and 15% reported sales of more than $20,000 during this period.

While gross sales provide a good measure of business activity, they cannot be relied on as a measure of business success, as they do not take business expenses into account. Mean net business income provides a more accurate measure of success: across all projects mean net business income (on a cumulative basis) was $7,156 at follow-up. The median value for this measure stood at $200.

This relatively low median value reflects the large proportion of businesses (44%) with zero or negative incomes, and it seems likely that many of these will not survive. More positively, twenty percent of businesses reported incomes between $1 and $2,000; 22% reported incomes between $2,000 and $10,000; 9% reported incomes between $10,000 and $50,000; and 4% reported incomes greater than $50,000. Starting a business takes time, so these six-month results are only preliminary. Yet the income results for a fair proportion of demonstration participants are encouraging.

Among an early cohort of self-employment participants interviewed twelve months after startup, longer-term business returns showed mixed results. Mean net business income for this group of business starters was $7,000 over twelve months, a figure close to that for the full cohort of business starters in only six months. Seventy-seven percent of the businesses, however, had positive incomes, compared to only 66% for the six-month group. Thirty-two percent of businesses in the twelve-month cohort reported incomes between $1 and $2,000; 32% reported incomes between $2,000 and $10,000; 11% reported incomes between $10,000 and $50,000; and 2% reported incomes greater than $50,000. These figures compare favorably with business incomes for the six-month cohort. Correspondingly, the median net business income was also higher for this group and stood at $2,000, ten times the figure for the six-month group.

Employees and Business Partners

At the time of the six-month follow-up participant businesses were still in their early stages, and few had paid employees. MAN-TRA-CON participants were most successful in this regard, with 23% reporting employees, but the cross-project average was a much lower 12%. Sixteen percent of participants reported outside partners or co-owners for their businesses, but the great majority were solely owned and operated.

Location

Participants typically operated their new businesses from their homes, although one out of five had moved on to commercial space six months after startup. Participants at MEGA and FCM were particularly successful at making this transition, which reflects a combination of factors, including the type of business, the scale of the business, and the state of the local commercial real estate market. In addition, a few participants at MEGA, FCM, and CPS operated businesses out of incubator space, but most participants did not have access to incubator facilities.

ORGANIZATION OF BUSINESS

The great majority of businesses started under the demonstration (73%) were organized as sole proprietorships. The next most common form of organization was a C corporation, with 12% of participant businesses.[5] C corporations were especially common at GRASP, where 28% of participant businesses had incorporated. A handful of participant businesses (6%) were also held as partnerships, and 9% were organized as S corporations.

RE-EMPLOYMENT OUTCOMES FOR SELF-EMPLOYMENT PARTICIPANTS

Starting a business is not for everyone. Some participants may not have the resources to establish new businesses, and others may decide they would be better off working for someone else. Half of the participants at even the most successful self-employment projects do not start businesses, and must find employment elsewhere. The success of self-employment projects thus depends not only on the numbers of businesses started, but also on the re-employment outcomes of participants who fail to start businesses. Combined, these outcomes offer the best measure of the demonstration projects' results.

Of all participants interviewed for the six-month follow-up, 74% were either employed or operating a business of their own (see Table V-5). This rate compares favorably to a thirteen-week follow-up employment rate of 67% for the EDWAA substate areas having the greatest overlap with the demonstration projects, and a national rate of 72% (including only terminees served with formula funds). For three projects—MAN-TRA-CON, MEGA, and GRASP—positive outcomes were substantially higher than the national average, with nearly 90% of participants employed or operating a business at follow-up. FCM and CPS were less

[5]A C corporation is the standard form of corporate organization, and can be differentiated from an S corporation by the method of taxation (C corporations are taxed under Subchapter C of the Internal Revenue Code, while S corporations are taxed under Subchapter S). Subchapter S allows corporations with fewer than 35 shareholders to distribute incomes and expenses directly to shareholders, without a separate corporate tax. S corporations thus avoid the double tax (on corporate profits and dividends) experienced by C corporations.

successful, with only 53 and 68% of surveyed participants employed or operating a business at follow-up. These overall results suggest that self-employment training can be valuable whether or not participants start a business. Basic business skills are useful for all workers, and make participants more attractive to employers.

RE-EMPLOYMENT PARTICIPANTS

Three demonstration projects, MEGA, FCM, and HACER, complemented their self-employment efforts with a second service track designed specifically for individuals seeking re-employment. Participants in these re-employment tracks were served with demonstration funds, but received services similar to those available from mainstream EDWAA programs, such as basic skills training, occupational training, and job search assistance.

At MEGA, which also served as the main EDWAA subcontractor for its service area, re-employment participants received services side by side with Title III participants and were co-enrolled in both programs. As shown in Table V-7, a total of 263 individuals received demonstration-funded re-employment services at MEGA, accounting for 75% of the overall demonstration's re-employment participants. FCM offered re-employment services to 19 participants during the project's first year, but elected to concentrate on self-employment in the second year and discontinued this track. HACER originally planned to train and employ its 69 re-employment participants with a local medical supplies manufacturer, but when the employer lost a key contract was forced to seek jobs for them elsewhere.

PARTICIPANT CHARACTERISTICS

Re-employment participants had similar characteristics to their self-employment counterparts at each of the demonstration projects, with several notable exceptions. At MEGA, for example, women accounted for 43% of re-employment participants, but only 24% of self-employment participants. At HACER, by contrast, men were much more likely to be served in the re-employment track than the self-employment track (42% versus none), but this was due to the project's focus on self-employment training for Family Day Care Providers, a profession traditionally occupied by women.

Table V-7

Re-employment Participants:

Demographic Characteristics at Time of Application

Characteristic	MEGA	FCM	HACER	Overall[a]
Number of Participants	263	19	69	351
Sex (%)				
Female	43.0	100.0	42.0	46.3
Male	57.0	0.0	58.0	54.3
Age (%)				
Less than 30	15.2	38.9	13.6	16.3
30 - 44	61.2	61.1	45.5	58.6
45 - 54	21.7	0.0	28.8	22.0
55 and older	1.9	0.0	12.1	3.8
Mean (years)	38.1	31.9	42.2	38.6
Race/ethnicity (%)				
White, not Hispanic	93.1	21.1	0.0	71.7
Black, not Hispanic	6.1	78.9	0.0	9.1
Hispanic	0.8	0.0	100.0	20.3
Asian/Native Am.	0.0	0.0	0.0	0.0
Highest grade completed (%)				
Less than high school	1.9	63.2	55.9	15.9
High school diploma or GED	35.0	26.3	29.4	33.6
Post-high school	53.2	10.5	11.8	43.0
College grad	9.1	0.0	1.5	7.2
Post-college	0.8	0.0	1.5	0.9
Mean (grade)	13	10.4	10	12.3

[a]MAN-TRA-CON, GRASP, and CPS did not offer re-employment services within the demonstration.

Younger participants were a greater proportion of re-employment participants than self-employment participants at MEGA and FCM. At MEGA, only 8% of self-employment participants were under 30, but 15% of re-employment participants were in this category. At FCM, the mean age for re-employment participants was 32 years, compared to 39 years for self-employment participants. Re-employment participants were also less well-educated at FCM, and on average had only ten years of schooling, compared to thirteen years for their self-employment counterparts.

At MEGA and HACER re-employment and self-employment participants shared similar work histories, but there were clear differences between these two groups at FCM. As shown in Table V-8, FCM's re-employment participants earned a mean of $3.73 an hour at their last job, and had been employed there for 1.2 years, compared to $5.80 an hour and 3.7 years for self-employment participants. These figures, combined with the finding above that FCM's re-employment participants were generally younger and less well-educated than self-employment participants, suggest that FCM's short-lived re-employment track appropriately served individuals who were least prepared to start businesses. Across all three programs, 65% of participants in re-employment training were receiving unemployment insurance at the time of application.

OUTCOMES

By the time of termination, 72% of all re-employment participants served under the demonstration had found employment, a rate identical to the national average for EDWAA participants served with formula funds. At MEGA, 79% of re-employment terminees were employed. HACER and FCM were less successful, placing only 46 and 53% of re-employment participants. FCM's placements included several participants who entered other training programs.

Table V-8

Re-employment Participants:

Work History at Time of Application

Characteristic	MEGA	FCM	HACER	Overall[a]
Occupation at layoff (%)				
Professional/tech./managerial	24.8	6.7	1.7	20.0
Clerical/sales	18.7	0.0	10.0	16.4
Service	7.6	53.3	25.0	12.9
Machine trades	23.3	0.0	1.7	18.5
Fabrication/Assembly/Repair	6.9	13.3	40.0	13.1
Transportation/mining	4.6	6.7	13.3	6.3
Other[b]	14.1	20.0	8.3	13.5
Ever self-employed (%)	11.8	0.0	3.0	9.5
Industry at layoff (%)				
Mining	0.0	0.0	--	0.0
Manufacturing	67.7	29.4	--	65.7
Transportation/utilities	3.4	0.0	--	3.2
Wholesale/Retail Trade	10.3	11.8	--	10.4
Services	12.2	35.3	--	13.7
Other[c]	6.5	23.5	--	7.6
Hourly wage at layoff ($)				
Mean	11.16	3.73	7.41	10.11
Number of years in prior job				
Mean	6.6	1.2	4.6	6.0
Reason for eligibility				
Recent layoff	31.6	15.8	65.7	37.4
Large-scale layoff	65.0	5.3	1.5	49.8
Long-term unemployed	3.0	57.9	25.4	10.5
Dislocated self-employed	0.4	0.0	3.0	0.9
Displaced homemaker	0.0	21.1	4.5	2.1
Time between layoff and application (weeks)				
Mean	37.9	161.2	36.7	42.8
Number of participants	263	19	69	351

[a]MAN-TRA-CON, GRASP, and CPS did not offer re-employment service within the demonstration.

[b]Includes agricultural, fishing, forestry, structural work, and processing occupations.

[c]Includes agriculture, fishing and forestry, construction, finance, insurance, real estate and government.

VI. Job Creation in Ongoing EDWAA Programs

Introduction

Although the Job Creation projects operated in accordance with the EDWAA legislation, as demonstrations they were not subject to the same financial and administrative constraints as ongoing programs funded from EDWAA formula funds and state discretionary grants. If any significant expansion of job creation activities for dislocated workers occurs, however, it will be in the context of EDWAA or some other ongoing program, not in demonstrations.

For this reason, we now look beyond the Job Creation demonstration to examine the experience of some state and substate programs involved in self-employment training within mainstream EDWAA. These programs were identified and interviewed by BPA as part of its efforts to investigate the wider universe of job creation efforts (presented in Chapter II). Our purpose was to explore the range of service delivery arrangements used for self-employment training under EDWAA, and to assess administrative, financial and other barriers to the wider replication of job creation efforts in the current EDWAA system. We obtained information from eleven SSAs in eight states, supplemented by discussions with state-level officials in five states.[1] Although it was not designed to be representative of all such efforts nationwide, the final sample covered a wide range of program arrangements and settings. In addition, we held discussions with legislative and policy-oriented staff concerned with job creation in such national organizations as the National Congress for Community Economic Development, the Association for Enterprise Opportunity, and the Center for Policy Alternatives.

We begin with a typology of service delivery alternatives for providing self-employment training at the substate level, followed by brief examples of programs operating during PY93.

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[1]Substate area programs were contacted in Arizona, California, Massachusetts, Michigan, Missouri, New York, Texas, and Washington; state-level officials were interviewed in Delaware, Georgia, Massachusetts, Michigan, and Mississippi. There are no national estimates of the total number of Job Creation initiatives operating under EDWAA.

In the second part of the chapter we draw on interviews with state and substate program staff and microenterprise policy analysts to discuss possible barriers posed by EDWAA regulations and performance standards, access to capital, and unemployment insurance regulations.

EXAMPLES OF CURRENT JOB CREATION ACTIVITIES UNDER EDWAA

A TYPOLOGY OF SERVICE DELIVERY ARRANGEMENTS FOR SELF-EMPLOYMENT

A variety of alternatives exist for EDWAA program operators seeking to offer entrepreneurial training. Although it is not an exhaustive list, the following are some basic service models that have been implemented or considered by EDWAA substate areas in recent years. These arrangements can be funded from substate area formula funds, state 40% or Governor's Reserve discretionary funds, or National Reserve funds.

- **Model 1: Class-sized subcontracts for microbusiness classroom training, with follow-on support provided by the training contractor, a CDC, an incubator facility, or the local Small Business Development Center.** This appears to be the model most often used by substate areas, as it combines substantial classroom training in business basics with ongoing support for startup activities. Classroom training is usually designed with sufficient hours to qualify as a certified training activity for UI purposes. Community college business departments or proprietary training firms are the contractors most commonly chosen for classroom training; we found no examples of EDWAA programs contracting with CDCs for this component. The greatest potential weakness of the model is in post-classroom support for business plan development and startup. Traditional community college business courses are not normally designed to provide substantial hands-on assistance outside the classroom, and programs may have only weak (non-contractual) linkages to the SBDC or local CDCs.

- **Model 2: Self-employment training conducted by SSA staff, with technical assistance provided in-house or by referral to an SBDC or CDC.** This can be done as classroom training or (less commonly) as individual counseling. Where classroom training is involved, the approach is similar to Model 1 above, although the curriculum is more likely to be tailored to the specific needs of dislocated workers. The major challenge for SSA-operated programs is to find in-house staff with sufficient business experience to conduct successful business training and follow-up support. As in Model 1, access to expert help for marketing, loans and other startup activities is likely to be limited unless there is very close cooperation with a CDC or some other experienced business development entity.

- **Model 3: Individual referral contracts with a local CDC or small business incubator for self-employment training and support.** Rather than fund entire classes for self-employment, the SSA can buy slots in an existing entrepreneurial training program on an as-needed basis. Training can be provided through a structured class with follow-on support as in Model 1 above,[2] or it can take the form of individualized assistance from business development staff at a CDC or similar organization. (Individual referrals to community college courses are also possible, but they do not normally provide adequate follow-on support for startup.) To ensure a consistent quality of services, the SSA can develop an umbrella agreement with the training provider, outlining services, costs, and performance goals.

  Individual referral contracts are widely used in EDWAA for re-employment training, partly because of their flexibility: larger or smaller numbers of participants can be referred for specialized training as qualified candidates appear. Individual referrals are not often used for self-employment at present, but were being considered by several SSAs contacted during PY93. This approach has great potential for the future, but it has been limited thus far by the lack of suitable entrepreneurial training programs in many areas, and by coordination problems between SSAs and CDCs. This last point is discussed further in Chapter VII.

- **Model 4: Referrals to the SBDC, community college courses or other forms of entrepreneurial training that do <u>not</u> involve enrollment in EDWAA, or further SSA**

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[2]For example, this was the approach used by the Atlanta PIC when it independently funded 15 participants in the GRASP demonstration. (Chapter IV).

involvement. Because self-employment is not a common occupational goal, many substate areas have dealt with it by simply referring interested applicants to other programs in the service area without enrollment in EDWAA. This is an understandable response, given the difficulties of arranging for entrepreneurial training and the SSA's limited resources relative to the eligible population. Even so, substate areas that have adopted this approach often feel that they are missing out on opportunities to help the participant and the community.

In addition, there are several job creation approaches that do not involve entrepreneurial training. They include customized classroom training or OJT targeted to expanding employers; commercial or industrial development projects such as shopping centers and business parks; placing JTPA terminees in businesses directly owned and operated by CDCs; and "first-source" hiring agreements, in which employers undertake to hire JTPA-eligible candidates in return for low-interest loans or other concessions. Examples of these approaches are presented in Chapter II and in the Supplementary Case Study profiles in Appendix A.

In the following sections we present some profiles of EDWAA-funded microenterprise programs using a variety of service models.

A Classroom Training Approach using Community College Staff: Carson/ Lomita/ Torrance PIC, California

This SSA has been offering self-employment training to dislocated aerospace and defense workers since 1991. Classroom training and some follow-up support is provided by a unit of the local community college under subcontract to the PIC, and is funded primarily through state 40% discretionary grants for large layoffs. Training takes place not on the community college campus, but in a separate facility located in an office park; the program maintains very close links to the local SBDC, which is housed in the same building.

After an extensive assessment and screening process, groups of ten to fifteen participants go through a four week 100-hour class in business skills. Business plan development is integrated into the classroom curriculum, and an additional week is set aside for intensive one on one help to complete the plan. Follow-up technical assistance continues for six months after the end of coursework: participants are required to meet at least once per month with a counselor from the program, and a second monthly appointment is scheduled with an SBDC business advisor. The program also keeps in touch with graduates through periodic workshops and a newsletter. To help participants market their products and services, the program maintains an on-line link with the California Procurement and Technical Assistance Network, matching participants' businesses with procurement opportunities listed on the network.

There is no formal relationship with a microenterprise loan fund, but staff try to match participants with loan programs offered by local banks or the SBA. Although only about 10% of participants have taken out loans, this population generally has fairly substantial assets. Ability to capitalize the business is also addressed during the screening process. Through February 1994 the program enrolled 63 participants, of whom 60% have started businesses. The total positive termination rate (including placements in wage and salary jobs) was 81%.

CLASSROOM TRAINING WITH A FOR-PROFIT CONTRACTOR: BROOME-TIOGA-TOMPKINS SSA, NEW YORK

This program began as a small "demonstration" project in 1991, using 40% funds to train 20 white collar workers from a GE defense shutdown. It has served 192 enrollees since that time, 32% of whom have started businesses and another 46% have found employment in wage and salary jobs.

After an initial screening and evaluation by SSA staff, participants are sent for 16 weeks of classroom training and business plan development, including six weeks devoted to a general introduction to business and refining participants' business ideas. Training is subcontracted to the New York Consulting group, a for-profit firm that has also worked for other SSAs in the state. The typical class has about 20 participants, most of whom come from defense layoffs; clients are a mix of white collar and blue collar workers. Those who complete classroom training are eligible for up to 12 hours of business consulting by course instructors, and regular case management services are available from SSA staff. The program has no formal relationship with a loan fund, although a few participants have obtained loans from a local community development fund and the SBA program.

This program stressed two points that also apply to many other programs we contacted: the need for microbusiness training to help diversify the local economy, and the value of entrepreneurship training, even for those who later decide to take employee jobs.

CLASSROOM TRAINING THROUGH A UNIVERSITY-AFFILIATED PROGRAM FUNDED FROM STATE DISCRETIONARY GRANTS: BERKSHIRE ENTERPRISES, MASSACHUSETTS

In Massachusetts,the state JTPA Title III office currently funds and supervises three entrepreneurial training programs using state 40% discretionary funds. These initiatives operate in different parts of the state, but follow the same basic service model. The oldest of the three is operated by Berkshire Enterprises, an entity created by the Donahue Institute, a public service and outreach unit of the University of Massachusetts. Established in 1989, Berkshire Enterprises has also provided self-employment training for low-income residents (with HUD funds), older workers, and displaced defense workers.

The dislocated worker program involves 12 weeks of classroom training at 20 hours per week, covering basic business skills and business plan development, and personal development. This is followed by eight weeks of technical assistance for business plans and startup. The program began with a focus on workers from defense industries, but now serves a wide variety of participants. Participants are carefully screened, and about 30 applicants are accepted for each training cycle. Instructors are all former small business operators. Although the program does not have formal ties with any source of capital, the response from local commercial banks and revolving loan funds has been good, and some participants have received small loans through the Working Capital peer lending program. In total, 40% to 50% of participants have found some external financing. Since 1989, the Berkshire program has served 269 workers, at an average cost of about $3,000 per participant and with an average startup rate of 57%. In 1993, businesses created by the program employed 153 people in addition to the owners, and generated over $5 million in annual sales.

Apart from JTPA performance standards and reporting issues, the greatest source of tension in this (and similar) models is the lack of funding for longer-term technical assistance during the launch phase and startup. Grant funding covers technical assistance for eight weeks after completion of classroom training, but the need for startup assistance often continues for many months beyond that point, and many graduates later need help for expansion. Project staff provide substantial follow-on services on their own time, but that is not covered under the grant.

Individualized Training from SSA Staff: Pima County SSA, Arizona

The Pima County Regional Re-employment Center's approach to entrepreneurial training is quite different from the classroom-based models followed by most other SSAs. Although there is no formal training curriculum, the SSA funds one staff person (herself a former business owner) to provide one on one assistance to dislocated workers interested in starting businesses. The counseling is supplemented by seminars given by local bankers, the SBA, and other agencies. In some cases the program has also funded individual referrals to community college business classes. Participants are encouraged to take advantage of SBDC and SCORE counseling, and there is a resource library of microbusiness materials. Where applicable, tools needed for the business can be provided through supportive services. Participants have included low-skilled, low wage workers, long-term unemployed miners, and high-skilled, recently laid-off defense professionals. The program has been in operation since 1992, and is funded from Title III formula funds. About 150 participants have been served and 71 have started businesses, creating 23 additional employee jobs.

There is no formal linkage to a funding source for loans, although a few participants have been eligible for loans from a local CDC. Lack of access to capital was identified as a major barrier for participants. Unemployment Insurance is also a chronic problem, as the counseling involves too few hours per week to qualify as a UI-certified training activity. Under Arizona regulations, most participants must forego benefits when they begin working on their businesses.

CLASSROOM TRAINING BY A SUBSTATE AREA THAT IS ALSO A CDC: SNOHOMISH COUNTY PIC, WASHINGTON

Snohomish County PIC is one of the nation's few substate grantees that is also a community development corporation by strict definition. This case illustrates the expanded range of services that can be provided where there are close linkages between EDWAA and community development.

The SSA first became involved in microenterprise training in 1988 with a project for low-income women, using Title II 8% funds. Self-employment services for dislocated workers began in 1992, with a three year project for timber workers using non-JTPA state funds, and the group is currently completing a project for low-income rural entrepreneurs under a grant from DHHS. Most recently, the PIC has begun a microenterprise program for displaced technical, managerial and skilled blue-collar Boeing workers, funded through an EDWAA National Reserve grant.

Self-employment training varies according to the needs of each participant group. For the Boeing workers it begins with an orientation and selection step, followed by a three week 60-hour class in business startup and management built around requirements of the business plan. As the curriculum does not allow time for exploring business alternatives, participants must have a fairly concrete and feasible business concept when they begin. Ensuring this is an important part of the selection process; those who need help with business exploration are referred to the SBDC and encouraged to re-apply. At the end of basic training, the class of 15 participants is split into smaller groups for three weeks of intensive business plan development. This is followed by 13 weeks of technical assistance for the "launch phase," during which participants apply for loans and licenses, purchase equipment and prepare for startup. In all cases UI benefits are cut off by the state 19 weeks after the start of training, so there is a strong emphasis on moving quickly from plan to reality. All training is done by staff of the SSA and its affiliated CDC, Down Home Washington.

By incorporating a CDC under its organizational umbrella, the Snohomish program has been able to provide exceptionally good linkages to sources of capital. Although the PIC can not use JTPA funds for income-generating activities, Down Home Washington has established a revolving loan fund capitalized by private foundation grants, and has recently been awarded $1.2 million in loan capital under the SBA Microloan program. The revolving fund has made over 80 loans to date, ranging between $150 and $5,000, and has had excellent payback rates. The SBA Microloan fund will enable the CDC to make larger loans in the $8,000 to $12,000 range, and will help in expanding credit from commercial banks. Lending operations are financed in part by small loan fees charged to borrowers, and by revenues from business seminars held for members of the general public interested in applying for loans.

The SSA's ability to combine JTPA funding with the flexibility and capital-raising capacity of a CDC allows it to integrate the roles of trainer and lender. As the "banker" for many of its participants, the program finds it has more of an influence on participants' business ideas from the beginning, improving the chances of success; it also provides ongoing opportunities for longer-term monitoring and technical assistance.

Lastly, the program places a strong emphasis on marketing, with the philosophy that "Finance is just keeping score; it's marketing that makes the business happen." Down Home Washington maintains a showroom for display of their participant businesses' products, and they have been active in seeking out wholesale connections to market products through mainstream retail chain stores. Access to these wider markets helps businesses expand faster and hire employees.

Most participants in the Boeing project were still in the classroom training stage at the time this report was being prepared, so no final outcomes can be reported. However, of the 44 participants served through February 1994, ten to fifteen are expected to receive loans and fifteen have already started businesses.

Barriers Arising from EDWAA Performance Measures and Reporting Requirements

Without exception, the state and substate area staff contacted for this study pointed to the JTPA performance standards and other administrative regulations as a major barrier to expanding microenterprise training. Although entrepreneurial training is specifically mentioned in the

EDWAA legislation as an allowable activity,[3] Title III administrative requirements and performance measures were clearly designed for training oriented to wage and salary employment in existing businesses. In this section we discuss definitional, reporting, and service design issues arising from the lack of fit between microenterprise and EDWAA administrative arrangements.

Entered employment and percentage of terminees employed at 13 weeks after termination are at present the only federally-mandated performance standards for Title III. However, a number of states have adopted additional standards—in particular, average wage at termination and 13-week follow-up—and in many other SSAs wage and cost measures are actively used in making decisions about service providers and the types of training to be offered. For this reason, we use the more general term "performance measures" as opposed to performance standards.

Few if any states have developed clear guidelines for reporting changes in participant status and outcomes for microbusiness owners and the self-employed. Where substate grantees have developed their own ad hoc definitions, there may be questions raised by state monitors, or even audit exceptions, although this was not a common occurrence. Where there is a state MIS, data for self-employment cases does not fit easily into the established categories. In particular, state and substate grantees have had problems defining or documenting:

- Business startup as entered employment;
- Termination from the program, and "placement" within 90 days after completion of services;
- Business earnings ("wage") at termination; and
- Retention and earnings at the 13-week follow-up.

Each is discussed below.

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[3] 29 USC 1661(c).

BUSINESS STARTUP AS ENTERED EMPLOYMENT

Clearly, business startup is the closest microbusiness equivalent to entering employment in a wage and salary job. Unlike placement as an employee, however, the defining characteristics of "starting a business" or "being in business" are far from clear. Participants may seek loans, solicit customers, purchase equipment, file legal documents, and eventually bring in revenue from sales; but the order in which these and other activities take place—and whether they occur at all—is highly variable. For example, it is extremely common for participants to consider themselves "in business" for periods of weeks or months before making an initial sale. Other participants will record initial sales while still in training, and long before the business has come into being as a legal, viable entity.

The definitions of business startup used by microbusiness programs typically rely on one or more of the following criteria:

- Making a conscious decision to engage in business and completing certain milestones in setting up operations (e.g., soliciting customers, obtaining loans, setting up an accounting system, signing a commercial lease);
- Holding one's self out as a business for legal purposes (filing a "Doing Business As" notice, incorporating, filing for a business identification or tax license number, reporting business income to the IRS);
- Accruing income from business activities (i.e., making first sales); and
- Working a specified minimum number of hours per week at the business, and meeting an earnings criterion such as minimum wage.

Although these criteria appear to offer a straightforward solution to the problem of defining startup, they are often difficult to apply in practice. The most common complications concern differences in the criteria most appropriate to different kinds of business, and criteria that do not apply to all participants. For example, definitions based solely on a "first sales" benchmark work well enough for most retail businesses, but may fail to capture the experience of many consulting businesses, which may be fully operational for months before signing a first contract. Definitions based only on legal documents will under-count self-employment subsistence businesses that do not file such papers, or do not report filings to the program. This is especially problematic where participants have concerns about reporting to the IRS, or receiving UI or AFDC benefits, and decide to "go underground," refusing to acknowledge business activities.

In practice, SSAs sometimes deal with these complexities by not committing themselves to closely-defined criteria of any kind, or by applying existing definitions very loosely on a case by case basis. However, some states and substate areas have developed workable generic definitions; three examples are outlined in Figure VI-1.

TERMINATION AND TIMING ISSUES

Closely linked to the definition of business startup is the question of when to terminate participants from the program. As described in Chapter IV, microbusiness trainees receive a great deal of individualized technical help for the business plan, the "launch" (pre-startup) phase, startup, and beyond. This assistance typically becomes less structured and more intermittent as the participant moves toward self-sufficiency, but that does not make it less essential to the business's long-term success. In traditional re-employment programs, job placement, the end of program services, and formal termination usually occur at about the same time. That is far from the case in most microenterprise programs, where "placement" (i.e., startup) is not a discrete event but a gradual process, and participants often need substantial follow-on services, including help for expansion. Recognizing this, grantees in the Job Creation demonstration (which were allowed to define their own points of termination) generally terminated clients long after startup, and many provided technical assistance as needed throughout the life of the grant.

That option is not open to most microenterprise efforts operating from EDWAA formula allocations or with state 40% funds. Under normal circumstances, the program is required to

Figure VI-1

Examples of Definitions for Business Startup

- **The State of Washington** employs a performance-based definition linked to earnings and hours worked. To be considered in business, a participant must: (a) be working at the business a minimum of 20 hours per month, and (b) be earning the minimum wage. Individual microenterprise programs can set more stringent criteria if they choose, as long as the state definition is also met.

- To count as a positive business termination for the **Carson/ Lomita/ Torrance PIC**, a participant must: (a) complete a business plan; and (b) obtain and submit copies of a business license, fictitious business name, articles of incorporation, or other documents showing creation of a business entity, as applicable; or (c) submit copies of contracts, orders or some other evidence of first sales.

- **Illinois SSA 25** (grantee for the MAN-TRA-CON demonstration project) developed a definition incorporating elements of the operations, legal and sales criteria. To qualify as a startup, the participant must:

  (a) Make a decision to hold one's self out to the public as a business seeking to make a profit; and

  (b) Demonstrate this decision through a conscious act, such as

  - Filing an assumed name notice;
  - Incorporating;
  - Establishing a system to record business expenses and income to report to the IRS;
  - Filing for a business identification number;
  - Actively soliciting customers; or
  - Other significant activities not separately defined.

  (c) The date of first income after the participant meets these two criteria is defined as the date of business startup.

terminate participants within 90 days after the completion of services;[4] if placement has not occurred by that time, the participant is usually recorded as a negative termination. However, it is quite common for entrepreneurs to spend more than 90 days in the launch phase between completion of training and actual startup, with much of that time spent waiting for loan applications to be processed or other activities beyond the participant's or program's control. If the program does not provide services at least once per month during this period, the SSA may have to take unwarranted negative terminations.

As shown in the project profiles above, many programs contacted for this study have tried to reduce the problem by extending the period covered under "training" to include refinement of the business plan and the first weeks of technical assistance. There are limits to this approach, however, as regular contact with participants becomes harder to maintain, cases must be carried over into a new program year (see below), and UI offices or JTPA state monitors begin to question whether such support qualifies as training. As a result, many programs are under pressure to define termination at some arbitrary point (e.g., 20 weeks) after the start of classroom training, and staff find themselves providing longer-term technical assistance without compensation from JTPA.

A related problem concerns the use of state 40% discretionary grants for microbusiness training. Partly out of concern that self-employment will yield lower entered employment or average wage rates than traditional training, substate grantees often choose to offer entrepreneurship programs only to participants funded through 40% funds, which are not included in performance standards calculations. Apart from restricting the population eligible for such training, a disadvantage of this strategy is that many states will deobligate unexpended 40% grant funds at the end of the program year. The longer the period of training and technical assistance, the more likely it is that participants will have to be recorded as negative terminations for the current program year or be carried over into the following year. Carry-over cases may need to be funded from SSA formula funds or some other source. Thus, if microbusiness is offered through a grant that starts late in the program year, there may be pressure to compress the curriculum and truncate follow-on support.

[4] 20 CFR §627.240(b) and 20 CFR §627.245(c).

BUSINESS EARNINGS AT TERMINATION

"Wage at termination" is especially problematic for microbusiness programs, because participants normally do not receive wages and have few earnings at the time of termination. As illustrated in Figure VI-2, the conceptual problems involved in defining and documenting business earnings can be extremely complex. Net business income is the closest analogue to wage and salary earnings, but it can be calculated in many different ways, is difficult to document, and may bear little relationship to what the participant actually draws from the business. Gross sales is far easier to measure in a standardized way, and is a widely accepted indicator of business activity in its own right. It is not a reliable measure of participant earnings, however, as it does not take business expenses into account. Even if earnings could be captured with some certainty, questions still remain concerning the time period for which earnings should be counted, and defining the number of hours spent working on the business.

Among the programs contacted for this study, none has found a truly satisfactory way to record business income, and there is tremendous variation in the measures used. Some simply rely on respondent self-report for net income or the somewhat different concept of owner's draw. One program used estimates of average net income during the first year, based on the business plan's cash flow projections rather than actual earnings. Others have adopted gross sales measures after abandoning all hope of constructing a workable indicator based on net earnings.

In addition to these definitional issues there is the practical problem of participants under-reporting their earnings and hours. Microbusiness trainers invariably make efforts to convince terminees that their honest answers are essential for a fair reckoning of the program's success, but—misguidedly or not—a minority of participants will understate outcomes for fear of reprisals from UI or the IRS. Unless the program imposes exacting (and extremely burdensome) documentation requirements, earnings averages reported to the state are likely to be even lower than they actually are.

Figure VI-2

Anatomy of a Performance Measure: Issues Involved in Defining "Wage at Termination" For Self-employment Programs

One of the most daunting tasks facing microbusiness programs in JTPA is to develop practical self-employment versions of the performance standards. To illustrate how complex this process can be, we offer a step-by-step rendering of the definitional issues that must be faced in reporting just one measure: wage at termination.

For wage and salary workers, wage at termination is a relatively straightforward measure of the pre-tax hourly wage rate (including tips and commissions), or pre-tax salary divided by the number of hours usually worked. In both cases, the underlying ratio is:

$$\frac{\text{Pre-tax Earnings}}{\text{Hours Worked}}$$

The following are some of the questions that must be resolved to translate this measure into terms appropriate for self-employment:

What Should Count as Earnings?

- Should the program record *gross or net business earnings*? Gross sales are an appropriate way to represent the level of economic activity generated by the business, but that is not the same as participant income.

- If net earnings are required, what methods should be used to determine them? Should different methods be allowed for different types of business or different accounting systems? Should earnings be defined as the current owner's draw or salary paid from the business, even if it is drawn from equity capital or loans, regardless of sales? What if there is positive net income but it is all reinvested to expand the business?

- Should one count income accrued, or income received? For example, should future earnings be included, in the form of signed but not completed contracts? (What if termination is defined as having established the business, without a requirement for first sales?)

Figure VI-2 (continued)

What Time Period Should be Used in Determining Earnings?

- Should the program count all earnings up to the time of termination? (What if termination is defined to take place at the time of the first sale?) Earnings made only after completion of training? (What if training is informal rather than formal?) Earnings only in the week or month of termination? That is easier to measure, but highly unreliable, given the unevenness of income in many lines of business.

Assuming it is possible to decide on a figure for the numerator, a second problem is to determine the denominator of the wage figure:

- Should it include only hours worked in connection with earning the specific income captured in the numerator, or all hours spent developing the business? If the latter, at what point does one begin counting the hours spent? Should it be hours spent only in the week of termination, since the first sale, since all training ended, or since formal classroom work ended?

How Do We Document Earnings and Hours?

- What kinds of records should be collected to verify these figures --tax records, contracts, sales receipts, self-report only? (UI wage records cannot be used, as most microbusiness owners are not required to file reports.) Should unverified estimates be allowed? How can the SSA document outcomes efficiently, and how much burden should be placed on terminees to collect records and make calculations?

Living with the Results

If the decision is made to ask participants for some form of net earnings divided by the number of hours worked in the business, the result is likely to appear less than the minimum wage. Entrepreneurs often work more than a 40-hour work week to develop their ventures, and have low (or negative) net earnings during their first months in business. The end result can "pull the numbers down" for an SSA concerned about its average wage outcomes.

FOLLOW-UP MEASURES

Follow-up performance measures were introduced in JTPA to focus the system's attention on job retention: programs should not only assist the participant in finding a job, but a job that will last. EDWAA substate grantees are required to collect information about employment, earnings and hours worked during the thirteenth week after termination, and the number of weeks worked during the 13-week period between termination and follow-up.

While appropriate for wage and salary jobs, these outcomes present microbusiness programs with many of the same problems as termination measures. A first issue is to define the point at which participants should no longer be considered "in business." Many businesses are still part-time ventures 13 weeks after startup, and it is not uncommon for entrepreneurs to take temporary jobs for support while building up the business. Earnings and hours worked at the business may be highly variable from week to week at this stage, and it is quite possible to record 0 hours and 0 income in the thirteenth week for a business which the participant still considers viable. The conceptual problems involved in defining earnings and hours at termination (Figure VI-2) also apply to the follow-up measures, except that there is now a clear three month "track record" available for calculating business earnings. Some programs deal with the week-to-week variability problem outlined above by reporting average hours and earnings over the follow-up period, in lieu of activity during the thirteenth week alone.

A more fundamental problem with JTPA follow-up measures concerns the length of the follow-up period. Thirteen weeks may be adequate to measure retention in employee jobs, but it is far too short to capture any meaningful information about growth and survival for microbusinesses. On the one hand, self-employment and microbusiness ventures commonly take two years or more to display their earnings and job creation potential. On the other hand, follow-up at 90 days yields business survival rates that are unrealistically high.

COST MEASURES

Although measures such as cost per participant and per positive termination are not federally mandated performance standards in EDWAA, they are widely used by substate grantees as management tools. The average cost of microenterprise programs contacted for this study was not particularly high—roughly $2,500 per participant—but for many SSAs that is still significantly more expensive than traditional alternatives such as OJT or occupational skills training in a community college. There are good reasons for this cost difference, as microenterprise programs typically involve small classes and intensive one on one technical assistance from skilled instructors and business counselors.

Nonetheless, substate programs may find higher costs difficult to justify, especially when considered in relation to the entered employment rates, earnings at termination and follow-up outcomes that are projected for microenterprise training. With the possible exception of entered employment rates, these outcomes are generally expected to be lower than for re-employment oriented services, due in part to the measurement problems discussed here. The end result is that microbusiness programs may not appear competitive when the substate grantee solicits proposals for training subcontractors.

OTHER BARRIERS TO EXPANDING MICROENTERPRISE WITHIN EDWAA: ACCESS TO CAPITAL AND UNEMPLOYMENT INSURANCE

ACCESS TO CAPITAL

After performance standards and administrative requirements, lack of access to capital was the barrier most frequently cited by our sample of EDWAA microenterprise respondents. While not all microbusinesses need loans for startup capital, many do, and most participants' alternatives are limited. Some dislocated workers are in a position to use their own assets (e.g., home equity loans, severance pay, savings) or loans and equity investments from family or friends to provide funds sufficient for the business. Others have designed their ventures to start small and grow slowly, reinvesting earnings as they accrue. Such strategies are adequate for many participants, and we found no cases of a microenterprise program encouraging trainees to take on debt that they did not need.

However, these approaches have important drawbacks that make them unsuitable as a general solution to the capital problem. Depleting retirement funds and savings can endanger the future security of workers and their families. Relying solely on retained earnings for investment often leads to inefficient business arrangements (such as leasing essential equipment rather than purchasing it), and the venture may fail because it cannot grow fast enough to the point where it generates a living wage. From a broader economic development standpoint, poor access to debt capital also has the effect of limiting the types of business that can be started, leading to overcrowding and low survival rates in fields with low capital requirements such as beauty salons, handicrafts, and some forms of consulting. This displacement effect is especially harmful in economically stagnant or declining communities, where there is a need for a variety of new businesses to help "jump start" the local economy.

Because the legislation prohibits JTPA funds from being used to capitalize businesses or invest in revolving loan funds,[5] microenterprise programs operating under EDWAA must link up with external sources of capital such as banks, state or local revolving loan funds, or the SBA microloan program. However, establishing effective linkages with lenders is difficult for substate area staff and mainstream EDWAA contractors such as community colleges or proprietary training schools, whose missions have traditionally centered on training rather than business financing. There is intense competition for microloan funds in most areas, and general-purpose lenders that do not have contractual or organizational ties to the training program will have little incentive to give preferential treatment to EDWAA participants. As discussed in Chapter IV, other loan funds may be targeted to specific disadvantaged populations that exclude most dislocated workers.

This does not mean that debt capital is completely unavailable to EDWAA participants. As we have seen in the profiles above, it was possible for two EDWAA-funded programs to enable 30% to 50% of their entrepreneurs to secure outside financing where they had access to their own revolving fund or close ties to banks with active microloan programs. Unfortunately, a more common experience is that of the remaining mainstream EDWAA programs and the Job Creation demonstrations, where only 10 - 15% or fewer of participants found loans. Many practitioners in the field believe there is a need for federal action to increase the supply of microloan capital. We will return to this issue in Chapter VII.

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[5]20 CFR §627.225(a).

Unemployment Insurance

A number of unemployment insurance regulations have posed obstacles for microenterprise programs working with dislocated workers. Problems have arisen from requirements for UI-approved training, and prohibitions on business development activities while receiving UI benefits. The Job Creation demonstrations' experiences with UI are discussed in Chapter IV.

Approval of Training

All states' UI regulations have provisions for certifying training activities. Claimants in approved courses are eligible to receive UI benefits while in training, and are exempt from the requirement to be available for job search during normal working hours. Because microenterprise training and business plan development involve a great deal of individual research, however, curricula are sometimes designed with a small number of formal classroom contact hours per week, supplemented by one on one business counseling and self-guided work by the participant. Although this can be an effective way to structure self-employment training, programs designed with such formats may not qualify under existing UI guidelines because they do not meet state minimums for the number of formal classroom hours per week. Even where entrepreneurship training programs have been approved, problems may arise because front-line staff are not aware of the fact and threaten to cut off benefits for individual participants.

Prohibitions on Business Development Activities

Participants may have their UI benefits reduced or terminated because of business income received, or because hours worked in developing the business interfere with availability for job search. UI offices in some states have adopted very inclusive definitions of what constitutes being "in business," and these may include business development activities (such as legal incorporation or obtaining commercial space) that occur far in advance of the enterprise becoming operational or any income received. Benefits can be disallowed or suspended pending a hearing, and claimants may be ordered to pay back UI income already received. For claimants enrolled in EDWAA, the UI system does have access to participant records, including counseling records.

Experienced microenterprise programs have learned to accommodate themselves to UI regulations by keeping in regular contact with both state and local UI officials, designing the overall program to minimize conflicts with the system, and counseling individual participants about activities that may jeopardize their benefits status. However, few mechanisms currently exist for sharing this experience, and new programs still find themselves learning from costly mistakes involving the loss of benefits for one or more participants.

CHANGES IN UI REGULATIONS

Several program operators contacted for this study expressed a need for changes in the UI regulations to allow participants more leeway in carrying out startup activities while receiving UI benefits, and to treat business income received during the benefits period like part-time wages. These needs will be addressed for at least some participants in states that take advantage of the Self-Employment Assistance Program (SEA) created under Section 507 of the North American Free Trade Agreement Implementation Act.[6] Building on the experiences of the Massachusetts and Washington UI demonstrations, this five-year program allows states to give qualifying dislocated workers allowances equal to (but replacing) their regular unemployment insurance benefits, for purposes of becoming self-employed. In addition, participants are exempt from state rules requiring them to be available and actively searching for work, and from any state provisions which disqualify benefits based on income from self-employment.

However, the program is not available to all potential entrepreneurs: to participate, candidates must be eligible for regular UI benefits and must be identified through a state worker profiling system as individuals likely to exhaust regular unemployment compensation. States may provide SEA allowances to no more than 5% of the number of people receiving regular UI

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[6]*North American Free Trade Agreement Implementation Act (P.L. 103-182): Provisions Affecting the Federal-State Unemployment Compensation (UC) Program Relating to Self-Employment Insurance.* U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Program Letter No. 14-94, February 16, 1994.

benefits at any given time. All participants must also be enrolled in state approved self-employment assistance activities, which include entrepreneurial training, business counseling, and technical assistance. Significantly, SEA allowances are not permitted if these development and training activities are not available.

SUMMARY

Trying to fit entrepreneurship training programs into the JTPA and UI systems has been likened to the proverbial square peg in a round hole. Both systems were established to deal with service models and outcomes that are very different from the typical microenterprise development program. JTPA was designed to measure short term individual outcomes; but the goal of microenterprise programs is to create new business entities that will provide both an independent livelihood for the participant, and a contribution to longer term economic growth for the community as a whole. Many of the specific problems encountered in applying EDWAA administrative requirements to self-employment can be traced to this fundamental difference between microenterprise and training for wage and salary re-employment.

The program operators contacted for this study were acutely aware of the failings of their ad hoc measures, but had received little guidance from state, regional or federal JTPA officials. If other EDWAA microenterprise efforts confront the same obstacles—which is very likely—then we must conclude that many of the self-employment outcomes currently reported to the states and USDOL are not comparable to each other or to re-employment outcomes, and some (such as average wage) are essentially meaningless.

Many of our respondents believe that self-employment performance standards can never be made to work if they must be defined as analogues to re-employment outcomes. For outcomes to be meaningful, microenterprise programs need to be evaluated on their own terms, with a distinct set of standards. While realizing that such a step would probably require changes to the JTPA authorizing legislation, respondents suggested several measures that would be appropriate to monitor performance for self-employment and microbusiness training. They include:

- Number of participants;
- Number of businesses started (with agreed-upon definitions for business startup);
- Number of participants entering wage and salary employment at termination;
- Gross sales generated during the first business quarter and at some appropriate follow-up point;
- Number of businesses still operating at follow-up;
- Hours worked and earnings from wage and salary employment (if any) at termination and follow-up;
- Number of employee positions created by the business at follow-up; and
- Cost measures.

As outlined by respondents, these measures were not intended to be exhaustive or fully defined. Rather, they were offered as a starting point for discussion should DOL consider future changes to the current JTPA performance standards.

VII. CONCLUSIONS AND POLICY RECOMMENDATIONS: MICROENTERPRISE OPPORTUNITIES FOR JOB TRAINING PROGRAMS

The six EDWAA Job Creation projects came to an end in September 1993, after operating for twenty-seven months, enrolling 996 participants, and spending approximately $4.1 million. Although the projects no longer exist as demonstrations, four of the six grantees have continued to provide self-employment services on a smaller scale with support from local EDWAA substate grantees, the U.S. Department of Health and Human Services, or state and local funds. The demonstrations influenced the lives of hundreds of dislocated workers and their families, explored a variety of service models and training strategies, developed curriculum materials suitable for dissemination, and provided JTPA's first systematic look at the prospects of self-employment training for dislocated workers. In this chapter we draw on the demonstrations' experiences, as well as those of other CDCs and EDWAA programs engaged in job creation, to draw some overall conclusions about the effectiveness of microbusiness training and ways to do it well. We also offer a number of recommendations should DOL wish to expand self-employment as a training option for dislocated workers.

THE PROMISE AND RISKS OF JOB CREATION THROUGH MICROBUSINESS

Conclusion #1: The EDWAA Job Creation Demonstration achieved significant results from self-employment training. However, it was not designed to measure net impacts, and the extent to which outcomes are due to demonstration activities is not known.

As described in Chapter V, the Job Creation demonstrations were successful in fostering new businesses and creating secondary employment, at least in the short term. Of the 645 participants enrolled in the six projects' self-employment tracks, 45% started up businesses during the time frame of the demonstration and another 29% found wage and salary employment. Businesses started by participants reported total sales of over $3.5 million during the grant period, and provided full or part time employment for at least 97 people in addition to the owners. Among the businesses contacted for follow-up six months after startup, 74% were still in operation; and of the early cohort eligible for 12-month follow-up, 76% were still in business after one year.

How successful were the demonstration outcomes in relation to other self-employment programs for disadvantaged populations? Table VII-1 presents a rough comparison with seven other programs undertaken at about the same time. We would emphasize that comparisons among these programs should be made very cautiously, as they involved a wide range of participant populations and local economies and did not use uniform definitions for business startup. Longer term follow-up measures are not available for all programs, and different follow-up periods were used. Nonetheless, from the limited measures available it appears that the Job Creation demonstrations' outcomes were on par with similar efforts elsewhere.

But this does not mean that results produced by the demonstrations can be attributed entirely to the services grantees provided. As is true for all employment training programs, at least part of the outcomes observed may have occurred in the absence of demonstration services, and negative effects are also possible. Unfortunately, net impacts can not be measured accurately without a randomly assigned control group, and the Job Creation demonstration was not designed to provide for such a group. This fact in no way detracts from the achievements of the demonstration projects, but it does call for caution in interpreting these and all results reported here.

Conclusion #2: Self-employment training under the demonstration produced total employment rates that matched outcomes from traditional EDWAA retraining services, but initial earnings from self-employment were much lower than the average EDWAA wage at termination.

In Chapter V we also examined demonstration outcomes in relation to PY92 WAPR data for mainstream EDWAA programs in the demonstrations' service areas. This procedure too permits only a rough comparison, as the demonstrations' and SSAs' service areas and participant profiles were different. However, the major findings for self-employment participants were quite clear. The employment rate from business startups alone (45%) did not produce employment outcomes comparable to mainstream EDWAA. But when all employment outcomes

Table VII-1

A Comparison of Outcomes from Selected Microenterprise Training Programs

Project	Number of Participants	Participant Population	Funding Source	Percentage Business Startups	Longer-term Survival Rate[1]	Follow-up Time Period
Total, EDWAA Job Creation Demonstration	645	Dislocated Workers	JTPA Title III (Section 324)	45%	74% / 76%	6/12 months
CPS	148			49%	66% / --	
FCM	142			47%	48% / 64%	
GRASP	66			46%	94% / 100%	
HACER	118			35%	-- / --	
MAN-TRA-CON	67			54%	100% / 89%	
MEGA	104			46%	90% / 79%	
Washington State UI Demonstration	755	UI Claimants	UI / USDOL	52%	66%	21 months (average)
Massachusetts UI Demonstration[2]	263	UI Claimants	UI / USDOL	47%	77%	19 months (average)
Carson/Lomita/Torrance PIC, CA	63	Dislocated Workers	JTPA Title III (40% and formula)	60%	90%	3 months
Boone-Tioga-Tompkins SSA, NY	192	Dislocated Workers	JTPA Title III (40%)	32%	NA	NA
Berkshire Enterprises, MA	269	Dislocated Workers	JTPA Title III (State 40% funds)	57%	78%	Cumulative (1/90 - 3/94)
Pima County SSA, AZ	150	Dislocated Workers	JTPA Title III (Formula funds)	47%	NA	NA
Self-Employment Investment Demonstration (SEID)[3]	699	AFDC Recipients	States / CFED	30%	NA	NA

[1]Computed as a percentage of all persons eligible: e.g., participants starting businesses, or (for 12-month Job Creation follow-up), percentage of participants who started businesses at least 12 months before close-out of the demonstration. Twelve-month rates are higher than six-month rates in some cases, because they are based on an earlier cohort of business starters.

[2]Outcomes for participants enrolled in 1990-91 only.

[3]Outcomes through December 1991 only.

NA: Data not available.

--: No participants eligible for follow-up (Job Creation demonstration projects) for these participants are considered (i.e., placements in wage and salary jobs as well as business starts), employment rates at follow-up for five of the six demonstration projects[1] averaged 74%, as compared to the 67% who were employed at follow-up in nearby substate areas. This finding appears to confirm the conviction, held by many program operators, that entrepreneurial training produces marketable skills even if it is not immediately used to start a business.

More worrisome was the finding that many businesses started under the demonstration did not operate full-time and did not generate enough income to provide a living wage, even after six to 12 months of operation. Net business income averaged only $1,193 per month at the six-month follow-up. In contrast, the average wage at 90 day follow-up was $10.55 per hour (about $1,815 per month) for the comparison group of EDWAA substate areas. As explained elsewhere in this report, self-employment earnings are likely to be under-reported, some entrepreneurs supplemented their income through part-time employee jobs, and low initial earnings are typical for all small business ventures. Even so, if immediate wage replacement is an important goal for the participant, self-employment does not appear to be a feasible alternative. Lastly, total average cost per participant was relatively high (about $4,100 for the demonstration, versus $3,182 for the surrounding EDWAA substate areas); but as in any demonstration, costs were inflated by project startup, development and dissemination activities.

Except for one grantee, training explicitly designed for wage and salary re-employment was not a major focus of the demonstration. Early attempts by two grantees to do customized training for existing businesses ran into serious implementation problems, and were abandoned. Outcomes for the grantee with the largest formal re-employment track were almost identical to those for non-demonstration clients in the local SSA. Smaller re-employment components operated by two other projects (one of which was abandoned after the first year) were less successful.

[1]Calculated from sixth-month follow-up data for self-employment participants. A reliable total employment rate could not be computed from data submitted by HACER.

Thus, if the goal of EDWAA is to generate consistently high initial placement rates, wages at termination and other short term individual outcomes at low costs per participant, these results suggest that it is better to invest in retraining than in self-employment strategies.

Conclusion #3: However, microenterprise strategies offer a number of longer-term benefits for individuals and communities if program sponsors are prepared to accept the risks involved.

Microbusiness training has the potential for producing longer term outcomes that will benefit both individual participants and communities hit by dislocations and economic restructuring. Apart from reducing immediate competition for available employee jobs, microbusiness development creates new employment opportunities for other workers. It does this directly—as the business expands and requires extra help—and indirectly, by generating new demands for raw materials, supplies and services from existing businesses. Compared to large companies, microbusinesses purchase a larger percentage of these inputs locally. Moreover, there is evidence that smaller firms are more likely than large firms to hire teenagers, individuals returning to the workforce after a long absence, and other traditionally hard to serve populations. Minority-owned businesses (most of which are microbusinesses) are more likely to hire minority employees.[2]

In addition, microbusiness can contribute to diversifying the local economic and tax base, a goal that has become increasingly important to communities that have lost their traditional core industries due to overseas competition or defense cutbacks. Although most microbusinesses focus on local markets, many of them survive by identifying previously under-served niches oriented to specialized markets (e.g., ethnic minorities, people with disabilities, sports enthusiasts) or specialized products. Others are learning to develop market niches that are regional or national in scope, by offering specialized technology-based products and services, or through low-technology products that meet the needs of well-defined but highly dispersed populations. Examples of the former include advanced irrigation systems and computer-aided

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[2]Berkeley Planning Associates, *Labor Turnover and Worker Mobility in Small and Large Firms: Evidence from the SIPP*, U.S. Small Business Administration, Office of Advocacy, 1988; Bradley Schiller, *Early Jobs and Training: The Role of Small Business*, U.S. Small Business Administration, Office of Advocacy, 1986; Berkeley Planning Associates, *Social Support Networks and Minority Business Development*, U.S. Department of Commerce, Minority Business Development Agency, 1989.

architectural design businesses formed at CPS; examples of the latter include a MEGA-trained gourmet mushroom farmer in Muskegon serving restaurants in Detroit and Chicago, and a MAN-TRA-CON participant marketing his reproductions of 1860's camp furniture to Civil War buffs nationwide. In effect, enterprises like these function as regional exporters, bringing outside income into the community.

Lastly, microenterprise strategies produce a number of effects that can not be easily measured in economic terms. They inculcate entrepreneurial and management skills, even for those who do not start businesses or later return to employee jobs. They create role models, people "from around here" who have defied the odds to create an independent livelihood on their own terms. They act as a catalyst for community renewal, and provide a sense of hope for groups who have been traditionally left out of the economic mainstream. Although impossible to quantify, such benefits are not trivial.

But all these benefits come at a price: business is inherently risky, for experienced entrepreneurs as well as newcomers. According to estimates from the U.S. Small Business Administration, 58% of all startups with four or fewer employees are no longer operating after four years.[3] Except for the recent UI Demonstrations in Washington State and Massachusetts, evaluations of microenterprise programs have not been designed to provide net impact or benefit-cost estimates. Early returns from the UI demonstrations (discussed in Chapter II) do show positive net impacts on propensity to start businesses and on self-employment or wage and salary earnings. However, a poorly designed or poorly run program can set participants up for failure, leading to a waste of public resources and a loss of personal fortunes.

In short, longer-term benefits involve shorter-term risks, for sponsors of business development programs as well as for individual entrepreneurs. The Job Creation demonstrations, the UI demonstrations and programs operating within mainstream EDWAA have shown that microenterprise is a viable strategy for dislocated workers. The microenterprise field is learning rapidly, and techniques for effective business training, lending and technical

[3]U.S. Small Business Administration, *The State of Small Business: A Report of the President*, U.S. Government Printing Office, 1992. Weighted averages from Table A-20, p. 193.

assistance are steadily coming into wider use. Business development is still not an exact science, however, and public agencies that invest in it must be prepared for failures both at the program level and among the individuals they seek to help.

MAKING MICROBUSINESS TRAINING WORK FOR DISLOCATED WORKERS

As noted above, the EDWAA Job Creation Demonstration was designed not as a summative evaluation but as a vehicle for exploring new ways for CDCs to contribute to EDWAA through self-employment training and other services. Random assignment was not used, and there was no experimental control group. Grantees were not held to a specific service model, but were free to alter and improve their service arrangements as needed.

The demonstration was quite successful in providing an intensive learning experience for grantees. There was a great deal of experimentation with different curricula and service delivery models, and grantees benefitted from their early mistakes as well as their successes. One of the most noteworthy findings from the evaluation was the extent to which grantees' ideas about self-employment training began to converge over the course of the demonstration. The grantees' experiences and recommendations are discussed more fully in Chapter IV, but we would note the following highlights concerning good service practices:

Conclusion #4: Self-employment is a viable strategy only for a small subset of the dislocated worker population. Programs need to develop selection and screening procedures to ensure that participants are highly motivated, aware of the risks and work involved, and are prepared to focus on a specific business idea.

Relying solely on participant self-selection led to excessive numbers of dropouts and stalled business plans in the demonstration projects. Participants with unrealistic expectations or low commitment found employee jobs, and others failed to focus on workable business ideas. Dropout rates declined and the quality of candidates improved after proactive screening steps were implemented. Proactive screening by program staff works best, however, if it is done in conjunction with extensive **self-selection** activities which challenge participants to take stock of their own capabilities and motivations. If desired, screening can also be used to target applicants likely to start businesses that will grow large enough to provide a living wage and create new jobs, as opposed to providing part-time income supplements.

On the other hand, we did not find that entrepreneurship is suitable only for candidates with higher education or prior technical/ managerial experience. A good foundation of basic reading and numerical skills is important, along with marketable occupational skills in one's chosen field of business. Participants with weak academic backgrounds may require more intensive help to complete classroom training and business plans, but can still benefit from these programs.

Conclusion #5: Training for entrepreneurship is fundamentally different from re-employment training. Its goal is not merely to provide business skills, but to help develop a new and viable organization—a business entity—that will support the participant. This basic difference has a number of implications for program design and service delivery.

America has always produced individuals able to start and run businesses, with or without formal training. The function of programs like the Job Creation demonstrations is to expand the range of people equipped to participate in that process, by providing basic entrepreneurial skills and guidance during the difficult process of business design and startup. Grantees found that to do this well requires an **adult learning approach** to curriculum design and classroom instruction, **staff and peer support** for making the emotional transition from worker to business owner, and **technical assistance** as needed during business plan development, startup, and the first months of operation. This in turn calls for **staff that have practical business experience and a high degree of commitment.** The classroom training component need not be long (six to thirteen weeks), but it must allow time enough for participants to make fundamental design decisions about their businesses and to do crucial background research. **Business plan development** should be integrated into the classroom curriculum to ensure that they will be completed on schedule and to an acceptable standard.

In addition, our review of non-demonstration microenterprise programs revealed that **formal classroom training, though appropriate for many dislocated workers, is not absolutely necessary for successful business development.** On the other hand, some form of individual technical assistance is essential.

Conclusion #6: It is vital for self-employment programs targeting dislocated workers to provide access to capital. For many participants, training alone is not sufficient to ensure successful outcomes.

Although dislocated workers as a group are better credit risks than other JTPA populations, most do not qualify for commercial bank loans. Even those who have assets for collateral may not meet bank requirements for current income. In addition, banks may be reluctant to make microbusiness loans because of the relatively high administrative costs involved. Some participants can finance their business ventures comfortably without seeking outside capital, but for many others complete self-financing results in businesses that are critically vulnerable and inefficient, if they are started at all. Chronically undercapitalized businesses take a very long time to grow to a size that permits the owner to become self-sufficient; lack of capital also restricts the types of businesses that can be created, leading to overcrowding and low survival rates in these fields.

Lack of access to revolving loan funds and other sources of non-commercial capital was perhaps the most important single barrier faced by the Job Creation demonstrations. Apart from small supportive services grants provided by the demonstrations themselves, only 16% of participants at follow-up reported obtaining loans from banks or similar institutions, even after six months of operation.[4] The few general purpose loan funds available locally were overwhelmed with applications, and other existing programs were restricted to specific populations such as AFDC recipients. There were no loan programs targeted to dislocated workers, and the JTPA authorizing legislation specifically prohibits capitalizing such funds from JTPA sources.

Although it cannot be documented statistically in the absence of an experimental control group, participant case reviews showed quite clearly that the lack of loan capital depressed the demonstrations' startup and business survival rates, and prevented some other ventures from providing full-time work and earnings. This problem was by no means limited to the demonstrations, and continues to affect microenterprise programs nationwide.

[4]Excludes HACER; see Appendix B.

Conclusion #7: Establishing good working relations with state and local Unemployment Insurance offices is particularly important for self-employment programs targeting dislocated workers. Programs that fail to reach a firm understanding with UI about allowable activities risk the loss of benefits for their participants.

UI payments were the most common source of financial support for demonstration participants, half of whom received benefits at some point during training. Although problems with UI were not as serious as expected overall, they did call for adaptive responses by some grantees and resulted in the loss of benefits for several participants. The problems encountered included securing approved training status, reduction of benefits due to business income or participation in training activities, and cancellation of benefits for filing incorporation papers. Concerns about UI sanctions also affected data collection for the evaluation, as some participants refused to admit earlier self-employment experience or understated working hours and earnings from businesses started up under the demonstration.

Fortunately, most of these problems have since been addressed in the UI Self-employment Assistance program (SEA) created under the North American Free Trade Agreement Implementation Act, discussed in Chapter VI of this report. Among other things, SEA provides uniform guidance to participating state Employment Security offices for dealing with qualified UI claimants in self-employment training programs over the next five years. Even so, UI staff will still need to be consulted in the up-front planning and design of self-employment programs, and programs will need to maintain good ongoing communication with local offices to resolve individual problem cases.

EDWAA ADMINISTRATIVE REQUIREMENTS AND PERFORMANCE STANDARDS

Conclusion #8: Although the Job Creation demonstration projects were not subject to EDWAA performance standards, these and certain other administrative requirements have posed serious obstacles for mainstream EDWAA programs seeking to become involved in microbusiness training. Attempts by program operators to construct fair and accurate self-employment measures consistent with JTPA standards have met with little success. DOL clarification of performance standards and administrative requirements relating to self-employment would remove an important barrier to expansion of this option. The Department may also wish to consider developing separate performance standards for microbusiness training.

EDWAA and other JTPA programs were designed primarily for re-employment training and placement in wage and salary jobs. Self-employment is fundamentally different, both in its training process and in the outcomes appropriate to measure success. The problems encountered by mainstream EDWAA programs in applying traditional performance standards are discussed more fully in Chapter VI. Briefly, they include issues of defining the point of business startup and termination from the program, defining business earnings at "placement" and follow-up, and collecting suitable documentation for earnings and startup. Related problems include the "90 day rule" requiring placement within 13 weeks after the completion of services (business startup often takes much longer, especially when loans are involved), and relatively high costs per participant. In addition, the standard JTPA 13 week follow-up period is far too short to draw meaningful conclusions about business survival or growth.

The Job Creation demonstration did make some progress in exploring suitable measures of business success. With assistance from the National Evaluation team, grantees developed a number of workable definitions for business startup. Demonstration grantees also introduced a number of distinctly business-oriented performance measures—gross sales, employee positions created, business survival at six and twelve months, loan capital secured, filing for business licenses and other legal steps taken, among others—that have no counterparts among the existing EDWAA standards.

Useful as they have been in documenting outcomes for the demonstration, such measures do not resolve the more fundamental problem facing substate grantees that offer self-employment training within mainstream EDWAA. The heart of the problem is this: that **concepts that are central to the re-employment process, such as placement, termination and wage, have no true analogues in self-employment.** Although EDWAA program operators at the state and substate levels have tried a variety of ways to translate these concepts into terms meaningful for microbusinesses, no satisfactory solution has been found. In the absence of federal guidance, the result has been a proliferation of locally defined stopgap measures. Other substate areas have avoided self-employment training entirely, partly for fear that they can not document outcomes in an acceptable way, that it will lead to audit exceptions, or that it will "bring our numbers down."

The parameters of the problem are well understood by those who face it, and it is highly unlikely that a simple solution will be found. Microbusiness practitioners and substate grantees are not afraid of performance standards, as long as those standards are fair and appropriate; but we found a great need for federal guidance in this area.

DOL could help meet this need by convening a working group of experts to define a set of model outcome measures and related guidelines suitable for self-employment. The group could be composed of representatives from DOL/ETA, experienced state and substate grantees, and microbusiness program operators with a firm grasp of business practices. We also recommend that the working group include representatives from other federal agencies dealing with self-employment, to encourage a more unified approach to evaluating federally funded microenterprise efforts.

In addition, DOL could provide explicit guidance to Governors on the conditions for establishing state variations[5] of the national performance standards for microenterprise programs (including model guidelines for defining business startup, date of termination, and related matters). Alternatively, DOL could provide even greater flexibility by permitting state waivers that would allow Governors to establish separate performance standards for microenterprise programs.[6]

BUILDING CAPACITY FOR JOB CREATION

Conclusion #9: If DOL wishes to expand the scope of self-employment training for dislocated workers, there are several initiatives that could be pursued at the federal, state or local level. These are:

- ***Provide training and technical guidance for substate areas interested in offering microenterprise training.***
- ***Provide incentives for substate areas to expand local linkages with CDCs and similar organizations that are experienced in microbusiness and other forms of job creation.***

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[5]29 USC 106(d).

[6]These options are discussed in Tracy Kitzman, *Inclusive Job Training: Using JTPA Funds for Microenterprise Training*, Center for Policy Alternatives, 1993.

- ***Support the expansion of microlending opportunities for dislocated workers.***

Each activity is discussed briefly below.

Provide training and technical guidance for substate areas interested in offering microenterprise training.

Interest in microbusiness options has risen sharply in recent years, and the UI Self-Employment Assistance program's requirements for certified training provide an additional incentive for EDWAA programs to become involved. But many SSAs are daunted by this unfamiliar form of employment training, and lack resources to develop quality programs from the ground up. The EDWAA Job Creation demonstrations, the UI demonstrations and other initiatives have added considerably to our understanding of how microbusiness training should be done for dislocated workers, and a wealth of new curriculum materials—some developed by Job Creation grantees—is now available.

In the event that DOL decides to expand self-employment services for dislocated workers, it could perform an important service for the field by holding workshops on self-employment in connection with other dissemination activities, or by encouraging states to do so. These introductory workshops would help states and substate areas become more familiar with microbusiness training options. They could address alternatives for service delivery, guidelines for selecting providers, training materials and sources of capital available, implementation problems and outcomes to be expected, and suggestions for making self-employment work administratively within the JTPA framework. States could also sponsor more intensive train the trainer workshops that cover the practical specifics of setting up microbusiness training programs. As suggested above, DOL could remove a major barrier to expansion by clarifying definitions, performance standards and other administrative requirements relating to self-employment.

Provide incentives for substate areas to expand local linkages with Community Development Corporations and similar organizations that are experienced in job creation.

In examining the wider universe of job creation efforts for this report, we encountered surprisingly few examples of CDCs operating programs targeted to dislocated workers. Where dislocated workers were served by CDCs, it was through efforts directed primarily to AFDC clients or other low-income populations, women, ethnic minorities, or the general public. Of the programs designed specifically for dislocated workers, almost all were funded through EDWAA, and were operated by community colleges, for-profit training contractors, the substate areas themselves, or non-profit groups other than CDCs.

Interviews with CDCs and EDWAA grantees revealed that CDCs are often at a disadvantage in dealing with JTPA. They are unused to dealing with the complexities of JTPA paperwork and contracting requirements, and find it difficult to compete with service providers offering traditional re-employment training. This is especially true where Requests for Proposals emphasize low costs per participant, high entered employment rates related to training, and high wages at placement.

Despite these disadvantages, CDCs and similar groups are often the organizations best qualified to help EDWAA participants become self-employed. As discussed elsewhere in this report, formal training is only one aspect—and not always the most important aspect—of good business development. It also involves follow-on technical assistance from experienced staff, access to capital, marketing help and other activities that call for a practical familiarity with the local business environment and the needs of entry-level entrepreneurs. The same holds true for customized training targeted to expanding businesses, incubator approaches and the wider range of job creation activities. Although CDCs are not the only organizations with these qualifications, they do have strong linkages to other economic development activities; many are experienced providers of technical assistance for microbusinesses, and a growing number have experience in conducting group business training.

As part of local capacity building efforts, EDWAA substate areas should be encouraged to work more closely with qualified CDCs in their service areas. This could involve workshops on how to operate successfully within the JTPA administrative framework, and service designs or subcontracting arrangements that take best advantage of CDCs' unique strengths. As discussed in Chapter VI, individual referral contracts are a form of service delivery arrangement that holds great potential for involving CDCs in microenterprise training and technical assistance, and would work well in conjunction with a "one-stop shop" approach. Here too, clarification of JTPA administrative requirements relating to self-employment would make it easier for CDCs to participate.

Support the expansion of microlending opportunities for dislocated workers.

There is a great need for expanding access to startup capital for dislocated workers and other low-income populations. The Self-Employment Assistance program created under the NAFTA Implementation Act is a good first step in that direction, as it will make UI payments available to support entrepreneurial training and startup activities for qualifying claimants. SEA is only a partial solution, however. It does not cover workers ineligible for UI benefits—which would include 30% or more of those served in the Job Creation demonstration—and not all UI claimants will qualify. Moreover, if the UI demonstrations in Massachusetts and Washington are typical of future experience under SEA, the amounts available to participants for capitalizing the business itself are likely to be small.[7] Lastly, entitlement payments such as those envisioned under SEA do not help to establish the business's credit history, and will be of limited help in securing future loans.

Although JTPA funds can not be used to capitalize loan funds under current legislation, microbusiness participants would benefit from DOL support for expanded credit access through other federal funding sources, and from closer linkages between EDWAA-funded training and providers of capital. In doing so, three points should be kept in mind:

[7]The UI demonstrations did not collect information on the amount of demonstration-related funds used for business equipment and expenses other than participant support. However, first-year participants in Massachusetts and Washington received an average of $6,140 and $4,858 respectively, including Washington's lump-sum payments. Both groups averaged about 16 weeks between entering the program and the time of first business startup.

First, there is a need for a continuum of credit sources ranging from small initial loans in the $2,000 to $5,000 range, through larger microbusiness loans, and extending to standard small business loans in the $50,000 range. These lending sources need not all involve public funds; but it should be recognized that growing microbusinesses may exceed the lending limits of revolving loan funds without qualifying for commercial bank loans. Support for microenterprise development necessarily involves support for a wider range of community-oriented lending activities, and efforts to increase the willingness of banks to make loans to small businesses and low-income applicants.

Secondly, one effective way to make resources available is to capitalize revolving loan funds operated by local microbusiness programs. Although JTPA funds cannot be used for these purposes, other federal funding sources, such as the SBA microloan program and DHHS's Office of Community Services employ this approach, and might be linked with self-employment training.

Lastly, capital funding mechanisms should allow for operational support to help cover the costs of servicing loan portfolios. Since the volume and size of loans administered by revolving loan funds is typically small, servicing costs can not usually be covered by fee and interest income alone.

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APPENDIX A
SUPPLEMENTARY CASE STUDIES

As part of our activities for the National Evaluation, BPA identified a number of non-demonstration programs which were either targeted specifically to dislocated workers, or involved CDCs in job creation efforts for similar populations. After interviewing the heads of these organizations and reviewing program materials sent to us, we developed a short-list of sixteen organizations worthy of closer study. This list, with short preliminary profiles of each organization, was forwarded to DOL in December 1991. From the list, DOL staff made a final selection of four groups, and BPA and Cygnus staff visited the programs twice in 1992 and 1993.[1]

The supplementary case studies were not meant to serve as a quasi-experimental comparison group for the demonstration programs. Our review of CDC job creation efforts determined early on that no existing programs were similar enough to the DOL demonstrations -- in terms of their setting, organization, funding, and target population -- to justify a rigorous comparison group design. At the same time, the supplementary case studies do serve an important purpose for the evaluation, by highlighting other job creation approaches that could be applied to serving dislocated workers in conjunction with EDWAA.

In the following sections we briefly describe each of the supplementary case study programs, using a format similar to the demonstration project descriptions in Chapter III.

COASTAL ENTERPRISES, INC.

Coastal Enterprises, Inc. (CEI) is a community development organization incorporated in 1977 to provide financial and technical assistance to small business enterprises and thus create

[1]One program visited during the first round of these visits, the University of Texas at San Antonio's Center for Entrepreneurial Development, Self-Employment Training Program (SETP), lost its funding before a second visit could be completed. A second program, Private Ventures Incorporated of Flint, Michigan was substituted for SETP during the second round of visits, and both are described below.

income, employment, and ownership opportunities for the low to moderate income residents of Maine. CEI is supported by public and private monies from a wide variety of sources, though the majority is derived from foundation and federal government grants. CEI operates several economic development programs, including two self-employment demonstration projects for AFDC recipients and recent refugees.

SETTING

CEI provides services throughout Maine, a largely rural state characterized by high unemployment and limited job opportunities. Harsh winters and an economy based on recreation and natural resources means that much of Maine's employment is seasonal and poorly paid. Chronic underemployment and persistent poverty are the norm, and recent declines in manufacturing have greatly limited the number of good jobs.

Maine's population of 1.2 million is spread across a broad area, and only nine communities possess populations of more than 20,000. Providing services under these conditions has been a challenge for CEI, which has responded by targeting individual programs to specific regions within the state.

ORGANIZATION

CEI promotes self-employment as an important component of economic development. In support of microenterprise and small business development, CEI operates a variety of programs. These include a Rural Development Investment Fund that provides a continuum of financing to Maine businesses, with loans ranging from less than $5,000 to $350,000; a Small Business Development Center; a women's business project; and two microenterprise demonstration projects, which are discussed in more detail below. In addition, CEI operates a child care development project and engages in policy-related research on a range of issues, including rural child care, small and women-owned business development, defense conversion, and environmental technologies. In each of its programs, CEI targets its services to low income people, particularly women, AFDC recipients, and people with disabilities.

SERVICES

CEI's microenterprise efforts include two self-employment demonstration projects, NAME and SOAR. NAME, the New Americans Microenterprise project, is a three-year demonstration project providing self-employment training and assistance to 50 refugees in the Portland area. SOAR, the Special Opportunities for AFDC Recipients project, is also a three-year demonstration project, and offers opportunities for re-employment and self-employment to AFDC recipients in Androscoggin County.

NEW AMERICANS MICROENTERPRISE PROJECT

NAME is a multifaceted service program operated by CEI in close collaboration with several other organizations. These organizations and their respective contributions include the Maine Displaced Homemakers Program (DHP), which provides work force literacy and entrepreneurship training; Portland Adult Community Education (PACE), which provides English classes and vocational training; and the Refugee Resettlement Program (RRP), Maine's primary refugee service provider, which provides recruitment, interpretation and translation, expertise in cultural matters, and case management, including arranging for support services such as transportation and individualized tutoring. CEI itself provides overall project management, expertise in microenterprise development, business counseling and workshops, and financing for new businesses.

NAME is supported by a grant from the Department of Health and Human Services, Office of Refugee Resettlement. In the initial design for the project, CEI planned to use $25,000 of this grant and $50,000 in existing loan funds to leverage $50,000 from a local bank to establish a revolving loan fund. Additional funds from subsequent grants were expected to expand this loan fund to $225,000. Demand for financing fell short of the project's expectations, however, and at the end of the project's second year CEI had made only seven loans totalling $31,850.

In general, NAME was limited to refugees who had been in the U.S. for five years or less, with a preference for those at risk of or dependent on welfare. (Initially the project sought to enroll recent arrivals with two years or less in the U.S., but this population proved challenging for microenterprise development.) Participants were recruited from clients of the Refugee Resettlement Program, and interested individuals underwent extensive interviews with project staff. These interviews assessed the applicant's business idea, commitment to self-employment, personal initiative, and relevant experience. By the end of September 1993, 83 individuals had attended program orientations, 67 had enrolled in training, and eleven others had received technical assistance.

NAME's targeting of refugees has led to several special challenges for the project. Refugees must go through a process of acculturation after arrival, and this process is doubly difficult for individuals starting businesses. Refugees must learn about American culture in general, and American business culture in particular. The process takes time, and many of the most recent arrivals are still in transition. For example, many NAME participants had difficulty understanding American markets and competition, were unfamiliar with banking practices and uses of credit, and found it difficult to adjust to formal business structures and practices (e.g., business plans and loan applications).

Many refugees were also reluctant to borrow. Some did not want to go into debt, and others were more accustomed to borrowing through informal networks, where character is the primary consideration. However, CEI found that refugees, as a group, were very resourceful and many were able to save modest amounts of startup capital, despite limited incomes. As a result many refugees had long startup times, and many sought re-employment, with the objective of saving money and starting their business slowly over time.

Special Opportunities for AFDC Recipients Project

Like NAME, the SOAR project was operated in close collaboration with several other organizations. These organizations and their respective contributions included the Maine Dislocated Homemakers program, which provided work force literacy and entrepreneurship training, as well as follow-up services; the Department of Human Services, which provided assistance with recruitment and marketing efforts, funded OJTs and other placements, and provided office space for CEI's project staff; Mountain Valley Training, the JTPA service provider in Androscoggin County, which provided job training services such as tryout employment, OJT, and customized skills training; and the Women's Business Development Corporation, which provided mentoring services.

CEI provided overall project management for SOAR, business counseling through the SBDC, and financing assistance both to businesses who hired SOAR participants and businesses started by participants.

SOAR was funded by a grant from the U.S. Department of Health and Human Services, Office of Community Services. Approximately $50,000 of this grant has been used to leverage funds for a revolving loan fund; $250,000 was raised from several financial institutions and $240,000 was obtained from two local economic development organizations.

SOAR utilized AFDC case managers for recruitment. Case managers recommended potential participants, and 420 were invited to the orientation session. Individuals expressing interest were interviewed by project staff, and were allowed to self-select themselves for the program. Of 38 AFDC recipients who attended the orientation session, 15 enrolled.

SOAR participants pursued one of two service tracks, re-employment training or business development. The re-employment training combined work force literacy training, customized skills training, tryout employment, and job placement. To help create jobs for participants, CEI offered loans to businesses agreeing to hire SOAR participants. SOAR's business development track provided self-employment training customized to the needs of AFDC recipients, individual skills training, business counseling, mentoring, technical assistance, access to CEI revolving loan funds, and follow-up services.

After operating the SOAR self-employment track for two years--serving one 15 member class of participants--CEI eliminated the service. Several reasons were cited for the discontinuation of the program, including the difficulty of finding eligible participants with the interest and resources to complete the program, a lack of sufficient program resources to support a second class, and difficulties experienced by participants in writing business plans in the expected period of time.

University of Texas at San Antonio, Center for Entrepreneurial Development, Self-Employment Training Program

The University of Texas at San Antonio's Center for Entrepreneurial Development operated the Self-Employment Training Program (SETP) between 1989 and 1992. During that time, SETP served as one of the nation's few ongoing self-employment training programs funded from EDWAA substate area formula funds. SETP was highly selective in admitting dislocated worker participants, and combined a classroom training component with expert business counseling. In approximately three years of operation, SETP completed five training cycles with 126 participants. By Spring 1992, SETP participants had started 54 businesses. At the end of PY91, however, the program lost its funding due to cutbacks in the substate area budget, and ceased operations.

Setting

SETP's services were available to residents of the Alamo Substate Area, a rapidly growing metropolitan area centered on San Antonio, Texas. In the 1980s alone, the San Antonio metropolitan area's population increased by 25% to its current level of approximately 1.36 million persons. At the same time, San Antonio has emerged as a regional economic leader with a strong base in service industries and tourism. Despite a string of large-scale layoffs, San Antonio's unemployment rate has stood below the national average in recent years.

Organization

The University of Texas at San Antonio initiated the Center for Entrepreneurial Development (CED) in 1987 as the administrative agency for a federally-funded business expansion demonstration project. In 1989, CED initiated the Self-Employment Training Program, which soon became the Center's sole project after funding for the business expansion demonstration project expired. SETP arose from a local SSA request-for-proposals to provide self-employment training for dislocated workers.

During PY91, SETP had an EDWAA budget of $187,000 and received no other financial support from the University of Texas or any other organization. Four full-time staff were employed by the program, including a director, two business development specialists, and an administrative assistant. The director and business development specialists were all seasoned business professionals with extensive experience in both large corporations and smaller start-up firms. Several consultants were also employed by SETP on an hourly basis to provide additional assistance in areas such as marketing or human relations.

In addition to the Center for Entrepreneurial Development, UTSA operated several other economic development programs. These included the Center for Economic Development, funded by the U.S. Department of Commerce, Economic Development Administration; the Southwest Trade Adjustment Assistance Center, funded by the Department of Commerce's International Trade Administration; the Small Business Development Center, funded by the U.S. Small Business Administration; and the Minority Business Development Center, funded by the Minority Business Development Agency.

SERVICES

Most SETP graduates first heard about the program through newspaper advertisements placed by the program and directed at unemployed and dislocated workers. Public service announcements on a local radio station, a booth at a local job fair, and word of mouth news of the program also led to a number of inquiries.

Before enrolling, applicants were required to complete an extensive 45-page workbook exercise which served as a self-assessment of the participant's employment experience, goals, interests, skills, resources, and the feasibility of their business idea. SETP then used these workbooks, along with a separate SETP application and a personal interview, to choose the best-qualified participants for the program. Since most new businesses fail, SETP sought to concentrate its limited resources on applicants who had the best chances for success. This process tended to be highly selective: in the final cycle of the program, for example, SETP accepted only 20 of 250 applicants.

SETP's eleven-week training program placed a strong emphasis on individual research of the business idea and covered a broad range of business subjects. Classes met twice a week for two hours, and were team-taught by SETP's two business development specialists, with occasional presentations by outside consultants on course-related topics. After completing the course, participants continued to work on their own and with the business development specialists to complete their business plans and start their businesses. This post-training period lasted an additional ten to thirteen months.

SETP continued to serve its graduates after termination, and business development specialists continued to meet with them to assist the further growth of their businesses. In addition, SETP maintained an "Entrepreneurial Network," a monthly meeting of program graduates centered around a relevant business topic.

SETP placed great demands on its participants in all aspects of the program. In addition to the lengthy self-assessment, the training course required approximately three hours of individual preparation per hour of instruction and set high standards for participants' work. Conversely, SETP placed great demands on its own staff and continuously sought to improve its training and guidance to participants. Towards this goal, SETP regularly surveyed participants to get feedback on the training, and revised the syllabus before each new training cycle in response to these comments, and in preparation for each cycle's unique mix of participant businesses. In addition, SETP surveyed past participants to assess their post-termination progress and to further refine program services. Like many other self-employment programs, however, SETP had no access to capital and its participants were typically forced to borrow from family, friends, and their own savings to start businesses.

Community Development Corporation of Kansas City

The Community Development Corporation of Kansas City (CDC-KC) is a community-based organization that has implemented a variety of economic development projects in the African American neighborhoods of Kansas City for over 20 years. These include self-employment training and business assistance services, which are supported by federal grants and income from commercial projects. In addition, CDC-KC operates a number of housing, commercial development, and social service projects in the neighborhoods it serves.

SETTING

The Kansas City metropolitan region is expansive, spreading across two states and five counties, but CDC-KC serves only a selected portion. CDC-KC targets African American neighborhoods in Kansas City proper, an area totalling about 16 square miles. This target area houses approximately 83,000 people. One in five receive public assistance, one in four live below the poverty line, and approximately 80% are African American.

The Kansas City area has a diverse economy, but was hit hard by job dislocations during the 1980s, largely due to contraction in the automobile industry. The unemployment rate for the city as a whole has been close to the national average in recent years, but is typically much higher in CDC-KC's target neighborhoods. Outmigration has also been a significant problem for the city: between 1970 and 1980 Kansas City lost close to 25% of its population, and between 1980 and 1990 the population dropped an additional 10%.

ORGANIZATION

CDC-KC employs a staff of specialists skilled in business, finance, and property development. The organization's major goal is to create a commercial nucleus in the Linwood-Prospect area, a long-established African American commercial and residential neighborhood. CDC-KC promotes the development of this commercial nucleus as the best means for creating employment opportunities for local residents and for encouraging the socioeconomic development of the community.

SERVICES

To achieve this goal, CDC-KC operates several programs providing entrepreneurial opportunities, including the Retail Development Center and the Urban Economic Development Institute. Clients for CDC-KC's entrepreneurial programs are recruited through an extensive word of mouth network. CDC-KC does not use a formal screening process, but counts on the individual entrepreneurs' own interest and ambitions to drive their self-selection and continued participation.

The Retail Development Center (RDC) is charged with supporting the creation, survival, and expansion of small, African American-owned businesses. It offers technical assistance, loan packaging, direct loans, and operates the CDC-KC incubators. While the RDC seeks to serve the entire local business community, its staff require entrepreneurs to demonstrate some expertise and experience (e.g., an operating business, a well thought-out business plan) before offering substantial services.

RDC offers finance-oriented technical assistance to entrepreneurs and loans funded by a $500,000 grant from the Department of Health and Human Services' Office of Community Services. RDC is also responsible for managing CDC-KC's two incubators, the Brooklyn Business Center and Linwood Square.

The Urban Economic Development Institute is an innovative combination of a community development center and entrepreneurial training program. It offers courses on a wide range of subjects and has ambitious plans for expansion. The core course offered by the Urban Economic Development Institute is the Minority Business Development Program (MBDP). The MBDP covers the philosophy and basic principles of small business startup and management, including such fundamentals as bookkeeping, licensing and zoning compliance, personnel management, etc. It meets for four hours per week over an eight-week period.

The lead instructor for the MBDP is assisted by a number of lecturers, largely business professors from historically-black Lincoln University and local entrepreneurs. Teaching methods include interactive lectures, problem-solving exercises, and group discussions of students' entrepreneurial ideas. The MBDP is also supported by several other courses, including one-day courses on Business Plan Development and Home-Based Business Development taught by Lincoln University faculty.

A hallmark of CDC-KC's approach to business development is the long-term, supportive relationships it establishes with individual entrepreneurs. An individual entrepreneur has the opportunity to participate in any number of the organization's programs, following her or his own business needs and interests. In this way, CDC-KC can provide business assistance to an entrepreneur throughout the development of the business.

In addition to these ongoing programs CDC-KC has also launched several entrepreneurial ventures of its own, providing both jobs for community members and income for the parent organization. Two of these ventures include UrbaTrans Services, Inc. and Linwood Square.

UrbaTrans Services, Inc. is a non-profit corporation established by CDC-KC in 1992 to provide transportation services for several poorly served groups. UrbaTrans contracts with service providers to transport urban youth and adults to JTPA employment training sites, elders to day activities and medical appointments, and people with disabilities to sheltered workshops. The company also accepts shorter term assignments, such as transporting school children on field trips. Most recently, UrbaTrans contracted with the local SDA to support its Reverse Commute Program, a project designed to transport low income urban residents to service jobs in the suburbs.

UrbaTrans' original nine drivers were JTPA Title II referrals who had completed a customized training program supported by OJT funds. At the time of our second visit to CDC-KC, two of these drivers had been promoted to dispatcher positions and several others had been hired away by larger for-profit transport companies.

Linwood Square is a 56,000 square-foot retail and service center developed by CDC-KC with funds from the Office of Community Services, Community Development Block Grants, and private commercial sources. The Square complements the adjacent Linwood Shopping Center--itself an 80,000 square-foot retail center built and operated by CDC-KC--as an urban redevelopment project. The Square's 20 commercial spaces will include established franchises and independent businesses, as well as startup businesses operated by graduates of CDC-KC's entrepreneurial programs. Thus, the Square is also a small business incubator, with CDC-KC making equity investments and maintaining some management oversight and assistance.

SAN JOSE DEVELOPMENT CORPORATION

The San Jose Development Corporation (SJDC) is an urban organization that has served the low income residents of Santa Clara County since 1985. SJDC's work is focused on small business development, and relies on a combination of federal and private sector grants to provide self-employment training, loan packaging and other business development services, and technical assistance to businesses in the areas of employment training and export development.

SETTING

San Jose is the third largest city in California, with a population close to 800,000, and sits at the center of one of the fastest growing urban areas in the U.S. Individuals from around the country and even the world have been drawn to San Jose and the surrounding metropolitan area, and the region boasts a great diversity of ethnic communities.

San Jose boosters characterize the city as the capital of Silicon Valley, the undisputed capital of the American computer industry. Major manufacturers in the region include many of the nation's most technologically advanced businesses. The presence of these companies helped make San Jose a boomtown during most of the 1980s, but the recession that followed eliminated many of the high paying jobs that had been a magnet for newcomers.

ORGANIZATION

SJDC has been in operation since 1985 and seeks to foster economic development that benefits low income individuals. Most of SJDC's work is in small business development (discussed below), but it also operates several additional programs, including:

- The Business Employment Center, operated with the San Jose PIC and the California Department of Employment Development, which offers technical assistance to employers in accessing clients of local employment and training programs;

- The Export Resource Center, operated with the city of San Jose Office of Economic Development, which offers orientations and a resource library on export opportunities for local entrepreneurs; and

- A proposed housing project for senior citizens.

SERVICES

Three SJDC divisions are of particular interest for job creation: the Small Business Institute, the Division of Financial Services, and the Silicon Valley Small Business Development Center.

The Small Business Institute (SBI) is the newest of these three divisions and offers self-employment training (SET) and a business incubator.[2] The SBI is supported by grants from the Department of Housing and Urban Development, Community Development Block Grants, and the Department of Health and Human Services' Office of Community Services. SBI offered its first SET course late in 1993, with students referred from the local Greater Avenues for Independence (GAIN) program (California's workfare initiative). Applicants were screened by GAIN for 12th grade reading and math skills, and by SJDC for motivation. Future classes will probably include a mixture of GAIN and JTPA Title II and III clients, and there are plans for classes targeted to Spanish and Vietnamese speakers.

The SET course is taught in a lecture format, and meets for five hours per day, four days a week over ten weeks, for a total of 200 instructional hours. The fifth day of each week is reserved for individual assignments, research, and counseling sessions with the instructor. The course covers a variety of business-related subjects, and places particular emphasis on two factors: creating a sense of community among the participants and instilling a strong sense of confidence and self-reliance.

[2] SBI was finalizing plans for a microenterprise incubator at the time of the second site visit. A portion of the incubator will be set aside for SET graduates.

After training is completed, SET participants begin a 16 week period devoted to business startup--a sort of incubation period. At the time of the site visit, SJDC planned to establish an incubator for SET clients that included common office space and equipment. Much of the counseling during this incubation period was expected to he performed by SCORE volunteers. Following the business startup period entrepreneurs were expected to meet with a business counselor from the SBDC at least once per quarter over the next two years.

The Division of Financial Services (DFS) offers loan packaging, direct loans, and financially-oriented business counseling to local businesses. DFS is supported by the same grants as the Small Business Institute. DFS packages loans derived from or guaranteed by the city of San Jose, its Enterprise Zone, the Department of Commerce's Economic Development Administration, the Small Business Administration, and the Packard Foundation. Loan amounts range from $500 to $300,000, and processing fees range from free to $250. DFS also offers loans through the Micro Loan Program, a privately supported loan fund. Available loans in this program are between $500 and $2,500 and there are no processing charges.

The Silicon Valley Small Business Development Center (SBDC) is funded by the Small Business Administration, and offers services typical of the federally-funded SBDC system: business assistance in the form of business counseling, seminars and classes, and the distribution of informational materials. It is a "stand-alone operation" (as required by federal and state requirements), but it also serves clients from SJDC's other programs. For example, after completing SBI courses entrepreneurs are expected to continue to meet with a SBDC business counselor at least once per quarter over the next two years.

PRIVATE VENTURES INCORPORATED

Private Ventures Incorporated (PVI) is a minority woman owned, for-profit firm providing entrepreneurial training services to dislocated workers and low income persons along the corridor linking the urban areas of Flint and Detroit, Michigan. PVI has contracts with the State of Michigan and Genessee County to provide entrepreneurial training courses to United Auto Workers members dislocated from General Motors manufacturing plants in Flint, and low income persons in Detroit. Although many of PVI's activities are similar to those of the CDCs described elsewhere in this report, it is licensed and operates as a proprietary school.

SETTING

The city of Detroit and the surrounding metropolitan area is one of the largest manufacturing centers in the U.S., and is home to the American automobile industry. This area includes the city of Flint, which is headquarters to General Motors. The metropolitan area has a population of 3.5 million, and while urban areas have been experiencing significant population declines during the last decade, the surrounding suburban regions have been booming. Suburban and urban communities also differ in their racial compositions: Detroit and Flint have large populations of African Americans (close to 50%), but only 10% of the population in surrounding suburbs consists of ethnic minorities.

Decline in the auto industry has hit urban areas particularly hard, and unemployment rates for Detroit, particularly among African Americans, can be several times that for the surrounding suburbs. Neither Detroit nor Flint has been able to attract new industries to replace these jobs, and new jobs in the surrounding suburban communities have been difficult for city residents to access.

ORGANIZATION

PVI was formed in 1986 as a consulting firm for its owner, who at the time was providing employment and training services to union members laid off from General Motors. In 1988, PVI was asked to design and implement a one-year entrepreneurial training program. PVI incorporated at this point, and became licensed as a proprietary school.

SERVICES

At the time of the site visit to PVI, the organization had a staff of seven and two active contracts. The first was with the Michigan Governor's Office for Job Training, and was designed to provide training to 75 dislocated workers. This training was supported with

EDWAA funds from the Governor's Reserve. In addition, PVI had recently negotiated a second contract with the Genessee County Department of Social Services to provide training to low income individuals. This second contract had only recently begun at the time of our visit to PVI, and the discussion which follows concentrates on services provided under the first contract.

PVI's approach to entrepreneurial training was based on two programs developed by Ohio State University: Program for Acquiring Competencies in Entrepreneurship (PACE) and Beyond a Dream (BAD). PVI adapted these programs for dislocated auto workers, and thus could expect participants with good employment track records, a high school education, at least some occupational skills, and most importantly, some form of financial support (e.g., a severance package, working spouse, or at least UI). The program was designed with considerable input from both General Motors and the United Auto Workers.

Participants for the EDWAA program were recruited from organizations providing services to dislocated workers, such as local private industry councils and the company and labor union outplacement programs. There was also some advertising on local radio stations and in the newspaper, and flyers were placed in community areas. All potential participants attended a one-day introductory meeting, where they were given an introduction to PVI and the program, and were asked to complete a self-assessment exercise exploring their entrepreneurial capabilities. Screening for the program was through self-selection, and could occur at any point in the application process.

Eligible individuals next attended a three-day orientation class concentrating on (1) Assessing Self-Employment Potential, where participants evaluated their desire to become small business owners; (2) Assessing Personal Finances, to determine the participants' capacity to support a small business venture; and (3) Focusing on the Business Idea, intended to help participants clarify their business idea and prospective market segment.

Training courses for the program lasted 12 weeks, meeting three times per week for four hours each meeting. Several cycles of classes were operated, with class sizes ranging from 15 to 20 students. Attendance was taken very seriously and after three unexcused absences, students were dropped from the program. All of the program's instructors were small business owners, many of whom had significant training experience. The final component of training was business plan development, with particular attention paid to developing an organized and well-written plan.

After the conclusion of instruction, participants were given a minimum of 20 hours of one-on-one business counseling. There was no maximum set on the number of hours available within the first year after the completion of the class, but after this period participants would be charged a consulting fee. Counseling was performed by program instructors and administrators, both of whom were experienced business consultants. PVI's EDWAA clients did not receive startup funding from the program, but they were eligible for assistance with loan applications and other form of startup capital.

In a survey of former clients served over PVI's four years of operation, 79% of business starters were found to be still in business. A total of 21% were no longer in business. Seventy businesses were contacted as part of this survey, accounting for 176 jobs (70 owners, 23 full time employees, and 83 part time employees).

APPENDIX B

PROCEDURES FOR QUANTITATIVE DATA COLLECTION

The quantitative data analyzed in Chapter V, which detail the characteristics and outcomes of demonstration participants, were obtained from several sources. These include:

- Intake forms completed by grantees for each self-employment and re-employment participant;
- Logs of startup and termination activity among self-employment participants that were maintained by grantees;
- Grantee-reported statistics on business startup;
- An initial follow-up questionnaire administered by grantees to self-employment participants six months after startup or termination, whichever occurred first;
- A second, nearly identical, follow-up questionnaire administered to business starters only, twelve months after startup; and
- Termination and follow-up information for re-employment participants from the grantees' management information systems (MIS).

These data sources are described below.

INTAKE FORMS

Intake forms recorded the demographic characteristics and work history of demonstration participants at the time they applied for project services. An identical set of information was collected for all applicants, regardless of service track, because some projects allowed participants to decide between re-employment and self-employment services after enrollment.

The format for grantee intake forms was developed by the National Evaluation team and adapted by individual projects to suit their particular circumstances. For example, some grantees integrated intake data with existing management information systems, while others developed stand-alone databases to collect these data. In general, intake data were collected by demonstration project staff, and a comparison with grantee final reports demonstrated that intake forms were completed for virtually all demonstration participants. A copy of the form is included as an attachment.

STARTUP/TERMINATION LOGS

Grantees tracked the initial outcomes of self-employment participants with a log designed to record startups and terminations. Upon the startup or termination of a self-employment participant, grantees recorded the participant's name, business name (where applicable), and the date. These logs were the basis for scheduling follow-up interviews, which occurred six months after startup or termination, whichever came first. Completed startup/termination logs also provided an important means for cross-checking grantee-reported startup results.

GRANTEE-REPORTED STATISTICS

Grantees tracked numbers of participants and business startups and presented these results in final reports submitted to the Department of Labor. We reviewed these reports, compared their results with those obtained from the intake forms and startup/termination logs, and resolved all inconsistencies through direct contact with demonstration grantees. Examples of inconsistencies included participants whose records were duplicated due to enrollment, termination, and re-enrollment; and participants who were mistakenly left off the startup/termination logs.

FOLLOW-UP QUESTIONNAIRES

Two follow-up questionnaires, a six-month version and a twelve-month version, were administered to self-employment participants. Participants starting businesses were interviewed six and twelve months after startup to assess their progress during these periods. Those who terminated without starting businesses were interviewed only once, six months after termination. A copy of the six-month form is attached.

All follow-up data collection was performed by demonstration grantees, in person or over the phone. Of 214 business starters eligible for six-month follow-up interviews, 154 responded, for an overall response rate (excluding HACER) of 72%.

HACER's exceptional difficulty with follow-up data collection is reflected in the differences observed between all self-employment participants and the sample of participants for whom six-month follow-up data are available. We compared participant characteristics for these responders and non-responders, by site, to determine whether systematic differences in individual traits may have influenced the self-employment outcomes reported in Chapter V. The comparison offered one clear result: women, members of ethnic minorities, the long-term unemployed, and recipients of AFDC and Food Stamps were under-represented among responders. That is, the demonstration projects had less success completing interviews with members of these groups than with other individuals.

The existence of these biases is clearly related to the exclusion of HACER participants from the analysis of follow-up data. As reported in Chapter V, HACER served greater proportions of women, members of ethnic minorities, the long-term unemployed, and recipients of AFDC and Food Stamps (the same groups which are under-represented in the follow-up data) than the other demonstration projects. As a result, conclusions based on the self-employment outcomes reported in Chapter V may not fully apply to all demonstration participants.

OTHER DATA ISSUES

Two adjustments have been made in the classification of participants at one grantee, CPS, since the publication of the Interim Report for this evaluation. First, 24 participants originally classified as re-employment participants were re-classified as self-employment participants. CPS never operated an actual re-employment track, and had mistakenly counted 24 self-employment participants who found jobs in this category. Second, approximately 100 participants counted as self-employment participants at CPS for the Interim Report were determined to have had no substantial participation, and have been dropped from the data presented in this report. These early dropouts completed intake forms and attended an initial orientation, but received no other program services. As such, they did not actually participate in CPS' program, and should not have been included in the Interim Report.

Service data has also been excluded from this report due to its poor quality. Services proved much more difficult to quantify than characteristics and outcomes due to the diverse service models of demonstration grantees, and frequent changes in service arrangements over the course of the demonstration. As a result, services are not analyzed in Chapter V, but are discussed in detail in Chapter IV.

EDWAA JOB CREATION DEMONSTRATION
THE CENTER FOR PRACTICAL SOLUTIONS
CLIENT INTAKE FORM

INSTRUCTIONS: This form should be administered by project staff only. It should not be given to clients to complete on their own. Be sure you have read the item-by-item instructions for this form carefully before administering it.

1.Respondent's name

____
Last First

Address ______________________________
Street address

____
City State ZIP

Phone, SSN (___)______________________________
Phone Social Security Number

2.Two friends or relatives likely to know where client can be reached in the future

(1) ______________________________
Name Phone Relationship

(2) ______________________________
Name Phone Relationship

3.Referral source (check one)

____ Referred from other program operated by grantee
____ Media announcement (TV, radio, newspaper, etc.)
____ Word of mouth/friend/family member
____ EDWAA program
____ Unemployment agency/Job Service
____ Other government social service agency
____ Economic development organization (Chamber of Commerce, SBDC, city economic development agency, etc.)
____ Education institution
____ Community-based organization
____ Employer
____ Other

4.Date of birth ____/____/____
MO DAY YR

5.Sex

____ Male
____ Female

6.Ethnicity (check one)

____ White, not Hispanic
____ Black, not Hispanic
____ Hispanic
____ American Indian or Native Alaskan
____ Asian, Pacific Islander

7.Marital status (check one)

____ Never married
____ Married, living with spouse
____ Married, not living with spouse
____ Divorced or widowed

8.Number of dependents ______

9.Highest grade or
year of school completed ______

[For individuals with GEDs, use "12." For individuals with post-high school or post-GED education, count number of years of full-time post-secondary education, add 12, and record this sum in the space provided.]

10.Unemployment Insurance status at Application (check one)

____ Currently receiving UI
Number of weeks client has received UI: ______
____ UI exhausted
____ Filed, eligibility pending
____ Filed, not eligible
____ Has not filed

11.Reason eligible for program (check one)

____ Worker from recent layoff, unlikely to return to occupation
____ Worker from large-scale layoff or plant closure
____ Long-term unemployed
____ Dislocated self-employed
____ Displaced homemaker

12. Documents used in determining eligibility for program (check all that apply)

____ UI records
____ Layoff notice
____ Certification from state Job Service
____ Affidavit from worker
____ Other
specify ____________________

13. Employment status at Application (check one)

____ Unemployed
____ Laid off, but currently employed in temporary or interim job
____ Currently employed, layoff impending

14. **JOB AT LAYOFF OR PLANT CLOSURE.** Questions 14A - 14G refer to the job from which a client was laid off. This layoff job is the job which qualified the client for the program. If the client has found an interim job since layoff, do NOT include information on that job in response to these questions.

14A. Job title ____________________

Duties ____________________

DOT code (see instructions) ____________

14B. Type of industry ____________________

SIC code (see instructions) ____________

14C. Hourly wage ______

14D. Usual hours worked per week ______

14E. Did job include any of the following benefits:

Health insurance for client	____YES	____NO
Health insurance for client's family	____YES	____NO
Any retirement benefits **other than Social Security**	____YES	____NO
Any paid vacation or paid sick leave	____YES	____NO

14F. How long employed in layoff job ______ (years)

14G. Date last worked in layoff job ____/____/____
MO DAY YR

15A. Has client ever been self-employed or operated own business? ___YES ___NO

15B. If YES, what type of business? ______________________

SIC code (see instructions) ____________

15C. Start date ___/___
MO YR

15D. End date ___/___
MO YR

15E. Is client still operating business? ___YES ___NO

15F. Number of paid employees other than client ____

16. Benefits received

	Received in last 12 months?	Receiving at time of application?
AFDC	___YES ___NO	___YES ___NO
Food Stamps	___YES ___NO	___YES ___NO

17. Date completed intake form ___/___/___
MO DAY YR

18. Date of application ___/___/___
MO DAY YR

19. Intake interviewer ______________________________

EDWAA JOB CREATION DEMONSTRATION
SIX-MONTH FOLLOW-UP QUESTIONNAIRE
FOR SELF-EMPLOYMENT PARTICIPANTS (Form 8)

Basic instructions: This form should be completed by a demonstration project staff person, and may be administered over the phone or in person. There is a comprehensive set of item-by-item instructions that accompanies this questionnaire; make sure you are familiar with the item-by-item instructions before you complete this form.

Who should the questionnaire be completed for? When should it be completed? Questionnaires should be completed both for those who have started businesses and for those who have not. The timing is based on the earlier of two events: business startup or termination from the program. Check the Startup/Termination Log for the dates of these events! Whichever occurs first should be the starting point for the counting of a six-month followup period, after which the participant should be contacted. You can also use the space below to keep track of the appropriate followup month -- you can call at any time during that month.

First event: **Date:**

☐ Startup ___/___/___ (MO DAY YR)

☐ Termination ___/___/___ (MO DAY YR)

Plus Six Months:

Followup Month ___/___ (MO YR)

1. Participant's name ______________________ (Last, First)

2. SSN (from program records) ______________________ (Social Security Number)

Name of business (if applicable) ______________________ (Name of business)

Phone number(s), (see Intake Form) ______________________ (Phone number(s))

Enrollment date, (see Intake Form) ___/___/___ (MO DAY YR)

Sample Introduction

"Hello, I'm **[interviewer name]** calling from **[grantee organization name]**. The reason I'm calling is to get an update on your situation after you participated in the **[project name]** program a few months ago. It should only take about ten minutes, but it's very important. Anything you tell me will be completely confidential. Your name will not be revealed to any government agencies and the information you provide will be used for research purposes only. Do you have time to talk now?"

3. Are you currently employed in a business other than one you operate yourself?
☐ YES **[go to next question.]**
☐ NO **[skip to 5.]**

4. EMPLOYMENT CHARACTERISTICS

I'd like to ask you several questions about your work. First, ...

4a. What kind of work do you do, and what is your job title?

______________________ (Job Title, Duties)

Record 2-digit DOT CODE (see instructions) ________

4b. On average, how many hours do you usually work per week? ______ (hours)

4c. Now I'd like to read you a short list of job benefits, and I want you to tell me if your employer provides you with any of these: **CHECK ALL THAT APPLY:**

Health insurance for your self	☐	Retirement benefits other than Social Security	☐
Health insurance for any other family members	☐	Paid vacation or paid sick leave	☐

4d. And how much do you earn on an hourly basis? ________ ($/hour)

5. **FOR ALL RESPONDENTS:** Are you currently operating a business? ☐ YES **[go to next question]** ☐ NO **[skip to 8]**

6. BUSINESS CHARACTERISTICS

I'd like to ask you several questions about your business. First, ...

6a. What is the name of your business and what kind of business is it, (describe main product or services):

____

Name of business

____

Type of business

Record 2-digit SIC CODE (see instructions) ________

6b. On average, how many hours do you usually work in your business per week? ______ (hours)

6c. Is your business organized as:

Sole proprietorship	☐	Subchapter S. corporation	☐
Partnership	☐	Regular corporation	☐

6d. Where do you operate your business from:

Home	☐	Commercial space	☐
Incubator	☐	Other location	☐

6e. Have you established a business checking account? ☐ YES ☐ NO

If yes: When did you establish that account? ____/____/____ MO DAY YR

6f. Have you made a first sale yet? ☐ YES ☐ NO

If yes: When did you make that sale? ____/____/____ MO DAY YR

6g. Have you registered your business locally yet? (For example, have you received a "Doing Business As" license, a sales tax license, or other business license?) ☐ YES ☐ NO

If yes: When did this first occur? ____/____/____ MO DAY YR

6h. Do you have any paid employees? ☐ YES ☐ NO

If yes: How many full-time employees do you have? ______

How many part-time employees do you have? ______
(Part-time means less than 35 hours per week)

6i. Are there any other owners of your business besides yourself? ☐ YES ☐ NO

If yes: Could you tell me which ones participated in the **[project name]** program?

1) ______________________ 3) ______________________

2) ______________________ 4) ______________________

7. BUSINESS FINANCES

Now I'd like to ask you several questions about the financing of your business. I want to remind you that your responses are completely confidential and will only be used for research. All of the questions are going to be about your business finances for the time between when you started in the [**project name**] program and right now. First,...

7a. How much of your own money have you invested in your business since you started in the program? (This means owner's equity.)

_____________ ($)

7b. Besides loans or grants, how much equity have outsiders invested in your business since you started in the program? (This does not include debt that you have to pay back.)

_____________ ($)

7c. And how much, in total, have you borrowed from others since you started in the program?

_____________ ($)

7d. Have you received financial support for your business from any of the following sources?

CHECK ALL THAT APPLY

- Family ☐
- Friends, or other individuals ☐
- Commercial bank ☐
- Venture capital firm ☐
- [**Project name**] funds (grants or loans) ☐
- Other non-commercial financing ☐

7e. What has been your business's total gross sales since you started in the program?

_____________ ($)

7f. How much personal income have you yourself drawn from your business since you started in the program?

_____________ ($)

7g. What has been your business's net income before taxes since you started in the program?

_____________ ($) [**go to END**]

8. NOT CURRENTLY IN BUSINESS

8a. Did you operate a business any time after you started in the [**project name**] program?

☐ YES [**go to next question**]
☐ NO [**END**]

8b. When did your business stop operating?

___/___/___
MO DAY YR

8c. What were the main reasons your business stopped operating?

CHECK ALL THAT APPLY

- Didn't generate enough sales ☐
- Couldn't get necessary financing ☐
- Commercial bank ☐
- Personal or family reasons ☐
- Other ☐
  (specify) _______________

9. END

Complete the following after hanging up:

9a. Date of follow-up ___/___/___ (MO DAY YR)

9b. Interviewer name _______________________

DON'T FORGET TO LOOK UP DOT AND SIC CODES!

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