

MICROENTERPRISES

Developing South Memphis, Inside Out



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Give a man a fish; he'll eat for today.

Teach a man how to fish; and he'll eat for a lifetime.

-Author Unknown

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I. Introduction

Trickle down economics, or top down development, has been the prevailing policy in the United States to combat poverty in the past decades. Rather than focusing on economic relief to large industry to encourage job creation, this essay advocates empowering communities through support of small businesses, or microenterprises.¹ A “microenterprise” commonly refers to an individual business of less than five employees that is customarily organized as a sole proprietorship or family business.² Microenterprises have been started for several reasons, namely, to supplement low wages, for flexibility to balance work and home life, and as an alternative to low-wage jobs where certification, licenses or non-felony status is required.³ This paper argues that microenterprise assistance programs⁴ (MAPs), by implementing inside-out development strategies through support of microenterprises can help revitalize impoverished communities.⁵

A look at the history of microenterprises in the United States and at a particular MAP in Memphis, Tennessee will give the reader greater insight into the viability of these community development initiatives in fostering economic growth in poor communities. Part II of this essay will revisit the early growth of MAPs in the U.S. (Section A). It will also provide a close look at a MAP servicing an urban community in Memphis, Tennessee and offers some lessons from an urban renewal

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¹ Other factors that seem to distinguish a “microenterprise” from a traditional “small business” in the commentary are that the business owner is low-income and access the services of a Microenterprise Assistance Program (MAP) in the development and growth of their entities.

² Ass’n for Economic Opportunity & Microenterprise Fund for Innovation, Effectiveness, Learning & Dissemination at the Aspen Institute, Microenterprise Fact Sheet Series No. 1, Microenterprise Development in the United States: An Overview 5 (2000) (hereinafter, “Microenterprise Fact Sheet”).

³ Id.

⁴ Microenterprise assistance programs have been discussed in the literature by various names, including variations of micro-financing or micro-lending programs.

⁵ The income eligibility for MAPs ranges substantially.

initiative in Bronzeville, Chicago (Section B). Part III will identify and analyze the common operational components of MAPs in the United States. Specifically, it will examine the informal and formal characteristics of MAPs, looking at the strengths (Section A), and addressing some concerns (Section B). In Part IV, this essay will take a closer look at the peer group lending component used by some MAPs in their micro-lending programs (Section A). Lastly, in Part IV, a new MAP model will be proposed that encourages the development of more stable and sustainable business entities that go beyond individually run microenterprises to larger microenterprises developed as joint efforts.

II. Microenterprises Assistant Programs in the United States

Whether as a Community Development Credit Union⁶ or a Community Development Bank,⁷ MAPs support economic development in communities with some of the highest unemployment rates. Specifically, they provide needed training and assist in bridging the credit gap of entrepreneurs from poor communities. By briefly look at the U.S. development of MAPs, and more specifically taking a close look at one MAP in operation in South Memphis – one of Memphis’ poorest communities – we come to understand the critical need for MAPs within a multi-prong strategy to strengthen poor communities.

A. A Macro Overview of Microenterprises in the United States

1. Bedford-Stuyvesant: Tackling Poverty in the 1960s

In the 1960s, the Bedford-Stuyvesant section of Brooklyn, New York was often referred to as the country’s second largest ghetto after Chicago’s South Side. Within nine square miles resided nearly a half million African-Americans (80%) and Puerto Ricans (15%).⁸ In terms of problems, its single high school had a drop out rate of 70 percent, the combined under- and unemployment rate exceeded

⁶ See Lenton, Rochelle E., *Community Development Banking Strategy for Revitalizing Our Communities*, 27 U. Mich. J.L. Reform 773, 777 (1994) (a Community Development Credit Union is a nonprofit financial cooperative institution owned and controlled by its members).

⁷ A Community Development Bank is a federally insured and regulated depository institution with a primary mission to provide capital and to rebuild lower income communities.

⁸ Bedford-Stuyvesant Restoration Corporation, Annual Report, 1968, p. 4.

35 per cent, and one-third of its families lived on annual incomes of less than \$3,000.⁹ In sum, this urban community was wrapped in poverty and its adverse effects and in need of innovative solutions.

In this context, on February 4, 1966, Senator Robert Kennedy participated in a walking tour of Bedford-Stuyvesant. At the end of the tour he visited a meeting of community people where he was told: “We’ve had enough speeches, Senator. The facts are in. Your brother talked about it better than any black radical. We need action—no more surveys or picture-taking sessions.”¹⁰ In December 1966, Kennedy returned to Bedford-Stuyvesant and announced that the area was to become the testing ground for a new experiment in community rejuvenation. One of the crucial components of Kennedy’s community rejuvenation initiative was the creation of the Bedford-Stuyvesant Restoration Corporation (Restoration),¹¹ charged with encouraging local business development through training and access to financing.¹² Senator Kennedy set Restoration into motion to start the economic upturn of Bedford-Stuyvesant. Federal funding was matched by private funding.¹³ Support was extended to both start-up and expansion of business enterprises owned and operated largely by local residents. From 1969 to 1984, Restoration had made loans totally \$9.5 million to 134 businesses within this community.¹⁴

2. The Growth of MAPs in the U.S.

The late 1960s and early 1970s saw a rapid growth of similar MAPs initiatives.¹⁵ The current MAP theory, comprising various components, is generally deemed to have been conceived in 1976 by Mohammed Yunus, an American-educated Professor of Economics who sought to address the

⁹ Id.

¹⁰ Goldman, R. L., *Performance in Black and White*, The Ford Foundation, pp. 3-4 (1969).

¹¹ The history of Restoration is chronicled at <http://www.restorationplaza.org/History.htm>, which at the time of last viewing was celebrating its 38th anniversary (last visited April 28, 2006).

¹² There had been MAPs in the U.S. before Kennedy’s initiative. They were frequently referred to as community business development organizations (CBDOs). For instance, Action Industries, Inc., in Venice, California was established in 1964.

¹³ The Ford Foundation provided a substantial amount of the private funding. See also, *supra*, note at 8.

¹⁴ Id.

¹⁵ Albina Corporation, Portland, Ore. (1968); Baltimore Association of Organized Contractors, Baltimore, Md. (1968); Black Economic Union, Kansas City, Mo. (1968); Black Economic Union, Los Angeles, Calif. (1966); The Circle, Incl., Roxbury, Mass. (1968); Chicago Economic Development Corporation, Chicago, Ill. (1965); Ebony Development Corporation, Baltimore, MD (1968); Greater Memphis Urban Development Corporation, Memphis, Tenn. (1969); United Minority Economic Council, Oakland Calif. (1970).

economic needs of poverty-stricken individuals in his home country of Bangladesh.¹⁶ In the mid-1980s, a substantial number of MAPs were developed to extend micro-lending to targeted geographic areas or to targeted groups,¹⁷ including, among others, the Women's Self-Employment Project in Chicago, Good Faith Fund in Arkansas, Institute for Social and Economic Development in Iowa, Rural Economic Development Center Microenterprise Loan Program in North Carolina, and Portable Practical Program/Micro Industry Rural Credit Organization serving the border towns of Arizona and California. One of the most well-known MAP is ACCION International,¹⁸ which is dedicated to the micro-loan concept and has U.S. offices in Florida, Georgia, and New England, and licensees in various cities.¹⁹

The Small Business Administration's Microloan Demonstration Program was authorized in October 28, 1991 to support the start-up and growth of microenterprises.²⁰ MAPs garnered attention in 1992 when both then President William Clinton and first lady Hillary Clinton extolled the positive affects of MAPs, alongside other domestic economic initiatives such as urban enterprise zones and welfare-to-work legislation.²¹ Today, it is estimated that there are over six hundred MAPs nationwide.²²

¹⁶ Dr. Mohammed Yunus founded the most well known and successful MAP, through the Grameen Bank, in Bangladesh in 1976 after observing mass poverty in villages where people were engaged in non-farm activities with small high interest loans borrowed from informal sources. Yunus convinced banks to provide loans to the poor without collateral by proposing the peer group lending model for service delivery. The pilot program resulted in a 98 percent recovery on loans at due dates. The success of the Grameen Bank was soon nationalized and in 2002 they had 2.4 million borrowers. Its model has caught on in countries in Africa, Asia and Latin America. See www.grameen.org. To boost MAP initiatives around the globe, the UN General Assembly in 1998 designated the year 2005 as the International Year of Microcredit.

¹⁷ Yunus, Muhammad, *Poverty Alleviation: Is Economics Any Help? Lessons from the Grameen Bank*, Journal of International Affairs, V. 52 i1, 47 (1998).

¹⁸ See Clark, Peggy and Huston, Tracy, *Assisting the Smallest Businesses: Assessing Microenterprise Development as a Strategy for Boosting Poor Communities*, an Interim Report, 2-6 (Aspen Inst. 1993).

¹⁹ www.accionusa.org (last visited April 30, 2006).

²⁰ See Small Business Act, Pub. L. No. 102-140, 105 Stat. 782 (1992), amended by Small Business Credit and Business Opportunity Enhancement Act, Pub. L. No. 102-366, 106 Stat. 986 (codified as amended at 15 U.S.C. § 636(m) (1992)). The SBA defines micro-loans as less than \$25,000, although the micro-loan demonstration program regulations state a general rule that intermediaries (nonprofit organizations that receive funds from the SBA to make loans to individual borrowers) should not make a loan of more than \$10,000 to any borrower. 13 C.F.R. § 120.2(b); 120.707 (1999). See also, Statement of John Gray, Associate Deputy Administrator for Capital Access, U.S. Small Business Association at <http://financialservices.house.gov/banking/92398gra.htm> (last visited April 28, 2006)

²¹ Schreiner, M. and Morduch, J. in Carr, J.H. and Tong, Z.Y. (Eds.), *Replicating Microfinance in the United States*, pp.19-61 (2002), Woodrow Wilson Center Press.

²² 2002 Directory of U.S. Microenterprise Programs 1 (Aspen Institute, Washington, D.C.).

The continued existence and growth of MAPs in the U.S. serves as evidence that they are in fact viable in their mission of stimulating economic growth in poor communities.

B. A Micro Overview of an Urban MAP

The City of Memphis represents a microcosm of the problems faced by urban areas across the country, namely, (1) the existence of impoverished communities in concentrated areas within the city and (2) suburban growth translating into a decline in business development within the city limits.²³ The South Memphis community is similar to many urban communities across America striving for an economic rebirth. By taking a closer look at South Memphis and a local MAP servicing this community, we can gauge the current and potential role MAPs play in stimulating economic development in impoverished communities.²⁴

1. LeMoyne-Owen College Community Development Corporation

Just south of Downtown, South Memphis is one of the oldest sections of Memphis. The LeMoyne-Owen College Community Development Corporation (CDC), a qualified community development financial institution,²⁵ is a MAP located in South Memphis where the existence of local businesses is critically low. CDC was developed to address the fact that 40% of the businesses in LeMoyne-Owen College's neighborhood in South Memphis were vacant, virtually no businesses (with several notable exceptions) had invested in the neighborhood in years, and the unemployment rate was 28.2%.²⁶ From 1980 to 1997, there has been nearly a 20% decline in South Memphis' residential

²³ See, generally, Ciscel, David H., *Urban Sprawl, Urban Promise: A Case Study of Memphis, Tennessee*, p. 6 (Dec. 2000) (addressing the city/suburb demographic divide whereby, among other things, new suburban housing translates into self-contained concentration of retail and commercial campuses, with industry "banded to the old city or peripheral (often quasi-rural) places." This case study, prepared by Dr. Ciscel, professor of Economics at the University of Memphis, is available at http://www.stls.frb.org/community/assets/pdf/urban_sprawl.pdf (last visited April 28, 2006). See also, *Memphis Retail Potential Study, South Memphis*, prepared for the City of Memphis Division of Housing and Community Development (identifying areas within the city where business development efforts are warranted, with a focus on retail trade and service industries). (available at <http://planning.memphis.edu/REDC/southm>) (last visited April 30, 2006).

²⁴ Some other Memphis MAPs include The Renaissance Business Center, Mid-South Minority Business Council (MMBC), SCORE, and The University of Memphis – Small Business and Development Center.

²⁵ CDC's Business Development Institute is funded, in part, by the U.S. Small Business Administration's Program for Investment in Microenterprise Act (PRIME) grant. The CDC was one of 69 organizations in 28 states funded under PRIME to provide training and technical assistance to disadvantaged microenterprises.

²⁶ See Abstract Details, Office of University Partnerships at available at <http://www.oup.org/grantee/AbstractDetail.asp?>

population.²⁷ Ten percent of the families in South Memphis rely on public assistance income and 57% live in poverty.²⁸ Though not as severely abject, the South Memphis community suffers from some of the same conditions of poverty that existed in 1960's Bedford-Stuyvesant.

The major CDC program component is the Business Development Institute (BDI). The BDI is a ten week, 30 class hours business development program designed to teach entrepreneurial skills to prospective low-income entrepreneurs.²⁹ Track I of the BDI is geared towards prospective and existing entrepreneurs who seek to acquire general business skills.³⁰ Track II of the BDI is geared towards existing entrepreneurs with special technical assistance needs.³¹ During the 2004-05 year, as indicated by the chart below, CDC reported 360 hours of classroom hours for microenterprise entrepreneurs. Compared to the micro-lending and individual counseling, the BDI training is currently the largest CDC service component.

CHART 1

ABSTRACT FROM CDC ANNUAL REPORT (October 1, 2004 to September 30, 2005)	Quarterly	Yearly
# of Clients Receiving Loans	0	6
# of Clients Not Receiving Loans	20	60
Total Classroom Hours	90	360
Total Individual Counseling	9	24

Recognizing that their applicants did not meet the most general lending criteria due to low credit ratings and little or no collateral, the most recent CDC component is micro-lending. In collaboration with the Center for Entrepreneurship, the CDC established micro-lending to extend small

[Abstract=1974&Program=HBCU](#) (last visited April 28, 2006).

²⁷ See Table 1, Appendix.

²⁸ See Table 2, Appendix.

²⁹ As stated in an interview with Michael J. Massey, March 2006 (hereinafter, "Massey Conversation"), along with CDC 2006 brochure material.

³⁰ Id.

³¹ Id.

loans to microenterprises within the South Memphis community and Shelby County.³² The maximum loan extended through the micro-lending component is \$35,000.³³ The average loan issued through the organization is \$15,000.³⁴ This financing can be used for start-up and development. However, as noted in the Chart 1, only six microenterprises received loans out of the 60 loan applicants from October 1, 2004 to September 30, 2005. The 1 to 10 ratio on approval of micro-loan applications indicates that micro-lending is still not a significant CDC service area provided, especially considering the low number of applicants. Additionally, only 24 individuals were counseled during the 2004-05 reporting period. To impact the economics of this community, the CDC will need to increase its numbers in these areas.

Michael J. Massey, CDC's Economic Development Director, states that the MAP hopes to further its support of minority contractors and subcontractors. Specifically, the CDC seeks to provide operational financing that would allow minority contractors and sub-contractors to participate in larger projects.³⁵ According to Massey, a major problem faced by these microenterprises is difficulty in sustaining operational costs while waiting the customary 45 to 90 days on contract payments on larger projects.³⁶

2. Lessons from Revitalization in Bronzeville, Chicago: Housing and Public Works Development, but Local Commercial Development Languishes

Bronzeville represents where South Memphis can be in fifteen years. A brief examination of its development can provide lessons for MAPs such as the CDC in increasing its impact within the South Memphis community. Additionally, the Illinois Institute of Technology³⁷ (ITT) initiative offers insight on how MAPs can partner with educational, health-care, and other major institutions to create bridges

³² www.loccdc.org/index.php?option=com_content&task=view&id=13&Itemid=40 (last visited April 30, 2006).

³³ Massey Conversation.

³⁴ During the October 1, 2004 to September 30, 2005 reporting year, six (6) loans were issued. (Chart 1).

³⁵ Massey Conversation.

³⁶ Massey Conversation.

³⁷ The Illinois Institute of Technology is a private, Ph.D. -granting institution with programs in engineering, science, psychology, architecture, business and law.

for minority and women-owned contractors and sub-contractors. The South Side Partnership's (SSP) role in developing partnerships that translated into both private and public reinvestment opportunities for the Bronzeville community is a model worth studying.

Bronzeville is now a “hot” community in Chicago. Comprising two of the most impoverished neighborhoods in the U.S. – Greater Grand Boulevard and Douglas – in 1989 these communities had high concentrations of low-income households and was ranked, respectively, the sixth and third poorest communities in Chicago.³⁸ In 1990, only 20 percent of the population in both neighborhoods was employed, compared with 43 percent employment for Chicago's population.³⁹ In that same year, median household income in Douglas (\$10,477) was 40 percent below poverty level, while the median income for Greater Boulevard (\$8,371) was 65 percent below poverty level.⁴⁰ Chicago's median household income was \$39,000.⁴¹

Vulnerable to being defined from without, the SSP was created in 1989.⁴² Comprising the communities' local leadership,⁴³ the SSP collaborative identified key opportunities for revitalization of the Douglas and Greater Grand Boulevard communities.⁴⁴ The SSP went on to create the Mid-South Planning and Development Commission which spear-headed renaming the two communities “Bronzeville” and helped implement the Restoring Bronzeville initiative.⁴⁵

On the housing front, in 1990 the new Bronzeville community had a high percentage of housing

³⁸ See Illinois Institute of Technology, OUP – Grantee Details available at www.oup.org/grantee/orgDetail.asp?orgid=97&myHeadID=COPC&yr=1998 (last visited May 1, 2006).

³⁹ Id.

⁴⁰ Id.

⁴¹ Id.

⁴² See *Rebuilding Bronzeville through Collaborative Action* (published in February, 1999, written by the South Side Partnership as working document and position paper for future action. The three key elements involved increasing quality education, jobs and housing in the Bronzeville community in the new century) available at www.iit.edu/~iitcomdev/south_partners/bronzeville1.html (last visited April 30, 2006).

⁴³ South Side Partners include Bank One/First Chicago, Centers For New Horizons, the Chicago Urban League, the Elliott Donnelley Center of Chicago Youth Centers, the Gap Community Organization, the Grand Boulevard Federation, the Illinois Institute of Technology, Lugenia Burns Hope Center, the John D. and Catherine T. MacArthur Foundation, Mercy Hospital, the Mid-South Planning and Development Commission, Partners In Community Development, Michael Reese Hospital, and STRIVE/Chicago Employment Services. See http://www.iit.edu/~iitcomdev/south_partners/bronzeville1.html#intro (last visited May 1, 2006).

⁴⁴ Id.

⁴⁵ Id.

units that lay vacant. With significant private and public investment, Bronzeville tackled the housing challenge it faced 15 years ago, namely, to attract middle income households into the community.⁴⁶ However, despite the presence of social service and support services within Bronzeville, many residents were still undereducated, unemployed, and poorly housed. While part of Bronzeville is in the Chicago Empowerment Zone, few large entities took advantage of the financial and tax incentives. As a result, the community's commercial, retail, and industrial activity staggered behind the boon in residential housing and public works. The landscape was being visibly changed, but little new large commercial and industrial activity had developed for the inside-out transformation that would result in impacting the long-time Bronzeville residents.

IIT, located within the Bronzeville area developed a university-wide initiative to increase its patronage of minority and women-owned businesses. IIT decided to play a direct role in the welfare-to-work continuum by directly providing university jobs and contracts to these targeted businesses.⁴⁷ Additionally, the university set a goal to use 25 percent minority and 5 percent women-owned contractors to participate in its multi-million dollar capital improvement program, which includes construction of a new campus center and staff/faculty housing.⁴⁸ As a result, during 2000 alone, IIT purchased \$37.7 million in services and goods from minority and women-owned enterprise contractors, a 71 percent increase from 1999.⁴⁹ These kinds of institutional pledges are central to sturdy microenterprise growth.

In looking at SSP's 15 years of work within the Bronzeville community,⁵⁰ we learn that widespread poverty alleviation in economically depressed urban communities is a monumental challenge.

⁴⁶ Id. (Bronzeville has experienced a \$450 million influx of capital investment from the private sector, local institutions, government, and not-for-profit agencies.)

⁴⁷ See Illinois Institute of Technology, Community Development available at <http://www.iit.edu/~iitcomdev/cd/economic.html> (last visited May 1, 2006).

⁴⁸ Id.

⁴⁹ Illinois Institute of Technology OUP – Abstract Details available at www.oup.org/grantee/AbstractDetail.asp?Abstract=1295&Program=COPC (last visited April 30, 2006).

⁵⁰ This is not to say that SSP has been the only organization to drive Bronzeville development, for a myriad of other community organizations and collaborative efforts have steamed revitalization in this community.

Significant changes to the Bronzeville landscape has occurred in the past 15 years from the influx of middle income residents, many whom work in the Chicago community. They have not brought the commercial industry needed to boost livelihood of Bronzeville's poorest residents. The presence of Bronzeville's middle income residents, however, provides a wonderful foundation for innovative retail and service microenterprises for this new market. In sum, MAPs, such as the CDC, who are in their infancy in serving urban communities, must look to the lessons provided by emerging urban markets nationwide. The lesson from Bronzeville is that an influx of capital for housing and public works is only part of what is needed for wide spread poverty alleviation within a community. Creating local commercial industry is essential for inside-out change that impacts the poorest members of a re-emerging community. Additionally, ITT's dedication to Bronzeville's re-emergence through partnerships with its minority and women-owned businesses provides a strategy for the CDC to facilitate similar bridges between Memphis institutions and its microenterprise contractors and sub-contractors.

III. Microenterprise Components

A. Effective Components

A study by the Aspen Institute's Self-Employment Learning Project (SELF) shows that of the microenterprises that were surveyed over a five year period, 53% had moved out of the poverty range.⁵¹ Additionally, 57% were still economically viable and sustainable after five years,⁵² and as such are competitive with the estimated 60%-70% survival rate of SBA small businesses.⁵³ The average household income of MAP participants had risen by more than \$8000 and the average household assets had also increased by approximately \$15,000 over the five year period.⁵⁴ In reviewing the literature on

⁵¹ Aspen Institute, SELP Longitudinal Survey of Microenterprise (Washington, D.C: 1998). SELP is a research and evaluation effort that gathers new information about self-employment and about microenterprise as a poverty-alleviation and job-creation strategy in the United States.

⁵² Microenterprise Fact Sheet, *supra* note 2, at 7.

⁵³ Id.

⁵⁴ Clark, Peggy & Kays, Amy, *Microenterprise and the Poor*, Executive Summary vii (1997) (Aspen Inst., Washington D.C.).

MAPs, one soon detects a pattern of program components that emerge as contributors to this success. Some of the more effective components⁵⁵ include: (1) a rigid eligibility rule structure, (2) use of participant's pre-existing education and skills, (3) business planning and training, along with continued counsel and support services, and (4) micro-lending.

1. Rigid Eligibility Rule Structure

The Grameen Bank has proven that a rigid rule structure is imperative to the success of a MAP.⁵⁶ These rules tend to involve eligibility requirements. The rigid rule structure may include exact figures for the amount of education required or maximum allowed annual income or jurisdictional limitations for participants.⁵⁷ Establishing eligibility criteria is often left to the MAP board of directors based on a fact intensive inquiry into the community to be serviced.

Additionally, many MAPs have found that limiting eligibility to targeted groups, such as women⁵⁸ or minority populations have created favorable results.⁵⁹ Where the MAP is located in a predominately minority community, as is the case for the CDC, the surrounding population is naturally targeted. In many MAPs around the world, however, women⁶⁰ have comprised the majority of borrowers.⁶¹ This is true for several reasons: women make up the majority of the poorest citizens of the world and are therefore targeted for poverty alleviation programs; they are more likely to have constrained credit than men; they have restricted access to the wage labor market; and they tend to have an inequitable share of power in household decision making.⁶² The repayment rates of women clients

⁵⁵ See, *generally*, Servon, L., "Fulfilling the Potential of the Microenterprise Strategy," in Carr, J. and Tong, Z., eds., *Replicating Microfinance in the United States*, (2002).

⁵⁶ See, Yunus, *supra*, note at 17.

⁵⁷ *Id.*

⁵⁸ Dumas, Collette, *Training for Microenterprise Creation: The Case of the Center for Women and Enterprise*, in *Microcredit and Development Policy*, eds., Snow, D., Woller, G. and Buss, T., Nova Science Publishers, Inc. Additionally, since 1986, WSEP has operated a successful small business loan fund, approving more than 650 loans totaling over 1.2 million dollars. It requires that business entities be at least 51% woman owned and operated. The author participated in the WSEP training program in Chicago in 1996.

⁵⁹ See, Yunus, *supra*, note 17.

⁶⁰ Studies show that a 78% of microenterprises are owned by women, 62% are minority and 58%. The CDC in Memphis targets women entrepreneurs through a partnership with the Women's foundation of Greater Memphis.

⁶¹ Ninety-four percent of Grameen Bank's 2.4 million clients are women; 85 percent of Bangladesh Rural Advancement Committee's 3 million micro-loan borrowers are women; and more than 66 percent of USAID's clientele are women.

⁶² See, Yunus, *supra*, note 17.

also tend to be greater than men, especially in the peer group lending component where the shame factor within the close-knit loan guaranteeing unit encourages minimal default.⁶³ In sum, having rigid eligibility requirements is a strong component of many of the MAPs around the world.

2. Pre-existing Education and Skills

MAPs are more successful in assisting microenterprises with owners who have some education or are able to tap into pre-existing skills obtained from prior jobs. Generally, microenterprises are started by individuals that may have specific “know how” obtained from prior employment, but lack a credit rating⁶⁴ sufficient to access loans through traditional commercial lending institutions.

Accordingly, it would be beneficial for MAPs to steer clients toward business proposals which make use of pre-existing skills obtained from previous jobs. The entrepreneur’s level of education can also be an important factor in the success of microenterprises. The study Dr. Collette Dumas conducted of The Center for Women and Enterprise, Inc. (CWE) found participants all had relatively high levels of education.⁶⁵ In fact, 83 percent were high school graduates and 58 percent had some education past high school.⁶⁶ Additionally, a 2002 Aspen Institute FIELD Study found that recipients of the Temporary Assistance to Needy Families Program (TANF) were capable of starting and operating businesses;⁶⁷ however, the TANF recipients participating in MAPs tended to be older, had more work experience and had higher levels of education than the national TANF caseload.⁶⁸ The CDC, in servicing the South Memphis community, does not use education and prior work experience as rigid criteria in establishing eligibility for participation in its BDI program. When MAPs provide assistance

⁶³ Id.

⁶⁴ Credit ratings are graded on an alphabetical scale from A to D with A being the best and having a FICO (Fair Isaacs) credit score of 620 or better. A poor credit rating of D generally has a FICO credit score of 550 or less.

⁶⁵ Dumas, Collette, *Training for Microenterprise Creation: The Case of the Center for Women and Enterprise*, available at http://www.spaef.com/IJED_PUB/v1n2_dumas.html (last visited March 31, 2006).

⁶⁶ Id.

⁶⁷ With the implementation of TANF in most states, individuals could use self-employment to fulfill work requirements. They could not, however, use self-employment training activities to count toward their work requirements.

⁶⁸ Aspen Institute, *Improving the Climate for Self-Employment: Policy Recommendations for TANF Reauthorization*, Research Brief No. 2, Microenterprise Funding for Innovation, Effectiveness, Learning and Dissemination (April 2002).

to entrepreneurs with some education or pre-existing skills that can be turned into a business, however, the resulting microenterprise is more likely to be successful than one with an owner without either of these assets.

3. Comprehensive Training

Many MAPs require that entrepreneurs complete a comprehensive training program as a contingency to access further MAP services. The CDC requires that participants who access their micro-lending services participate in the 10-week BDI program. Providing these entrepreneurs with training provides an opportunity to infuse them with vital skills: business planning (including drafting business plans), financial management, time-management, and goal setting. Because many of the participants in MAPs do not have post-secondary degrees, where accounting and business operation and management courses may have been offered and completed, it is essential to introduce them to these concepts through programs such as that provided through the CDC's BDI training.

Additionally, the most successful MAPs provide a continuum of counseling services after the business is started. These MAPs effectively provide technological support and have a roster of business, legal, and insurance experts on hand to answer entrepreneur's questions. CDC provided individual counseling to six entrepreneurs in the 2004-05 reporting period. These numbers should increase as the number of microenterprises' serviced in the future increases. By offering continual counsel, a MAP can help ensure that the micro-entrepreneur has all the available resources necessary for sustaining their entities and in turn lowers the risk of default on micro-loans required to keep these programs viable.

4. Micro-lending

The micro-lending component is one of the most important services provided by MAPs. For many microenterprises, access to traditional lending is not readily available because of high rates of bad credit, insufficient credit, or little collateral to secure conventional commercial loans. The lending

component of a MAP fills this credit gap. These loans are often called micro-loans, micro-credit, or micro-financing due to the typically small sums lent to microenterprises. Micro-lending is, in theory, intended to foster economic development by providing opportunity to a wider range of socioeconomic levels, mainly comprised of those who would meet federal poverty guidelines. The viability of these microenterprises often hinges on access to these alternative lending models to assist with licensing fees, insurance, product and supplies. Maximum micro-loan programs, such as that provided by the CDC, tend to provide maximum loans of approximately \$35,000. The CDC lending pattern, though small in the quantity of loans extended, is relatively higher quantitatively at an average loan size of \$20,000. Typical micro-loans are closer to \$1,500, though there is a fairly large standard deviation.⁶⁹ This suggests that CDC, on average, supports larger microenterprises than the national average. Increasing the number of microenterprises provided access to its micro-lending will be essential to the success of the CDC mission.

Notably, the Grameen Bank furthers its mission of encouraging self-sufficiency, by requiring that its microenterprise borrowers place a small percentage of their micro-loans into savings.⁷⁰ By doing this, the individual begins to increase their net worth and consequently works themselves out of the poverty cellar. By requiring a small percentage to be put back into savings, the MAP helps to facilitate healthy financial habits while instilling the virtues of savings and financial planning. Micro-lending coupled with programs that encourage increasing savings is an effective component of MAPs.

B. Concerns with MAPs

In examining MAPs, there are some issues that arise that may impede the effectiveness of servicing microenterprises. First, there is a concern that MAPs are not servicing those that need them most when they focus on education and prior work experience. Additionally, there is a concern about

⁶⁹ Hung, C.R., *From South to North: A Comparative Study of Group-Based Microcredit Programs in Developing Countries and the United States*, p. 228 (2002).

⁷⁰ See *Grameen-Banking for the Poor* at <http://www.grameen-info.org> (last visited March 31, 2006).

the loss to welfare benefits when an entrepreneur generates income into their business entity, which is imputed as personal income. Lastly, a concern exists in the literature that MAP board of directors may become infected by cronyism in their selection process.

1. Servicing the Wealthiest of the Poor

First, it is important to remember that not everyone is cut out to be an entrepreneur and therefore suited for MAP services. Many in poverty would just as well use a business loan on personal consumption to meet short term needs. As for these individuals, participation in a MAP micro-lending program would create a high risk of greater personal indebtedness and the wrath of their peer lending group (if there is one). This goes to the concern that MAPs will not be the antipoverty tool that it is in developing countries because those who benefit most from the program are the wealthiest of the poor, those with higher education and experience.⁷¹ The Aspen Institute's SELP report studied seven MAPs from 1991 and 1997 and tracked a sample of 405 clients over five years.⁷² The study found that small gains were made in the poverty cohort, but concluded that microenterprises allowed these entrepreneurs to "patch" together income from different projects.⁷³ If, in fact, the gains microenterprises play in alleviating poverty are small, the increased success of those with higher education and skills would support focusing MAPs' limited resources within these demographics to sustain the gains that currently exist.⁷⁴

2. Microenterprise Growth Prematurely Threatens Welfare Benefits

Successful entrepreneurs⁷⁵ and welfare recipients tend to statistically be distinct groups.

However, the microenterprise movement and the welfare reform movement are parallel developments

⁷¹ Taub, R., *Making the Adaption Across Cultures and Societies: A Report on an Attempt to Clone the Grameen Bank in Southern Arkansas*, Journal of Developmental Entrepreneurship, Vol. 3, No. 1, (Summer 1998).

⁷² See Aspen Institute SELP, *supra*, note 51.

⁷³ See also, Morduch, Jonathan and Paley, Barbara "Analysis of the Effects of Microfinance on Poverty Reduction," *NYU Wagner Working Paper Series*, No. 1014 (June 2002), pp. 84-91.

⁷⁴ Hung, *supra*, note 69, at 181.

⁷⁵ See Bates, Timothy, *Entrepreneur Human Capital Inputs and Small Business Longevity*, 72 Rev. Econ. & Stat. 551 (1990)

in the United States.⁷⁶ The SBA's Microloan Demonstration Program, initially authorized in 1991, was expressly hailed as part of federal efforts to overhaul the welfare system and promote the economic independence of welfare recipients.⁷⁷ A "poor" entrepreneur in the U.S. under the program is measured as those individuals operating a business whose owner is below the state and federal poverty guidelines. Many of these entrepreneurs are eligible and usually receive government aid, such as assistance under the federal TANF program. Eligibility for TANF assistance, in the form of cash and health care, is determined by the recipient's income and does not distinguish between business income and personal income. While the changes in welfare laws that came about in 1996⁷⁸ have increased the amount of money clients are able to save, welfare reform policies are still a restraining factor to the success of microenterprises because of the difficulty of maintaining welfare benefits while simultaneously growing a business. The loss of health care benefits, for instance, is of particular concern for many of these entrepreneurs. Accordingly, welfare policy must be harmonized with the goals of growing microenterprises.

3. Cronyism

The fear that cronyism will creep into the decision-making process of a MAP board in extending loan requests is a cognizable concern. However, this problem can easily be solved by creating a Lending Board, separate from the MAP executive and administrative structure. By employing a diverse body of individuals from within the community, such as successful business persons, the MAP Lending Board should have little difficulty eliminating this corruption factor.

⁷⁶ Schreiner and Morduch, *supra*, note 21.

⁷⁷ See Microloan Programs for New and Growing Small Business, U.S. Senate, Hearing Before the Comm. on Small Bus., 102d Cong., 1st Sess. (1991) (opening Statement of Hon. Dale Bumpers); *see also*, The Small Business Administration's Microloan Demonstration Program and Business Development Programs, Hearing before the U.S. Senate Comm. on Small Bus. 103d Cong., 1st Sess. (1994) (opening statement of Hon. Dale Bumpers).

⁷⁸ Personal Responsibility and Work Opportunity Reconciliation Act (PWRORA) is the welfare reform legislation that passed in 1996 and, among other things, now places time limitations on the receipt of welfare benefits.

IV. The Firm⁷⁹ Revisited

The firm as a more efficient entity than the sole proprietorship in providing services and goods to the market is a well accepted notion in economics.⁸⁰ MAPs that focus solely on assisting the self-employed and the smallest microenterprises fail to capitalize on the potential of assisting low-income entrepreneurs harness their resources into collective efforts to create larger entities. These larger entities can potentially make a greater impact on eliminating the poverty cohort.⁸¹ This section will examine the emerging peer group lending as a MAP component. Additionally, it will look at the peer group lending component as a stepping stone towards aggregating the efforts of entrepreneurs into larger business entities.

A. Peer Group Lending Component

Peer group lending is an emerging MAP component that is primarily present in developing countries.⁸² It requires entrepreneurs to form small groups (usually five to six individuals),⁸³ each of whom individually apply for a loan.⁸⁴ It employs a methodology where the traditional collateral requirement in lending is substituted with guarantees from the borrower's peer group. If a member defaults, the group is collectively responsible for the loan's repayment.⁸⁵ The peer group lending component reduces the lender's risk of default by shifting liability from the lender in screening, monitoring and enforcement, thereby lowering the transaction costs and increasing traditional lending opportunities for microenterprises.

⁷⁹ Ronald H. Coase authored *The Nature of the Firm* in 1937 and introduced the then-revolutionary concept of transaction costs and the economy of scale into economic theory.

⁸⁰ *Id.* See also, Dziao, Joanna, *Corporate Governance and Efficiency of A Firm*, Institute of Economics, University of Lodz, Poland (citing Bearle, Jr., A.A., Means, G.C., *The Modern Corporation and Private Property*, MacMillan, New York (1932)) available at <http://www.gov.si/umar/conference/97-99/pdf99/jd.pdf> (last visited April 28, 2006).

⁸¹ See Aspen Institute SELP, *supra*, note at 51.

⁸² Dr. Collette Dumas, Associate Professor at Suffolk School Management Department, lists the peer group lending component among the list of new strategies being used by MAPs. See Dumas, Collette, *Training for Microenterprise Creation: The Case of the Center for Women and Enterprise*, in *Microcredit and Development Policy*, eds., Snow, D., Woller, G. and Buss, T., Nova Science Publishers, Inc.

⁸³ The small size of the group helps to alleviate any free-rider problems that may occur.

⁸⁴ Jaffer, Jameel, *Microfinance and the Mechanics of Solidarity Lending: Improving Access to Credit through Innovations in Contract Structure*, 9 J. Transnat'l L. & Policy 183, 200 (1999).

⁸⁵ *Id.*

In the U.S., “individualisms” contributes to an entrepreneur’s hesitancy to throw their lot in with a group of strangers. Additionally, the gains from self-selection and informal contract enforcement are threatened when strangers are placed together.⁸⁶ Despite this, however, there are peer group lending circles in the U.S. When present in the U.S., however, peer group lenders are usually found in the heart of urban, low-income cities⁸⁷ such as the South Shore Bank’s peer group lending program which operates on Chicago’s South Side.⁸⁸ The existence of this component in U.S. MAPs suggests that it is viable as a tool to increase access to traditional financing for microenterprises.

Self selection and informal contract enforcement does not have to be lost in peer group lending. The use of screening by the peer lending group inherently reduces the risk of defaults of its members. At the peer group’s inception, each member should be provided a means of consenting to who will be a member. The peer group lending model is more likely to evolve into a sustainable institution when its members have links from common local institutions, such as churches. This social capital increases informal contract enforcement. Also, MAPs that require members to attend training classes provide members with a safe environment to develop and test the interpersonal and business skills of potential members before the group is formed.

At the lending stage, full peer group consent is required before a loan application is first submitted to the MAP board. This increases the chances of the loan proposal being viable and would not impose on an individual who does not approve of a loan application liability in the event of default. Generally, it is in each group members’ best interest to endorse the loan packages of only those she believes to be viable and trustworthy, decreasing the ultimate risk of defaults.

At the operational level, the peer group is involved in monitoring and enforcing the loan

⁸⁶ Schreiner and Morduch, *supra*, note at 21.

⁸⁷ See, *generally*, Lenton, *supra* note 6.

⁸⁸ Heisen, Christopher Jordan, *Comment, Community Development Lite: An Economic Analysis of the Community Development Financial Institutions Act*, 39 How. L.J. 337, 348-49 (1995) (discussing Congress’ attempt at microfinance in the Community Development Financial Institutions Act); *see also*, Lenton *supra*, note 6, at 784-90.

repayment of each of its borrowing members. Generally, when one loan is repaid on time the loan process continues. Peer group lending is emerging as an effective MAP component in developing countries and its use by some U.S. MAPs suggests that it may be a viable means of further reducing the credit gap.

The next part of this essay builds on the peer group lending model by proposing aggregating entrepreneurial efforts into larger, collective microenterprises.

B. Aggregating Microenterprise Benefits into Larger Entities

Business closing rates are highest among small businesses with no employees.⁸⁹ Generally, businesses employing fewer than twenty workers have created about 88 percent of all new net jobs in the U.S.⁹⁰ Businesses engaged in manufacturing and wholesale production have significantly higher survival rates.⁹¹ This supports shifting some MAP resources towards assisting in the start-up of larger business entities.

In a report published by the Radcliffe College Public Policy Institute, Fauzia Ahmed has documented the phenomenal history of a Bombay loan circle.⁹² The circle began with fourteen women. After several years of regular meetings, the group decided to follow the example of other groups in Asia and pooled their assets. They launched a peer group lending circle and started a catering business that served meals to wage workers in Bombay. With their proceeds, the women established a community center that offers health care, legal aid, and business training.⁹³ As the circle matures, the core peer group of women continues to identify new problems and come up with new business plans of action.

The peer group lending component is an excellent means of developing larger businesses.

⁸⁹ See, generally, Bates, Timothy and Nucci, Alfred, *An Analysis of Small Business Size and Rate of Discontinuance*, Center for Economic Studies, U.S. Bureau of the Census 90-2, (Jan. 1990).

⁹⁰ Id.

⁹¹ Joel Popkin & Co., Small Business Administration Business Survival Rates by Age Cohort of Business, Small Business Research Summary, RS 122, available at <http://www.sba.gov/advo/research/rs122.html> (last visited March 31, 2006).

⁹² Ahmed, Fauzia E., *Beyond Beijing '95: Building the Road as You Walk*, Radcliffe Pub. Pol'y Inst. Working Paper (1996).

⁹³ Id.

Shifting the focus to creating larger enterprises, would first mean giving up the notion of complete ownership and control over the business. Instead, participants may acquire ownership interests in the businesses, or structure themselves as employees/officers. Ownership of the business assets, however, would belong to the entity.⁹⁴ MAP training programs to assist in developing larger entities would focus on establishing greater managerial and technical skills. It follows that persons with relevant education and business experience would play a significant role in the day-to-day business operations, e.g., serving as chief executive officer, chief financial officer, etc.

Also, emphasis on supporting larger entities necessarily displaces sole reliance on community markets and creates the need to establish links into wider markets. Businesses could be geared to government contracting and make use of local and federal government programs that provide procurement preferences for historically disadvantaged businesses. Additionally, businesses could take advantage of tax credit programs for hiring welfare recipients⁹⁵ (which should include being a welfare recipient at formation) or tax credits for locating in empowerment zones.⁹⁶ Also, larger entities are in a better position to enter into sub-contracts or joint ventures with established businesses.⁹⁷ The materials found in researching this essay did not indicate whether MAPs were currently engaged in supporting these kinds of efforts.⁹⁸ It is not, however, the purview of this article to explore these possibilities in detail, but simply to offer a way to increase the gains in eliminating the poverty cohort by increasing the scale and market reach of microenterprises.

⁹⁴ An emerging concept in economic justice is the importance of assets to well-being. See, generally, Sherraden, Michael, *Assets and the Poor: A New American Welfare Policy* (1991).

⁹⁵ The Welfare to Work Tax Credit is available to employers that hired long-term welfare recipients after Dec. 31, 1997, and before June 30, 1999. Section 801, Taxpayers Relief Act of 1997, [Pub. L. No. 105-34, 111 Stat. 788](#); [26 U.S.C. § 51A \(1999\)](#), as extended by section 1003, Tax and Trade Relief Extension Act of 1988, [Pub. L. No. 105-277](#).

⁹⁶ Tax credits are available to businesses located in empowerment zones that employ residents of the zone. [26 U.S.C. § 1396 \(1999\)](#).

⁹⁷ See Waddell, Steven J., *Emerging Social-Economic Institutions in the Venture Capital Industry: An Appraisal*, 54 Am. J. Econ. & Soc. 323 (1995) (for a discussion of venture capital organizations that have socially guided investment policies).

⁹⁸ It should be noted, however, that the conversation with Michael J. Massey, Economic Development Director for CDC in Memphis, he expressed a goal to provide further economic support for microenterprises in economically providing operational cost support for microenterprises who procure government contracts that require that they wait a substantial amount of time before they are paid.

V. Conclusions

Proximity is one of South Memphis' key assets. A mile and a half from Memphis' downtown community, it is close to the city's growing sports, entertainment and arts district, the Mississippi River, Mud Island, parks, and museums such as the National Civil Rights Museum and Stax Museum. Additionally, with a growing biotech community developing nearby, north of Crump Boulevard, South Memphis is amid favorable conditions for economic revitalization. Successful poverty alleviation within this community will require a multi-pronged strategy to address housing, education, public works, and commercial development. The CDC can play a stronger part in this strategy by increasing the number of microenterprises participating in its training program, increasing access to its micro-loans and individual business counseling, and developing institutional partnerships that will create contracting and sub-contracting opportunities for microenterprises. The CDC is on the right track in meeting these goals because its executives are aware that minority contractors and sub-contractors need greater economic assistance to pursue larger projects. The kinds of microenterprises assisted by these efforts are those that are more likely to create job opportunities within the South Memphis community.

No MAP can guarantee entrepreneurial success, but can minimize a venture's chances of failure. Understanding this, this paper attempted to sort through some of the factors that have historically contributed to successful MAPs, as well as look at areas that are stumbling blocks or concerns for MAPs and microenterprises. Additionally, this essay looked at the emerging peer group lending component and proposed building onto this model to aggregate entrepreneurial efforts into creating larger business entities. This will make microenterprises more sustainable and competitive in the market economy and more likely to contribute to job growth within their communities.

APPENDIX -- Tables

Table 1
Population and Household Trends of South Memphis
1980, 1990, and 1997 Estimate

	1980	1990	1997 Estimate	% Change	
				1980-90	1990-97
Total Population	56,770	45,541	37,554	(19.8%)	(17.5%)
Households	17,735	15,390	13,982	(13.2%)	(9.1%)

Source: National Decision Systems, 1997

Table 2
Income Characteristics of South Memphis and Shelby County
1998 Estimates

	South Memphis	Shelby County	South Memphis Over/(Under) Shelby County
Median Household Income	\$16,157	\$37,362	(56.8%)
Mean Household Income	\$23,594	\$51,704	(54.4%)
Households by Income:			
Under \$15,000	57.8%	22.9%	34.9
\$15,000 to \$34,999	28.6%	28.6%	0.0
\$35,000 to \$74,999	10.8%	32.3%	(21.5)
\$75,000 or More	2.8%	16.1%	(13.3)

Source: National Decision Systems, 1997, and REDC Estimate, 1998