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Fred M. Ssewamala, Margaret Lombe and Jami C. Curley

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George Warren Brown School of Social Work

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Fred M. Ssewamala*
Columbia University
School of Social Work
1255 Amsterdam Avenue
New York, NY 10027
Tel. 212-851-2250
Fax 212-851-2204
fs2114@columbia.edu

Margaret Lombe
Boston College
Graduate School of Social Work
Chestnut Hill, MA 0246

Jami C. Curley
St. Louis University
School of Social Service
St. Louis, MO, 63103

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Center for Social Development
George Warren Brown School of Social Work
Washington University
One Brookings Drive
Campus Box 1196
St. Louis, MO 63130
tel 314-935-7433
fax 314-935-8661
e-mail: csd@gwbmail.wustl.edu
HTTP://GWBWEB.WUSTL.EDU/CSD

* All correspondences should be sent to Professor Fred Ssewamala.

USING INDIVIDUAL DEVELOPMENT ACCOUNTS FOR MICROENTERPRISE DEVELOPMENT

This study examines whether there is a role for microenterprise development as an anti-poverty strategy in the United States. This question is important because skeptical views exist regarding whether, generally, poor Americans would have the enthusiasm to undertake the risk of dealing with small-businesses, especially given that the United States has a public welfare system to take care of the poor and "abundant jobs" for those with the skills--compared to most developing countries where the only alternative open for a family investing in a small-business may be starvation. Using data from 14 community-based programs promoting small-business investment through Individual Development Accounts (IDAs), this study finds that overall there is a considerable level of interest in saving for and investing in small-businesses among poor Americans, including those who are less advantaged in terms of income poverty and employment. Policy makers should thus consider promoting IDAs/subsidized savings for small-businesses development as a potentially viable strategy to address income poverty and inequality in the United States.

Keywords: Savings, Microenterprise, Poverty, Inequality, Individual Development Accounts (IDAs).

USING INDIVIDUAL DEVELOPMENT ACCOUNTS FOR MICROENTERPRISE DEVELOPMENT

1. Introduction and background

Although the United States is arguably the richest country in the world, poverty is still an issue of intense concern. America's abundant wealth is not shared equally. There are great economic disparities among Americans. Recent statistics indicate that 12.1% of all Americans fall below the poverty line, and if there were no government transfers, 20% of all Americans would be considered poor (United States Bureau of the Census, 2004). The figures for specific minority groups are even more disconcerting. In 1993, the United Nations Development Program [UNDP], using its Human Development Index [HDI], asserted that if the United States were to be divided into two countries, White (not of Hispanic origin) and Black, the country with the White population would rank number 1 in the world in terms of prosperity, while that with the Black population would rank number 31 (UNDP, 1993). More than ten years later, the situation is almost unchanged.[1]

With a Gini Index of 40.8 (UNDP, 2001), the United States has the highest income inequality among the western industrialized countries. Additionally, the United States lags behind all western industrialized nations in child well-being with approximately 1 in 5 American children living in poverty (Frey, Abresch, and Yeasting, 2001; Schiller, 2001). Schiller (2003) observes that unless something is done, "we may confidently predict that poverty has a great future in this country" (p.43).

The persistence of poverty is not merely an issue of fairness and equity, but also an indication of the ineffectiveness of traditional social welfare policies, which do not empower or build the capacity of the poor. Scholars have argued that a new approach to poverty alleviation is needed if we are to alter the current legacy of the poor (e.g., Rank, 2004; 1994; Schiller, 2001; Sherraden, 1991; UNDP, 2000; 1999; 1993). In *Assets and the poor: a new American welfare policy* (1991), Sherraden proposes an asset-development welfare policy that would not simply promote consumption, but would encourage asset development, specifically savings and investments in homeownership, microenterprise development and post-secondary education. This paper explores the potential for one of the asset-development strategies, microenterprise development, to be a viable anti-poverty alternative in the United States.

2. Microenterprise development as an anti-poverty strategy in the United States

Microenterprise Development Programs (MDPs) aim at providing micro-loans, business advice, training assistance—and in some cases saving services—to the poor, welfare recipients and the unemployed intending to start and/or grow an existing small family business (Ssewamala and Sherraden, 2004). Several scholars trace the history of the current microenterprise movement to the developing countries of Asia, African and Latin America (Black, 1999; Chavez and Gonzalez-Vega, 1996; Counts, 1996; Hashemi, Schuler, and Riley, 1996; Hulme and Mosley, 1996; Jain, 1996; Milgram, 2001; Patten, Rosengard, and Johnson, 2001; Rahman, 1999; Servon, 1999; Ssewamala and Sherraden, 2004).

In the United States, support for MDPs has steadily increased. The most recent estimates indicate that there are at least 700 MDPs throughout the United States (Dallinger, 2001). Moreover, as an anti-poverty strategy, MDPs have enjoyed bipartisan political support. The Conservatives favor the strategy because they believe it speaks to individual self-reliance and hard work, while liberals praise it for its goal of reaching the poor and the philosophy that anyone is capable of owning a successful business

(Bornstein, 1995). Indeed, as a Presidential candidate, when asked about his position on federal support for MDPs, then Governor George W. Bush said, "I am a strong, enthusiastic supporter of microenterprise development programs…" (Association for Enterprise Opportunity [AEO], 2001, ¶1). Similarly, during his Presidency, Bill Clinton expressed strong support for MDPs arguing that such programs help "self-employed entrepreneurs obtain loans for small business enterprises to begin the process of growing out of poverty" (Clinton, October 17, 2000, ¶3).

Indeed, supporters of MDPs view these programs as a 'beacon of hope' aimed at reducing vulnerability while affording the poor a basis for self-empowerment, respect and social dignity. They further maintain that microenterprise could help break the vicious cycle of poverty by giving poor persons an opportunity to diversify their incomes, accumulate assets, and enter into mainstream society through small business investments (Association for Enterprise Opportunity [AEO], 2001; Counts; 1996; Dignard and Havet, 1995; Nelson, 2000; Raheim, 1996; Sherraden, 1991).

Moreover, supporters of microenterprise argue that the benefits of these programs go beyond the individual and family. The potential for MDPs to revitalize depressed neighborhoods and communities is well documented (Nelson, 2000). Several studies have found that a significant number of participants in MDPs plan to use their businesses to "give back to their community" (Servon, 1999; Sherraden, Ssewamala, and Sanders, 2003). In fact, many community-based organizations now include a microenterprise development component in their community development packages. These include, for example, the Central Vermont Community Action Council, in Barre, Vermont; Justine

Petersen Housing and Reinvestment Corporation, in St. Louis Missouri; Community Action Project of Tulsa County, in Tulsa, Oklahoma.

Finally, support for MDPs is also rooted in their potential to foster social relations/networks, civic engagement, community solidarity, social capital and social connectedness, all of which may help combat poverty. The peer groups or solidarity methods used in serving potential entrepreneurs—the majority of whom live in communities with similar socio-economic backgrounds—act as a source of support and an avenue for networking and training (Anthony, 1999; Nelson, 2000).

In spite of the wide support for microenterprise development as a potential anti-poverty strategy, the intervention has attracted some skepticism—especially in the United States. Some scholars argue that MDPs fail systematically to reach the poorest Americans (Bates and Servon, 1996; Schreiner and Woller, 2003). For example, several studies indicate (and some have raised concern), that on average, most MDP users tend to be 'fairly educated' compared to the poorest Americans (Dumas, 1999; Edgcomb, Klein and Clark, 1996).[2] With this kind of human capital, it has been argued that persons choosing to go into microentrepreneurship would probably be able to find a formal wage job if they wished (Schreiner, 1999). Underscoring the argument that MDPs fail to reach the poorest of the poor, scholars like Bates and Servon (1996) have called on policy makers and funding sources to "recognize the niche [MDPs] fill and set their sights elsewhere for solutions" (p.28) to the problem of poverty. Additionally, given the nature of the public safety nets and the abundance of jobs in the United States relative to developing economies, some people have debated whether poorer Americans would have the enthusiasm to opt for and/or undertake the risk of dealing with very small businesses

(Schreiner and Woller, 2003; Schreiner, 1999). While these are legitimate concerns that need to be addressed, such arguments seemingly ignore structural causes of unemployment, e.g., discrimination in the labor market due to social class, race or gender (Rank, 1994; Wilson, 1996) that may force some people to choose microentrepreneurship.

Indeed, while some explanations for poverty exclusively focus on individual traits (for example motivation, determination and self-drive among the poor themselves), others focus on structural and institutional explanations. For example, according to Waxman (1977), poverty does not derive internally from the "unique values of the poor, but rather, externally, as the inevitable consequence of [the poor] occupying an unfavorable position in a restrictive social structure" (p.27). Schiller (1995) calls this "the restricted opportunity argument". Other scholars, for example Wilson (1996) have all discussed the role of structural factors in keeping poor people in poverty. The argument by those who fault the structural and institutional frameworks as the primary perpetuator of poverty is that many poor people have the motivation and determination to pull themselves out of poverty once given the opportunity.

3. Research Questions

Using a data set with over 2,000 poor families from 14 community-based programs promoting savings and asset ownership among poor Americans through matched savings accounts (also known as individual development accounts—IDAs) this paper explores the relationship between poverty levels and the decision to save for and/or invest in microenterprise development. Specifically, the following research questions are advanced:

(1) Are community based programs promoting microenterprise development through matched savings accounts reaching the poorest Americans?

(2) Are poorer Americans who participate in the matched savings programs opting for microenterprise development versus other saving options?

(3) Does the poverty level of a participant involved in a matched savings program predict his/her saving goal (specified as microenterprise development or other)?

These questions are important because in the United States microenterprise development for the poor is a relatively new field and empirical scholarship on the topic is just emerging. In addition, since some of the money used to promote MDPs is an allotment from public funds, it is important to start examining questions regarding who among the poor— given an opportunity within a matched savings program—is more likely to opt for microenterprise development. These questions have significant implications for the future of MDPs, especially if policy makers and practitioners are to view them as a viable anti-poverty intervention.

4. Data

The data used in this study come from the American Dream Demonstration (ADD), a national policy demonstration promoting saving and investment among poor individuals and households. ADD was the first and most extensive study of the matched savings accounts known as Individual Development Accounts (IDAs). Starting in 1997 through 2001, ADD followed over 2,000 poor families at 14 community-based program sites within 13 host programs across the United States (for details see Sherraden *et al.*, 2000). The Corporation for Enterprise Development (CFED) in Washington, DC, designed and guided ADD, while the Center for Social Development (CSD) at

Washington University designed and conducted much of the research and collected data through the Management Information System for Individual Development Accounts (MIS IDA).[3] MIS IDA is a computer software program designed by CSD to track program and participant characteristics (both socio-demographic and financial), and all IDA saving transactions for ADD participants (N=2,351) at all 14 ADD program sites. The saving transaction data were obtained from depository financial institutions and as such are highly accurate. Data used in this study cover saving transactions of ADD participants from 1997 through 2001.

In ADD, low-income Americans (mainly those under 200% of the federal-poverty threshold) were encouraged to save in special subsidized accounts, Individual Development Accounts (IDAs). The deposits in IDAs were matched. Depending on the program, the match rate ranged from 1:1 to 6:1 with the most common being 2:1. The matched savings could be used for investing in any of the following: microenterprise development, homeownership, post-secondary education, or retirement (see Sherraden *et al.*, 2000 for a detailed description of each of the programs in ADD). Since participants were given a list of saving goals from which to choose for their matched savings, the data are well suited for the research questions advanced by this study.

4.1. Limitations of the Data

It is important to note several limitations of this data set. ADD participants are not a random sample. They are both self-selected, because they volunteer to participate in the program; and program selected, because of eligibility criteria they have to satisfy. In a comparison of ADD participants to the overall U.S. population below 200% of the poverty line, Sherraden *et al.* (2000), found that ADD participants are more likely to be female, African-American, and never married. They are also more educated and more likely to be employed than the overall U.S. population below 200% of the poverty line. This pattern reflects the sample for this study, which is drawn from the population served by the community programs in ADD- the working poor.

5. Analyses

Of the 2,351 participants in this study, 457 were saving for microenterprise development. The remaining 1,894, were saving for housing, post-secondary education or retirement. Descriptive statistics were first used to summarize sociodemographic characteristics of the sample and key study variables. Following this, bivariate analysis, specifically a series of two-tailed t-tests were used to compare sociodemographic and economic characteristics of the microenterprise group—defined as all participants in ADD who have used their savings for microenterprise development plus those participants who identified their intended saving goal as microenterprise development (n=457)—with the 1,894 ADD participants who selected alternative investment options.[4]

Finally, binary logistic regression was used to assess the likelihood of a respondent's saving goal being microrenterprise development vs. other based on his/her poverty level. This procedure allows the researcher, when the dependent variable is dichotomous, to determine which independent variable(s) in a multivariate model, make a significant contribution to the overall prediction of the dependent variable (Mertler and Vannatta, 2002).

A number of variables including gender, age, race/ethnicity, marital status, welfare use, household composition, educational attainment, employment status, and asset ownership are entered in the model as controls. Conclusions are drawn based on findings from these procedures.

6. Results

6.1. Descriptive Statistics

The majority of the participants in ADD are female (80%) and the average age is 36 years. About 46% are African American, 38% are Caucasian, 9% are Latino, 3% Native Americans and 2% are Asian. About 3% of participants identify themselves as "other" in terms of ethnicity. Slightly under half of the participants (48%) are single (never married), 22% are married, 27% are divorced/separated while 2% are widowed.

Fifty nine percent of ADD participants work full time (35 hours per week or more), while 23 percent worked part-time. Ten percent are unemployed or not working while 9% are students. About 16% have not completed high school, 26% completed high school or have a GED, 37% attended some college but did not graduate, and 22% have a college degree (2-year/4-year and above).

About 38% had formerly used Aid to Families with Dependent Children (AFDC) or its successor Temporary Assistance for Needy Families (TANF), while 10% are currently using TANF. Nearly nine out of ten live in households with incomes below 200% of the poverty line, and about 48% are below the poverty line. About 16% own a home and 11% own a micro-business (see Table 1. Also see Ssewamala and Sherraden, 2004 for details).

Table 1. Characteristics of the Sample [N=2,351]

Variables	Percentage; Mean (Standard Deviation)
Gender	
Female	80%
Male	20%
Race/Ethnicity	
African American	46%
Hispanic/Latino	9%
Asian	2%
Caucasian	38%
Other	3%
Marital Status	
Married	22%
Divorced/separated	27%
Widowed	2%
Never Married	48%
Missing	1%
Household Composition	
Adults (18yrs or older)	1.5 (0.7)
Children (17 yrs or younger)	1.7 (1.5)
Missing	0.5%
Employment Status	
Full-time (>35 hrs per week)	59%
Part-time (<35 hrs per week)	23%
Not working (not looking)	4%
Unemployed (looking)	5%
Student	6%
Work Student	3%
Education	
High school grad - no	16%
High school grad or GED - yes	26%
Attended some college (didn't graduate)	37%
Graduated (2 year or 4 year college +)	22%
Welfare use	
TANF or AFDC never used	61%
TANF or AFDC formerly used	37%
TANF or AFDC currently using	10%
Missing	2.3
Poverty levels (relative to federal poverty line)	
0 to 49	19%
50 to 74	13%
79 to 99	16%
100 to 124	14%
125 to 149	12%
150 to 174	9%

Table 1. Characteristics of the Sample [N=2,351] (Continued)

Variables	Percentage; Mean (Standard Deviation)
175 to 199	6%
200 to 329	9%
Missing	2%
Assets ownership	
Own a car	65%
Own a home	16%
Own a micro-business	11%
Date of Enrollment	
Before June 30th, 1999	42%
After June 30th, 1999	58%

Notes: Percentages are presented for categorical variables and Mean (Standard Deviations) are presented for continuous variables; GED=General Educational Development test; TANF=Temporary Assistance for Needy Families; AFDC=Aid to Families with Dependent Children

6.2. Are poorer Americans participating in matched savings programs opting for microenterprise development, as an option, versus other saving options?

A series of two-tailed t-tests indicate that the microenterprise group and the non-microenterprise group do not differ significantly in terms of gender, race, marital status, welfare use and car ownership (see Table 2). However, the two groups do differ significantly on age, income to poverty ratio, employment status, family composition, educational attainment, and asset ownership.

Compared to the non-microenterprise group, the group who chose microenterprise as their goal are on average fours years older ($p<.01$) and are less likely to have children (17 years or younger) ($p<.01$). In addition, the microenterprise group is less likely to be working full-time (p<.01), more likely to be income poorer (p <.05) and more likely to be unemployed/not working (p<.01).

Results also indicate that although the microenterprise group is more likely to be income poorer than the non-microenterprise group, the same group is more likely to own a home (p<.01), and more likely to own a micro-business (p<.01). Findings around educational attainment are less clear-cut. While results indicate that the microentrepreneurs are less likely to have graduated from high school (p<.05) or have a GED (p<.01), the same group is also identified as more likely to have graduated from either a 2-year college/4-year college and beyond (p<.01).

Table 2. Participant Characteristics:
Non Microenterprise (Non-ME) vs. Microenterprise (ME)

	N		Mean			
Independent Variables	**Non-ME (n=1,894)**	**ME (n=457)**	**Non-ME**	**ME**	**t-value**	**p-value**
Gender	1,894	457				
Female			80%	79%	0.40	0.7
Male			20%	21%	-0.40	0.7
Age	1,894	457	35	39	-6.34	0.01**
Race/Ethnicity	1,894	457				
African American			46%	49%	-1.51	0.13
Hispanic/Latino			9%	8%	1.07	0.42
Asian			2%	2%	-0.79	0.43
Native American			3%	2%	1.10	0.27
Caucasian			38%	35%	1.01	0.29
Other			3%	3%	-0.12	0.9
Marital Status	1,875	452				
Married			22%	20%	1.00	0.32
Divorced/separated			27%	29%	-0.66	0.51
Widowed			2%	3%	-0.90	0.37
Never Married			49%	48%	0.72	0.94
Household Composition						
Adults (18yrs or older)	1,873	453	1.5	1.5	-1.16	0.25
Children (17 yrs or younger)	1,884	456	1.8	1.4	4.75	0.01**
Employment Status	1,893	456				
Full-time (>35 hrs per week)			61%	51%	3.67	0.01**

Table 2. Participant Characteristics:
Non Microenterprise (Non-ME) vs. Microenterprise (ME)
(Continued)

Independent Variables	N Non-ME (n=1,894)	N ME (n=457)	Mean Non-ME	Mean ME	t-value	p-value
Part-time (<35 hrs per week)			22%	25%	-1.35	0.18
Not working			8%	16%	-4.30	0.01**
Student			9%	7%	0.98	0.33
Education	1,891	457				
High school grad - no			16%	12%	2.42	0.02*
High school grad or GED - yes			27%	21%	2.53	0.01**
Attended some college (didn't graduate)			37%	37%	-0.20	0.84
Graduated (2yr/4yr college +)			20%	29%	-3.98	0.01**
Welfare use						
TANF or AFDC never used	1,876	452	61%	66%	-1.89	0.06
TANF or AFDC used formerly/now using	1,889	457	39%	34%	'1.88	0.06
Income to poverty ratio	1,853	442	1.10	1.00	2.15	0.03*
Assets ownership						
Own a car	1,891	456	64%	66%	-0.82	0.41
Own a home	1,893	456	14%	22%	-3.60	0.01**
Own a micro-business	1,893	455	6%	29%	-10.61	0.01**

Notes: *p < .05 .** p < .01
GED=General Educational Development test; TANF=Temporary Assistance for Needy Families; AFDC=Aid to Families with Dependent Children

6.3. Does the poverty level of a participant involved in a matched savings program predict his/her saving goal (specified as microenterprise development or other)?

Results of a binary logistic regression—assessing whether or not a respondent's poverty level is a factor in determining his/her saving goal—are statistically significant (X^2=247.70, *df*=11, p<.01), [See Table 3]. This model correctly classifies 82.4% of the cases. However, the extreme values indicated by the log likelihood (-2 Log likelihood=1927.46) suggest that the model fit of the set of predictor variables may be questionable. Wald statistics reveal that controlling for the other variables in the model (Table 3), poverty level, measured in terms of income, significantly predicts a respondent's saving goal as microenterprise development versus other saving options (b= -0.02; Wald=5.95; p≤=0.05). Odds ratios for this variable reveal that a unit increase in a participant's income is associated with a decrease in the likelihood of a participant being classified as saving for microenterprise development (OR=0.98). These findings suggest that at lower levels of income, a participant is more likely to save for microenterprise development.

Unemployed participants in ADD are also more likely to save for microenterprise development vis-à-vis other saving options, further reinforcing the earlier observation that income poorer respondents are more likely to save for microenterprise. The Wald chi-square statistics and rank order of the independent variables in terms of their association with the dependent variable, presented in Table 3, indicate that previous ownership of a micro-business has the greatest impact on a respondent's choice of saving goal as either microenterprise development or other (b=1.91;Wald=146.02; p≤.01; OR=6.73).

Table 3. Participant's Saving Goal Regressed on Income Measure (N=2,351)

Variable	b	Wald	p-value	Odds Ratio	Rank
Constant	-2.28	74.98	0.00**	0.10	
Age	0.02	8.39	0.00**	1.02	7
Race					
African American	0.46	14.27	0.00**	1.58	3
Household Composition					
Children (17 yrs or younger)	-0.13	8.25	0.00*	0.88	8
Education					
Attended some college	-1.56	8.40	0.00**	0.21	6
Graduated 2/4 yrs college	0.41	5.83	0.02*	1.51	11
Welfare use	0.48	6.55	0.01*	1.61	9

Table 3. Participant's Saving Goal Regressed on Income Measure (N=2,351) (Continued)

Variable	b	Wald	p-value	Odds Ratio	Rank
Asset ownership					
Own a micro-business	1.91	146.02	0.00**	6.73	1
Own a home	0.46	8.59	0.00**	1.59	5
Employment Status					
Unemployed (looking)	0.85	14.86	0.00**	2.35	2
Not working (not looking)	0.79	10.14	0.00**	2.21	4
Income	-0.02	5.95	0.02*	0.98	10

Model X^2=274.70; df=11; p≤01

*p≤.05 **p≤.01

Notes: Table 3 only includes variables making a significant contribution to the model. In this model we regress a respondent's saving goal as microenterprise or other on the poverty measure

7. Discussion

Findings from this study suggest that the microenterprise group is more "advantaged" than its non-microenterprise counterpart in terms of asset ownership, but less advantaged in terms of income poverty and employment status. Specifically, using income as a measure of poverty, this study finds that—controlling for other individual level factors—poorer Americans in ADD are more likely to save for microenterprise development compared to other saving options. This result seems to contradict the argument—in the existing literature—that persons choosing to invest in microenterprise development in the United States are not among the poorest. At least for Americans participating in matched savings programs in this sample, income poorer participants seem to be interested in investing in microenterprise development.

The study's findings regarding educational attainment are less clear-cut. Given the argument of human capital theorists, that education is likely to make people more innovative and better prepared to take risks (Beverly and Sherraden, 1997; Becker, 1993; Organization for Economic Co-operation and Development [OECD], 2001), one would expect persons saving for microenterprise development to be more educated than the non-microenterprise group. However, as mentioned earlier, the findings are not clear cut. The results indicate that the microenterprise group is somewhat bi-modal. That is, compared to the non-microenterprise group, part of the microenterprise group had less education (not graduating from high school) and part, those finishing high school, had higher education (more post-secondary schooling). Additional research would be helpful in unpacking the influence of educational attainment in people's choices to invest in microenterprise development.

Overall, this study finds a significant association between a respondent's income poverty level and saving goal (microenterprise development or other). The likelihood of a respondent being in the microenterprise group increases at lower levels of income, further reinforcing the observation made earlier in this paper that controlling for other factors, poorer participants in ADD are more likely to save for microenterprise development compared to other saving options. This argument is further supported by the study's findings that unemployed participants in ADD—therefore income poorer—were significantly more likely to choose microenterprise development as a saving option.

These observations underscore the interest — among poor Americans— of saving for and investing in microenterprise development, and may point to a policy and program role for MDPs in interventions designed to reduce poverty and vulnerability. However, this study does not examine whether participants who saved for and invested in microenterprise development moved out of poverty, nor does it examine any other longer-term outcomes. We do not yet have data on long-term outcomes, for example, on how people who saved in IDAs and invested in microenterprises performed over time. We realize that willingness to save and invest in microenterprises may not necessarily assure poverty reduction. In fact, interest in starting a microenterprise may be a necessary, but not a sufficient, condition for successfully running a small business. What this study, however, does is to highlight IDAs as a potential funding strategy for the poor interested in investing in microenterprises. Specifically, the study examines whether given an option, poorer Americans would be interested in saving for and investing in small businesses.

We realize that succeeding in a small business is not an easy task. But probably for those poor families, willing and able to save, having a savings account (in the form of an IDA or something similar) may be the difference between long-term success or failure. As Schreiner and Morduch (2002) observed, "for the poorest people, saving is at least as important, if not more so, as loans in the effort to help households accumulate resources...The discipline of building up savings over time can yield important lessons for entrepreneurs" (p.49).

8. Implications

In general, findings of this study suggest that there is a considerable level of interest in microenterprise development among the poor in the United States. Almost 20% (19.4%; n=457) of all participants in ADD identified their saving goal as microenterprise development or had used their matched savings to invest in microenterprise development. This is a substantial percentage given that ADD participants have a number of savings options. Additionally, the study finds that compared to the non-microenterprise group, the microenterprise group is more likely to be income poorer and unemployed/not working.

The results presented in the foregoing discussion represent a challenge to the argument that the poor in the United States may not be enthusiastic to invest in small businesses. Such an argument may not hold for the poor in this sample—low-income individuals—saving in matched savings programs/IDAs.

These findings raise, the question: Why are the income poorer and unemployed/not working people —in ADD— choosing microenterprise development? The answer to this question can, in part, be found within the institutional structures of ADD programs *vis-à-vis* the institutional structures of other programs promoting microenterprise development. As noted earlier, ADD is a matched savings program, which subsidizes participants' savings so they can invest in microenterprise development and other options. Unlike ADD, most MDPs tend to be "interest-charging", hence, they provide microenterprise services at a fee. Moreover, in most cases, participants are required to have long-standing credit history or credit ratings which many poorer Americans lack. Such requirements have the potential to systematically exclude poorer Americans, even when they have a legitimate interest in microenterprise development. Studies from the developing countries have demonstrated that the poor—even though many may not have long-standing credit history—can be good credit risks, successful entrepreneurs, and successful financial managers of their own enterprises (Black, 1999; Counts, 1996; Snodgrass, 1997).

Therefore, if microenterprise development is to be promoted as a viable anti-poverty strategy in the United States, the debate around poorer Americans in relation to their interest in microenterprise development should address the extent to which the institutions promoting microenterprises development make this a realistic alternative for poorer Americans. In order for microenterprise to reach poorer Americans, policy makers and program implementers should be open to lessons learned from IDA programs in ADD, specifically how these programs have been structured. This point deserves attention, given the current restructuring of the labor market, which continues to push vulnerable individuals to the margins and the high cost society stands to pay in the long run in terms of effects of poverty on individuals and households.

From a business perspective, it is desirable and indeed logical to promote provide services (micro-loans) to persons with long-standing credit history. However, the emphasis that has been placed on these kinds of services may overshadow service to and concern for the welfare of groups these programs are designed to serve. This could be a major weakness in the method microenterprises are being promoted as an anti-poverty strategy in the United States. There is a need to connect the poor to conventional financial institutions, so they (the poor) could, too, enjoy the benefits of being served by these kinds of institutions.

Indeed, if, as this study suggests, poorer Americans are willing and able to save for microenterprises development, the issue may not be so much whether or not poorer Americans are interested in the so called "risky small businesses" but rather that MDPs, as currently structured, lack the will to reach poorer individuals and households. If this is the case, then the institutional structures of IDA programs have a lot to offer to this discussion. We, therefore, recommend that, although not all MDPs should follow the IDA program format, policy makers and program implementers should consider microenterprise development through subsidized savings such as IDAs which poorer Americans can utilize for microenterprise ventures. This is not to suggest that all MDPs should follow the IDA program format. But, if we are to reach the poorest of the poor, and reduce their vulnerability to poverty, the role of institutional structures in influencing people's outcomes is worth considering. As Peters (1999) observes, one cannot fully explain individual opportunities, actions and outcomes by exclusively focusing on individual characteristics. One needs to be "aware of institutional influences" (p.2) as well as individual characteristics.

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Notes

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[1] Whereas 24.1% of Black people live below the poverty line, only 10.2% of white population (not Hispanic origin) is below the poverty line (United States Census Bureau, 2002).

[2] A study by Dumas (1999) on 16 women who participated in microenterprise training at the Center for Women and Enterprise in Boston, found that 13% of the women had completed a high school education, 31% had completed an Associates degree with some additional training, 19% had bachelor's degrees or the equivalent number of years

of undergraduate study. These results are consistent with the findings from an earlier study based on the Self-Employment Learning Project by Edgcomb, Klein and Clark (1996) which indicated that 83% of the microentrepreneurs were high school graduates, 58% had some education past high school, and 19% had a four year college degree (also see Sherraden, Sanders, and Sherraden, 1998).

[3] MIS IDA generates a comprehensive database on program characteristics and participant characteristics. IDA staff record five types of data in MIS IDA: account-structure parameters at the start of the program, socio-economic data on participants at enrollment, monthly cash-flow data from account statements, monthly inputs and expenses, and intermittent events (Johnson, Hinterlong, and Sherraden, 2000).

[4] This study looks at the participants who intend to use their IDA savings for microenterprise. It includes participants who had taken a matched withdrawal by December 31, 2001, and participants who had not used their savings for microenterprise programs by the same date. Forty-three percent (n=197) of the participants who were saving for microenterprise had taken a matched withdrawal. Of the participants who had taken a matched withdrawal, slightly fewer than 3 percent (2.6%, n=12) had changed their intended use from microenterprise to something else (or their actual use differed from their intended use). Thus, at this writing, the best estimate available for the share of participants who intend to use their savings for microenterprise and who will actually follow through on that intention is 97%.