

Best Practices and Lessons Learned from Past Federal Entrepreneurship Programs

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Topics to be Addressed

- Introduction to Entrepreneurship and Microenterprise.
- Best Practices and Lessons Learned from past ETA Research on Entrepreneurship.

Small Business Impact – Why do We Care?

- Half of U.S. non-farm income.
- Half of U.S. private work force.
- 60%-80% of net new jobs.
- Small patent firms generate scientifically important innovations at a 13 to 14 times higher rate per employee, than large firms.

What is an “Entrepreneur”

- An entrepreneur is a person of very high aptitude who pioneers change, possessing characteristics found only in a small fraction of the population.
- On the other hand, anyone who wants to work for himself or herself is considered to be an entrepreneur.
- The word “entrepreneur” derives from a French word, *entreprendre*, which means to undertake.
- The Merriam-Webster definition of entrepreneur is an individual who organizes, manages, and assumes, the risks of a business or enterprise.

What is “Microenterprise”

- “Microenterprise” is commonly used to describe a business with up to 5 employees, which requires \$35,000 or less in start-up capital, and does not have access to the traditional banking sector.
- The theory behind microenterprise is simple – loan these individuals small amounts of money for business start-up costs, make the loan terms affordable, and give them business training and support.
- Many microentrepreneurs have little formal business training and varying levels of education. Thus, education and technical assistance are also integral components of microenterprise programs.
- Successful American microentrepreneurs include retailers in ethnic communities who provide specialized goods, artisans and craftsmen, individuals who provide personal or business services, and a variety of businesses in isolated urban or rural communities where few products are readily available.

The Small Business and Entrepreneur Continuum: Differing Needs and Stages

Innovative Growth Ventures in Large Markets

(Technology, process, business model, intellectual property)

Middle Market Companies

(Textile, wood, fab – Est. manufacturers & resellers)

Local/Regional Small Business

(Regional ISP, Restaurant, Gas/Food Market)

Self Employment/ Microenterprise

(Cleaning Service, Local Artisan, Independent IT Consultant)

Best Practices and Lessons Learned from past ETA Research on Entrepreneurship.

- The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration.
- Job Training Partnership Act (JTPA) Microenterprise Grants Programs.
- Unemployment Insurance (UI) Self-Employment (SE) Demonstrations (SEED).

The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration.

- Operating between July 1991 and September 1993, the demonstration consisted of grants to six community development organizations.
- Authorized under the Job Training Partnership Act, the purpose of the EDWAA demonstration was to explore the effectiveness of community development corporations (CDCs) in expanding employment opportunities for dislocated workers through entrepreneurial training and economic development activities.
- Services included classroom training (between 6 and 13 weeks or up to 150 total hours of basic business skills), ongoing support of start-up businesses (using experienced counselors to help participants take practical steps such as developing a business plan, setting up an accounting system and obtaining needed licenses), counseling and case management.

EDWAA Results

- The demonstration served 996 dislocated workers, and their total employment rates from the self-employment training compared favorably with outcomes from traditional EDWAA retraining programs (45% of self-employment participants started a business, and 74% of those were still in business six months later).
- However, initial earnings from self-employment were lower than the average wage at termination for participants in more traditional reemployment programs primarily due to the fact that income derived from self-employment is generated much later in the service cycle.

Lessons Learned from EDWAA

- **Screening** - Because self-employment requires motivation and discipline, proactive screening processes are needed to ensure that participants understand the risks involved, can focus on their business plan, and are motivated to undertake starting a business.
- **Access to Capital:** Lack of access to capital has been a chronic problem in the microenterprise field, and was a barrier to success for demonstration participants attempting to launch their own businesses.
- **Services:** Training for entrepreneurship is fundamentally different from reemployment training. Critical components included:
 - Experienced staff
 - Extensive support
 - Business Plan Development
 - Technical assistance

Job Training Partnership Act (JTPA) Microenterprise Grants Programs.

- Authorized under the Job Training Partnership Act, the JTPA Microenterprise Grants Program provided training to potential entrepreneurs and business owners, and built capacity for microenterprise services within the workforce development system.
- The five participating states contracted with community agencies to provide training and support both to individual entrepreneurs and to staff within the workforce system, using diverse program models.

JTPA Results

- Eligibility was limited to individuals who were both economically disadvantaged and dislocated (only five percent of the adult JTPA population).
- The typical participant was female, non-minority, 42 years old, and well educated. At the 12-month follow-up, 51% of respondents indicated that they were operating their own businesses; of that group, 40% also worked for another business that was not their own.

JTPA Lessons Learned

- Wage and salary employment should be recognized as a positive outcome for microenterprise programs.
- State Workforce Agencies need to explore and identify financing, funding, and loan sources outside of their own systems and develop mechanisms for linking participants to these funding sources.
- Programs encountered resistance to microenterprise programs from local workforce development staff, who were uncomfortable referring clients to the programs. The evaluation suggested several strategies to increase awareness and support for microenterprise programs among workforce agencies.
 - Forge relationships
 - Train staff from within
 - Highlight positive outcomes
 - Engage workforce development organizations and staff

Unemployment Insurance (UI) Self-Employment (SE) Demonstrations (SEED).

- As a result of ETA analysis of three European programs, in the late 1980's ETA funded the Self-Employment Enterprise Development (SEED) demonstration projects in Massachusetts and Washington.
- The goal of both demonstrations was to help unemployment insurance (UI) recipients create their own jobs by starting businesses.
- In both states, UI recipients were required to attend workshops on issues related to business start-up and were offered financial assistance.

The SEED Demonstration

- In Massachusetts, the program was offered only to those new UI claimants who were likely to exhaust their benefits as identified using a statistical profiling model.
- In Washington the program was offered to all new UI claimants with only a few exceptions.
- The Washington demonstration followed the French model; participants could receive their remaining available UI benefits in one lump-sum payment after meeting certain business milestones.
- The Massachusetts Demonstration followed the British model; participants here received periodic payments but no lump sum.

The SEED Demonstration

- The two demonstrations were evaluated using an experimental approach. Applicants to the programs were randomly assigned to either a program group or a control group. Members of the program group participated in the SEED model, while control group members could not.
- About 1,200 sample members (in both program and control groups) were followed in Massachusetts for about 31 months, and about 1,500 sample members in Washington were followed for about 33 months.

What We Learned from SEED

- Self-Employment Assistance is a viable, cost-effective approach, albeit for a small portion of the unemployed population. The Massachusetts program, which developed a statistical profiling mechanism, was a cost-effective approach for providing self employment services to UI claimants.
- Self-employment assistance directly increased job creation by doubling the number of business starts. Participation in the programs significantly increased total employment.
- Importance of linking to Self-Employment Service Providers: By forging ties with experienced self-employment service providers, such as the Small Business Administration's Small Business Development Centers and the microenterprise training providers, UI self-employment programs provided program participants with access to extensive self-employment services such as training, business counseling and technical assistance.

SEED leads to SEA

- The positive findings of the SEED demonstrations led the U.S. Congress to authorize states to establish Self-Employment Assistance (SEA) programs for recipients of unemployment insurance benefits.
- The authorization was for a temporary five-year period, after which ETA was required to submit a report to Congress on the results of the demonstration programs.
- Due to the success of the demonstration program and the recommendations provided to Congress in the report, Congress passed new legislation permanently authorizing SEA programs in 1998.

The SEA Program

- The SEA program was patterned after the British Self-Employment Allowance Scheme and the Massachusetts SEED Demonstration.
- SEA programs are targeted to UI recipients who are viewed as likely to exhaust their benefits. This is determined by “profiling” or a prediction from a statistical model of the likelihood of benefit exhaustion.
- The program provides two main benefits: (1) training and technical assistance in self-employment, and (2) SEA allowances rather than UI benefits.

SEA continued

- While the SEA legislation authorized all states to implement the program, a majority of states chose not to implement the SEA program.
- Only eleven states passed enabling legislation, and eight states implemented the programs: California, Delaware, Maine, Maryland, New Jersey, New York, Oregon, and Pennsylvania. California, however, terminated its program in July 1998 and Pennsylvania ceased funding its program at the end of June 2003.
- SEA led to Project GATE.

Thank You!!!

