The Evolution of
Microenterprise Strategies in the United States

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Abstract

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Forty years ago President Lyndon B. Johnson put into motion legislation designed to strike a blow at the causes and consequences of poverty. Although newer strategies aimed at poverty reduction have been developed over the intervening years, it is easy to conclude from observing newspaper headlines that poverty continues to be a pressing problem. Microenterprise is one of the more recent poverty alleviation strategies. As a strategy, microenterprise has emerged only recently in the United States, following the example of the Grameen Bank in Bangladesh. Initially, in suit with the model of the Grameen Bank, microenterprise programs focused on the provision of credit. Over time, however, American microenterprise programs have adapted and evolved, shifting their focus away from credit to training and technical assistance.

This paper performs first-order and second-order analyses in an attempt to understand how the microenterprise model has evolved in the United States. The first-order analysis will examine the economic, social and political contexts that constrain credit oriented microenterprise strategies. The second-order analysis will examine these contexts with regard to the process of diffusion of innovations. The first-order analysis will reveal the contexts within the United States that have precluded the widespread adoption of the original strategy, while the second-order analysis will reveal how context constrains or facilitates the process of diffusion.

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Introduction

Forty years ago President Lyndon B. Johnson put into motion legislation designed to strike a blow at the causes and consequences of poverty. Although newer strategies aimed at poverty reduction have been developed over the intervening years, it is easy to conclude from reviewing newspaper headlines that poverty continues to be a pressing problem. Indeed, poverty rates in America have changed only marginally over the past 30 years except for the elderly.

In the search for a solution to the problem of poverty in America, it is helpful to examine current poverty reduction strategies. Microenterprise is one such tool. As a poverty alleviation strategy, microenterprise has emerged only recently---since the mid-1980s. It focuses on the assets of the poor, rather than on their deficits, and strives to empower citizens to become economically self-sufficient. Unlike other poverty reduction programs that tend to create paternalistic relationships between the economically disadvantaged and those providing assistance, the goal of microenterprise is to empower citizens to become economically self-sufficient.

The microenterprise phenomenon has its roots in the developing world. The most widely discussed and emulated example is Bangladesh's Grameen Bank, formed in the late 1970s. The Bank provides small loans—hence the name microcredit loans—to poor people who might otherwise not have access to credit. The Grameen model centers on peer lending, small and regular repayments, and obligatory savings. The Grameen Bank appears to be a highly successful lending program as evidenced by its 98.8% loan recovery rate.

Microenterprise programs in the United States have been influenced by the Grameen Bank. Though the number of microenterprise programs in the United States is growing rapidly, credit provision is declining as a portion of microenterprise programming. Rather, organizations are providing training and technical assistance at an increasing rate in lieu of providing funds. On the face of it, one might argue that the microenterprise strategy of providing credit to entrepreneurs in order to allow them to start up or to expand business may not be a widely viable strategy. However, the

Grameen Bank continues to thrive in Bangladesh, as well as in numerous other countries around the world. Indeed, there are two Grameen Bank replication programs in the United States. A variety of similar microcredit programs, such as ACCION and FINCA, operate successfully both domestically and abroad. If the successes and continuing operation of programs such as the Grameen Bank demonstrate the usefulness of the credit-led approach as a poverty alleviation stratagem, *is microcredit a viable poverty alleviation tool on a broad scale in the United States? Does the American context present obstacles or challenges to credit-led microenterprise strategies?*

These questions are valuable for several reasons. On one level, these queries help one discern more fully the general nature of microenterprise in the United States while exploring its genesis and evolution. These questions also encourage community development activists to examine trends throughout the world and to consider importing successful practices, while being mindful, at the same time, that cultural contexts may demand careful cultivation and refinement of such concepts that originate abroad.

On another level, these queries encourage us to examine how strategies transfer from one locality to another. The Grameen case can well provide insights into how program ideas can transfer or diffuse across diverse contexts.

In keeping with these basic questions, this paper has two objectives:

- To understand more fully what factors influence microenterprise in the United States and
- To understand how microenterprise programs come to be adopted or diffuse across otherwise diverse localities.

To address these aims the paper first reviews the literature on microenterprise, concentrating on microenterprise generally and the adoption of microenterprise programs in the United States more particularly. It also examines the influence of the Grameen Bank upon the genesis and evolution of microenterprise as a tool for community development. The paper then reviews relevant literature on the diffusion of innovation so as to provide a foundation for understanding how programs become widely adopted or attempted.

Following a review of the literature, this paper engages in an analysis of microenterprise strategies in the United States and the diffusion or program transfer of such strategies. This analysis proceeds on two levels, referred to in this paper as a "first-order analysis" and a "second-order analysis." The concepts of first- and second-order analyses are borrowed and adapted from Steven Block (2004) and his work with organizational change among American nonprofit organization. Block introduces "first-order" and "second-order" *approaches* as means to addressing and resolving organizational problems. He argues that first-order approaches to problem resolution "do not require a shift in the customary way of thinking about a problem or its intended solution. By contrast, second-order change requires a shift in how one interprets a problem and implements a series of activities aimed at solving problems" (28). The concept of first- and second-order analysis parallels that of Block's first- and second-order approach to problem solving. The first-order analysis is a simple analysis of a problem, whereas a second-order analysis applies theory to the first-order analysis in order to understand factors influencing a problem or situation more fully. In the scope of this paper, the first-order analysis addresses factors influencing the adoption of various microenterprise strategies in the United States and the second-order analysis applies the theory of diffusion of innovation to the factors influencing the adoption of various microenterprise strategies.

The paper introduces a first-order analysis of factors that have influenced the genesis and evolution of microenterprise programs in the United States. This first-order analysis consists of a simple examination of the contextual factors shaping adoption of microenterprise strategies in the United States. This level of analysis allows one to examine the immediate contextual factors that have shaped microenterprise strategies systematically.

The paper subsequently offers a second-order analysis of the factors that have influenced the development of microenterprise programs in the United States. This second-order analysis provides a comparative exploration of the contextual factors that have influenced microenterprise strategies in the United States and Bangladesh through the framework of diffusion of innovations theory. The analysis applies the diffusion of innovations theory to understand the factors that constrain or facilitate the diffusion of microcredit among microenterprise anti-poverty organizations. This level of analysis engages the first-order analysis on a theoretical plane.

Finally, the paper offers conclusions and reviews the implications of this research. This section synthesizes the previous discussion and provides lessons learned from the evolution of microenterprise strategies in the United States that may prove helpful to professionals in the field of community development.

Microenterprise, the Grameen Bank and Diffusion of Innovation Theory

> "The philosophy of microenterprise assistance in the U.S. and in the developing world recognizes the fundamental ability of people to apply their individual talents, creativity and hard work to better their lives. Microenterprise programs build on the unique ideas and skills of entrepreneurs and would-be entrepreneurs by providing business assistance and small amounts of credit to support the development or start-up of businesses." (Edgecomb, Klein and Clarke 1996)

This section examines three distinct concepts---microenterprise, the Grameen Bank and diffusion of innovations theory. The first portion of the analysis provides background on microenterprise programs in the United States. It contextualizes microenterprise development within the broader framework of community and economic development initiatives in the United States, while also presenting basic information on what microenterprise programs look like and how they have developed and evolved in the United States. A vast literature addresses microenterprises broadly. This paper, however, reviews only the literature that pertains directly to microenterprise program diffusion and transfer. The next subsection describes the Grameen Bank and its lending methodology. The Grameen Bank, located in Bangladesh, is widely considered to employ the foremost model of microenterprise development. This section provides an understanding of the origination of microenterprise, as well as a description of one particularly successful program that employs a credit-led strategy that continues to benefit thousands of people worldwide. The final subsection offers an analytical framework through which one may examine and understand microenterprise development. It provides an understanding of how the microenterprise strategy has developed and why implementers have adapted it to new contexts rather than continue to use it in its original form. The first two subsections provide the background necessary for understanding why microenterprise's programmatic strategies have changed in character as they have been employed in the United States, while the third section provides a theoretical lens or perspective through which to view microenterprise's evolution in America.

What is microenterprise?

Microenterprise is a form of small business. The Aspen Institute's FIELD Fact Sheet Issue 1 (2000) describes the microenterprise client as "a sole proprietorship, partnership or family business that has fewer than five employees. It is small enough to benefit from loans of under $25,000 and generally too small to access commercial banking services". Microenterprise more broadly refers to a strategy of poverty alleviation, economic determination and empowerment. It encourages economically disadvantaged individuals to gain economic self-sufficiency through a variety of interventions. Microenterprise concentrates on the assets of the disadvantaged, such as their work ethnic, creativity and aptitude rather than focusing on their deficits, such as their relative dearth of education or job skills (Edgecomb, Klein and Clark 1996).

Microenterprise and Economic Development

Microenterprise fits into a palette of American strategies aimed at securing economic development. In the 1960s, for example, the Model Cities program sought to generate businesses that would employ the poor. The Small Business Administration, also created during the 1960s, offers economic development loans (EOLs) to the poor. In the 1990s, public sector institutions began engaging in microenterprise activities. The Small Business Administration began, for example, the Microloan Demonstration Program in 1992. The Department of Housing and Urban Development (HUD) provides support for microenterprise development through the Empowerment Zone and Enterprise Communities program. These programs enable communities to provide incentives to support microenterprise opportunities in distressed neighborhoods (Servon 1999).

Microenterprise programs also offset partially the absence of local commercial banking available to poor communities. Light and Pham (1998) have argued that, in the midst of the Reagan-era deregulation of the banking industry, traditional banks reduced their services and presence in inner cities. In the absence of traditional, commercial banking opportunities, the poor often turned to predatory loan services such as check-cashing businesses and pawnbrokers to address their financial needs. These types of businesses have a damaging effect on the poor because they capitalize on their keen need for banking services while exploiting them by charging extremely high rates of interest.

Characteristics and Evolution of Microenterprise

Microenterprises are characterized by several features: they are very small in scale, employ fewer than five individuals and, typically, provide self employment for microentreprenuers.

Microenterprise programs tend to employ one or more of three distinct strategies---credit, training, or technical assistance. Credit programs provide loans to microentreprenuers. There are two basic forms of loan programs---peer loans and individual loans. Microenterprise organizations that provide peer loans require borrowers to form groups, generally of five to eight individuals. Due in part to weak demand for microcredit loans in the United States, American microenterprise programs currently focus on providing training, such as writing business plans, and technical assistance or aid in applying for loans, for example (*FIELD Fact Sheet Issue 1* 2000, Edgecomb, Klein and Clark 1996).

The field of microenterprise emerged in the United States in the mid-1980s (Edgecomb, Klein and Clark; Johnson; Kibria, Lee and Olvera 2003, Servon 1999). Microenterprise has been influenced by the examples of several types of domestic organizations, such as women's economic development organizations and anti-poverty organizations such as Community Development Corporations (CDCs) (*FIELD Fact Sheet*, *Issue 1* 2000, Sevron 1999). In the 1980s women's economic development organizations addressed the feminization of poverty. CDCs and other anti-poverty organizations emerged out of President Johnson's war on poverty. The evolution of microenterprise in the United States has also been influenced directly by the experiences of the Grameen Bank of Bangladesh (Edgecomb, Klein and Clark 1996; Johnson 1998; Kibria, Lee and Olvera 2003; *FIELD Fact Sheet, Issue 1* 2000; Schreiner and Woller 2003, Sevron 1999).

What is the Grameen Bank?

According to Servon (1999) "The story of the microenterprise strategy begins in Bangladesh where in 1979 economics professor Mohammed Yunus initiated the Grameen Bank. The bank is perhaps the closest thing to a household name in the microenterprise world." The Grameen Bank was founded to offer small-scale (microcredit) loans to the poorest members of communities in Bangladesh. The Grameen Bank's unique methodology, which will be outlined in the following section, seeks to empower the poor. It has become a well-known example of microenterprise and has been successfully replicated or adapted in many nations around the world.

History of the Grameen Bank

The Grameen ("Rural") Bank was formally incorporated in 1983. It was the fruit of Dr. Yunus' unsuccessful attempts to convince traditional banks in Bangladesh to offer innovative loan products to the poor. Muhammed Yunus observed that the poor were compelled to become involved in corrupt lending practices because they were not considered appropriate loan candidates by traditional banks, much like the poor in the United States are often compelled to use the services of unconventional loan providers. He believed that, despite their seemingly inappropriate background, the poor were indeed suitable loan candidates. Indeed, Yunus suggested that "poor people always pay back their loans" (Yunus 1997).

Dr. Yunus was feeling dissatisfied with his work teaching at the University of Chittagong in Bangladesh by 1974. He had thought that he could affect the lives of his fellow Bangladeshis and work to alleviate poverty through teaching economics. But the economy of Bangladesh fell into decline during this period and Yunus was disillusioned. He writes, "All those 'brilliant' theories that we were teaching our students were no help to reduce the hunger and starvation of millions of people during the famine of 1974" (Yunus 1997). "At that point, I lost faith in textbooks and the world of abstraction. I wanted to understand the lives of poor people and confront the causes of what made them so vulnerable to famine" (Yunus 1998b).

Dr. Yunus decided to understand firsthand the realities of poverty, and his often-repeated story is very poignant. He walked to a neighboring village, Jobra. There he met a woman named Sufiya. Sufiya was very talented and made beautiful bamboo stools. In talking to her about her work, Yunus discovered that she made only two cents a day for her craft. Because she did not have the working capital to purchase the bamboo she needed, she was forced to borrow the money, twenty cents, from a moneylender on the condition that she sell him the stools at the end of the day for a price of his determination. In an article, Yunus writes that he was stunned by the realization that, by simply providing small loans, this woman, and presumably poor people as well, could rise above the external pressures institutionalizing their poverty (1997).

Upon this realization, Dr. Yunus endeavored to work with local banks to provide loan products tailored to the unique needs of the marginalized poor in Bangladesh. To his great consternation, however, Bangladeshi banks would not accept his ideas, because in his view at least, they were so fixated on the traditional requirements of good credit and collateral. When Dr. Yunus demonstrated his loan ideas on a small scale in two villages and five districts, the banks were still unimpressed. Ultimately, Dr. Yunus took it upon himself to establish a separate bank, the Grameen Bank, with the permission of the Bangladeshi government and central bank to provide microcredit loans to the poor (Yunus 1997, Yunus 1998b, Graham 2003).

<u>The Grameen Bank Methodology</u>

What started out as an action-research project undertaken by Dr. Muhammad Yunus, the Grameen Bank has become an innovative microcredit lending institution that has changed the concept of banking with the poor. The Grameen model organizes potential borrowers into peer groups of five. Initially, only one member of the peer group receives a loan. As she repays her loan and establishes the creditworthiness of her group, subsequent members receive loans, and eventually are able to increase the amount of money that can be borrowed. Borrowers are required to make regular, timely repayments on these loans, as well as to contribute money to a personal savings account (Yunus 1998).

Peer groups meet weekly to review the progress of “their” borrowers. The groups examine the status of the loans and repayment, the circumstances of the microenterprise, as well as the borrowers, and offer support and exert pressure as needed. The peer groups constitute an innovative feature of this approach and constitute a kind of social collateral. Where conventional banks require collateral, such as a house or automobile, to guarantee the loan, peer groups act collectively as a sort of social guarantor of loans (Yunus 1998).

The experiences of the Grameen Bank reflect the experiences of the microenterprise sector more broadly. The Grameen model exhibits flexibility and creativity in meeting the needs of the poor in a sensitive and sensible manner. Originally, the elements of the Grameen model were prescribed and fixed. Dr. Yunus has argued that, because the field of microenterprise was so new, models necessitated fixed mechanisms of governance. For example, if a borrower encountered a difficult period and had trouble repaying her loan, bank officials and her peer group exerted pressure upon her to avoid defaulting on the loan. Such pressure, however, did not address other options for repaying her loan. In 2000, the Grameen Bank sought to apply the experiences of almost twenty years and to develop still more creative ways to serve the poor more effectively. An important change adopted in 2000 is the procedure for borrowers at-risk of default. Borrowers who experience difficulty repaying their loans today are now eligible to renegotiate their loans over a longer time period, thereby decreasing their monthly repayment amount (Yunus 2001).

The Grameen Bank and Microenterprise

Community developers around the world have examined the example of the Grameen Bank experience with interest. It was one of the first programs created to alleviate poverty that focused on the assets of the poor, rather than creating a paternalistic relationship with them based on their deficits (Edgecomb, Klein and Clark 1996).

Several conditions in Bangladesh allowed for the success of the Grameen Bank. Taub (1998) argues that, from an economic standpoint, entrepreneurship and self-employment are viable employment options because safety nets, such as public assistance, do not exist in that nation, nor do many other employment alternatives. Although Bangladesh is an overwhelmingly rural country, population densities are quite high (814 per kilometer) which creates an economy of scale that allows individual microentreprenuers to achieve measurable success through moderate effort. In addition, Bangladesh also has a robust informal economy that grants individuals easy access to markets. Socially, Bangladesh has a relatively homogenous population facilitating peer lending models. This homogeneity also facilitates a collective disposition that enables peer lending to be successful. Further, as Taub has argued, because the government of Bangladesh does not regulate businesses, the need for economic literacy among entrepreneurs is minimal (Taub 1998).

Although Mohammed Auwal has asserted that the Grameen model can be replicated abroad, Lisa Servon has tempered this claim comparing the economic, political and social contexts of the United States and developing nations. She has argued that contextual similarities do exist between the developed and developing worlds. For example, the disadvantaged poor in countries from the developed and developing worlds alike are not well served by conventional financial institutions. On the other hand, the informal economy in many developing nations is quite robust and allows microentreprenuers ready access to markets, whereas the informal economy in the United States is significantly smaller and is relatively tightly regulated (1999).

The Grameen Bank provides an example of a successful microenterprise program with a credit-led strategy that has demonstrated success throughout the world. The Bank, as well as similar organizations in the developing world (such as FINCA and ACCION), provide only credit to their clients. Their efforts establish microenterprise organizations chiefly as credit programs. These are a useful example to bear in mind when exploring microenterprise in the United States and examining its evolution.

What is diffusion?

Theories of diffusion of innovations suggests how new ideas and forms of technology are communicated and adopted by organizations. Diffusion theory is a useful tool in examining how microenterprise strategies have evolved because it is a multidisciplinary approach that "provides a common conceptual ground that bridges [these] divergent disciplines and methodologies" (Rogers 1995).

Everett M. Rogers defines diffusion as "the process by which an *innovation* is *communicated* through certain *channels* over *time* among the members of a *social system*" (10). Rogers draws attention to the main elements of diffusion---innovation, communication channels, time, and social structure. He offers the following definitions of each of these concepts (1995):

- Innovation: "an idea, practice, or object that is perceived as new by an individual or other unit of adoption"

- Communication: “the process by which participants create and share information with one another in order to reach a mutual understanding”
- Social System: “a set of interrelated units that are engaged in joint problem-solving to accomplish a common goal. The members or units of a social system may be individuals, informal groups, organizations, and/or subsystems”

For the purposes of this paper, only the elements of innovation, time and social system are of interest to our analysis. Each is examined in turn.

Rogers identifies five characteristics that define an innovation---relative advantage, compatibility, complexity, trialability, and observability. For the purpose of this paper, the characteristic of compatibility is of particular interest to the analysis of contextual factors influencing the characteristics of microenterprise strategies adopted by organizations serving the poor. Compatibility is “the degree to which an innovation is perceived as being consistent with the existing values, past experiences, and needs of potential adopters.” Ideas must be compatible with existing values and beliefs as well as previously introduced ideas. Innovations that are perceived to be compatible with existing values and beliefs and previously introduced ideas will be adopted more rapidly (Rogers 1995).

Time is captured in three elements of the diffusion process: “(1) in the innovation-decision process by which an individual passes from first knowledge of an innovation through its adoption or rejection, (2) in the innovativeness of an individual or other unit of adoption---that is, the relative earliness/lateness with which an innovation is adopted---compared with other members of a system, and (3) in an innovation’s rate of adoption in a system, usually measured as the number of members of the system that adopt the innovation in a given time period (Rogers 1995).” The innovation-decision process includes an important element of time, because it accounts for the period during which an adopter first recognizes an innovation until he follows through with his decision to adopt or reject the innovation. During this process, he chooses whether to adopt the innovation, to implement it, and to make modifications to it as needed (1995).

The members or units of a social system may be individuals, informal groups, organizations, and/or subsystems (Rogers 1995). Rogers notes that social systems are characterized by common objectives. They may cooperate, for example, to reach mutual goals. The social structure that exists within the social system is “the patterned arrangements of the units in a system.” The social structure provides regularity, stability and predictability of interactions among those participating in it (Rogers 1995).

Microenterprise is a complex poverty alleviation tool. The original model of microenterprise, with its focus on credit, was an innovation in poverty reduction strategies. In order to understand why American microenterprise strategies have shifted away from a credit-dominated approach to one oriented instead to training and technical assistance, one must understand what factors have shaped the American experience with this innovative tool. The next section provides a first-order analysis of the economic, political and social factors that have affected the American experience.

First-order Analysis: Factors Influencing Microenterprise

> There is no single "microenterprise methodology"---instead there are a range of strategies and services that are offered to distinct client groups within the diverse U.S. microentrepreneur population (Edgecomb, Klein and Clarke 1996).

Beginning in the early 1990s, many advocates in the United States embraced microenterprise as a cost effective means of addressing unemployment through job creation (Balkin 1992). Other supporters of microenterprise pointed to the success of immigrants in starting new businesses via this strategy (Porter 1995). Margaret Johnson has argued that advocates saw microenterprise as a tool to enhance the social mobility of the poor (1998). Michael Morris, meanwhile, has tied the appeal of microenterprise to the attraction of entrepreneurship, "The beauty of the current entrepreneurship is that it is also quite democratic. It knows no limitations in terms of age, race, gender, IQ, cultural background or politics (1998)."

Early microenterprise program implementers employed strategies similar to those in use in organizations in developing countries. Most often these were credit-led interventions (*FIELD Fact Sheet Issue 1* 2000, Edgecomb, Klein and Clark 1996). The Aspen Institute's Fund for Innovation, Effectiveness, Learning and Dissemination, (FIELD) was tasked with the mission to "identify, develop, and disseminate best practices in the field of microenterprise, and to publicize the value of microenterprise as an anti-poverty intervention" (*FIELD Fact Sheet Issue 1* 2000). In 2000, the FIELD *Fact Sheet Issue 1* outlined several important trends in this field. First, the Fact Sheet noted that an Aspen analysis of the *1999 Directory of U.S. Microenterprise Programs*, the most comprehensive directory currently available, indicated that fewer and fewer American microenterprise clients were borrowing funds for any purpose. While the report did not distinguish whether there were fewer borrowers requesting loans, or simply fewer programs providing loans, the result was the same. Second, the report suggested that microenterprise programs are recognizing many of the challenges confronting clients in starting up and operating new businesses, and in response, many were increasing their training and technical assistance services. Finally, this report argued that there were three principal reasons for the decline in requests for loans: “The weak demand for loans can be explained by: aversion to risk among those in precarious financial situations; lack of equity to cushion the entrepreneur when the business does not generate enough revenue to cover loan payments; access to other, less complicated sources of credit such as credit cards” (2000).

In order to understand why American microenterprise programs have shifted away from credit to training and technical assistance since the mid-1980s, Lisa J. Servon has argued that contextual differences between developed and developing nations may pose problems in transferring microenterprise strategies and programs. She suggests that the differing “economic, political and social contexts between the developed and developing worlds deeply affect the potential and limits of the microenterprise strategy for the United States” (1999). These three contexts can serve as the basis for analysis of microenterprise strategy adoption and diffusion in the United States.

Initial models of microenterprise, international and domestic, focused chiefly on providing credit, that is, loans, to clients. It may be useful therefore to describe or sketch the economic, political and social factors that share or constrain the relative viability of microenterprise strategies.

Table 1: First-order Analysis of Contextual Problematics and Microenterprise Strategies

- Economic Factors
  - Income generation (wage, salary or self-employment)
  - Geography (rural or urban)
  - Type of economy (formal or informal)
- Social Factors
  - Cultural homogeneity
  - Disposition toward collective action
- Political Factors
  - Business regulations
  - Public assistance regulations

Economic Factors

Income generation is the manner by which individuals attain their livelihood. Income generation may come through wage or salaried jobs or via public assistance. Microenterprises are typically self-employment opportunities (Clarke and Kays 1999). Self-employment presents both advantages and disadvantages. On the one hand, self-employment may permit workers to earn extra income to supplement low-paying wage jobs. It tends to be a desirable opportunity for women who may have complicated home and work responsibilities that necessitate flexible arrangements, for example. Self-employment also may be attractive to immigrants and refugees who lack the requisite licenses, certifications or language skills for professional jobs and are consequently limited to minimum wage positions (Clarke and Kays 1999). On the other hand, self-employment opportunities often do not provide benefits such as health care that salaried, wage and public assistance provide (Schreiner and Woller 1999).

The geography of an economy also significantly affects the success or failure of microenterprise activity. Specifically, rural and urban population densities affect microenterprise outcomes. Urban environments are more densely populated and consequently offer larger potential markets to microentreprenuers. The larger the market available, the more profitable a business opportunity can be. Rural areas, on the other hand, typically have low population density, which means that local markets may be marginal. Taub has suggested in his case study of the Good Faith Fund in rural Arkansas that locally depressed economies simply compound this difficulty (1998). This suggests that American microenterprise programs may not transfer well to rural localities but may be more likely to be successful in urban, heavily populated areas.

The type of economy, formal or informal, also affects the success of microenterprise programs. Governmental regulation in the United States controls informal economic activity. However, research suggests that microenterprise plays a substantial role in the informal sector. Microentreprenuers, for example, who work in the informal sector respond well to niche markets. The 2003, FIELD *Forum, Issue 14* cites research by Sassan-Koob which demonstrates that "microenterprises can and do thrive in the informal economy in the urban sector: responding to the needs of high-income consumers who seek high quality, non-mass produced items and personal services, serving low-income workers who find the costs of goods and services on the open market prohibitive, and serving commuters and tourists flowing into urban centers on a daily basis through low-cost service operations." Working in the informal sector, however, poses constraints to microentreprenuers as they cannot demonstrate their business capacity since they operate on a cash basis. As such, they are often unable to take advantage of services provided by nonprofit microenterprise organizations, such as credit or training (*FIELD Forum Issue 14* 2003).

Social Factors

Social homogeneity is an important factor that affects microenterprise, particularly peer-based lending, because it facilitates trust, a key element of social collateral, as group members act as guarantors for the others in their group (Kibria, Lee and Olvera 2003). Homogeneous groups share several characteristics, such as ethnicity, language and socioeconomic background. Kibria, Lee and Olvera (2003) note that, though distinct homogeneous enclaves do occasionally exist, such as immigrant communities, "the U.S. is a social setting that is less conducive to the formation of solitary groups in which both trust and accountability are operating." In their case study of Work Capital, Kibria et al. found that heterogeneous American groups must actively construct commonalities, such as an "entrepreneurial ethic and orientation" in order to facilitate trust (2003).

The disposition toward collective action is another social factor that affects microenterprise, particularly peer lending strategies. With the peer lending model, group members collectively support each other in their business endeavors and exert pressure when necessary (Yunus 1997). Peer lending requires that group members be unrelated. Taub has found, however, that given the low population densities in American rural areas, groups must be artificially constructed to ensure against familial ties. Perversely, these artificially constructed groups lacked "strong preexisting social ties" and were unable therefore to extend the collective pressure and sanctioning necessary to constitute social collateral (1998).

Political Factors

Political factors also affect the strategies of microenterprise programs in the United States. The government of the United States imposes a variety of forms of regulation on business owners. Depending on the business endeavor, it may need to be licensed, certified, and/or inspected. Servon has argued that food and childcare services are examples of businesses that are highly regulated, though not as tightly regulated as in some other developed and developing countries (Servon 1999). Taub (1998) has argued that members of the Good Faith Fund in Arkansas were reluctant to provide loans to peers whose microenterprises were not properly licensed, certified or inspected. For her part, Servon (1999) has also contended that businesses are liable for taxes on their operations in the United States, which demands a measure of economic literacy that may not be required in developing countries

Government policy concerning recipients of public assistance may also discourage engagement in microenterprise. Public assistance recipients, who might otherwise be interested in beginning a microenterprise as a means of achieving self-sufficiency, risk losing part or all of their public assistance support as their income increases from their microenterprise venture. Taub (1998) notes that welfare recipients are limited in the total assets that they are permitted to acquire while continuing to receive benefits. Individuals who reside in public or subsidized housing are also prohibited from operating a business in their homes. Thus, welfare recipients are penalized for acquiring the assets that necessarily accompany the establishment of a microenterprise. A woman with sewing skills, for example, risks losing at least a share of her welfare benefits if she receives a loan and purchases a sewing machine so that she can begin a small dressmaking business. This implies that the current public assistance model does not afford individuals a ready path to self-sufficiency through calculated risks, such as microenterprise ventures. Revisions to public assistance policies that would permit recipients to retain their benefits, to a substantial degree at least, would encourage as well as reward those who take steps to improve their condition.

A variety of economic, social and political factors affect microenterprise strategies in the United States. These factors create the unique American economic, social and political contexts within which microenterprise programs operate. Though these characteristics do not by themselves explain the decline in the provision of microenterprise credit in the United States, they suggest that the American context may not be an auspicious one for credit-led strategies of microenterprise.

Second-order Analysis: Diffusion of Innovations Theory and Factors Influencing Microenterprise

Credit provision represents a declining portion of American microenterprise programs, which are shifting toward the provision of training and technical assistance. This paper began with the research question, *is microenterprise a viable poverty alleviation tool for the poor in the United States?* A combination of economic, social and political factors broadly answers this question. The related question posed was, d*oes the American context present obstacles or challenges to credit-led microenterprise strategies?* This question demands a more sophisticated understanding of the factors that influence microenterprise development. To address this question, one can refer to Everett M. Rogers' theory of diffusion of innovation. Diffusion of innovations theory is rather complex. Here, I examine only such elements of diffusion of innovations theory that I believe are pertinent to the present case.

As noted above, diffusion of innovations theory illustrates the way in which new ideas and forms of technology travel and are adopted. Diffusion is shaped by four primary components or factors, the nature of the innovation, communication channels, time, and social system. The original innovation of microenterprise was the credit strategy, that is, the provision of small loans for small business ventures to poor individuals who otherwise would not be able to gain access to them. But, today, fewer and fewer Americans are seeking such loans, and microenterprise organizations are shifting the focus of their activity to training and technical assistance instead. Adopters of the microcredit innovation in the United States have adapted, or reinvented, the initial strategy to accord with the conditions they confront.

Table 2: Second-order Analysis of Contextual Problematics and Microenterprise Strategies

- Innovation
  - Incompatibility with previously introduced ideas
    - Income generation
    - Geography
    - Type of economy
  - Incompatibility with values and beliefs
    - Cultural homogeneity
    - Disposition toward collective action
- Social System
  - Social Structure
    - Business regulations
    - Public assistance regulations
- Time

Innovation

Rogers argues that an innovation must be compatible with the prevailing values and beliefs of a community, as well as with previously introduced ideas. Many economic factors closely associated with the evolution of microenterprise are not compatible with norms in the United States regarding successful business practices. In Bangladesh, for example, self-employment is a viable alternative because the government provides few safety nets, such as health care or food assistance. As such, self-employment provides no disincentive, because there are no benefits to lose. In the United States, however, self-employment typically does not provide entrepreneurs with benefits like health insurance, pensions or food assistance that wage or salaried jobs, as well as public assistance provide. This suggests that microenterprise might be more widely adopted in the United States if self-employed entrepreneurs would not risk losing public assistance benefits, like Food Stamps or Medicaid or if self-employed entrepreneurs could obtain such benefits at very low cost.

One reason that microenterprise thrives in Bangladesh is because its densely populated localities provide the potential for markets in limited geographic areas and make microenterprise more likely to be profitable. Urban areas in the United States tend to have high population densities that make microenterprise ventures possible. Conversely, rural population densities make it more difficult for microenterprise to succeed. This implies that microenterprise may thrive in urban areas. Rural areas, however, are at a distinct disadvantage unless they are able to overcome the lack of population density in some fashion, such as, perhaps, through online business.

Microenterprise programs have proliferated in developing countries in part because these nations offer robust informal economies that provide easy access to markets. But more strict government regulation prevails over informal economic activity in the United States. As such, the concept of the informal economy is in conflict with prevailing notions of proper business practice. This suggests that fewer regulations for microenterprises, such as the ability to hire undocumented immigrants without potential penalties or lower tax burdens, might open up a space in which microentreprenuers could enter the informal economy and make a profit.

Social factors embedded in the innovation are not compatible with American values and beliefs. As Bangladesh is a largely homogeneous country, peer lending groups form easily and create the trust necessary to build “social collateral,” which, in turn, underpins the Grameen Bank model. Thus, the values embedded in the peer lending model facilitate the lending process. In contrast, the United States is a diverse country, in which homogeneity seldom exists. The research from case studies concerning microcredit program transfer indicates that microentreprenuers are seldom able to create homogeneous lending groups and consequently, heterogeneous groups are artificially constructed. This heterogeneity often impedes the peer lending process precisely because requisite shared norms and values are not embedded in the group. This suggests that peer lending strategies may be effective on a small scale among homogeneous populations, such as immigrant groups, but less effective or perhaps ineffective as a large scale strategy.

Social System

Rogers writes that the social structure of a social system creates stability, regularity and predictability through the “patterned arrangements of the units.” He also notes that this structure can directly affect the diffusion of an innovation (1995). Political factors often conflict with the social structure established in the United States. The social context created by the government prescribes the ways in which businesses may or may not conduct its activities. These directives often preclude microenterprise programs.

Bangladesh’s robust informal economy allows individual entrepreneurs quick and easy access to markets. They are not subject to strict regulations regarding their business practices. Microentreprenuers, for example, often receive loans to purchase farm animals, such as cows, to produce milk which can be sold at the local bazaar. They are not required to have their milk inspected by food and safety inspectors. The American political and social structure, however, imposes strict regulations on businesses, such as food production, that constrain access to the market. Rather, regulations might be tiered relative to the scale of the business. For example, a microenterprise that sells food on the street might not need permits to sell its products, while a restaurant might need some degree of regulation. In this manner, microenterprises would bear less scrutiny and greater latitude in developing and running a business. Should a microbusiness grow, it might be reasonable to increase its responsibility with regard to regulations.

The public sector of Bangladesh does not provide the poor with cash aid, food assistance or health insurance. This lack of a safety net, the lack of a social structure to care for and support the disadvantaged members of society, arguably requires the poor to take risks with new business ventures because they have nothing to lose and everything to gain. The American welfare system, though designed simply to tide people over on a temporary basis, is structured such that recipients are penalized for taking steps to achieve self-sufficiency. Once welfare recipients begin to receive income or acquire assets, benefits are reduced or withdrawn and recipients immediately lose the support that has provided stability. Revised public assistance policy might stipulate gradual withdrawal of benefits as recipients establish self-sufficiency.

Time

Elements of innovation and social structure often present problems regarding the diffusion of innovation. If these problematic aspects of innovation and the social structure are narrowly evaluated, one might conclude that microenterprise presents several serious challenges and therefore is not likely to succeed in the American milieu. One might argue that these programs simply clash with American values and beliefs and that they are incompatible with prior experiences governing American business development. But this conclusion is not a necessary one. Diffusion of innovations theory permits one to overlay the element of time on the analysis of these factors and mitigate the challenges presented by the innovation and social structure.

Time is captured in the innovation-decision process. During this process an individual receives knowledge of an innovation, forms an opinion about it, decides to adopt or reject it, implements that decision, and finally seeks confirmation, or reinforcement, regarding the choice. The implementation of the decision is a malleable process during which adopters may reinvent, that is adapt or refine, the innovation to suit the unique context of the adopter (Rogers 1995). The capacity to reinvent an innovation further increases the effectiveness of the innovation finally adopted and offsets limitations imposed by other dimensions of the diffusion process.

Although previous research has not indicated why microenterprise has shifted from a strategy of credit provision to one of training and technical assistance, this analysis enables one at least to provide conjecture. In light of the problems of innovation and social structure, one can surmise that training and technical assistance better serve microenterprise clients in the United States than credit provision. Training and technical assistance enables microentreprenuers to navigate the sometimes knotty regulations imposed by the American political system. Small loans simply do not create the same relative advantage for entrepreneurs in the United States that they create for microentreprenuers in developing countries. Accordingly, American entrepreneurs might seek larger scale loans (not micro-scale loans) and simply need technical assistance in securing and managing these larger loans from traditional lending institutions.

Economic, social and political factors offer a basic explanation regarding why microenterprise strategies have shifted from credit to training and technical assistance provision in the United States. Diffusion of innovations theory enables the analyst to understand how economic, social and political dynamics interact with broad-scale factors that conflict with the compatibility of innovation and the social structure of the United States. However, the element of time mitigates these limitations to some degree, because microenterprise organizations are able to adapt or reinvent features of the innovation to suit their unique contexts over time.

Conclusion and Implications

Microenterprise program implementers have adapted these efforts to meet the unique context of the United States. I have argued that economic, social and political contexts, as well as the problematic diffusion of micro-lending, have shaped American microenterprise strategies. A first-order analysis identified factors that have influenced the evolution of microenterprise strategies in the United States while a second-order analysis identified a theoretical framework for the factors identified in the initial analysis. The theoretical framework, diffusion of innovation theory, allows analysts to understand how the basic factors identified in the first-order analysis interact as a whole to influence the evolution of program transfer with regard to microenterprise program strategies.

These factors as a whole preclude credit-led microenterprise strategies in the United States, and in turn, microenterprise programs have adapted alternate strategies to better serve their clients. In light of the disincentives that exist, programs appear to focus their efforts on the support of microentrepreneurs by providing training and technical assistance, rather than on the propagation of microenterprise ventures through the provision of credit.

Microenterprise can be a viable employment alternative on a small scale. Microenterprise organizations would do well to implement programs accordingly in order to control for the various contextual factors that often prevail against microenterprise. On this scale, it is possible for microenterprise programs to adapt programs to fit the contextual factors of the locality as well as the unique needs of community participants.

These contextual factors appear to require a substantial degree of economic literacy on the part of microentreprenuers. This has been cited as a reason why microenterprise programs are increasingly providing training and technical assistance to clients. This, however, may not be the only explanation for the decline in credit provision. Perhaps the nature of microenterprise organizations in the United States is not well-suited for providing services such as credit. Microenterprise organizations in the United States are nonprofit organizations, and as such perhaps lack the background to provide such lending services effectively. In contrast, microenterprise organizations abroad, such as the Grameen Bank, are banking institutions and perhaps better suited to provide credit services.

The example of the transfer of microenterprise should encourage community development professionals to look beyond their own experiences, as well as those of their immediate colleagues, in evaluating anti-poverty strategies. This paper demonstrates that the example of economic development in Bangladesh is intrinsically valuable and offers useful applications in the United States. There is not always communication between development professionals internationally and development professionals domestically, though there are mutually beneficially lessons to be learned. Networks must be created to bridge these fields and to facilitate the exchange of experiences and knowledge between them.

It is important that community development professionals realize that context is integral to the success of development activities. The context of a model is important because context often facilitates the project's outcomes. In this paper, it is important to realize that the Grameen Bank model is successful, not only because of its unique methodology, but also because the economic, social and political contexts of Bangladesh conducive to micro-lending. Community development professionals must acknowledge the original context of the Grameen Bank model and then be mindful of the differences with the U.S. context. This paper has suggested that it is important to be mindful that the economic, social and political contexts for microenterprise in the United States differ sharply from those prevailing in Bangladesh in a variety of ways. Acknowledging these contextual differences allows practioners to reinvent elements of the original model to suit their specific context, rather than summarily dismissing the original model as ineffective or inapplicable when something goes wrong.

Finally, using theory allows community development professionals to examine systematically the variables that affect their programs. In this paper, the use of diffusion of innovations theory allows practioners to understand that certain elements of innovation transfer may be problematic. Though a practioner cannot or should not determine a priori which elements of a theory will be problematic, one can approach the process of adopting a new practice by seeking to anticipate problems. Although community development professionals who imported credit provision programs to the United States may not have anticipated that, for example, welfare recipients might be risk averse to microenterprise ventures for fear of losing their benefits, an understanding of the social structure of aid in the United States might quickly point out this challenge.

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