



**Sustaining Business and Creating Jobs in the wake of
the Financial Crisis:
Measuring Client Outcomes of FY2010**

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Introduction

As Americans continue to tread in the wake of a global recession, small business owners confront some of the toughest business conditions in U.S. history. Not only have small businesses struggled, but a recently released study by the Pew Research Center shows that the recession has dramatically widened the wealth gap between minority and non-minority households. New analyses based on 2009 data show that white households average 20 times more wealth than black households and 18 times more wealth than Hispanic households. In light of the recent recession and collapse of the housing market, median wealth fell by 66% among Hispanic households and 53% among black households, this compared to just a 16% drop among the households of their white counterparts.¹ In the face of such inequality and in light of a still-uncertain business climate, Accion East remains well-positioned to combat wealth disparities and stabilize business risks for its clients. Having lent over \$125 million since 1991 with a focus on reaching underserved populations, particularly minorities, Accion East has the potential to actively combat these dismal trends.

To this end, Accion East continues to prioritize measurement and analysis of its impact. Despite an unforgiving business environment, the results of Accion East's 2011 impact assessment suggest that **the majority of Accion East loan recipients managed to sustain their business operations and even create jobs in 2010.**

Promising 2010 Outcomes Include...

- High Business Survival rates: 97% of existing and 80% of start-up businesses remained in business
- Surveyed businesses maintained or created over 400 jobs
- Paid workers at these businesses earn median wages of \$11/hr – 56% higher than federal minimum wage
- Each Accion East business loan sustains or creates 3.5 jobs
- 43% of all respondents reported increases in revenues & 41% reported increases in take-home pay
- 96% clients felt that Accion East met their expectations for service

Methodology

2011 was the fourth year that Accion East participated in the MicroTest Client Outcomes Survey, a research project managed by the Aspen Institute's Fund for Innovation, Effectiveness, Learning and Dissemination Program (FIELD). The FIELD-designed study collects in-depth longitudinal data from clients of U.S. microenterprise programs in order to measure how their programming has impacted clients' businesses and household outcomes. Of 430 Accion East clients who received business loans in FY2009, 200 were randomly selected to participate in the project. These 200 clients were contacted by Accion East and asked a series of questions to quantitatively measure the state and performance of their businesses in 2010. Outcomes were analyzed by comparing baseline data reported at the time of clients' loan application in 2009 to survey responses given in 2011, which reflect the status of clients' businesses as of year-end 2010.

The sample of 200 reflects Accion East's entire geographic footprint, including clients served where our regional offices are located (Atlanta, Boston, Miami, and New York) and those served nationally through our online lending platform. Administering surveys over the course of five weeks in the summer of 2011, MicroTest interviewers collected responses from 123 clients, representing a 62% response rate, a 7% increase

¹ Rakesh Kochhar, Ricahrd Fry & Paul Taylor, "Twenty-to-One: Wealth Gaps Rise to Record Highs between Whites, Blacks, Hispanics," Pew research Center, 26 July 2011 (<http://pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>).

over last year's achievement.² This improved response rate continues a positive long-term trend of greater client participation with each subsequent year of Accion East impact assessment.

Business Profile

At intake in 2009, 98% of surveyed clients had an existing business. Typical surveyed businesses proved young but profitable; the median business age was 4.6 years and median revenues (including part- and full-time) were \$61,642.³

Although it provides credit without discrimination to those who meet lending criteria, Accion East specializes in working with individuals who most often lack access to credit- minority, women, and immigrant business owners. The demographic breakdown of survey respondents reflected this priority with 75% minority and 35% female participants.

Business Survival

The overall business survival rate among Accion East clients remained higher than national averages: **97% of existing and 80% of start-up businesses were still in business by year-end 2010.**

Of the four surveyed clients who closed their businesses in 2010, two reported that they did so for personal or family reasons, one reported "insufficient sales or customer interest," and one cited "other" factors. All four reported that Accion East completely or mostly met their expectations for assistance. The closures of these four businesses represent a loss of just 6 jobs (3 part-time and 3 full-time), fewer than would have been predicted by survey averages.⁴

When business owners were asked whether their businesses would have been able to survive or stay in business without an Accion East loan, **a full 25% of surveyed clients guessed that they would not have been able to stay in business without the loan from Accion East.**⁵ An additional 13% clarified that although they might have been able to stay in business, the loan proved vital in either improving credit worthiness and/or allowing for certain growth opportunities. Clients also expressed gratitude for ACCION loans having spared them from turning to last-resort financing options like family, friends, or personal savings.

Business Growth

Improving stability and fostering growth were motivating factors for clients' partnership with Accion East for financing. Thirty-four percent of clients claimed that the purpose of their loan was "stabilizing and improving existing business." Another 31% reported that the loan was for "substantively growing the size of an existing business."

Despite anecdotal feedback from clients that bemoaned the sluggish state of the economy, quantitative data showed promising signs of business growth for Accion East clients. Improving upon 2009 outcomes, **43% of existing businesses experienced an increase in sales revenue in 2010** – up from just 34% in 2009. And whereas nearly half of all clients reported a decrease in sales in 2009, just 39% reported decreases in 2010, an impressive 10% improvement. On average, **business revenues increased by 18%**. Not only did

² Chi-Square tests on categorical variables (gender, minority) and T-tests on continuous variables (sales, HH income) were performed to identify any statistically significant differences between the surveyed respondents and those not surveyed. No statistically significant non-response bias was detected in the data collected in terms of Gender, Business Ownership, Wage Job status, Household Income, and Business Draw of the clients at intake. Slight statistical biases were observed in terms of Minority Status and Business Sales. Non-surveyed clients represented a slightly higher population of minority clients and had higher average business sales.

³ By 2010 this median figure rose to \$71,000.

⁴ Since the average business sustains or creates 3.5 jobs, the four closed businesses would have been predicted to terminate 14 jobs, over two times the 6 jobs actually lost.

⁵ These responses are drawn from ACCION Add-On questions asked in conjunction with MicroTest questions.

sales increase, but **41% of business owners reported an increase in owner's draw**, 7% reported that take home pay neither increased nor decreased, and 34% reported a decrease. Still, despite the majority of respondents reporting an increase in draw, the median value (in dollars) of total draw decreased by 2%.

Consistent with its mission, Accion East places a high value on the household implications of business successes and failures. Again, 2010 outcomes suggested positive implications of Accion East financing. Of those clients surveyed **43% reported higher household incomes in 2010** than in 2009. On average, **2010 household incomes were 16% higher than 2009 figures**. Of the 53 clients who reported higher incomes, 62% also reported increased owner's draw, suggesting that increased profitability of the business directly contributed to higher household income levels.

Owner's draw makes an important contribution to these low- to moderate-income households, with 39% of owners contributing at least half of their total household income. Clients reported that their **business performance improved the financial circumstances of their households at a rate of 62%**. Twenty-five percent reported that their business performance neither improved nor worsened their household situation, implying perhaps, the stabilizing effect of Accion East loans. In addition, **50% of respondents reported having been able to save money during the year, the median amount valued at \$5,000**.

Job Creation and Retention

Once again, the MicroTest Client Outcomes Survey demonstrated that Accion East loans to microentrepreneurs support job creation and retention, even in trying economic times. Start-up business represented 12% of the overall sample set,⁶ and in addition to the employment created by these new ventures, existing business growth generated even greater employment opportunities. Including the jobs of surveyed business owners, **413 full- and part-time jobs were created or sustained** by surveyed clients in 2010. With the help of Accion East loans, these business owners created a total of **159 net new jobs**,⁷ signaling economic resilience and a trend toward operational expansion. Indeed four business owners took the transformative step of transitioning from sole proprietors to employers. The 159 new jobs **signal a remarkable 116% increase in the number of paid workers employed between intake and the end of 2010**.

On average, for every business that Accion East supports, it helps retain or create 3.5 jobs.⁸ Not only do Accion East loans contribute to job creation, they create well-paid opportunities: average Accion East supported jobs pay higher wages than federal minimum rates and are on the rise with each subsequent year of MicroTest evaluation. **The median wage for an employee of an Accion East client is \$11/hour, 52% higher than the federally mandated minimum wage and 10% higher than rates reported in last year's assessment.**⁹

Client Experience

Clients continue to report high levels of client satisfaction with Accion East; **96% of clients stated that the microenterprise development program "mostly" or "completely met" their needs for assistance**. This represents a 6% improvement over last year's performance. Building on MicroTest's question about expectations for service, a set of Accion East-designed questions was incorporated into the survey in order to gain insight into clients' experiences working with Accion East. Full quantitative and qualitative analyses were performed on the results, analyzing not only client response rates, but identifying trends in client comments and patterns in praise and critical feedback. Key outcomes from Accion East Add-On questions include:

⁶ A start-up business is defined as one that has been in operation fewer than 12 months.

⁷ Net new jobs figure calculated by adding jobs created at existing businesses to the number of new business starts, and subtracting closed business jobs.

⁸ The 3.5 figure includes the business owner's position. Among only businesses with paid employees (excluding sole proprietors), each business sustains 4.4 paid workers.

⁹ Though the median wage is \$11/hr, the average rate is \$16.40/hr. The federal minimum wage is \$7.25/hour.

- 93% of all surveyed clients reported that ACCION understood their business needs
- 91% agreed that staff made the requirements, processes, and cost of the loan clear to them
- 91% said they would likely apply for a future ACCION loan

Conclusion

Accion East-supported businesses flourished in 2010, with survival rates that surpassed national averages and impressive job creation. Results from the 2011 MicroTest study support what microfinance programs and their advocates contend: that as 88% of all businesses nationwide,¹⁰ microenterprises can serve as powerful drivers of economic growth and stability.

A recent Association for Enterprise Opportunity (AEO) report suggests that full US employment could be attained if just one in three microenterprises hired an additional employee.¹¹ With a sample of 123 businesses creating 159 new jobs in 2010 alone, ACCION clients are doing their part to spur American economic recovery business by business and job by job.

Outcomes also suggest that business growth generates increased household wealth and security. A majority of clients reported increased revenues and half of all respondents reported they were able to save in 2010, an important step in generating wealth. By empowering business owners- minority business owners in particular- through access to capital, Accion East loans have the power generate wealth and actively correct for the trend in increased wealth disparity. According to same AEO report, the median net worth of a business owner is over 2.5 times higher than that of a non business-owner. This figure is even more profound for minority business owners; a black woman business owner will have a median net worth averaging 10 times greater than her non-business owner counterpart and a Latino man's will average 5 times greater.

The positive impact of Accion East programming suggests that businesses will continue to contribute positively to their communities through store-front success stories and local well-paid jobs. Coupled with the support of Accion East, clients demonstrated positive outcomes in 2010 and are poised for continued success.

Summary report prepared by Carolyn McMabon, who also managed the project. Study conducted by lead interviewers Brinya Bjork and Ryan Quillard with the support of the Notre Dame Social Venturing and Microfinance Internship Program. More about the MicroTest Outcomes Survey can be found at www.fieldus.org.

¹⁰Microenterprise Business Statistics - United States Spreadsheet, Association for Enterprise Opportunities (<http://aeoworks.org/images/uploads/pages/US-MEBS-2008%20rev.pdf>).

¹¹ "The Power of Three in One: Creating Opportunities for All Americans to Bounce Back," Association for Enterprise Opportunities (http://www.aeoworks.org/pdf/one_in_three.pdf).