



What Does \$1,000 in Seed Capital Buy? Emerging Lessons from the SET Program's Offer of Microgrants for Business Start-Ups

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Background:

The **Self-Employment Training** pilot program is testing strategies to support dislocated workers who want to start their own businesses. Unemployed and underemployed workers who propose businesses in their fields of expertise are eligible.

Every participant receives free access to up to 12 months of case management, training, and technical assistance from microenterprise providers experienced in business development, as well as up to \$1,000 in microgrant funds.

SET is offered in four sites:

- Chicago, Illinois
- Cleveland, Ohio
- Los Angeles, California
- Portland, Oregon

The program enrolled 1,981 participants between July 2013 and January 2016.

The U.S. Department of Labor hired Mathematica Policy Research to design SET; recruit, and support local organizations—four state agencies, six local workforce boards, and 11 microenterprise providers—to implement the program; and examine its feasibility and effects. This brief is one of five on emerging lessons from the pilot program. Others examine SET case management, SET outreach, characteristics of SET study participants, and program experiences of SET participants.

The seed capital microgrant is a key part of the Self-Employment Training (SET) demonstration. SET participants can apply for a microgrant of \$1,000—intended to cover some of the costs of starting a business—if they meet certain requirements. Namely, they must engage satisfactorily in the SET program (as assessed by the microenterprise provider), must have registered their business, and must have developed a comprehensive and satisfactory business plan. Microgrants can be used for start-up expenses, such as licenses, equipment, or supplies, but not for ongoing operational expenses, such as salary or rent, or for personal expenses.

This brief presents early findings on the implementation of the seed capital microgrants from the program's start in July 2013, through April 2015. Our assessment draws on data from the SET management information system (MIS), site visits, calls with providers, and case study interviews with 12 SET participants. Because the SET program is still ongoing, the qualitative findings in this brief are preliminary and based on a partial sample of program participants (see Box 1). The study's final report in 2018 will include data from a follow-up survey with the full sample of SET participants, causal results from the impact assessment of the program, and updated implementation results.

EMERGING LESSONS FROM OUR STUDY OF SEED CAPITAL MICROGRANTS:

• **An amount as low as \$1,000 can help participants get their business started.**

Most of the SET microenterprise providers and all 12 participants interviewed reported that the microgrant could be helpful to those starting their businesses. Microgrant recipients asked for close to the full amount of funding available, on average. Nonetheless, seed capital “take-up” has been limited: only 38 percent of the participants assigned to a microenterprise provider for at least eight months have received seed capital.

• **Most microgrant recipients used the \$1,000 to invest in electronics, supplies, and marketing materials that could help them bring in and serve customers.**

The highest amounts of both average and total funding requested were for electronics and supplies. Electronics, supplies, and marketing materials were also most frequently requested.

• **Almost 40 percent of seed capital recipients proposed starting businesses in professional, scientific, and technical service industries.** Microenterprise providers and participants indicated that these industries may have lower barriers to entry because they allow people to operate like consultants, using their existing networks, without needing storefronts.

• **It takes about six months for SET participants to meet key business development milestones required for microgrant eligibility.** In three of the four SET study sites, the average length of time between participants joining the program and making their first request was six to seven months.

• **Counseling and careful review of applications may be important.** Over 90 percent of SET advisors and over 70 percent of participants reported that counseling helped participants make the most out of the microgrant.

WHY OFFER SEED CAPITAL FUNDS?

The offer of microgrants was based on evidence suggesting that access to seed capital may be an important determinant of success for aspiring business owners. A study of a prior pilot program intended to help people start businesses, called Growing America Through Entrepreneurship (Project GATE), showed that program participants cited lack of capital as a major barrier to starting businesses; a recurring need expressed by interviewed participants was the need for seed capital (Bellotti et al. 2006). Programs that offer microgrants demonstrate higher rates of business start-up because they help aspiring business owners overcome financial constraints (Millán et al. 2010). A study of a program in Vermont that offered assistance with small business start-up revealed that access to capital was a significant predictor of improved well-being, which was associated with higher levels of success in areas such as business start-up, increased income, and job creation (Schmidt and Kolodinsky 2007).

When designing the SET program from 2011-2012, we found that seed capital microgrants were not broadly available. For limited start-up needs, microenterprise providers were more likely to offer *microloans*. In 2012, the average microloan was about \$16,000 (Aspen Institute 2012), and most microloans required a good credit history and collateral, which some workers who had lost their jobs may not have had. This is notable because the economic climate was uncertain and the economy was contracting. In October 2011, the unemployment rate in the United States was 9 percent.¹ By May 2012, more than half a million Americans had exhausted their extended unemployment insurance benefits (U.S. Department of Labor 2012).

In our discussions with microenterprise provider staff, lack of access to start-up funds was highlighted as an obstacle many individuals face when trying to start a business. Provider staff noted that many of their clients were struggling to make even relatively modest investments in their businesses and suggested that seed capital microgrants would be a helpful feature to include in the SET program. Staff at five provider organizations thought the amount of the microgrant should be no less than \$1,000 per participant; staff at two other organizations were skeptical that \$1,000 would be enough to help start a business. Staff at the remaining six organizations did not express an opinion. A literature search did not yield studies with rigorous evidence on the amount of funding that would be most appropriate. Given the limited resources available, and an interest to provide as many participants as possible with the opportunity to access seed capital, the maximum amount was set at \$1,000.

Provider staff also recommended that the program require participants to demonstrate commitment to their business before they received the microgrant. According to microenterprise provider staff interviewed for the Project GATE study, if grants or loans had been made available to participants, the funds would not have been used efficiently because most participants did not have complete business plans to specify how money would be used (Bellotti et al. 2006). To receive this microgrant, participants must meet several criteria: they must be strongly engaged in the SET program, as determined by the SET advisors assigned to work closely with participants, and they must achieve key business development milestones to demonstrate commitment to the business:

- Registering the business
- Completing a comprehensive and satisfactory business plan

¹ The unemployment statistics cited in this paragraph are based on data maintained by the Bureau of Labor Statistics and available at <http://data.bls.gov/timeseries/lms14000000>.

BOX 1: ABOUT THE SET STUDY

We are conducting implementation and impact analyses on the feasibility and effects of the SET program. This brief examining implementation of the seed capital microgrants draws on the following data sources:

- **MIS data** submitted by SET providers on participants' receipt of services and seed capital funds, and their progress toward key business development milestones. All providers used the same MIS, which we developed for the SET pilot program.
- **Monitoring data** gathered through regular phone calls with provider staff, conducted between September 2014 and April 2015.
- **Site visit data** from one round of visits to all providers in the SET study sites conducted 12 to 18 months after program launch. These data include information from in-depth interviews with 32 service provider staff (including the directors of microenterprise providers, SET advisors, and administrative support staff) and from participant case file reviews.
- **Case study interviews** with 12 SET participants to explore their experiences with and perspectives on the program. The purposively selected sample consists of: (1) seven more successful participants who made progress toward developing their businesses (that is, they completed business plans, registered their businesses, and received SET seed capital microgrants) and (2) five less successful participants who engaged in the program for at least five months but did not achieve key milestones or receive microgrants. The interviewed sample includes participants from all 11 providers in all 4 sites, with 4 from Chicago, 4 from Cleveland, 2 from Los Angeles, and 2 from Portland. The final implementation study will include case interviews with a total of 36 participants; the proportions of respondents interviewed will reflect provider assignments.

Additional information on participant receipt of and perspectives on the microgrants will be available from a follow-up survey conducted with the full sample of SET program participants as part of the impact assessment. A final report with impact and updated implementation findings is expected to be completed by fall 2018.

HOW DID WE VET PARTICIPANTS' SEED CAPITAL REQUESTS?

When participants have met the eligibility milestones for the microgrant, their SET advisors at the microenterprise providers work with them to complete a structured request form. On this form, participants indicate the amount of the request, describe the proposed use of the funds, and attach proof of the purchase price. (Participants can make multiple requests, up to a total of \$1,000.) The participant's SET advisor reviews the form, certifies that the participant has engaged satisfactorily in SET and met the required milestones, and enters the information into the SET MIS. We then review the requests and, if approved, disburse the requested funds. When evaluating submitted requests, we check that the purchase amount was accurate, that participant engagement and milestone completion are consistent with other entries in the MIS, and that the advisor's justification is reasonable, in that the requested item(s) seems relevant for the business being developed by the participant. Occasionally, we request more information to review the request.² Participants who receive seed capital funds also receive a pre-paid envelope with their check and are required to mail hard-copy receipts to us to demonstrate that the funds were spent on the intended purchase.

WHO MADE MICROGRANT REQUESTS AND HOW DID RECIPIENTS USE SEED CAPITAL?

We examined data for individuals who had been accepted into the SET program at least eight months before April 30, 2015 (N = 343) to discern patterns of usage, such as who made these requests, for how much, and on what types of purchases.

² Site liaisons occasionally request additional justification that a purchase is directly related to a participant's business (mostly when certain electronics were requested, such as iPads, or when they find a lower price online for the requested purchase).

Take-up of microgrants has been limited, with only 38 percent of participants applying for and receiving microgrants (Box 2).³ Of the 343 participants examined, 131 participants across all sites received seed capital microgrants. Seventy-eight percent of the participants who had registered their businesses received seed capital, as did 87 percent of those who had completed a comprehensive and satisfactory business plan.

BOX 2: SEED CAPITAL MICROGRANTS BY SITE

According to service provision data entered into the SET MIS through April 30, 2015:

- The highest number of participants receiving microgrants are in Portland (58 out of 131 recipients total); Cleveland participants are in second place (46 out of 131 total). In Chicago, 18 participants have received seed capital, as have 9 participants in Los Angeles. The differences in the number of microgrant recipients between sites may be explained by higher program enrollment in Portland and Cleveland at the beginning of the program.⁴
- The percentage of assigned SET participants who have received microgrants is similar in Cleveland (48 percent), Los Angeles (47 percent), and Portland (40 percent), while Chicago lags behind (21 percent).
- The average length of program participation before a participant requests a microgrant is similar in Chicago and Portland (seven months), and Los Angeles (six months), while the time is shorter in Cleveland (four months).

On average, participants requested nearly the entire amount of seed capital available, and most made requests after about six months in the SET program. As of April 2015, participants requested an average of \$989 of the \$1,000 available. Twelve percent of microgrant recipients made multiple small requests, while the rest asked for the entire amount at once. The length of time that elapsed between joining the program and making the first request was most frequently six months or more, suggesting that it typically takes participants this much time to register a business and develop a comprehensive, satisfactory business plan.

With a few exceptions, SET microgrant recipients resemble the entire pool of SET participants on most background characteristics of interest (Table 1). Over 85 percent of seed capital microgrant recipients and 82 percent of participants were between the ages of 31 and 60. With an average age close 45, most were in the prime of their careers. The majority of both groups were also college graduates. In both groups, median⁵ household income is about 70 percent of the national median of \$51,939 (DeNavas-Walt and Proctor 2013). Seed capital microgrant recipients differed from all SET participants on average income (higher), average credit card limit (higher), and average savings (lower). However, none of these differences were statistically significant.⁶

³ The total disbursement amount has been \$129,208.

⁴ For a more detailed discussion of SET intake rates across sites, see an accompanying brief on outreach for the SET program (Brown et al. 2016).

⁵ The term "median" refers to the middle number in a range of numbers that have been arranged in order. For example, the number "5" would be the median in the following range of numbers: 1, 3, 5, 19, 80.

⁶ These findings were not statistically significant at the 0.10 level. The term "statistical significance" denotes a result that is unlikely to be caused by chance or random variation.

Table 1: Trends in seed capital microgrant requests, by key socioeconomic and demographic characteristics

Characteristics at time of application to SET	SET seed capital recipients (all sites) N = 131		All SET participants (includes seed capital recipients and non-recipients) N = 343	
	Number	Percent	Number	Percent
Age				
Average	45		45	
18-30	10	8	36	10
31-40	41	31	91	27
41-50	37	28	91	27
51-60	34	26	99	29
61+	9	7	25	7
Education				
High school or less	10	8	21	6
Some college or associate's degree	39	30	115	34
College graduate	82	63	206	60
Average income (median income)	\$78,128 (\$36,000)		\$65,105 (\$35,000)	
Average credit card limit (median credit card limit)	\$25,868 (\$6,950)		\$20,120 (\$7,000)	
Average savings (median savings)	\$30,154 (\$5,130)		\$45,777 (\$3,150)	

Sources: SET MIS data through April 30, 2015; SET program baseline survey data through April 30, 2015.

Note: The totals for some columns exceed 100 percent due to rounding. None of the differences between seed capital recipients and all SET participants were statistically significant. To test these differences, we ran t-tests (statistical tests for a small sample) on continuous variables, and chi-squared tests (tests of association specifically for categorical variables) on non-continuous variables. We used the 0.10 significance level to test all differences. Note that this table is not intended to compare seed capital microgrant recipients and non-recipients. Because we conducted this analysis when the program was ongoing and these are interim findings, it would not be appropriate to compare recipients to non-recipients, since the non-recipients would still have time, in theory, to obtain the grant.

Nearly 40 percent of seed capital recipients (five times the number of participants as the next highest category) proposed businesses in the professional, scientific, and technical services field (Table 2). This category includes lawyers, accountants, architects, industrial and graphic designers, computer programmers and systems analysts, marketers and public relations specialists, photographers, and consultants in management, human resources, and administration (Box 3 presents provider and participant perspectives on potential implications of starting businesses in this field). Fewer than 10 percent of the seed capital recipients presented business ideas in each of the five next highest categories.

Table 2: Business industries of seed capital recipients (top six industries)

Industry of seed capital recipients' businesses (based on application to SET program)	SET seed capital recipients (all sites)	
	Number	Percent
Professional, scientific, and technical services	51	39
Other services (various types of repair services, personal services, and community services)	11	8
Information (telecommunications, print media, and television/radio broadcasting)	10	8
Health care and social assistance (healthcare practitioners and other health service providers, such as nursing care)	9	7
Accommodation and food services (restaurants and travel services)	9	7
Administrative and support and waste management and remediation services (office and business support, facilities, security, and waste collection and disposal)	8	6

Sources: SET MIS data through April 30, 2015.

Note: North American Industry Classification System (NAICS) industry codes provided by U.S. Census (<http://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart=2012>). Participants' business industries were determined by using NAICS industry codes to code proposed business ideas. Business ideas were coded using two-digit NAICS codes, representing the largest business sector under which businesses may be categorized. Not included in this table are 41 SET microgrant recipients (25 percent of the sample studied) who proposed business ideas under 12 other NAICS codes.

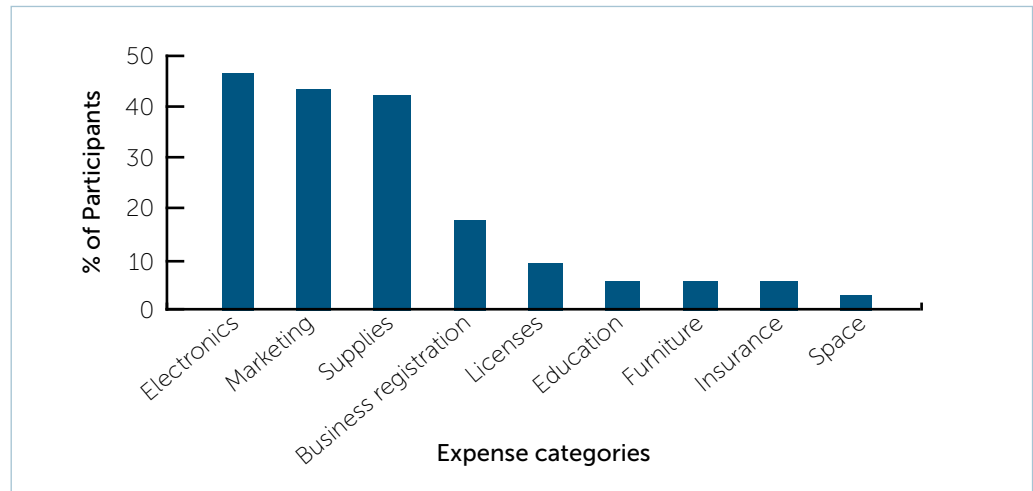
BOX 3: PERSPECTIVES ON STARTING BUSINESSES IN PROFESSIONAL AND TECHNICAL INDUSTRIES.

According to the microenterprise provider staff and participants we talked to, the professional and technical industries may have lower barriers to entry than other industries do. When asked about industries that may be associated with higher levels of success or faster progress in business development, some SET advisors and other staff at providers pointed to professional and technical consulting. They suggested that individuals in these industries can start their businesses by drawing on their existing professional networks for customers, as long as they are starting their business in a field directly related to what they did prior to becoming dislocated. Several participants who had proposed businesses in professional and technical industries said their start-up costs were generally low. Microenterprise provider staff corroborated this, saying the microgrants may therefore make more of an impact for those businesses.

Microgrant recipients requested the following types of expenses most frequently (Figure 1):

- Participants most frequently requested **electronics** (47 percent), which included computers and related devices such as printers and mobile devices.
- The second most frequent request was for **marketing materials** (44 percent), which included website development, attendance at networking events, and physical marketing materials, such as business cards, flyers, and other advertisements.
- The third most frequent request was for **supplies** (42 percent), which included inventory or raw materials for the business (for example, cooking and baking supplies for food-based businesses, or cleaning supplies for janitorial services).

Figure 1. Types of expenses requested, by frequency of participant requests

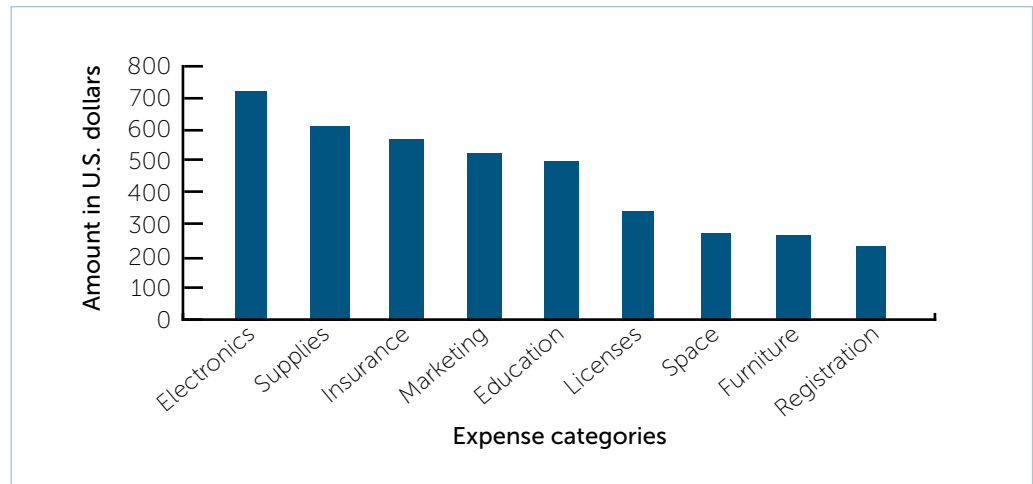


Sources: SET MIS data through April 30, 2015.

Note: Since participants could ask for multiple items in a single microgrant request, the data represent all items requested, rather than items requested per participant or per microgrant.

SET microgrant recipients' average expenditure per category type was the highest for electronics and supplies (Figure 2). Purchases in these categories were \$720 for electronics and \$613 for supplies, on average. SET microgrant recipients spent the next highest amounts, on average, on insurance (\$567), marketing (\$527), and education (\$499).

Figure 2. Average expenditure amount, by type of expense



Sources: SET MIS data through April 30, 2015.

Note: Since participants could ask for multiple items in a single microgrant request, the data represent all items requested, rather than items requested per participant or per microgrant.

WHAT DID MICROENTERPRISE PROVIDERS THINK ABOUT SET MICROGRANTS?

Overall, staff at microenterprise providers think the seed capital microgrants are a valuable resource for SET program participants. At least one staff member at each of the 11 microenterprise providers believed that SET participants benefited from the microgrants, and at least one SET advisor at 6 out of 11 providers thought that some participants would not have started their businesses if not for the seed capital microgrant.

Microenterprise provider staff, including SET advisors, organizational directors, and other support staff, believed that the SET microgrants helped participants in the following ways:

- **Facilitate or expedite business start-up.** One SET advisor said the microgrant helped some participants make purchases that were instrumental in starting their business. For example, one participant who had used public computers to work on her business was able to buy a computer. Several participants working with this SET advisor's microenterprise provider bought Quickbooks, which is considered to be a helpful tool for tracking business financials. Others have used the microgrant to cover registration fees at important networking events. A SET advisor at a different provider said that the guidance on qualifying expenditures for the seed capital microgrant helped people make appropriate purchases with the funding and that most participants would not otherwise have \$1,000 for business start-up. A director of a microenterprise provider thought some clients would have started up anyway, but the microgrant helped them start up earlier than they otherwise would have.
- **Reduce personal risk.** Two SET advisors thought that most of their participants who received microgrants would not have been able to start their businesses without the funding, because they otherwise would not have been willing to use their funds on their businesses. One advisor said that unemployed participants are struggling financially, because unemployment benefits are temporary and do not completely replace their former income, so they are not in a position to take risks with their own money. The microgrant helps to address that barrier and allows them to take the risk of opening a business, according to this advisor.
- **Incentivize persistence.** An indirect benefit of the seed capital microgrant may be that it motivated individuals who may otherwise have balked at the requirement to check in with the provider staff every month, according to one SET advisor. By the time participants completed the business plan and got seed capital, this SET advisor thought that participants had developed a close relationship with the provider staff, had come to see the benefits of staying in touch, and had taken advantage of a wider range of services to set up their business than they otherwise might have.
- **Reserve last resort/rainy day resources.** SET advisors at two microenterprise providers noted that the microgrants could be beneficial even for people who could tap other funding sources to start up and support their businesses. The availability of seed capital could save time and effort they would otherwise spend seeking funding, and it could spare them from having to use their savings or ask friends and families for money. Accessing the seed capital available through SET may have allowed participants to preserve these alternative sources for unanticipated needs or emergencies. Based on observations of the activities of non-SET clients, one director of a microenterprise provider believed that in the absence of the microgrant, participants would have used their savings and gone to friends and family. They may also have delayed start-up or used other funding mechanisms like Kickstarter, an online crowdfunding platform, and their success would have depended on individual passion or determination.

Expressing a contrary view, at least one respondent from each of four microenterprise providers indicated limitations with the microgrant offer:

- **Insufficient funding.** According to one microenterprise provider director, the low amount of funding made the microgrant ineffective; SET advisors at two other microenterprise providers commented that while the microgrant helped their SET participants, they did not think the amount available was enough to make a real difference in starting a business, given the high cost of living in their city.
- **Ability to use savings or other income.** One SET advisor said that some participants could have easily used savings or obtained side jobs to fund their businesses in the absence of the microgrant. During check-in calls over the course of implementation, SET advisors from four providers spoke about several participants who did not think they needed seed capital, because they had low start-up expenses and enough savings or other resources to draw on.

Despite these perceived limitations, most microenterprise provider staff, including SET advisors, organizational directors, and other support staff, indicated the microgrants facilitated business start-up, helped participants reduce their personal risk and reserve their other resources, and incentivized persistence in starting up their businesses.

WHAT DID SET PARTICIPANTS THINK ABOUT THE MICROGRANTS?

Participants' views on the SET microgrants give us insight into the desirability and likely demand for this kind of funding. Below, we present the perspectives of 12 purposively selected SET participants regarding the microgrants. These individuals included those who had met key business development milestones and received microgrants as well as those who had not. (See Box 1, "About the SET Study," for more details on respondent selection.) Our findings from the follow-up survey will provide participant perspectives on SET microgrants from the full sample of SET participants.

All 12 of the interviewed participants echoed the sentiment of most provider staff—that the microgrants were helpful. Seven of these participants received microgrants and shared examples of how the funding helped them:

- **Afford purchases that would have been difficult to make otherwise.** A participant who opened a fitness studio and used the microgrant to buy a laptop said that, without the microgrant, he would have had to scale back on other expenses: "Having the seed capital [micro] grant actually gave me an extra \$1,000 to have on hand when I opened the doors." A participant who opened a car repair shop used the microgrant to buy equipment, saying that he would not have been able to buy that equipment without the microgrant, because of the equipment's high cost, and because he was unfamiliar with other funding options, such as loans. A participant who started a notary business used the seed capital to pay for occupational and licensing fees and start-up supplies, and shared: "All of these fees and licenses here and there [were] expensive. I would have had to do it all on my own and this would take away from the other expenses I have. [The grant helped] take care of all these little things that I don't have to worry about later on." Reducing personal risk appeared particularly important for this participant, as he said, "I could have said I can't afford this right now. I can't buy these supplies. I can't really take this course yet. [The microgrant] just took that out of my mind. It allowed me to go and do it."

- **Preserve savings and avoid debt.** A participant who runs a consulting business for sustainable (or “green”) construction used the microgrant on software and business certifications; she said she has been able to build her business while using very little (if any) of her savings, which she can fall back on in hard times. In the absence of the grant, the participant opening a notary business speculated that he may have charged his expenses to a credit card, carried a balance, and ended up paying interest on those charges, which may have made him more reluctant to make the investments. A participant who started a translation services firm and used the microgrant on a computer and printer said that without the microgrant, he would have applied for a loan, which he may not have gotten easily.
- **Prioritize investments.** A participant who opened a hair salon stocked up on supplies with the microgrant. Without the grant, she said, “I would have just bought things as I go. A few tubes of color, bleach, or foils as I go. The grant allowed me to stock up and be prepared. Because I have Groupon [customers], I don’t know what their hair needs [are]. It allows me to have [supplies] on hand instead of trying to scramble.” A participant who started a human resources consulting firm used the microgrant to update her website, which was an urgent need for her business. She said: “For me, this \$1,000, I want to put it toward something that I really, really need ... my website hasn’t been updated since 2006 and that is something I really, really needed. It was the perfect [amount of] seed money to get the website done.”

Four SET microgrant recipients commented that more funding would have helped them make faster progress and make more vital investments for their business. For example, the participant who opened a hair salon said, “there is no way I could have started a business with \$1,000” due to her high start-up costs for rent and equipment, but the microgrant was nevertheless helpful to purchase some supplies.

Five of the interviewed participants did not receive the microgrant, because they were not able to reach to the eligibility milestones. All five of these participants still commented on its potential usefulness, with two of the five describing what they would have purchased if they had been able to meet the milestones to apply for the microgrant:

- A participant who is no longer pursuing a business because she returned to work with an employer said the microgrant would have been “very useful” if she had continued pursuing her own business in local government consulting. “You could get a decent computer for \$500 to \$600; a printer would be several hundred dollars. It would depend on the business whether the \$1,000 would be sufficient or not. For the kind of business I was looking at, it would be.”
- A participant starting a technology business, who left the SET program before meeting the microgrant milestones, said: “I can take \$1,000 and print \$50 [in] business cards and design a website for less than \$400 ... Probably [pay] \$250 for a shredder and send [the rest] straight into Facebook ads ... I [could] put it to good use to increase [my] chances to make more money.”

HOW DID WE IMPLEMENT THE SET MICROGRANT?

The SET advisors at microenterprise providers were responsible for certifying that SET participants had engaged satisfactorily in the program, reached the eligibility milestones for the microgrant (business registration and completion of a satisfactory, comprehensive business plan), and that their purchases were directly relevant to their business. They were also free to set other eligibility criteria. SET advisors at most providers applied the eligibility criteria thoroughly and uniformly when evaluating requests for seed capital.⁷ We largely left it to the discretion of provider staff to operationalize these eligibility criteria, and they did so in the following ways:

⁷ At two provider sites, site visit interviews and participant case file reviews uncovered discrepancies in how individual staff specified and applied SET microgrant eligibility criteria. SET advisors at these providers had approved business plans for SET participants that did not even match their own organizational standards for a complete business plan authored by their regular (non-SET) clientele.

- SET advisors largely defined *sufficient engagement in the SET program* by frequency of participant contact. SET advisors at 8 of the 11 providers required participants to check in with them at least monthly by phone, email, or in person. SET advisors at three providers chose to implement additional criteria requiring completion of a certain type and/or number of business development courses or counseling sessions.
- SET advisors also established criteria to determine *whether business plans were comprehensive and satisfactory*. SET advisors at almost all of the microenterprise providers (10 out of 11) required the plans to include a thorough financial analysis. (See Box 4 for more information.)
- Across all sites, the *business registration requirement* was waived for 18 percent of participants. SET advisors could request that the business registration milestone be waived and the funds used to cover registration fees by making a strong case that the participant could not afford the fees.⁸

BOX 4: FINANCIAL ANALYSIS AS PART OF A COMPREHENSIVE AND SATISFACTORY BUSINESS PLAN

Examples of items that microenterprise providers required for a thorough financial analysis included a balance sheet, cost per unit, profit/loss statement, and break-even analysis. Staff at one provider did not require a financial analysis for business plans from SET participants, even though they considered a financial analysis to be critical to a business plan

In addition to ensuring that participants had met the eligibility criteria for the microgrants, SET advisors reported working with participants to help them plan the best use of these funds. Advisors at 10 of the 11 providers said they discussed and planned the microgrant request with participants before they applied for the funding to avoid having to reject any requests. Some microgrant recipients and advisors shared their experiences in planning the microgrant:

- A participant said she came to her SET advisor with “a really long list” of possible items to purchase, and that her advisor helped “cull it down” to what was most relevant for business start-up.
- One SET advisor said he discouraged participants from buying items they could get at minimal or no cost (such as business cards) and encouraged them to focus on purchases that would promote sales (such as inventory or equipment, or participating in trade fairs or events) and demonstrate business growth to other potential funders. This advisor cited the example of a participant who used her SET microgrant to demonstrate her business’s success for a citywide competition for storefront space for small businesses.
- Another participant said he debated with his SET advisor whether to purchase a computer or equipment for fitness classes that he teaches: “[My advisor] told me to use it toward a larger purchase. Something that would greatly create an impact on your business ... He said, you know, a computer is probably going to be your most necessary thing ... for [customers] to log in, track my financials, create spreadsheets.”

SET advisors at 2 out of 11 providers reported a belief that at least one of their participants tried to take unfair advantage of the microgrant by initially requesting irrelevant items. They said they would advise the participants to think critically about more relevant expenses before approving the microgrant application. We also double-checked expenses to make sure these requests were valid.

⁸ In Chicago, we permitted SET advisors to waive this requirement for any participant, because the total combined fee to register a business can be as much as \$800. This is much higher than in the other study sites (typically \$100 to \$150 per registration).

WHAT ARE THE EMERGING LESSONS FROM THE OFFER OF SET MICROGRANTS?

The lessons that are emerging from the experience of offering SET seed capital microgrants may help inform future interventions that include an offer of similar microgrants and that target dislocated workers who want to start their own business. As of April 30, 2015, this study is still ongoing, with many participants still active in the program. A final report expected in Fall 2018 using updated implementation data and data from a follow-up survey conducted with the full study sample will provide more complete information on these early lessons:

An amount as low as \$1,000 may help participants get their business started. A majority of the SET microenterprise provider staff and all 12 participants we interviewed reported that the seed capital microgrant could be helpful to those starting their businesses. Microgrant recipients on average, asked for close to the full amount of funding available. Since it was a microgrant, not a loan, this money may have allowed participants to accelerate their start-up efforts, make priority investments in their business, and minimize personal financial risk. Despite these perceived benefits, seed capital “take-up” has been limited: only 38 percent of the participants assigned to a microenterprise provider for at least eight months have received seed capital.

Most microgrant recipients used the available funding to invest in electronics, supplies, and marketing materials that could help them bring in and serve customers. In terms of both total and average funding, the highest amounts requested were for electronics and supplies; electronics, supplies, and marketing materials were also most frequently requested. The participants we interviewed indicated that the items they purchased were important for finding customers and making sales and provider staff said they encouraged seed capital recipients to leverage the microgrant to create other opportunities, such as demonstrating their progress to other funders.

Seed capital recipients most often started businesses in professional, technical, and scientific service industries that may have lower barriers to entry than other types of self-employment do. Almost 40 percent of seed capital recipients proposed opening businesses in professional, technical, or scientific service industries. According to provider staff and participants, these industries may have lower barriers to entry, since individuals can start businesses in these areas as consultants, whereas other types of service or retail businesses may require storefronts. Business owners in these industries may also be able to draw on their existing networks for customers if they were previously working in a professional or technical field directly related to their new business. Among all the participants we interviewed, those who were working as consultants in professional and technical industries said the seed capital microgrant was helpful because their start-up costs were generally low; this was corroborated by microenterprise provider staff. On the other hand, those with higher barriers to entry, such as those who had to find office or retail space, may find that the seed capital microgrant alone is inadequate for their start-up needs.

For SET participants who receive microgrants, it may take about six months to meet microgrant eligibility requirements. In the four SET study sites, the average length of time that elapsed between microgrant recipients joining the program and making their first request ranged from four to seven months, with an average of six or more months in three out of four sites. This suggests that it typically takes microgrant recipients six months or more to meet the eligibility requirements for the microgrant.

Counseling and careful review of applications may be important. SET advisors and participants report that counseling helped participants make the most out of the microgrant. We offered a few examples of participants who worked with their advisors to make the most useful purchases or to leverage the microgrants. Requiring appropriate justification for items requested and conducting a careful review of the requested items also appeared important for ensuring appropriate use of seed capital funds.

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