

What Does It Take to Borrow?

A Framework for Analysis

by **Caroline E. Glackin**

Abstract: This paper introduces a framework for the analysis of the barriers, costs and constraints microloan customers in the United States encounter. While much previous work has been done on the benefits and potential of microenterprise in the United States as well as the program costs, relatively little research has explored the process from the perspective of the customer. This paper first introduces the gap between loan fund capital and loan disbursement. It then posits a framework for understanding the customer perspective. Further research is recommended to determine which factors are salient and how they can be applied to benefit microloan customers and microlenders in the United States context.

In the past twenty years, microenterprise development tried to alleviate poverty in the United States. Initially, practitioners and policy makers presumed that the lack of access to capital was the primary impediment for the self-employed to start and sustain their businesses. Because financial institutions are risk-averse to borrowers with weak credit histories, insufficient collateral, and limited or no business experience, alternative vehicles to credit were required. So microloan funds proliferated in the 1980s and 90s to serve this market. But the experience of practitioners today indicates that lack of demand and not supply is the principal challenge facing the field. There are simply too many dollars and too few customers. In attempting to understand this dynamic, few have researched the costs, barriers, and constraints for potential borrowers participating in these programs well.

The premise of this article is that the full range of costs of microborrowing are seriously underestimated. Included in these costs is a program design that in itself creates potential barriers to access. When they identify these barriers and understand their costs, practitioners can develop lower-cost, higher-volume and -impact models for the delivery of credit and training.

This paper suggests a framework for the range of costs incurred by individual customers of microloan¹ programs in the United States and the barriers and constraints to borrowing. The first objective is to identify the primary drivers of microenterprise borrowing. The second is to propose a framework for further research and analysis. These findings include implications for both policy makers and practitioners.

Barriers to Borrowing and Consumption Costs

Understanding the barriers to borrowing, constraints, and costs in microloan programs is necessary to fully understand the microenterprise development industry in the United States. The bulk of the research completed to date has analyzed program design, delivery, and outputs. Substantial research regarding impact is underway, primarily under the auspices of the Aspen Institute's FIELD program. Recently, some research addressing transaction costs and subsidies to program costs has begun to emerge. However, little work has been done on consumption costs and their implications for microlending. We need a thorough understanding of both the benefits and costs in order to judge the efficacy of United States microlending.

When microloans were introduced in the United States, the primary emphasis was on providing small amounts of

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capital to microentrepreneurs who could not borrow from mainstream financial institutions. Over the years, the field was successful in obtaining capital from the U.S. Small Business Administration (and later the Community Development Institutions Fund), national and local foundations, and state and local government. Of the 159 microloan funds with sufficient data available for tabulation in the 1999 Directory of U.S. Microenterprise Programs (Langer, Orwick, & Kays, 1999), the total loan pool capital adds to \$117,138,269. There is no information on outstanding loans, but total cumulative lending is \$130,492,113 from the beginning of microloans, with \$91,782,828 in loans from the top 20 percent of lending programs. In 74 of the 159 programs, the loan pool is greater than the cumulative lending, with a minimum of approximately \$32 million in available idle funds. Given typical loan terms of three months to three years, and the age of the program, this indicates that supply of microloan capital greatly exceeds demand. A recent survey of more than 30 loan programs in California showed that over 50% of the capital was not loaned out and that seven loans per year was typical (Bhatt, Painter, & Tang, 1999).

This surplus of capital among almost half of the programs can be attributed to a number of possible causes due to factors either on the supply side or the demand side. One supply factor is that the rapid increase of funding availability has outpaced the capacity of programs to attract more microloan customers. Many programs began to receive large capital infusions in the 1990s. Also, many programs were new in 1997, the most recent reporting year of the survey. Another possible explanation is incomplete or insufficient information flows to target populations. Demand-side factors include lack of demand for capital and lack of viable microloan customers.

Among all of the possible causes for lack of scale in microlending, this analysis explores the cost of consumption of microloans in the United States, the barriers to access, and the constraints on microentrepreneurs. While these factors undelie

the concerns of information flows, demand, and qualifications, they transcend these simple explanations and uncover a complex and diverse set of issues that have a profound effect on the ability of microloan programs to serve the poor.

There are a variety of costs associated with borrowing from a microloan program in the United States. The cost to the customer is not simply the interest rate plus fees, although that is the most explicit portion of the costs. Microloan costs include financial costs, transaction costs, and psychosocial costs. In addition, systematic barriers and constraints could also have an impact on the microentrepreneur's desire and ability to obtain a microloan. These barriers include discrimination, regulations and laws, and information gaps. A summary of these cost factors, barriers, and constraints is included in Table 1.

The borrower's cost to obtain a loan, or the perceived price of the loan, is the sum of the transaction costs plus the financial costs. It is possible that consumption costs² of microloans are so high that microentrepreneurs cannot afford them, even though they would qualify for them. The analysis that follows includes a discussion of the categories of costs for microloan customers as well as the barriers to borrowing.

Theories of Consumption and Their Relevance to Microenterprise

Any discussion of the consumption of goods or services and the costs of the process of consuming them is grounded in economic theories of consumption and consumer behavior. In this case, we turn briefly to consumption in general and the consumption of social welfare goods and services.

Microloan customers in the United States are individual consumers of microloan products. They have a choice, although constrained, whether or not they choose to obtain a microloan. In economic terms, the decision to borrow is either based on maximizing or satisfying utility. Because entrepreneurship can easily be understood as the customer's best

available option (Servon, 1999), I am assuming satisfying behavior. Therefore, we can expect microloan customers to borrow at the level that satisfies their needs to the best of their ability. So the expected utility of the microloan must exceed its cost.

Although we are not performing a complete cost-benefit study, we can observe that when microentrepreneurs borrow from microlenders, they receive a "bundled good," much as homeowners buy not only a home (shelter) but the features, benefits and amenities associated with that home. In the case of a microloan, the bundle may consist of the products or services acquired with the proceeds, the value of training and technical assistance, pride of ownership, the power of self-determination, and anticipated earnings.

It is the consumption costs of services for social welfare that are at the core of the analysis that follows. While microloans are not public goods and are generally not offered by government entities, they act like government-provided goods and services in many ways and carry their characteristics:

- Microloans can support social welfare objectives. Microloans are available to the "disadvantaged" entrepreneurs who are either on the margins or are disconnected from the mainstream.
- They are available through third-sector and public-sector organizations, albeit often with private-sector support.
- They are priced at an interest rate well below "cost" and are offered for unbankable customers.

The consumption costs of such goods are not particularly well understood but are typically regressive and include participation costs (Warren & Weschler, 1986). Services may not be consumable as available or may be too costly, thereby pricing people out of consumption when they do not have the resources to be. These costs include such factors as time, effort, money, and psychological and physical burdens. In essence, goods are effectively rationed via these consumption costs. This framework applies directly to microlenders and entrepreneurs.

Table 1. Cost Factors and Barriers and Constraints for Microloan Customers in the United States*

Financial Costs	Transaction Costs	Psychosocial Costs	Barriers/Constraints**
Application Fees (U)	Training Time (U)	Loss of Privacy (U)	Discrimination-race, gender, class (U) (DD)
Training Fees (U)	Technical Assistance Time (U)	Risk Aversion (U)	Regulatory and Legal Constraints (U) (DD)
Closing Costs (U)	Travel Time (U)	Stigma (D)	Information Gaps (U) (DD)
Technical Assistance Fees (U)	Pledged Collateral (U)	Frustration (D)	Lack of Documentation of Legal Standing in the United States (U) (DD)
Child Care (U)	Equity Required (U)		Credit History (U) (DD)
Late Fees & Penalties (D)	Loss of Means-Tested Benefits (U)		Geographic Constraints (U) (DD/SS)
Interest (D)	Lost Wages (U)		Insufficient Social Capital (U) (DD)
Service Charges (D)	Group Loan Costs (D)		Learning Factors (U) (DD)
Transportation(D)	Buffer Funds/Mandatory Savings (U)		Lack of Collateral (U) (DD)
Taxes & compliance (D)			Lack of Trust and Fear of Formal Institutions (D) (DD)
Group Loan Payments (D)			Lack of Business Knowledge (D) (DD)

* Predominant burden U= up-front costs D=distributed over time ** DD=demand side, SS=supply side

Categories of Costs to Microloan Customers

The costs of microloans for United States customers are not routinely calculated by programs or researchers. However, when an estimate of customer costs is made, it usually includes the cost of capital and, perhaps, any loan fees and charges. While these two direct costs may capture a portion of the total financial costs to the microloan customer, there are additional implicit financial costs that borrowers must bear, oftentimes regardless of whether they ultimately receive capital. Among these financial costs are (1) fees for required training and technical assistance; (2) transportation; (3) childcare; and (4) membership charges. In addition, transaction costs associated with the direct requirements of microloan programs add to borrower costs. A final category of additional costs is that of psychological and social costs, such as stigma associated with the inability to borrow from banks and the need to obtain cosigners.

Financial Costs

The financial costs of microloans vary considerably from program to program and are not necessarily directly proportional to the amount borrowed or to the financial capacity of the microloan customer. If anything, these financial costs are regressive, creating the greatest burden on those least able to pay. Many programs require extensive training for first-time business owners, which, although generally free of charge, does include other financial costs. Entrepreneurs with little or no collateral and equity, and poor credit histories, and start-up enterprises are more likely to need the services of a microlender and be subject to training and technical assistance requirements. They may also have to compensate for poor credit histories with cosigners and have to participate in credit counseling and repair. Many of these costs are incurred up front, before the customer obtains any microloan benefits. The financial burden of these requirements can be considerable.

a. *Interest rates*—Microloan programs charge a wide range of rates; the average rates reported in the 1999 Directory of U.S. Microenterprise Programs (Langer, Orwick, & Kays, 1999) ranged from about 10% to 18%. These rates are higher than those of commercial loans but lower than most credit cards, particularly subprime cards. These are the most explicit financial costs for loan customers and are ongoing costs.

b. *Application fees*—Microloan programs may charge application, commitment, and closing fees. Application fees may be nonrefundable and may be charged up front.

c. *Service charges*—Some microloan programs charge a monthly or per loan service charge. Until recently, one program charged a 4% fee on each loan. For a customer with a few months' loan, the effective rate was far in excess of the nominal rate.

d. *Late fees and other penalties*—With loan delinquency rates ranging from 10% to 60% in microloan portfolios (Edgcomb, Klein, & Clark, 1996), it is apparent that there are both late fees and bounced-check charges on microloans. These are particularly burdensome for those living in poverty or on the margins of poverty, for which a \$25 late charge may be a large part of their income.

e. *Closing costs*—Out-of-pocket costs incurred by microlenders to secure mortgages and liens plus any legal costs. These costs will vary considerably and are expected to be higher for larger-dollar loans. They may range from zero to several hundred dollars and are generally up-front costs.

f. *Training fees*—When entrepreneurs are required to attend training classes in order to qualify for loans, they may have either class fees or materials fees for these trainings. The range of costs may be from zero to a few hundred dollars. Within a given loan program, they may be essentially fixed or have a step function, depending on loan amount, but they are usually incurred up front.

g. *Technical assistance*—While most microloan programs do not charge for technical assistance, some do (Langer, Orwick,

& Kays, 1999). They may have hourly rates, sometimes on a sliding scale. Also, some entrepreneurs may pay brokers or consultants to assist in the preparation of business plans or loan applications. Most of these costs would be up front, with potential continuing costs for ongoing assistance.

h. Transportation—Microloan customers must incur transportation costs in order to attend training sessions or meet with business counselors, loan officers, or peer groups. Depending upon proximity and transit options, these costs may vary considerably. In addition, programs that require more training classes or counseling sessions result in higher transportation costs for customers. Transportation costs may be heavily front-end loaded for training and technical assistance, but they may continue after the loan is received in a peer group setting or when payments are made in person.

i. Childcare—Many microloan customers are single mothers who must find childcare for their children when they attend classes, meetings, and events. For those with the weakest social networks and family linkages, this burden is likely to be greater than others.

j. Taxes and costs of compliance—When microloan customers must move from the informal economy to the formal economy in order to access microloan dollars, they incur additional financial costs. For example, reporting microenterprise income on income taxes can increase the tax burden.

Taken together, these financial costs can be quite substantial, particularly for a low-income microloan customer. Whether we assume that customers have complete or incomplete knowledge of the costs and are consumption maximizers, a number of potential costs become clear, some of which are known, others of which are less obvious and they can be high relative to the size of loan.

Transaction Costs

Beyond the direct financial costs are a number of transaction costs associated with microloans. Transaction costs in

microloans can be understood as nonfinancial costs incurred during the lending process from its beginning until its end.

Microloan customers encounter a range of costs associated with the time spent in obtaining a microloan and subsequent time spent on programs and events associated with the microloan. The customer might otherwise have been engaged in other more rewarding activities, including but not limited to wage employment, self-employment income generation, and other opportunities. One could argue that the time spent in microenterprise development and training might be better spent in adult, vocational, or post-secondary education.

a. Training time—Because programs require between zero and ninety hours of training, they reflect a broad cost range. No analysis has determined the direct benefit of microenterprise training, nor has one established the optimal type and quantity of training to deliver. In any case, training brings with it both potential benefits and clear opportunity costs.

b. Technical assistance time—Requirements appear more flexible, the borrower having greater control over the amount of time spent and the location of the assistance. Their opportunity is cost associated with technical assistance, and most of the burden is up front, with potential future benefits.

c. Travel time—In addition to the financial cost of travel, there is the opportunity cost. For those in rural areas, travel time may be particularly burdensome. Programs requiring frequent or multiple meetings and training classes add to this opportunity cost.

d. Lost wages—For some microloan customers who are “patching” self-employment earnings with waged-employment earnings, meetings or training sessions held during their working hours may result in lost wages. For those who are unemployed or who participate during nonworking hours, costs may be counted in lost opportunities.

e. Pledged collateral—Requirements to pledge collateral impose an opportunity cost by tying up the resources so that they cannot be used for another purpose.

f. Equity contribution requirements—When microloan programs require up-front equity contributions, they may deplete the savings of a borrower. Such equity contributions may be required to demonstrate that the borrower has exhibited "good faith" and has made an investment in his or her business and has something of value at risk.

g. Social-welfare policy costs—For microentrepreneurs receiving means-tested benefits, there can be costs associated with social-welfare policies. Under a range of programs, including Job Opportunity and Basic Skills Training (JOBS) and the Job Training Partnership Act (JTPA) (P.L. 97-300), self-employment is either not an option or can result in the loss of benefits (Raheim, 1997). In fact, for certain people who receive income support, self-employment may result in worsened financial circumstances rather than improved ones (Raheim, 1997).

Psychosocial Costs

In addition to the direct financial costs and the opportunity costs that a microloan customer may encounter, certain social and psychological burdens and costs may be associated with borrowing from a microlender. While there are inherent challenges in determining dollar values, it is critical that these factors be recognized for their potential to prevent borrowing.

a. Stigma—The stigma effects of borrowing from a microlender rather than a bank have not yet been documented. Microloan programs are often known only to a small group of people within a community and serve as the "lender of last resort." Microloan customers may be required to provide co-signers in order to receive their loans. A microloan borrower essentially acknowledges an inability to access credit by borrowing from a microlender.

b. Frustration—The process of becoming a microloan customer is generally neither seamless nor rapid. Numerous steps and processes are involved, even in the quickest and least restrictive cases. In particular, having to attend numerous

training classes and to respond to multiple requests for information during the application process can be perceived as bothersome. Even if the training is helpful and the customer understands the need for the information, the time and effort required, not to mention the financial costs, can be a source of frustration.

c. Concerns about privacy—Related to the previous issues is the issue of privacy. Potential microloan customers must generally share considerable personal data in order to obtain small amounts of credit. They may not want to share their information with virtual strangers. Because of negative experiences with institutional actors, they may shy away from providing personal information. In addition, borrowers may be concerned about revealing immigration information or formalizing illegal or informal activities.

d. Risk aversion—While concerns about risk are anticipated in any entrepreneurial transaction, the risks of failure for microloan customers may be more profound than for those in the mainstream. For a microloan customer who has very limited assets, the risk of losing those assets is disproportionately large. The risk of being unable to repay the loan out of the income from the entrepreneurial enterprise can also be problematic; required repayment terms could outstrip the ability to repay out of earned income should the business fail. All these issues reflect potential challenges for microloan customers.

The self-employed poor must have support networks of families and friends to assist them with these risks (Schreiner, 1999). During crises, it is family and friends that offer insurance in the forms of cash and in-kind (Bates & Servon, 1996). However, this is particularly problematic for those most disconnected from the mainstream. "Microlending will not help those who rely heavily on a societal safety net," says Richard Taub. "It is most likely to help those who already have at least one moderately secure income" (Taub, 1998).

Systematic Barriers and Constraints

There is also a range of systematic barriers and constraints that has an impact both on the microentrepreneur's ability to and interest in obtaining a microloan. These barriers include discrimination, regulatory and legal factors, and information gaps, to name a few. In addition, there are trust, social capital, and business constraints.

Discrimination

Much has been written on discrimination in general and relative to discrimination in small business credit markets. Blanchflower, Levine, and Zimmerman used data from the 1993 National Survey of Small Business Finances to determine that constraints on credit for minority-owned firms are greater than those faced by white-owned firms, including more frequent denial of applications and higher interest rates (1998). Also, research indicates that black-owned firms experience particularly large capital constraints (Bates, 1997). Concerns about being turned down may prevent black-owned firms from being formed or applying for loans (Blanchflower, Levine, & Zimmerman, 1998).

Regulatory and Legal Constraints

As has been widely reported, microloans work particularly well in places where the majority of the adults are self-employed and where the barriers to self-employment are very low. Neither of these factors is prevalent in the United States. The complexity of owning and operating a business, including the multitude of regulatory and legal constraints, is formidable. While microentrepreneurs may operate in the informal economy without regard for these legal and regulatory factors, microloan programs may require compliance.

a. Licenses and regulation—Programs may require that businesses obtain appropriate licenses and comply with industry regulations, thereby creating a financial burden by reducing revenues and increasing taxes. For example, a child care

provider may have more children in her care while unlicensed than when she is licensed. At a weekly rate of \$60, it could mean a loss of \$3,120 per year in revenues alone in order to obtain a small amount of capital, if the number of children must decrease by one.

Regulations and laws also increase the level of complexity of transactions and the borrowing process. A microloan in the United States may entail multiple legal documents and additional legal costs. Microentrepreneurs must also understand the regulations regarding their specific business and take measures to comply. Zoning laws and child labor laws may prevent microbusinesses from operating out of a home and may keep children from helping out (Schreiner, 2000). Both taxes and compliance with regulations have noncash costs that make it expensive to operate in the "formal" sector in the United States. In fact, Schreiner states, "Taxes and compliance have invisible transaction and opportunity costs that may swamp their visible cash costs, and their quasi-fixed nature impinges regressively on small firms" (2000, p. 17). Either compliance or noncompliance is a dangerous position for a fragile enterprise. Also, three of the most common types of enterprises run by women (food service, beauty salons, and child care) require licenses in the United States, thus increasing the cost of entry (Schreiner & Morduch, 2000).

b. Operational complexities—United States microloan customers encounter operational complexities that do not pertain to their counterparts in the third world. They must be good at far more than producing a product. Schreiner (2000, p. 13) explains, "They not only provide the service or make the good that earns revenues, but they also pay taxes, comply with regulations, supervise employees, maintain a locale, attract customers, and find suppliers. Entrepreneurs must wear many hats, and some of them may not fit well."

c. Documentation—An additional microloan barrier can be the lack of documentation of legal standing in the United States as required by some microlenders.

Economic Factors

A range of economic factors affect microloan customers. Economists have looked at consumption and liquidity from an entrepreneurial perspective for a number of years (Evans & Jovanovic, 1989; Holtz-Eakin, Joulfaian, & Rosen, 1994). Evans and Jovanovic (1989) provided a model of entrepreneurial choice under liquidity constraints using data from the National Longitudinal Survey of Young Men. They explain that the liquidity constraint has two ways of reducing the flow of capital to entrepreneurship: by preventing some people from trying entrepreneurship (1.3% of the population) and through the ones who do try entrepreneurship using less capital because of the constraint. Some economists argue that lack of access to loans is not a constraint (Cressy, 2000; Xu, 1998). The reason loans can be a constraint is because they require collateral, which, in turn, requires savings. If loans matter at the margin, it is only if and when skills and savings are present (Schreiner, 2000). Berger and Udell indicate that debt is constrained by wealth (1998).

a. Limited or poor credit history—Microentrepreneurs may have a disadvantage when searching for business loans because they either have no credit or poor credit. Those with good credit may have access to commercial bank loans or credit cards to finance their businesses. As Schreiner and Morduch note, "In the Third World, the task of microfinance is to judge the risk of self-employed borrowers new to formal credit; in the United States, the task is often to judge the risk of self-employed borrowers with bad credit records" (2000, p. 11). For example, in Himes and Servon's (1998) study, 25 percent of the clients had bad credit records.

b. Relative opportunity to access other resources (credit cards, loan sharks, title lenders)—This is not a barrier or constraint for microloan customers; rather it is a concern for the microlender. While there may be a conception that microloans are the only financing option for microloan customers, there may be alternatives, such as credit cards, loan sharks, and title lenders.

Bhatt (1997) asserts that the operational policies of some microenterprise programs may have driven potential customers to seek other sources of financing, perhaps increasing economic inequities rather than reducing them. Microentrepreneurs in the United States may be able to access capital from sources other than microlenders. In one study, a quarter of the ACCION borrowers either had defaults or bankruptcies, and over half used microloans to consolidate other debt (Himes & Servon, 1998). In addition, another study reports that the bulk of the demand for microloans is probably met via credit cards (Bates & Servon, 1996). The situation is summarized as follows: "Although credit-card debt is high priced, it has low transaction costs and very low total costs. Likewise, loans from the so-called fringe banks—pawn shops, check cashing outlets, and rent-to-own stores—have high prices but low total cost Competition has pushed other financial intermediaries closer to the poor" (Schreiner, 2000).

c. Lack of collateral—Another barrier for microloan customers is their lack of collateral to offer in support of their loan. This is a demand-side constraint.

Information Asymmetries

A variety of information gaps may explain customer issues with access to capital. These may be either demand-side or supply-side issues.

a. Lack of business knowledge and skills—This demand-side barrier to self-employment and business capitalization is vitally important to microentrepreneurs. Business knowledge and business skills, such as finance, marketing, and previous employment, have been associated with the ability to start and operate a profitable business (Brush, 1990). This deficiency may cause entrepreneurs to have businesses that do not support themselves and their families (Raheim, 1997). Bates notes, "No serious studies have demonstrated that small amounts of debt can overcome human-capital deficiencies that otherwise minimize chances for business success" (Bates, 1997).

b. Lack of knowledge about resource—Microloan programs anecdotally indicate that the “build it and they will come” concept has not worked for them. Clearly, the numbers of entrepreneurs who have borrowed is less than anticipated, as demonstrated by the failure to take up loan-pool capital. If entrepreneurs do not know about microloan programs, they cannot borrow from them. Thus, lack of information can be problematic, as can inaccurate or incomplete information. This lack of information or presence of inaccurate or incomplete information may be caused by the inability of microlenders to market their services effectively. Or it may be the result of rationing behavior on the part of microlenders.

c. Geographic constraints—These constraints come in a number of forms, ranging from issues of proximity of training and loan fund meeting locations to issues of personal safety and comfort in going to meeting places. This is a particular problem in rural areas where there may be both transportation-access issues and considerable distances to travel. Such constraints may be problematic for customers and lenders.

d. Learning factors (style and basic literacy, financial literacy)—Entrepreneurs do not all have precisely the same style of learning or needs for information. They may have a wide range of levels of basic literacy. If basic literacy is weak, entrepreneurial training may then also be weak. Furthermore, financial literacy skills, not just business record keeping, may need to be taught.

Other Factors

In addition to the extensive list of barriers and constraints above, other factors also may add to the burden of microloan customers. These include lack of trust and shortages of social capital.

a. Lack of trust—Microloan customers may come to microlending programs with a built-in fear of formal institutions, including banks and governments. While microlenders may not be as formal as these other entities, they do have an institutional presence and can be threatening. The literature on

the unbanked includes discussions of the horrendous experiences poor people have had with mainstream banks (Beverly, Tescher, & Marzahl, 2001). These experiences have made people hesitant to enter into a relationship with a financial entity of any kind.

b. Social networks/social capital—Microloan customers are often single, minority mothers who do not have strong social networks and family support. The absence of social capital is projected to increase transaction costs.

In addition to the above analysis of entrepreneurs in general, it is noteworthy that when this issue is viewed through the combined lenses of gender stratification and small business analysis, additional barriers emerge. Loscocco and Robinson suggest that gender segregation, skill deficits, lack of access to capital and government contracts, and family responsibilities apply to women entrepreneurs (1991). With the combination of race and gender, there may be additional consumption costs because of the simultaneous operation of these factors.

Conclusion

The framework described above is drawn from the literature on microenterprise development. It paints a picture of a complex and diverse landscape of barriers, costs, and constraints for United States microloan customers. With additional research, this theoretical framework can be tested and modified. An analytical model and tool can be developed to assist programs in understanding the costs, for their customers. From a program and policy perspective, barriers, costs and constraints that do not bear on risk of microloan default can be minimized or eliminated. After further consideration, this framework may open up opportunities to increase microlending in the United States.

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Notes

1. A microloan is defined as a loan of \$25,000 or less for the owners of a business with five employees or less.

2. In the context of this paper, consumption costs are the costs of the consumer to acquire and usefully utilize a microloan. Some of these costs are readily quantifiable, while others are not. If consumption costs are too high, potential and entitled consumers may be priced out of the market for microloans.

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