

Practicum Report

MICROFINANCE:
The missing piece of the puzzle
for low-income entrepreneurs



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April, 2006

UNIVERSITY OF MIAMI

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A THESIS
Submitted to the Faculty of the University of Miami
in partial fulfillment of the requirements for the degree of
Master of Arts in International Administration

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Coral Gables, Florida

April, 2006

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Executive Summary

What appeals to me about microfinance is captured in one of the slogans used by the Grameen Bank “Empowering the world’s poorest people to lift themselves out of poverty with dignity through access to financial services and information.”¹ In our world that is ruled by capital, excluding people from access to mainstream financial services means cutting them off from economic opportunity. For decades the mainstream financial system was deadlocked in a lending approach based on collateral and favorable credit history. Thus, resulting in a system where money is lend to the ones who already have it, and people who have the most urgent need for loans are left behind. As Muhammed Yunus states in his book “Banker to the Poor”², access to credit should be a human right.

Microfinance institutions like the Grameen Bank have proven that it is possible and feasible to lend money to the poorest. Motivated by success stories in the 3rd world microfinance has found supporters in the 1st world. This new approach of lending money to low-income people is very attractive to many Americans, including government officials, because it complements the “Third Way” ideas that attempt coupling market-based economic approaches with a commitment to social justice.

1 <http://www.grameenfoundation.org/> accessed on April, 10 2006

2 Yunus, M. Banker to the Poor: microlending and the battle against world poverty (New York: Public Affairs, 2003)

Organizations such as Partners for Self-Employment, a Miami based microfinance non-profit organization, follow a vision of giving low-income people with entrepreneurial aspirations the possibility to fulfill their dream of starting an own business by giving out tiny loans that can make a huge difference. Miami, the city with the highest poverty rate in the country is a well-chosen market for this kind of service. Thousands of clients have been trained and supported through loans. The long list of PSE's success stories is documented in the organization's Business Directory which lists the enterprises of their successful clients.³

Having personally witnessed the enthusiasm, motivation, and energy of individuals who are in the process of starting their own business or the proud faces of the ones who have already succeeded and are happy to share their expertise with their peer-group, convinced me all over again how powerful this concept of help for self-help is.

By supporting microentrepreneurs with financial means, technical assistance and moral support, microfinance organizations offer the tools for a brighter future. These organizations provide their clients with the missing piece of the puzzle.

³ (see Appendix B)

Introduction: How I came to work at Partners for Self-Employment

I met Toria Fordham, CEO of Partners for Self-Employment at one of the monthly workshops of the Center for Nonprofit Management at the University of Miami. Bill Werther, Co-Director of the Center for Nonprofit Management and MAIA program faculty member, always emphasizes the importance of networking. With these monthly workshops on topics relevant to nonprofit organizations, Werther provides a networking platform for individuals in the nonprofit sector. During our conversation I found out that Toria was CEO of a non-profit organization dealing with Microfinance. At the time, I was registered in a directed reading class about microfinance with Prof. Weisskoff. Since I tried to gather information about microfinance for this class I immediately asked Toria for an Interview. Two weeks later we met in her office and she gave me a lot of information about Partners for Self-Employment and about microfinance in general. The following semester I had to decide on an organization I wanted to intern with. Since microfinance had attracted my interest, it was quite obvious to ask Toria if she was interested in having me intern at her organization. On January 19th I started to work at Partners for Self-Employment Inc. /dba Microbusiness, USA.

Narrative I:

Background information on Partners for Self-Employment

As an introductory note it should be mentioned that microfinance refers to a financial mechanism through which formal or informal financial institutions provide financial services - loans (“microcredit”) and/or savings - to the entrepreneurial working poor (“microentrepreneurs”) to start, maintain, or expand small businesses (“microenterprises”).⁴

Partners for Self-Employment (PSE)⁵ – also known as Microbusiness, USA (the name of their microlending program) - was founded in 1993 as the only micro-credit program in South Florida that used the peer-lending model following the example of Grameen Bank⁶. PSE’s Missions states that the organizations – “supports financial self-sufficiency and the accumulation of assets by low-income families via opportunities to make borrow, save and manage money”⁷ – underlining that micro-credit is only one of a range of services PSE offers to low-income individuals and families.

⁴ Carr J. and Tong, Z. *Replicating Microfinance in the United State* (Baltimore: The Johns Hopkins University Press, 2002), p. 2;

Schreiner, M. *Support for Microenterprise as Asset-building: Concepts, Good Practices, and Measurement* (Washington University in Saint Louis; Center for Social Development, 2004) accessed online on April 1, 2006 at http://www.microfinance.com/English/Papers/Microenterprise_as_Asset_Building.pdf

⁵ Formerly named Working Capital

⁶ The Grameen Bank Project was initiated in the village of Jobra, Bangladesh, in 1976 by Muhammed Yunus. Grameen Bank provides credit to the poorest of the poor – especially women - in rural Bangladesh without any collateral. Today the Grameen Foundation has a global network of microfinance partners which reach nearly 1.5 million families in 22 countries. For more info see <http://www.grameen-info.org>

⁷ Mission statement accessed online on March 20, 2006 at <http://www.microbusinessusa.org/aboutus.htm>

Partners for Self-Employment works in an area that is in urgent need of financial services for low-income people. Partners for Self-Employment serves a diverse population composed of African-Americans, Hispanics, Haitians, and other minority groups in economically disadvantaged neighborhoods in the City of Miami and Miami-Dade County. The corporate office is located on 3000 Biscayne Boulevard, in Miami-Dade County North-Central Enterprise Zone. PSE's Target Market consists of the following Distressed Census Tracts⁸: Allapattah, Wynwood, Edison, Model City, Little River, East Little Havana, Overtown, Little Haiti, Brownsville, and Opa Locka. Geographically, these neighborhoods span from downtown northward towards Broward County. They are primarily African American, but have significant Haitian communities and a mixed Hispanic population.

The average poverty rate within the target market areas is 31.8%. The unemployment rate is 15.6%, three times that of the county as a whole. The median per capita income is \$10,443 and the median family income is \$25,778. Over 40% of the target residents have no high school diploma and only 11% have college degrees. Both Miami-Dade

⁸ According to the U.S. Census Bureau a distressed census tract is one that has a 40% + poverty

County and the City of Miami rank near the top of U.S. cities with a high percentage of populations below the poverty line.⁹

Over 90% of Micro-Business clients run a home-based business or are weekend flea market vendors. Common activities include child care, beauty services, catering, or cleaning services. The extra income of \$10,000 – \$12,000 generated through the micro-business is critical to meeting financial needs of the families. It allows them to pay for health services, car leases, and other expenses. These microbusinesses do not qualify for small business loans, which very often require a business record of at least one year and favorable credit history. The only remaining sources to borrow money are payday lenders, check cashers, pawnshops, and similar cash providers who charge excessive fees for their products and services. Thus, Partners for Self-Employment offers a crucial service to existing and potential micro-entrepreneurs and their families.

⁹ The Brookings Institution Center on Urban and Metropolitan Policy, Miami in Focus: A Profile from Census 2000 accessed online on April,2 2005 at <http://www.brookings.edu/es/urban/livingcities/miami.htm>

Partners for Self-Employment programs in brief:

The Peer Microloan Program (MicroBusiness, USA) is the only peer-lending program operating in South Florida. It follows the examples of the most successful international programs, such as Grameen Bank or the Foundation for International Community Assistance (FINCA). The peer program employs an empowering peer lending model which relies on the members, who must complete a Basic Business and Financial Literacy Training, to make all of the lending decisions (\$500 - \$3000 without credit or collateral); the members also serve as officers in their peer group.

The Entrepreneurial Institute targets established low-to-moderate income businesses. A 12-week intensive Entrepreneurial Institute training prepares business owners for expansion loans of up to \$35,000. The loan committee, comprised of members of the Partners for Self-Employment Executive Board, reviews the amount requested by the client. The amount approved by the committee is based on credit, business plan and financial information provided by the client.

The Matched Savings Fund (MSF) encourages the accumulation of assets by low-income families in Miami-Dade County by utilizing a matched savings approach. The MSF will provide a match equal to two dollars for each dollar an individual participant or family deposits into a MSF savings account. The MSF will contribute up to \$2,000 per year to an individual (\$1,000 saved per individual) for two years, or \$4,000 per year to a household (\$2,000 saved per household) for two years. This money constitutes a grant and does not have to be repaid. The funds will be used toward home or business ownership. Prior to the disbursement of funds clients have to complete a Financial Literacy Training that is provided by the program.

Many of activities PSE's activities take place during the evening. This is when clients come to the PSE office to attend their training sessions or have group meetings. Free information sessions for potential clients take place Monday through Wednesday from 6:30 pm to approximately 7 pm. This is the opportunity for interested persons to get information about the programs and possibilities. PSE employees only give out limited information over the phone or to walk-ins. Each potential client is required to come to an information session, where a video about all services offered is shown and questions can be asked.

If an individual decides to participate in the Peer Micro Loan Program they will start their training and loan preparation on one of the following Thursdays and continue for 8 consecutive weeks to fulfill the requirement of 16 hours of financial literacy training in order to become eligible for their first loan. The training tackles issues related to planning and starting a business as well as the basics of financial record keeping. A very important step during the course of their initial training is for the participants to organize themselves into peer-groups. The process of group forming – also called “chartering” is taken very seriously and includes the creation of a group name, the formulation of bylaws, and the assignment of officers.

As already mentioned in the short description of the micro-credit program, peer-group members decide which group member is ready to receive the first loan of \$500. This is

an important decision for the group, since group members “guarantee” for each other. Each group member has to deposit \$50 into a “Group Buffer Account” at the time of chartering. This money is not a fee but rather a deposit that the group members will be able to withdraw when they leave the program – only, however, if they and none of the other group members have defaulted on a loan.

A client is eligible for their first \$500 loan only after completing the sixteen hour course load, passing the chartering process, and receiving an “ok” from their peer group. Debtors can repay their loan within four to six months. The interest rate on a loan is 12 percent simple interest on a declining balance.

While the client is making payments on the loan he or she continues to meet with her group twice a month and engages in the next level of training which builds on the earlier concepts. This more advanced business and financial literacy training is more individualized – actual records from business transactions completed with the initial loan are involved in the training. Better knowledge of business matters is expected from clients who want to apply for bigger loans. For each level up to the \$7,500 maximum there is corresponding course work that is intended to prepare clients for success in business. Clients can also take advantage of individual, one-on-one technical assistance to solve specific problems regarding their business.

The next step on the ladder to business success is the Entrepreneurial Institute.

Currently the majority of people who enter Entrepreneurial Institute are former micro-lenders. It is however, one of the goals of PSE to promote this program more actively in the future, in order to attract more entrepreneurs who have business backgrounds and knowledge to immediately enter this advanced program that offers loans up to \$35,000.

Miami-Dade County residents who want to participate in the Matched Savings Fund program (MSF) have to meet the low-income requirement of the U.S. Department of Housing and Urban Development (HUD) to be eligible. This federally and locally funded program aims to encourage low-income persons to accumulate assets. The MSF will provide a match of two dollars for every dollar an individual or a family deposits into an Individual Development Account (IDA). The maximum contribution by the matched savings fund is \$2,000 per individual or \$4,000 per family. This enables individuals to have a maximum of \$6,000 and families to have a maximum of \$12,000 in their MSF accounts at the end of the two-year program period. These funds must be used to purchase a first home or as start up capital for a business. The use of savings has to be specified at the time of enrollment into the program. As soon as a client enrolls in the program, after having shown proof of the low-income requirement and having specified the use of savings, he or she starts to deposit the pre-agreed monthly amount into the MSF account. The client also attends twelve monthly financial literacy lessons. Clients will not be able to withdraw their funds without losing the matching funds

prior to the completion of the program. Only participants who follow the program rules and policies, meet the necessary savings goal and complete the required become eligible to receive their funds for the asset purchase. The funds will be directly paid by the MSF to the asset vendor (i.e. title company or business equipment supplier).

Narrative II: My internship at Partners for Self-Employment

As an intern at Partners for Self-Employment, I assisted Toria, the CEO of PSE, and Maria, the program director of the organization with various tasks.

One of my first tasks was to help update client information in a database called “Credit Manager”, which is used for credit reporting to the credit bureaus. It is one of the services of Partners for Self-Employment to report payments of their clients to the credit bureaus. This is an important issue for individuals who have extremely bad credit scores and need to improve on them in order to be able to borrow from other sources in the future. Due to a program update, the newest version of the credit reporting software required information that was not saved in the system formerly used by PSE. Therefore all client data had to be checked and completed, where necessary. Detailed information about the payment history of each client is saved in “Loan Ledger”, a computer program designed to record and track every transaction of a lender. Notes about every single conversation are entered into the system to make the client’s history comprehensible and traceable. It was a good opportunity for me to get to know the software that is used for loan management and credit reporting. I also learned a lot about the clients of PSE, especially their payment habits.

Another interesting task I took on was to help Toria preparing a final report for the Association for Enterprise Opportunities (AEO) and DHL Express (USA), Inc. (DHL) Micro-entrepreneurs' program. Again, I got to know more about a couple of PSE – clients, more specifically the 10 winners of the AEO-DHL award. But it was also interesting to learn about the initiative which is cooperation between AEO and DHL. It started in April 2005 when AEO partnered with DHL Express (USA), Inc. to create a program designed to support low-to-moderate income microentrepreneurs in communities where DHL has a significant corporate/employee presence – the DHL Advancing Micro-Entrepreneurs Program and the DHL Cares Day Project. Six microenterprise development organizations – PSE is one of them - have been selected to serve as Local Partners for the program. Each Local Partner is responsible for distributing ten \$1000 cash equity awards and DHL Ship Ready Shipping products to entrepreneurs their area. More specifically, my tasks included creating a final report to AEO and DHL regarding the 2005 winners. For the new round in 2006, I helped in selecting eligible awardees.

I also helped with preparing several grant applications. The most interesting one was PSE's application for a grant from the Citibank Foundation. I prepared for this task by reading a lot of material about the Partners for Self-Employment in order to understand history and social context of the organization. Toria gave me old grant applications as well as client manuals about the individual programs to make sure that I would get

enough background information on the organization and its programs. After having reviewed all the material, I started to draft answers for the application. Questions on the application form included general information about the organization and its history, information about the financial situation, as well as detailed questions about the project to be funded.

This project aimed to set up a computer lab and to offer computer training. Such a facility would complement the services provided by PSE. 75% of PSE clients do not own a computer. Computers, however, touch every sphere of the business world and computer skills are of major importance for every entrepreneur. Inherent to business success is the ability to communicate quickly over email, to find information and market products over the internet, and to store vital information that helps keep track of growth and expenses. Knowing how to use a computer is essential for everybody who wants to start a business.

The opportunity to use a computer will be of crucial importance to PSE-clients who do not have a computer at home. It will allow clients who have gone to a computer literacy training to use the computer lab during every day business hours from 9:00 am to 6:00 pm. But even those who possess the luxury of a computer and do have knowledge of computer basics will benefit, since clients will get training for essential software programs, such as Microsoft Excel and QuickBooks. Knowledge of these

programs will help them keep track of their financial records and will consequently enable them to make projections for their business and make decisions based on their current and future business needs.

Fortunately, PSE has already completed the first step. The organization now possesses 15 computers that have been donated by Pinchasik, Strongin, Muskat, Stein & Company. The work left to complete involves putting the computer lab into operation. Software and supplies for the lab have to be purchased, and the computers need to be set up. As soon as the computer lab is up and running, PSE will employ a Technology Trainer, who will be able to train PSE-clients in computer-related issues and support them in the use of the computer lab. If the grant is awarded by the Citibank Foundation, this project will start in May 2006.

The in-depth study of the organization that was needed to be able to write the grant for the Citibank Foundation gave me the necessary background knowledge for my next task, the design and formulation of the new company website. Since this was not the first time that I was assigned the job of carrying out the design and content of an organization's website, I was well equipped for this task. I proposed several design layouts. After we made a decision on this basic issue I started formulating the individual pages of the Website. Maria, the organization's program director made a final review, before we sent the material to the web designer.

I appreciated Toria's and Maria's effort to give me as much insight into the organization as possible. As an example, I want to mention an invitation to observe a board meeting. This was very interesting for me, because it not only gave me the opportunity to meet the people who founded this extraordinary organization, but it also gave me an idea of how the procedures of a NGO board meeting work. This tool of organizational leadership is taken very seriously by Partners for Self-Employment. The board – a group of 8 enthusiastic individuals - meets every month to discuss issues concerning the strategic and operational direction and actions of the organization. I observed this meeting as extremely lively and productive, with many important issues being discussed and decisions being made where necessary. But apparently, the board did not always work so smoothly. I learned that the board just got over a low which was characterized by low attendance and participation and which resulted in low efficiency in decision taking. The board decided to face this challenge and hired an external consultant to overcome the difficulties. The consultant was hired to work with the board over a period of 6 month. She was present at the meeting that I attended. This once again proves the commitment every person that participates in this organization. They not only believe in the importance of delivering a valuable service to the community, but they also want to do it in a professional and efficient way.

Analysis: Microfinance in Miami: Need and Reality

As mentioned in the introductory part of this report, microfinance originates in the developing world. It is commonly believed that microfinance was pioneered by Mohammed Yunus who created the first and most famous microfinance institution – the Grameen Bank in Bangladesh- in the mid 1970s.

Microfinance refers to “a financial mechanism through which formal or informal financial institutions make very small loans (“microcredit”) to the entrepreneurial working poor (“microentrepreneurs”) to start, maintain, or expand small businesses (“microenterprises”).”¹⁰ Microfinance clients are typically members of low-income households, women, and minorities who have problematic credit histories, lack the physical collateral required to obtain bank loans, and do not have stable income or sufficient cash flow to maintain bank accounts in good standing. Therefore microfinance fills a gap of the mainstream commercial financial system and serves those who are regarded as “unbankable” by mainstream financial institutions.

It is easily understandable that institutions that lend money to the poor widely resonate in the developing world where one or two dollars can make a huge difference. In the

¹⁰ Carr J. and Tong, Z. *Replicating Microfinance in the United State* (Baltimore: The Johns Hopkins University Press, 2002), p. 2

mid-1980s, microfinance institutions and initiatives began to appear in the United States. This is surprising, considering that the U.S. is the richest country in the world. It is not so surprising, however, when we take a closer look at the huge inequalities in this country with a Gini-coefficient¹¹ similar to or even higher to that in countries in the 3rd world (the U.S. Gini-coefficient of 46.6 is higher than Kenya's 42.5, Uruguay's 44.6, and China's 43.4);¹² and considering that an estimated number of 12 to 15 million U.S. households have no relationship with a mainstream financial provider and thus have no access to even the most basic mainstream financial services, such as a checking or saving account, alternative means of borrowing money are an absolute necessity.¹³

Although very similar in principle, there are differences between microfinance programs in the third world and the ones in the first world. An important difference is that most microfinance programs in the United States also incorporate a training and technical assistance component into their lending programs. This is supposed to strengthen the business skills of the clients in order to enable them to build their businesses and compete in the business world. This component is also a reaction to the

¹¹ The Gini coefficient is a measure of inequality of a distribution, defined as the ratio of area between the Lorenz curve of the distribution and the curve of the uniform distribution, to the area under the uniform distribution. It is often used to measure income inequality. It is a number between 0 and 1, where 0 corresponds to perfect equality (e.g. everyone has the same income) and 1 corresponds to perfect inequality (e.g. one person has all the income, and everyone else has zero income).
See http://en.wikipedia.org/wiki/Gini_coefficient

¹² The U.S has a Gini coefficient of 46.6 (= 0.466). It ranks on place 92 on a list of 124 countries by income inequality metrics. See http://en.wikipedia.org/wiki/List_of_countries_by_income_equality

¹³ Carr J. and Tong, Z. *Replicating Microfinance in the United State* (Baltimore: The Johns Hopkins University Press, 2002), p1-3

more formal and stricter structured entrepreneurial environment and higher hurdles to starting small businesses in industrialized nations. Often, it helps to introduce newer Americans, who are used to less formal business requirements than those of the United States, to the many laws and regulations that apply to U.S. businesses.

But it is not only the existence of a large population of low-income individuals and families in the U.S. that makes the concept of microfinance so suitable for this country. It also fits with U.S. values regarding the importance of petty capitalism, and perfectly matches with the firm belief in the American Dream - which is “the faith held by many in the United States of America that through hard work, courage, and determination one can achieve a better life for oneself”¹⁴- as well as the perception of America as a place with high opportunity for entrepreneurs. Microfinance is very attractive to many Americans, including government officials, because it complements the “Third Way” ideas that attempt coupling market-based economic approaches with a commitment to social justice.

In Miami, the contrast between rich and poor becomes even starker. While Miami is most famous for hosting and attracting the “the rich and beautiful,” it is a different category in which Miami ranks number one. Beyond the spotlights, the fun in the sun, and the world of international business, lie sobering statistics about what a large

¹⁴ Wikipedia accessed online on April 2, 2006 at http://en.wikipedia.org/wiki/American_Dream

number of people in the city of Miami and Miami-Dade County experience, hardship and lack of opportunity. Miami ranks the poorest among the country's 100 largest U.S. cities.

Miami City and Miami-Dade County rank high on many indices that cities and counties seek to rank low on, and low on indices places hope to lead on

<u>Miami City Measures</u>	<u>Rank Among the 100 Largest Cities</u>
Poverty Rate	1
Rent Burden	3
Share of Adult Population With at Least a B.A. Degree	94
Share of Households Earning Between \$18,000 and \$81,000	96
Median Household Income	100
Miami-Dade County Measures	
Ranking Among the 100 Largest Counties	
Rent Burden	1
Poverty Rate	12
Share of Households Earning Between \$18,000 and \$81,000	62
Share of Adult Population With at Least a B.A. Degree	85
Median Household Income	91

Source: U.S. Census Bureau

Source: The Brookings Institution Center on Urban and Metropolitan Policy, *Growing the Middle Class: Connecting All Miami-Dade Residents to Economic Opportunity* ¹⁵

Miami residents face challenges on a number of fronts when it comes to the standard of living.

According to Brookings Institution reports on Miami, some of the biggest issues are:

- Miami-Dade incomes are low and poverty is high
- Basic necessities consume a large portion of poor resident's income

¹⁵ The Brookings Institution Center on Urban and Metropolitan Policy, *Growing the Middle Class: Connecting All Miami-Dade Residents to Economic Opportunity*, p. 4 accessed online on April,2 2005 at http://www.brookings.edu/metro/publications/20040607_miami.htm

- The regional economy is a low-wage economy
- Miami's growth patterns isolate low-income residents from opportunity
- Limited use of mainstream financial institutions and government support programs impedes the wealth-building capacity of low-income households

“Income and poverty levels reflect the ability of residents to provide for themselves and their families, their capacity to support neighborhood businesses, and their prospects for building assets for the future.”¹⁶ Miami statistics regarding income and poverty are troubling. Miami-Dade County's median household income is \$35,966, far below the national median income of \$41,994. The city of Miami's median income is even lower at \$23,483. These numbers are not surprising considering the fact that wages in Miami-Dade are at the lower end, compared to other places in the nation. On top of that most jobs in Miami-Dade are in low-wage industry sectors, such as service and retail. Average annual pay in the retail sector is \$21,295. The same sad pattern applies to poverty rates: The nation's poverty rate is 12 percent; Miami-Dade County's is 18 percent, and the city of Miami's is 29 percent.

¹⁶ The Brookings Institution Center on Urban and Metropolitan Policy, *Miami in Focus: A Profile from Census 2000*, p. 55 accessed online on April, 2 2005 at <http://www.brookings.edu/es/urban/livingcities/miami.htm>

Miami has the highest overall poverty rate, the highest elderly poverty rate, and the second-highest child poverty rate among the 23 Living Cities

Overall poverty rate and poverty rate by age, 1990–2000: Living Cities

Rank	Living Cities	Poverty Rate		Child Poverty Rate		Elderly Poverty Rate	
		1990	2000	1990	2000	1990	2000
1	Miami, FL	31.2%	28.5%	44.1%	38.5%	32.2%	29.3%
2	Newark, NJ	26.3%	28.4%	37.6%	36.9%	25.6%	24.1%
3	Cleveland, OH	28.7%	26.3%	43.0%	38.0%	19.2%	16.8%
4	Detroit, MI	32.4%	26.1%	46.6%	34.8%	20.1%	18.6%
5	Atlanta, GA	27.3%	24.4%	42.9%	39.3%	25.1%	20.7%
6	Baltimore, MD	21.9%	22.9%	32.5%	31.0%	19.3%	18.0%
7	Philadelphia, PA	20.3%	22.9%	30.3%	31.6%	16.3%	16.9%
8	Los Angeles, CA	18.9%	22.1%	27.8%	30.7%	10.5%	12.6%
9	New York, NY	19.3%	21.2%	30.1%	30.3%	16.5%	17.8%
10	Washington, DC	16.9%	20.2%	25.5%	31.7%	17.2%	16.4%
11	Chicago, IL	21.6%	19.6%	33.9%	28.5%	15.9%	15.5%
12	Boston, MA	18.7%	19.5%	28.3%	25.9%	15.3%	18.2%
13	Oakland, CA	18.8%	19.4%	30.3%	28.2%	11.0%	13.1%
14	Dallas, TX	18.0%	17.8%	27.3%	25.5%	14.6%	13.1%
15	San Antonio, TX	22.6%	17.3%	32.5%	24.6%	19.1%	13.5%
16	Minneapolis-St. Paul, MN	17.8%	16.4%	28.8%	24.4%	10.9%	10.3%
17	Phoenix, AZ	14.2%	15.8%	20.4%	21.5%	11.3%	10.3%
18	Columbus, OH	17.2%	14.8%	24.4%	19.0%	13.0%	10.9%
19	Kansas City, MO	15.3%	14.3%	22.8%	20.6%	14.6%	10.5%
20	Denver, CO	17.1%	14.3%	27.4%	20.8%	12.7%	9.7%
21	Portland, OR	14.5%	13.1%	19.0%	16.6%	11.6%	10.4%
22	Indianapolis, IN	12.5%	11.9%	18.9%	16.7%	11.7%	8.1%
23	Seattle, WA	12.4%	11.8%	16.2%	14.5%	9.0%	10.2%
	All Living Cities	19.9%	20.0%	30.3%	28.3%	15.6%	15.5%
	Nation	13.1%	12.4%	18.3%	16.6%	12.8%	9.9%

Source: The Brookings Institution Center on Urban and Metropolitan Policy, *Miami in Focus: A Profile from Census 2000*¹⁷

As a matter of fact basic necessities consume a large portion of poor residents' income, making in nearly impossible for low-income residents to build assets. Truly, almost all households have to pay for expenses such as food, lodging, child care, transportation. Poor households, however, spend a larger share of their income on these basics. For example, while the overall population spends 3.9 percent of their income on commuting, the poorest commuters spend 9.5 percent.¹⁸

¹⁷ The Brookings Institution Center on Urban and Metropolitan Policy, *Miami in Focus: A Profile from Census 2000*, p. 59 accessed online on April,2 2005 at <http://www.brookings.edu/es/urban/livingcities/miami.htm>

¹⁸ The Brookings Institution Center on Urban and Metropolitan Policy, *Growing the Middle Class: Connecting All Miami-Dade Residents to Economic Opportunity*, p 32 accessed online on April,2 2005 at http://www.brookings.edu/metro/publications/20040607_miami.htm

One important factor in this context is high unemployment. Miami has a higher-than-average unemployment rate of nearly 11 percent.

Miami has the fourth-highest unemployment rate among the 23 Living Cities

Unemployment rate, 2002: Living Cities and 100 largest cities*

Rank	Living Cities	Unemployment Rate	Peer Cities	Rank	Unemployment Rate
1	Cleveland, OH	12.1%	Fresno, CA	1	12.7%
2	Newark, NJ	11.6%	Cleveland, OH	2	12.1%
3	Detroit, MI	11.5%	Newark, NJ	3	11.6%
4	Miami, FL	10.7%	Detroit, MI	4	11.5%
5	Oakland, CA	10.1%	Stockton, CA	5	11.4%
6	Portland, OR	8.6%	Miami, FL	6	10.7%
7	Dallas, TX	8.5%	Oakland, CA	7	10.1%
8	Chicago, IL	8.0%	Rochester, NY	8	9.8%
9	Baltimore, MD	8.0%	Buffalo, NY	9	9.5%
10	Atlanta, GA	7.8%	Jersey City, NJ	10	9.4%
11	New York, NY	7.7%	San Jose, CA	11	9.0%
12	Los Angeles, CA	7.5%	100-City Average		5.4%
13	Philadelphia, PA	7.5%			
14	Seattle, WA	7.4%			
15	Denver, CO	6.5%			
16	Washington, DC	6.4%			
17	Kansas City, MO	6.1%			
18	Phoenix, AZ	5.8%			
19	San Antonio, TX	5.5%			
20	Boston, MA	5.3%			
21	Indianapolis, IN	5.3%			
22	Columbus, OH	5.1%			
23	Minneapolis-St. Paul, MN	4.7%			
	All Living Cities	7.3%			
	Nation	5.7%			

*Annual unemployment for 2002 compiled from the Bureau of Labor Statistics Local Area Unemployment Survey.

Source: The Brookings Institution Center on Urban and Metropolitan Policy, *Miami in Focus: A Profile from Census 2000* ¹⁹

“The Miami-Ft. Lauderdale metropolitan area is one of the most sprawling regions in the country. The dispersed pattern of urban growth is reflected in everything:

population growth, housing, construction, office space location, commuting patterns,

¹⁹ The Brookings Institution Center on Urban and Metropolitan Policy, *Miami in Focus: A Profile from Census 2000*, p.47 accessed online on April,2 2005 at <http://www.brookings.edu/es/urban/livingcities/miami.htm>

and developed land.”²⁰ As a logical consequence Miami-Dade shows a high level of job sprawl. A trend that started in the mid 1990s has been continuing through today: more and more jobs are created outside the city of Miami. This causes a big problem for the poorer populations – especially Blacks and Hispanics – who are isolated from these new jobs. Areas of significant job growth in the outer suburbs are not easily accessible by public transit. Therefore, “the large concentration of blacks and Hispanics who live in the city of Miami are not only geographically distant from these job growth areas, these groups are also more likely to lack access to a car.”²¹

Another problem for a significant portion of Miami-Dade’s Low-income and immigrant population is lack of access to mainstream financial institutions. According to Michael S. Barr, author of “Banking the Poor”²² more than 20 percent of low-income American families do not have access to bank accounts and face high costs for conducting basic financial transactions through check cashers and other alternative financial service providers. In Miami, due to the high number of immigrants, this percentage might be even higher and the number of “unbanked” individuals probably counts more than 100,000 individuals.

²⁰ The Brookings Institution Center on Urban and Metropolitan Policy, *Growing the Middle Class: Connecting All Miami-Dade Residents to Economic Opportunity*, p. 29 accessed online on April,2 2005 at http://www.brookings.edu/metro/publications/20040607_miami.htm

²¹ The Brookings Institution Center on Urban and Metropolitan Policy, *Growing the Middle Class: Connecting All Miami-Dade Residents to Economic Opportunity*, p. 31 accessed online on April,2 2005 at http://www.brookings.edu/metro/publications/20040607_miami.htm

²² Barr. M. The Brookings Institution, Metropolitan Policy Program, *Banking the Poor: Policies to bring Low-Income Americans into the Financial Mainstream* accessed online on April,2 2005 at http://www.brookings.edu/metro/pubs/20041001_banking.htm

The reasons that low-income individuals and immigrants are hindered from accessing mainstream financial services range from not being able to meet account balance minimums to difficulties or unwillingness to present proper documentation for opening an account.

In lieu of bank-based transaction, savings, and credit products, the unbanked and other low-income households often rely on the more costly alternative financial sector, such as check cashers, payday lending, and tax refund anticipation lenders. These services can be extremely expensive. For example, “payday loans carry high implicit annual interest rates, with an average APR of over 470 percent.”²³ A survey of non-bank financial institutions for the Department of the Treasury showed that a worker earning \$12,000 a year would pay approximately \$250 annually just to cash payroll checks at a check-cashing outlet, in addition to fees for money orders, wire transfers, bill payments and other common transaction.²⁴

This is where non-governmental organizations dealing with microfinance, such as Partners for Self-Employment enter the equation. These organizations not only fill a

²³ Barr. M. The Brookings Institution, Metropolitan Policy Program, *Banking the Poor: Policies to bring Low-Income Americans into the Financial Mainstream*, p. 2 accessed online on April,2 2005 at http://www.brookings.edu/metro/pubs/20041001_banking.htm

²⁴ Dove Consulting, *Survey of Non-Bank Financial Institutions* for Department of the Treasury, 2000 accessed online on April 1, 2006 at <http://www.ustreas.gov/press/releases/reports/nbfirpt.pdf>

gap where mainstream commercial financial institutions fail to provide services, but help entrepreneurially minded people who are struggling to provide for themselves and their families to gain additional income through microenterprises.

Providing low-income individuals, who have a skill or talent to start and maintain a home base business with business training, is vital to increasing their assets. Financial literacy education is the key to managing their resources and purchasing assets and peer support provides them with social capital. By running a home-based business, PSE's low-income clients have increased their assets by an additional \$7,000 to \$15,000 per year. The additional income is crucial in helping to eliminate poverty for some low-income families.

The need for the service exists – no question about it. One would expect that there is an abundance of interested potential clients. But what does the reality look like? A couple of PSE statistics:

- To date over 6,000 entrepreneurs have been trained
- To date 2,700 loans have been disbursed – the repayment rate is 92%
- In 2005 PSE provided training for 218 individuals, of which 121 were, low-income minority individuals. PSE disbursed 123 loans, of which 67 loans went to low-income minority individuals. Over 58% of the recipients were women.

Although for the past four years PSE has distributed a larger volume of SBA loans than any other designated micro-loan provider in the nation, in my opinion, more should be possible. This is especially true when looking at the high potential that exists in Miami because of the poverty and unemployment numbers. So why is it so hard to attract potential microentrepreneurs? It cannot be the strong competition. To my knowledge, there is only one other microfinance non-profit organization at work in Miami. So, what is it then?

Obviously not every poor or unemployed person is a potential micro-entrepreneur. This type of endeavor requires the will and readiness to bear the risks of being self-employed; it also requires entrepreneurial spirit and courage. Many people, especially those who did not enjoy a sound education, would much rather try to find wage jobs than to set out on starting a business. Although Microfinance organizations try to encourage skills that facilitate successful self-employment by offering training, microfinance and social support, it is just not everyone's cup of tea. And that's not a bad thing, since starting a business needs strong commitment and determination.

After having deducted the "not-entrepreneurs" there should still be a considerable number of people who at least would try to get informed. Here we encounter another problem that is not limited to microfinance organizations, but one that even governmental aid programs have to deal with. According to the Brookings report:

“Growing the middle class: Connecting all Miami-Dade residents to economic opportunity”²⁵ there are certain public benefits available to low-income residents to mitigate some financial burden. However, for a variety of reasons the participation rates can be quite low for some of these programs. While the explanation for this might lie in the reluctance of a person to be labeled a “welfare case” or in the case of immigrants, in distrust towards government agencies, a big part of the problem is inadequate information and outreach. Marketing of services, even noble and beneficial ones as in the case of Partners for Self-Employment is especially difficult in Miami and its vicinity. The target group “low-income persons” is very diverse due to South Florida’s cultural variety and its urban sprawl. If you want to reach low-income persons in Miami-Dade you have to advertise in three languages at least (English, Spanish and Creole). Moreover there is a multiplicity of media – different newspapers and magazines, radio- and TV stations that target sub-segments of the population. Often more unconventional means of advertising are more effective. For example, the positioning of posters or flyers at crucial locations can greatly help publicize.

For Partners for Self-Employment, possible target areas for advertising might be supermarkets and grocery stores in the low-income area, churches (if possible), pawnshops, Goodwill stores and similar outlets, and public transit stations and vehicles

²⁵ ²⁵ The Brookings Institution Center on Urban and Metropolitan Policy, *Growing the Middle Class: Connecting All Miami-Dade Residents to Economic Opportunity*, p. 4 accessed online on April,2 2005 at http://www.brookings.edu/metro/publications/20040607_miami.htm

in selected areas. PSE also sends informational postcards to selected zip codes. Another important element of every marketing campaign of a non-profit organization like PSE in Miami is the close cooperation with other community development partners and the mutual referral of clients. And, there are of course, the current clients. Who can better sell the concept of PSE than a successful client? Therefore a lot of emphasis has to be put on refer-a-friend-or-neighbor initiatives.

Partners for Self-Employment had to recover from drastic cuts in funding in FY 2003 and FY 2004. The reduction of funds in Miami-Dade can be attributed most notably to the decision of the Miami-Dade Office of Community Economic Development (OCED) to split up funds and direct some of the money to other community organizations. These reductions in funding reduced the organization's ability to market and house the program as aggressively as in prior years and hence lead to a decrease in the number of members trained. Centers in Broward had to be closed. But with a new management-team that started operations a year ago, PSE will soon be back on track and will be able to offer their valuable service to many more potential microentrepreneurs.

Partners for Self-Employment does not simply provide loans to low-to-moderate income self-employed business people. Partners for Self-Employment attracts energetic and creative individuals with a true entrepreneurial spirit and gives them the opportunity for professional growth and development. Rather than just distributing

loans and collecting payments, Partners for Self-Employment assists the self-employed entrepreneurs in gaining the business skills and business savvy, along with the capital to advance and succeed in the mainstream business environment. But that is still not all – PSE gives hope and motivation and the tools for a brighter future. Residents who have historically been marginalized, particularly women and minorities, increase their confidence, take on leadership roles in the program, and become involved in other civic activities in the economy. By organizing clusters of micro business owners into peer groups, the program promotes self-reliance and collaborations, which are cornerstones in successful and sustainable community development.

Commentary: Applied International Administration

Clearly, it was my “directed reading on microfinance” that prepared me for my internship with Partners for Self-Employment. Not only did I meet Toria, the CEO of the company I was going to intern with, through this class (I interviewed her for my paper), I also learned everything I now know about Microfinance in this class. My reading list for this class was comprised of every book about Microfinance I could find in the library and more.

Every other week Prof. Weisskoff and I met to go through the journal I prepared and the questions that came up during my readings, feeding my understanding and interest in microfinance. Starting with Mohammed Yunus “Banker to the Poor” - a perfect introduction to microfinance – I continued with books explaining technical terms and case studies. These readings not only gave me a feeling for the history and development of microfinance, but they also helped me to understand the current landscape of microfinance – especially in the U.S. I came across organizations that deal with microfinance and immediately made online research about them. I contacted them via email to obtain more information about their work. I found organizations that operate in Miami or have offices in Miami, as for example *Partners for Self-Employment* or *Accion USA* and asked them for an interview.

This very practical approach nurtured my interest for microfinance and led to my decision to do my practicum at an organization that works in this area.

Prof. Werther spent much time in his class explaining the importance of the vision and the mission statement of an organization which are defining what the organization hopes to achieve (vision) and what the organization is going to do (mission).²⁶ When I first read the mission statement of Partners for Self-Employment, it was clear to me that they have put some thought into the formulation. PSE was a sole microcredit program for a while. But with the maturity of the organization the palette of offered services expanded, and now includes the Entrepreneurial Institute and the Matched Savings Funds. A mission statement that focused solely on the microcredit services would be too narrow so PSE adapted the mission statement to the new range of services. “Partners for Self-Employment, Inc. dba Microbusiness, USA supports financial self-sufficiency and the accumulation of assets by low-income families via opportunities to make, borrow, save and manage money” explains in one sentence all the opportunities that PSE offers to low-income people.

²⁶ Werther, William B. Jr. and Berman, Evan M. *Third Sector Management – The Art of Managing Nonprofit Organizations*, (Washington DC: Georgetown University Press, 2001) p. 29

Prof. Werther also emphasized how important mentoring and networking is. He especially stressed the importance of networking for small organizations, as it is an important way of getting in touch with business contacts. As a student of Prof. Werther's class, I could see immediately that PSE is well aware of the importance of networking for their clients. Not only do they offer networking events for their clients, as for example Business Card Exchanges, it is the whole concept of peer groups that enables the spirit of networking. Group members stay in constant contact, since they meet twice a month. Therefore they can support each other. They also meet members of other groups that meet on the same evening. Apart from helping each other out group members learn how to act in specific roles and to exert leadership function, because every group member is expected to act as officer in their peer group.

Prof. Hamman taught us to write in a concise and clear way in his class "Information and Communication in International Administration." Being made aware of style requirement in English writing is of special importance for those of us whose first language is not English. Prof. Hamman made us aware of mistakes that we made and taught us how to write professionally. This was a very helpful skill when I started to work on writing a grant application to the Citibank Foundation. Their online form asked for a lot of specific information, and part of it had to be formulated in essay style. It was essential to being able to describe programs and project goals in a clear and concise way.

The clinics, a series of weekly meetings, are in my opinion, of great value to MAIA students pursuing their internship. Every single clinic is geared to prepare students for the “working world”. For my internship at Partners for Self-Employment I especially benefited from the clinic on fundraising and grant writing presented by Victoria Rogers, then director of University Advancement. It gave me an introduction into the world of grants and foundations and made it easier for me to understand the circumstances and context when I was asked to support with the preparation of a grant application for PSE.

The last segment of INS 501 “International Organizations”- a class taught by a variety of Professors – was dedicated to the nature and role of Non-Governmental-Organizations and their importance for civil society. This course gave me a broader understanding of the context in which NGOs work and the possibilities and limits these organizations have to promote change in societies. It helped me to understand the tremendous impact the microfinance organizations can have on issues like poverty and development.

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APPENDICES

Appendix A: PSE Documents for potential client

Appendix B: Business Directory – Peer Lending Program

Appendix C: Media Coverage of Partners for Self-Employment