

# Workforce Innovations 2008

## **GROWING AMERICA THROUGH ENTREPRENEURSHIP (GATE)**

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# Overview

- Background
- Demonstration Design
- Implementation
- Data Sources
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- Conclusions

# Small Business Impact – Why do We Care?

- Half of U.S. non-farm income.
- Half of U.S. private work force.
- 60%-80% of net new jobs.
- Small patent firms generate scientifically important innovations at a 13 to 14 times higher rate per employee, than large firms.

# What is an “Entrepreneur”

- An entrepreneur is a person of very high aptitude who pioneers change, possessing characteristics found only in a small fraction of the population.
- On the other hand, anyone who wants to work for himself or herself is considered to be an entrepreneur.
- The word “entrepreneur” derives from a French word, *entreprendre*, which means to undertake.
- The Merriam-Webster definition of entrepreneur is an individual who organizes, manages, and assumes, the risks of a business or enterprise.

# What is “Microenterprise”

- “Microenterprise” is commonly used to describe a business with up to 5 employees, which requires \$35,000 or less in start-up capital, and does not have access to the traditional banking sector.
- The theory behind microenterprise is simple – loan these individuals small amounts of money for business start-up costs, make the loan terms affordable, and give them business training and support.
- Many microentrepreneurs have little formal business training and varying levels of education. Thus, education and technical assistance are also integral components of microenterprise programs.
- Successful American microentrepreneurs include retailers in ethnic communities who provide specialized goods, artisans and craftsmen, individuals who provide personal or business services, and a variety of businesses in isolated urban or rural communities where few products are readily available.

# The Small Business and Entrepreneur Continuum: Differing Needs and Stages

Innovative Growth Ventures in Large Markets

*(Technology, process, business model, intellectual property)*

Middle Market Companies

*(Textile, wood, fab – Est. manufacturers & resellers)*

Local/Regional Small Business

*(Regional ISP, Restaurant, Gas/Food Market)*

Self Employment/ Microenterprise

*(Cleaning Service, Local Artisan, Independent IT Consultant)*

# Past ETA Research on Entrepreneurship that leads to Project GATE.

- The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration.
- Job Training Partnership Act (JTPA) Microenterprise Grants Programs.
- Unemployment Insurance (UI) Self-Employment Demonstrations.

# The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) Job Creation Demonstration.

- Operating between July 1991 and September 1993, the demonstration consisted of grants to six community development organizations.
- Authorized under the Job Training Partnership Act, the purpose of the EDWAA demonstration was to explore the effectiveness of community development corporations (CDCs) in expanding employment opportunities for dislocated workers through entrepreneurial training and economic development activities.
- Services included classroom training (between 6 and 13 weeks or up to 150 total hours of basic business skills), ongoing support of start-up businesses (using experienced counselors to help participants take practical steps such as developing a business plan, setting up an accounting system and obtaining needed licenses), counseling and case management.

# EDWAA Results

- The demonstration served 996 dislocated workers, and their total employment rates from the self-employment training compared favorably with outcomes from traditional EDWAA retraining programs (45% of self-employment participants started a business, and 74% of those were still in business six months later).
- However, initial earnings from self-employment were lower than the average wage at termination for participants in more traditional reemployment programs primarily due to the fact that income derived from self-employment is generated much later in the service cycle.

# Lessons Learned from EDWAA

- **Screening** - Because self-employment requires motivation and discipline, proactive screening processes are needed to ensure that participants understand the risks involved, can focus on their business plan, and are motivated to undertake starting a business.
- **Access to Capital:** Lack of access to capital has been a chronic problem in the microenterprise field, and was a barrier to success for demonstration participants attempting to launch their own businesses.
- **Services:** Training for entrepreneurship is fundamentally different from reemployment training. Critical components included:
  - Experienced staff
  - Extensive support
  - Business Plan Development
  - Technical assistance

# Job Training Partnership Act (JTPA) Microenterprise Grants Programs.

- Authorized under the Job Training Partnership Act, the JTPA Microenterprise Grants Program provided training to potential entrepreneurs and business owners, and built capacity for microenterprise services within the workforce development system.
- The five participating states contracted with community agencies to provide training and support both to individual entrepreneurs and to staff within the workforce system, using diverse program models.

# JTPA Results

- Eligibility was limited to individuals who were both economically disadvantaged and dislocated (only five percent of the adult JTPA population).
- The typical participant was female, non-minority, 42 years old, and well educated. At the 12-month follow-up, 51% of respondents indicated that they were operating their own businesses; of that group, 40% also worked for another business that was not their own.

# JTPA Lessons Learned

- Wage and salary employment should be recognized as a positive outcome for microenterprise programs.
- State Workforce Agencies need to explore and identify financing, funding, and loan sources outside of their own systems and develop mechanisms for linking participants to these funding sources.
- Programs encountered resistance to microenterprise programs from local workforce development staff, who were uncomfortable referring clients to the programs. The evaluation suggested several strategies to increase awareness and support for microenterprise programs among workforce agencies.
  - Forge relationships
  - Train staff from within
  - Highlight positive outcomes
  - Engage workforce development organizations and staff

# Unemployment Insurance Self-Employment Demonstration (SEED)

- In the late 1980s, ETA funded self-employment assistance (SEA) demonstrations in Washington State and Massachusetts
- The goal of both demonstrations was to help unemployment insurance (UI) recipients create their own jobs by starting businesses.
- In Massachusetts, the program was offered to new UI claimants who were likely to exhaust their benefits.
- In Washington the program was offered to all new UI claimants.

# Self-Employment Assistance (SEA) Program

- The positive impacts found in these random assignment demonstrations led the U.S. Congress to authorize states to establish Self-Employment Assistance (SEA) programs for UI recipients.
- SEA programs provide two main benefits:
  - 1) training and technical assistance in self-employment, and
  - 2) SEA allowances rather than UI benefits.

# SEA Implementation

- While the SEA legislation authorized all states to implement the program, a majority of states chose not to implement an SEA program.
- Only eleven states passed enabling legislation
- Eight states implemented SEA programs: California, Delaware, Maine, Maryland, New Jersey, New York, Oregon, and Pennsylvania.
- California terminated its program in July 1998 and Pennsylvania ceased funding its program at the end of June 2003.



- DOL/ETA funded GATE in 2002
- GATE was implemented as a Random Assignment demonstration
- Operated in five sites:
  - Philadelphia
  - Pittsburgh
  - Minneapolis/St. Paul
  - Northeast Minnesota
  - Maine (Portland, Bangor, Lewiston)
- Teamed ETA training and assistance programs with:
  - small business development centers,
  - women’s business development centers,
  - entrepreneurial service providers, and
  - small business loan providers.

# Eligibility

- Anyone Interested in Starting/Growing a Business
- 18 Years or Older
- Lawfully Able to Work in US
- Have Legal and Appropriate Business Idea

# Client Flow

- Registration
- Orientation
- Application
- Random Assignment
- Assessment
- Program Services
  - Classroom training
  - Technical assistance

# Data Sources

- Application and Orientation Forms
- Participant Tracking System (PTS)
- Site Visits
- Two Rounds of Surveys:
  - Wave 1: approximately 6 months after RA
  - Wave 2: approximately 18 months after RA
- UI Administrative Data

# Implementation Findings

- GATE was implemented in a wide variety of sites
- GATE attracted a broad range of applicants
- GATE offered a wide range of training services
- About  $\frac{3}{4}$  of participants received services
- Participants received services over a 4-month period
- A large proportion of the control group found self-employment services outside GATE

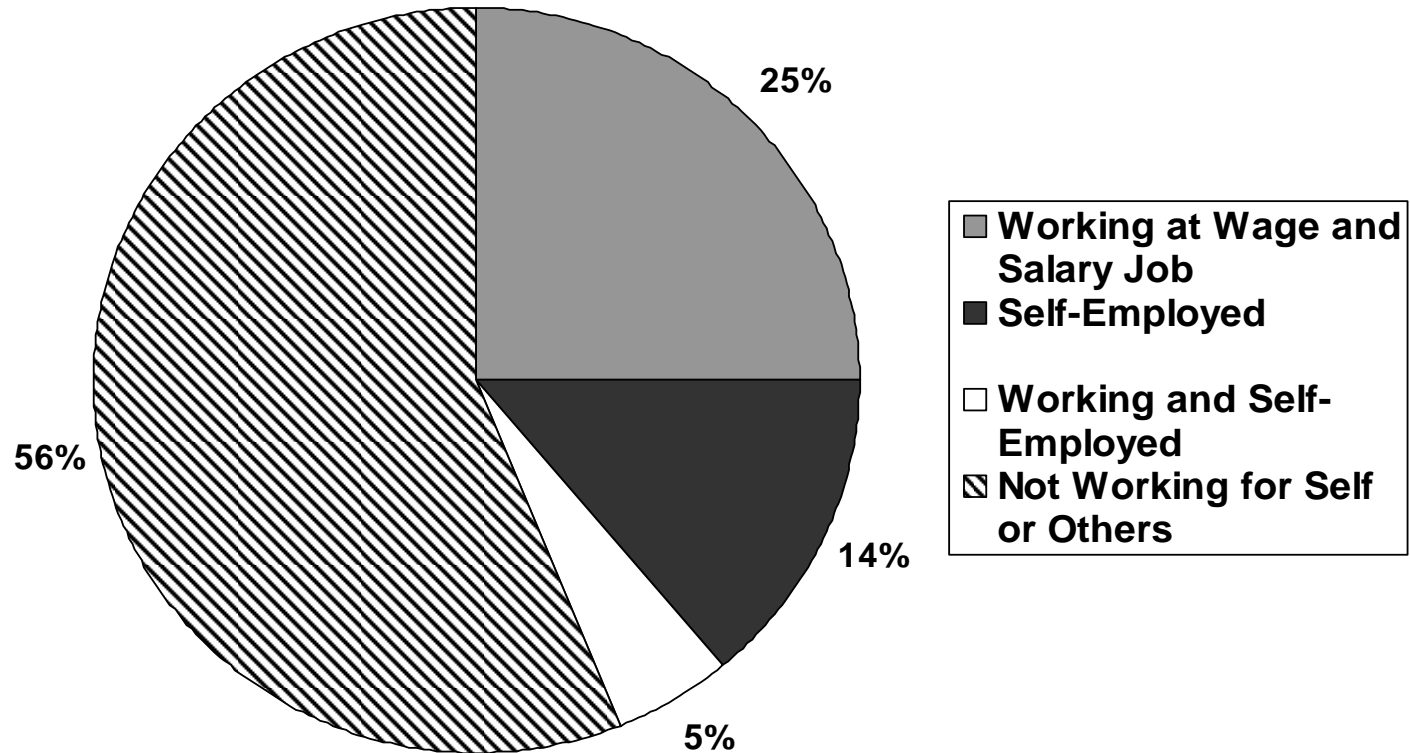
# State Program Design Differences

- **Minnesota**
  - o Self-employment training services
  - o Work search waiver for all treatment group members
- **Pennsylvania**
  - o Self-employment training services
  - o No work search requirements for either group
- **Maine**
  - o Self-employment training services
  - o Work search waiver for SEA participants only

# Characteristics of Applicants

|                               |              |
|-------------------------------|--------------|
| Male                          | 54%          |
| Average Age (in years)        | 42           |
| Born in the United States     | 90%          |
| U.S. Citizen                  | 96%          |
| Average Grade Completed       | 14           |
| Household Income              |              |
| Less than \$10,000            | 11%          |
| \$10,000 to \$24,999          | 24           |
| \$25,000 to \$49,999          | 33           |
| \$50,000 to \$74,999          | 18           |
| \$75,000 to \$99,999          | 7            |
| \$100,000 or more             | 7            |
| <b>Number of Applications</b> | <b>4,200</b> |

# Employment Status of Applicants



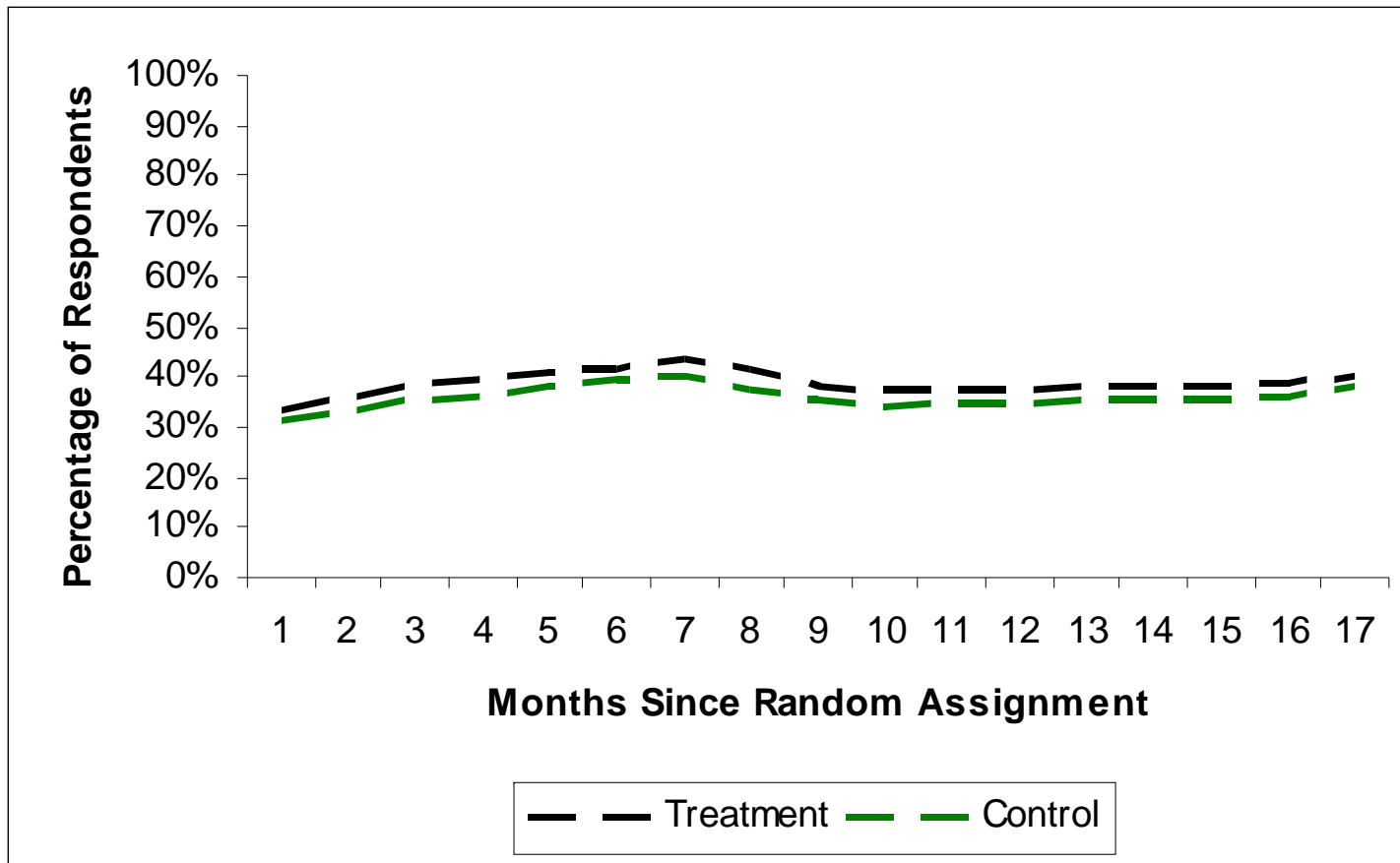
Source: GATE Participant Tracking System extract dated December 31, 2005.

# GATE Sample

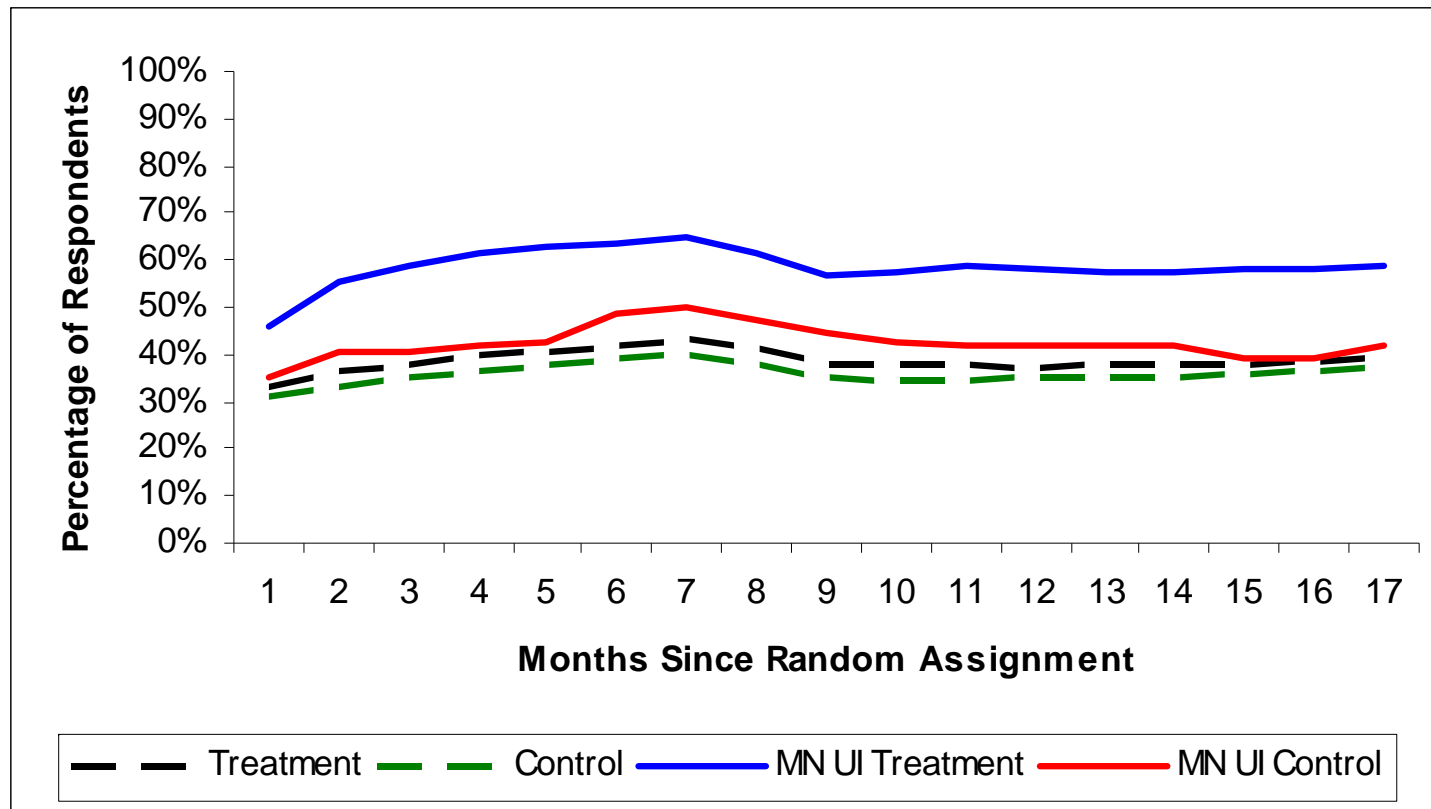
## (Total and Unemployed)

|                              | <b>Total sample</b> | <b>Unemployed at RA</b> |
|------------------------------|---------------------|-------------------------|
| Male                         | 53.5%               | 60.0%                   |
| Age at RA                    | 41.9                | 43.0                    |
| Years of Education           | 14.5                | 14.5                    |
| Disability                   | 8.5%                | 7.3%                    |
| White                        | 56.5%               | 63.8%                   |
| English 1st language         | 93.8%               | 96.4%                   |
| Married                      | 43.3%               | 44.1%                   |
| Household Income             | \$42,064            | \$43,900                |
| Years self-employed          | 2.0                 | 1.9                     |
| Annual Salary                | \$35,285            | \$39,652                |
| Currently operating business | 25.2%               | 19.6%                   |
| Has business plan            | 22.9%               | 21.0%                   |
| Unemployed                   | 48.5%               | 100.0%                  |
|                              |                     |                         |

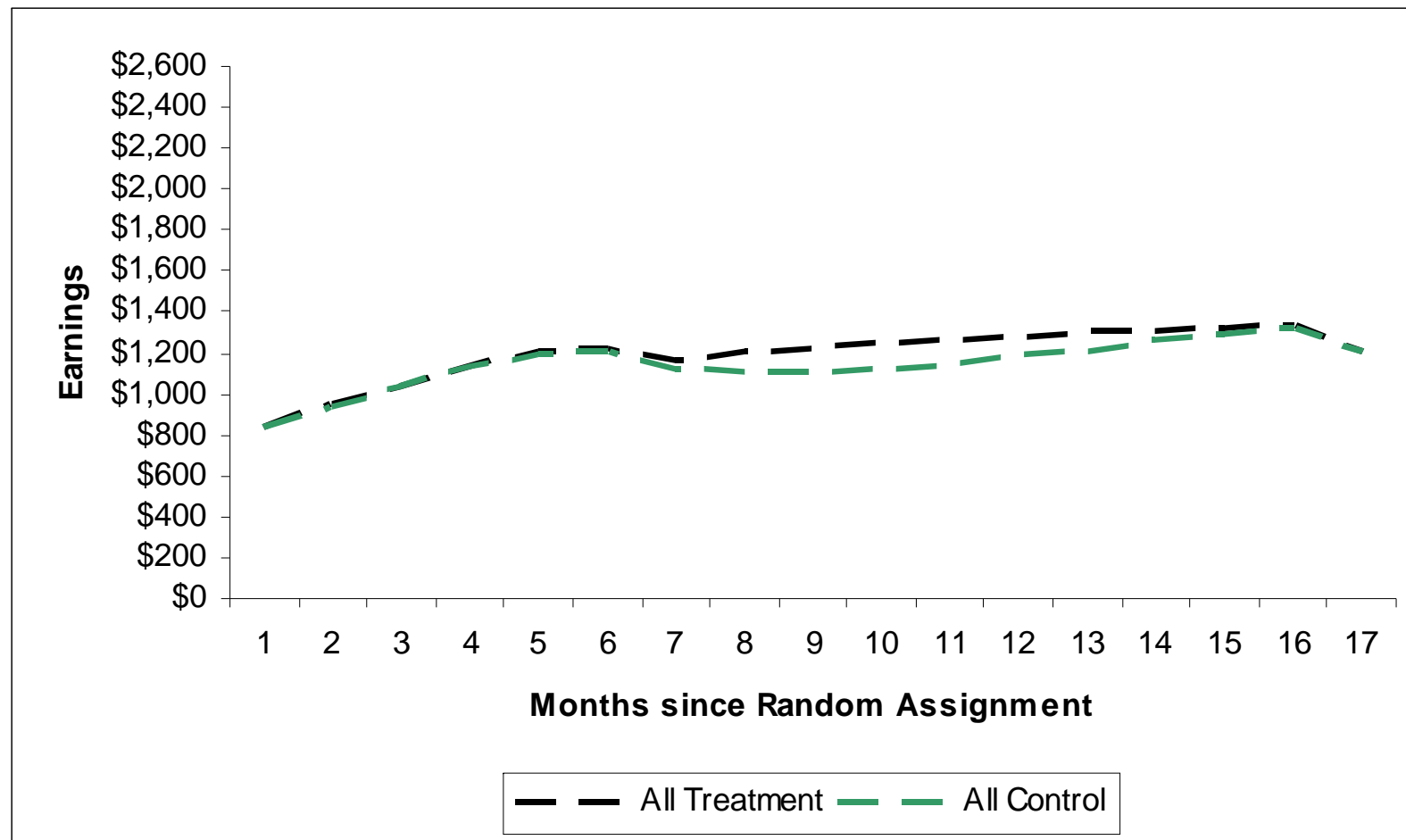
# Business Ownership (Total Sample)



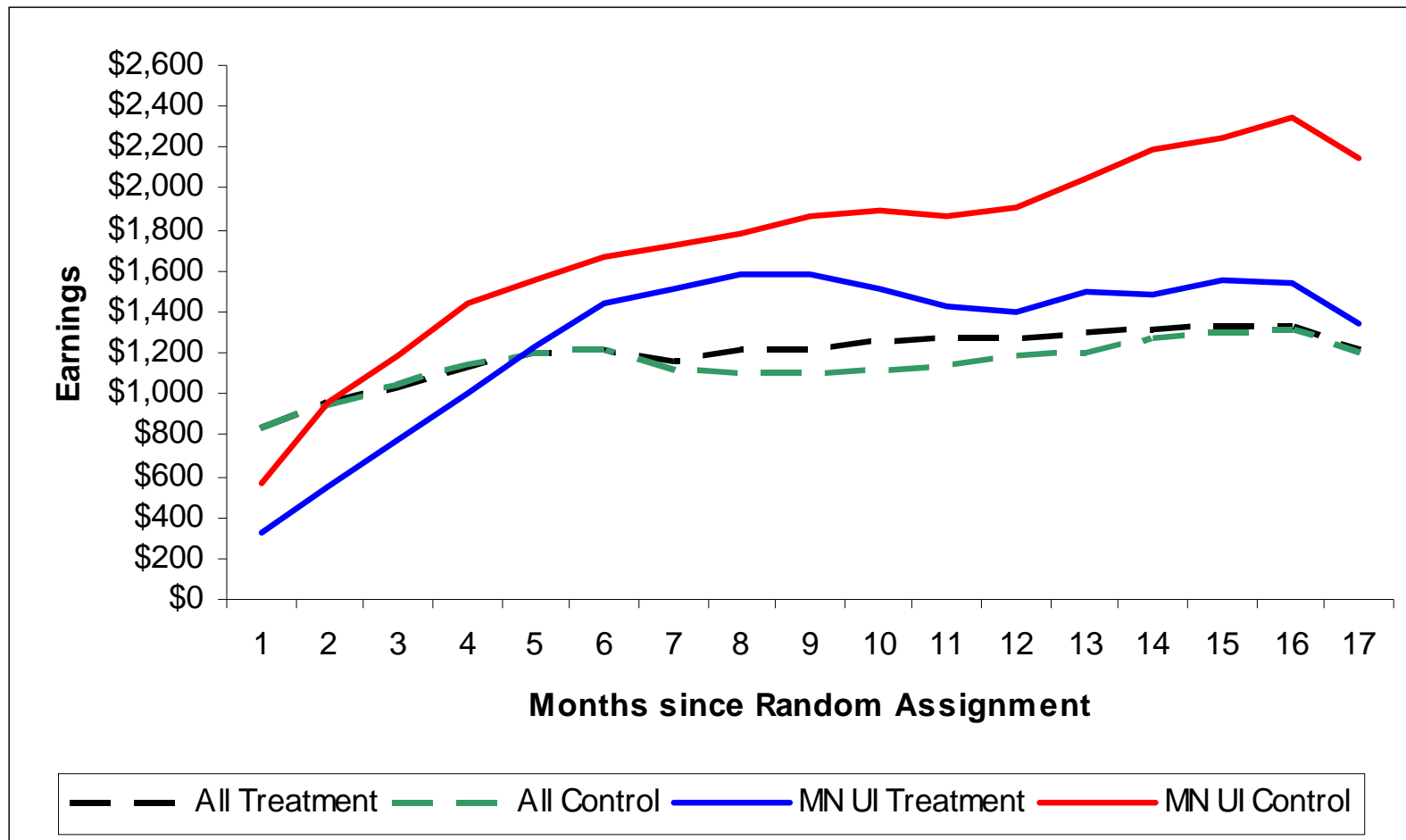
# Business Ownership (Total and MN UI)



# Total Earnings (Total Sample)



# Total Earnings (Total and MN UI)



# UI Benefits (Total Sample)

| <b>Outcome</b>  | <b>Program Group Mean</b> | <b>Control Group Mean</b> | <b>Difference</b> |
|---|---------------------------|---------------------------|-------------------|
| Number of Weeks Paid<br>(on new claims established<br>over 24 months) | 12.4                      | 11.6                      | 0.8**             |
| Total UI Payments   | \$4,385                   | \$4,050                   | \$335             |
| <b>Sample Size</b>  | <b>2,034</b>              | <b>2,044</b>              | <b>4,078</b>      |

# UI Benefits (MN UI Sample)

| <b>Outcome</b>  | <b>Program Group Mean</b> | <b>Control Group Mean</b> | <b>Difference</b> |
|---|---------------------------|---------------------------|-------------------|
| Number of Weeks Paid<br>(on new claims established<br>10 weeks or less prior to RA) | 23.6                      | 20.5                      | 3.1***            |
| Total UI Payments   | \$8,386                   | \$6,770                   | \$1,614***        |
| <b>Sample Size</b>  | <b>165</b>                | <b>108</b>                | <b>273</b>        |

# Conclusions

- For the total GATE sample, impacts were small
- GATE has significant impacts on the unemployed
- GATE has no significant impacts on the employed
- In Minnesota, the GATE design was similar to the SEA program design (i.e., training + waiver)
- In Minnesota, GATE impacts are much more substantial
- During the first 18 months, GATE was not cost effective

# Policy Implications

- In Minnesota, the GATE design was similar to the SEA program
- Since the GATE demonstration was more effective in Minnesota than in other sites, this suggests that SEA may be an effective program for the unemployed
- A longer GATE follow-up period (especially in Minnesota) can help to determine if the SEA program is cost effective

# Next Steps for Project GATE

- 60 month Project GATE Follow-up.
  - 60 month survey administered to all Project GATE sample members.
  - Results in Spring of 2009.
- Four New Project GATE Dislocated Worker Grants
  - NC and AL (Rural Focus)
  - VA and MN – (Dislocated Workers 50+)