



REAP: Harvesting Results

a Survey of Participants in the Rural Enterprise Assistance Project

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Introduction

This report provides a detailed analysis of the effectiveness of the Rural Enterprise Assistance Project (REAP). The study's main objective was to find out if REAP has assisted in building the asset and income levels of participants. If programs like REAP are proven to be effective, the case can be made that they should be duplicated and expanded to help rural areas thrive rather than allowing them to fade into history.

Brief History of the Rural Enterprise Assistance Project (REAP)

The rural Midwest experienced troubling economic times due to the farm crisis of the 1980's and early 1990's. Rural communities suffered as population declined and demand for products and services was reduced. Rural communities sought economic development strategies to replace the losses suffered from a changing agricultural economy.

Economic development programs at the time did not recognize microbusinesses (those with five or fewer employees and lending less than \$25,000) as a viable approach to development. The Center for Rural Affairs started REAP in January of 1990 to fill the gaps.

REAP Services

REAP includes four components: lending, business management training, technical assistance, and networking. To employ these services, a local community (or communities) forms an association. The association holds monthly meetings for training, discussing business ideas and problems, networking, reviewing loan applications, and receiving monthly loan payments from association members.

REAP's revolving loan fund is used to make small loans to businesses that are members of the local association. This lending program is based on a step-up, peer-lending model, which limits a first-time borrower to a \$1,000 loan before stepping-up. Each loan may double the previous amount up to \$10,000 with good payment and attendance records.

The lending program has since expanded into direct lending due to a growing demand from the micro sector. Peer borrower businesses often grew beyond REAP lending limits, but were not

eligible for loans at the local bank. In areas without a REAP association, individuals who could not access a loan at the bank did not have access to lending capital. The direct lending program was piloted in 1999 and has become a permanent part of the project. Individuals may now access loans up to \$25,000 for their businesses.

The goal of business management training and technical assistance is to help REAP members to develop sound business plans. Training is a continual part of association monthly meetings as well as other activities. Topics covered during training include marketing, advertising, promotion, goal setting, customer relations, personality preferences, and financial management.

REAP staff provide technical assistance to all members of the local association on an ongoing basis as requested.

Networking falls within the scope of association activities. Through attending monthly meetings and participating in activities that bring associations together, members make connections with each other and with other microbusiness owners across the state. This aspect of REAP enables members to problem-solve with one another, as well as share new ideas and words of encouragement.

To form an association, the local community must raise a minimum of \$1,200 and identify 5 to 20 potential members of the association. When sufficient interest is achieved, REAP staff facilitate three orientation sessions and that completes the formation process of a local REAP group.

REAP Statistics

As of April 2002, REAP had 46 associations with a total of 487 members. The total lending for both peer and direct loans stood at \$1,078,868, with \$433,973 of that belonging to peer lending and \$644,895 belonging to direct lending. REAP has leveraged an additional \$2,083,000 in loans from other sources since 1999.

Methodology

This study is based on a self-administered questionnaire that was mailed to all participating REAP members. A reminder postcard was sent to the entire sample as well, approximately one week following the questionnaire. The response rate was 10 percent. Although that is lower than desired, we are confident that it reflects a true picture of REAP.

The three-page questionnaire included questions about members' asset and income levels before and after their involvement with REAP. It also included questions about satisfaction with REAP. For example, participants were asked which aspects they believed to be most beneficial in regards to building their asset and income levels. These questions were open-ended and provide anecdotal evidence that is hard to quantify. Nonetheless, they are helpful in more broadly defining the successes or failures of REAP.

The analysis is based on frequency tables on each question that provided information before and after the members' involvement with REAP. The frequency tables were then compared across the before and after categories.

Findings

When examining the frequency charts, it is apparent that REAP has helped increase members' asset and income levels. There are noticeable increases in business asset levels, household asset levels, family income levels, and business gross revenue.

Business Assets

Business assets at the \$50,000 and above category show an increase of more than 50 percent following involvement with REAP, with 12.2 percent of respondents having assets that high before their involvement, compared with 26.5 percent of respondents having assets that high after their involvement. Table 1 below summarizes the increases in business asset levels.

Table 1. Business Assets
(in percentages)

Asset Level	Before REAP	After REAP
Below \$5,000	55.1	34.7
5,000-19,999	8.2	24.5
20,000-49,999	20.4	12.2
50,000 and above	12.2	26.5
Missing	4.1	2
Total	100	100

Table 1 clearly shows that the business asset levels have increased due to the respondents' involvement with REAP. The number of participants with the lowest level of business assets declined by nearly 40 percent; those with the highest level of business assets increased by over 117 percent.

Considering that rural businesses were facing troubling economic times when REAP began, it is significant that REAP has helped these businesses not only maintain themselves, but to grow as well. Rising asset levels equal stronger, more viable businesses, and that in turn equals stronger, more viable rural communities.

The survey results also suggest a very clear "step-up" process in business asset holdings. The changes in each step before and after REAP involvement are:

- STEP 1 (below \$5,000) decrease 37%
- STEP 2 (\$5,000 -19,999) increase 198%
- STEP 3 (\$20,000 – 49,999) decrease 40%
- STEP 4 (\$50,000 and over) increase 117%

These data suggest REAP businesses were "stepping up" to the next highest asset level after their participation in REAP. In any event, REAP participation appears to have a positive affect on business asset levels.

Household Assets

Again, REAP involvement appears to have had a significant positive effect on household assets. The number of households at the lowest asset level remained unchanged after their involvement with REAP. However, the number of households at the next levels decreased by 15 percent and 20 percent respectively. The highest household asset level increased by nearly 43 percent after involvement with REAP. Table 2 summarizes the increases in household asset levels.

Table 2. Household Assets
(in percentages)

Asset Level	Before REAP	After REAP
Below \$5,000	4.1	4.1
\$5,000-\$19,999	26.5	22.4
\$20,000-\$49,999	30.6	24.5
\$50,000 and above	28.6	40.8
Missing	10.2	8.2
Total	100	100

As can be seen by Table 2, the increase in the \$50,000 and above category indicates that the REAP program is helping members build their financial futures through more stable asset levels. Rising household asset levels can also be attributed to increased property valuations. However, some respondents, through open-ended comments, identified REAP as assisting them with this as well. For example, a common reference was made to the value of business training, networking, and access to capital. These services provide a framework upon which the business owners can build their asset levels.

Business Gross Revenue

Business gross revenue sees a definite increase when comparing before and after REAP involvement. The \$50,000 and above category saw a significant increase following the respondents' involvement with REAP, standing at 12.2 percent before and increasing to 20.4 percent after.

At the same time, there is a large shift in the respondents that consider themselves at the below \$5,000 level, with 53.1 percent prior to REAP involvement and 40.8 percent following REAP involvement. Although a larger percentage remains within the below \$5,000 level, a great amount of improvement can only be expected with time.

Gross business revenue follows much the same pattern as business assets. As expected, most respondents had very low income levels before REAP involvement – 53 percent had less than \$5,000 in gross business revenue. But the same "step up" process in revenue seems to be at work after REAP involvement. The survey shows:

- STEP 1 (below \$5,000) decrease 23%
 STEP 2 (\$5,000 – 19,999) increase 99%
 STEP 3 (\$20,000 – 49,999) decrease 12%
 STEP 4 (\$50,000 and over) increase 67%

Again, these data suggest REAP businesses were "stepping up" to the next highest revenue level after their participation in REAP. In any event, REAP participation appears to have a positive effect on business revenue levels. Table 3 summarizes the business gross revenue numbers.

Table 3. Business Gross Revenue
(in percentages)

Gross Revenue	Before REAP	After REAP
Below \$5,000	53.1	40.8
\$5,000-\$19,999	8.2	16.3
\$20,000-\$49,999	16.3	14.3
\$50,000 and above	12.2	20.4
Missing	10.2	8.2
Total	100	100

Family Income

Family income showed increases as well. This is evident in Table 4 below. The number of participants with family incomes below \$15,000 (a generally accepted definition of the "poverty level" for many families) was cut in half after REAP involvement. Conversely, the number of REAP participants with family incomes over \$50,000 increased by over 25 percent after REAP involvement.

Note that the largest percentage changes in income categories after REAP involvement came in the lowest income level and the highest income level. It appears from these results that REAP has contributed to enhancing rural family incomes by both alleviating poverty in many families and increasing the income levels of the highest income families.

Table 4. Family Annual Income
(in percentages)

Income Level	Before REAP	After REAP
Below \$14,999	8.2	4.1
\$15,000-\$29,999	38.8	42.9
\$30,000-\$49,999	26.5	24.5

\$50,000 and above	16.3	20.4
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Recommendations for the Future

The findings of this survey indicate that by participating in REAP, business revenues grow, family incomes increase, and the value of assets rise. The number of low-income households (below \$15,000 annually) involved in REAP was cut in half after their involvement in the program.

At a time of economic stress and great poverty in rural areas, programs that alleviate poverty and increase incomes obviously provide the appropriate remedies. Thus, programs such as REAP should be encouraged and widely supported because they fight poverty, grow family assets, and build incomes.

While REAP was designed as a rural economic development strategy that fits the scale and needs of many rural communities, it is important to note its contribution to the betterment of low-income people. In this regard, REAP very much subscribes to the theory that low-income people do not build long-term economic well-being through spending, but through asset-building.

Greater income alone cannot lead to economic well-being for families; asset building through home ownership, business ownership, or enhanced education lead to important long-term psychological and social effects that cannot be achieved by simply increasing income. While income is an important factor, income can be achieved nearly anywhere in varying degrees. Assets like businesses and houses bond one to a place and help to build strong, more sustainable communities.

Recent literature on small business creation as a development strategy also makes the case for why this is the proper economic development course for rural communities. Contrary to traditional economic theory that views labor as a mobile input to production, entrepreneurs are highly "attached to the places in which they live, regardless of how poor the economy is." While these businesses are often small and may take time to develop, they "should be perceived as resources and nurtured."

Instead, Nebraska, its public officials, and its public policy are too often caught up in the "glamorous" (and highly competitive) development strategy of big business industrial recruitment and fail to see small business as a resource that needs to be nurtured.

The need in rural Nebraska is great. Recent figures from the U.S. Department of Commerce show that rural Nebraska continues to be one of the poorest parts of the nation. Rural Nebraska has the lowest income county in the nation and five of the nation's 10 lowest income counties (as measured by per capita income).

REAP is helping people empower themselves and helping them step-up out of poverty. Therefore, we recommend greater support and stronger commitments be given to foster this type of development in rural areas of the state. This requires placing a priority on long-term development and initiatives, rather than the short-lived "bang for the buck" type of programs we have become all too familiar with.

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