



Opening Opportunities, Building Ownership:

Fulfilling the Promise of
Microenterprise in the United States

ELAINE L. EDGCOMB
JOYCE A. KLEIN
FEBRUARY 2005

This publication was made possible by a grant from
the Charles Stewart Mott Foundation.

FIELD (The Microenterprise Fund for Innovation, Effectiveness,
Learning and Dissemination), is a research and development
organization dedicated to the expansion and sustainability of
microenterprise development efforts, particularly those aimed at
low-income Americans. Its mission is to identify, develop and
disseminate best practices, and to broadly educate policy makers,
funders and others about microenterprise as an anti-poverty
intervention. To learn more, visit: www.fieldus.org.

© 2005 by FIELD, a program of the Aspen Institute
Published in the United States of America

2005 by the Aspen Institute
All rights reserved

Printed in the United States of America
ISBN: 0-89843-430-0

Table of Contents

Acknowledgments	II
Foreword	IV
Executive Summary	1
Introduction	5
FIELD and the State of the Field	6
Chapter 1: The Context and Scope of Microenterprise in the United States ..	9
The Economic Context for Microenterprise and Self-Employment ..	9
The Scope of Microenterprise in the United States	13
The Market for Microenterprise Services	14
Conclusion	16
Chapter 2: The Evolution of the Microenterprise Industry	19
The Growth of the Industry	21
The Methodological Landscape	25
Conclusion	29
Chapter 3: The Institutional Performance of the Industry	31
Outreach to Underserved Populations	31
Program Scale	34
Credit Program Effectiveness	36
Training and Technical Assistance Effectiveness	40
Cost Recovery	43
Costs of Service and Costs of Outcomes	45
Conclusion	52
Chapter 4: The Value of Microenterprise to Low-Income Americans: What Do We Know About the Experiences of Microentrepreneurs?	55
The Size, Growth and Survival of Microenterprises	59
The Contribution of Microenterprises to Employment and Family Income	64
Microenterprise and Self-Employment as an Asset-Building Strategy .	70
Non-Economic Effects of Microenterprise Development	71
What Does the Research Tell Us?	73
Conclusion	75

Chapter 5:	Charting the Future of the Microenterprise Industry in the United States	79
	Key Challenges	79
	Future Directions	84
	Conclusion	106
Appendix 1:	Estimating the Scope of Self-Employment and Microenterprise in the United States	109
	Microenterprise and Self-Employment in the National Economy ..	109
	Microenterprise as a Percent of Total Business Establishments	111
	Estimates of the Number of Microenterprises in Specific Target Groups	111
Appendix 2:	Calculation of Costs and Benefits	115
	The Data Collection Process	115
	Data Analysis	116
	Cost per Business Outcome	118
	Comparison of Costs and Benefits	119
References		121

Executive Summary

The notion that a person can turn a dream into a small business by applying healthy doses of ingenuity, elbow grease and grit has resonated with Americans from the earliest days of this nation. Indeed, there is something so intrinsically appealing about that scenario that more than 22 million Americans are small business owners today – including some 20 million who operate “micro” – or very small – enterprises.

Yet, while the vision of business ownership has deep roots in this country, the microenterprise field, which supports the smallest businesses, is relatively young. Emerging here about two decades ago, it was born first through the efforts of women’s organizations that sought to help women use business ownership to improve their economic situation. Over time, microenterprise programs – which today number more than 500 nationwide – have expanded their focus to provide business training, technical assistance and small loans to such traditionally underserved populations as low-income individuals, racial and ethnic minorities, welfare recipients, refugees, and people with disabilities.

Now as the microenterprise field reaches the 20-year mark, it seems appropriate to examine its current state – and both note its accomplishments and identify the major challenges that lie ahead. This is particularly important as a set of forces in our nation’s economy create opportunities and pressures for small-scale business ownership. Key among those forces are: the declining number of good-paying, middle-class jobs; increased outsourcing and use of temporary workers; the aging of the population; the growing need to balance work and family roles; growth in immigration; and declines in many rural communities.

Indeed, the field can rightly point to a number of significant accomplishments. Today, there are microenterprise programs operating in every state in the union. FIELD’s research on a set of these programs shows that they have successfully served the marginal and disadvantaged individuals the field seeks to assist. Industry leaders have demonstrated that credit-led programs can be run efficiently, effectively, and with a high degree of self-sufficiency, and that training programs can help emerging entrepreneurs gain business skills as well as open and expand businesses. Preliminary analyses also suggest that microenterprise programs can operate cost-efficiently and effectively, although more rigorous analyses are required to document the full social returns on the investments made in these programs.

Research also reveals that many of the businesses owned by clients of microenterprise programs survive and grow over time, and that they increase their income and assets and report increased empowerment. While for some the microenterprise plays a key role in providing household income, for others it is an important complement to wage employment. By giving low-income and disadvantaged individuals more skills and income-generating options, microenterprise provides a means to cope better with the vagaries at the lower-end of the labor market. And, while

most microenterprises remain small, employing only the owner, there is a small subset that grows beyond “micro” in size, and contributes larger numbers of jobs to local economies.¹

Still, one cannot ignore that there are some serious challenges facing the industry. Training and technical assistance services remain largely subsidized. Because these services are the core of most programs, overall program cost recovery in the industry is fairly low and progress toward self-sufficiency remains slow. Scarce resources and limited cost recovery have affected the industry’s ability to reach larger numbers of microentrepreneurs. The result is that most programs remain relatively small, serving hundreds rather than thousands of entrepreneurs. Indeed, our research shows that at least 10 million microentrepreneurs fit the profile of individuals that microenterprise programs are designed to serve.

Adding to the complexity of this picture are the dramatic changes that have occurred over time in the context in which microenterprise programs operate – including vast changes in financial markets, the overall U.S. economy and the funding environment – as well as in the field’s own knowledge and understanding of what works and what its clients need.

Taken all together, it seems clear that if the field has hopes of solving the twin challenges of sustainability and scale, changes will be required in the design and delivery of products and services, as well as in the organizational structures through which they are offered.

Beyond underscoring some key challenges and necessary changes facing the industry, our research concludes that there are three compelling reasons for funders, policy makers and others to support microenterprise:

- In today’s economic environment, there is a segment of the population for whom self-employment is a necessary – and in some cases, the best – source of employment and income.
- By assisting individuals to build businesses and assets, microenterprise can open wealth and ownership opportunities to individuals who have been excluded from our economy.
- Microenterprises can play a role in the revitalization of local economies.

In sum, we believe that microenterprise development, and microenterprise programs, continue to hold promise in the United States. Yet, we also believe that the ultimate promise of microenterprise will hinge on the industry’s ability to openly and actively embrace a number of critical changes. And, while we recognize that times of transformation, shakeout and restructuring can be difficult, we maintain that this period ultimately could lead to a stronger, more viable industry in the decades ahead.

In addition to identifying promising opportunities going forward, this publication was designed to present a synthesis of the microenterprise field that clarifies its strategic importance, discusses its evolution, and accurately assesses its accomplishments and weaknesses.

¹Because only one study of the outcomes of microenterprise programs used an experimental design, the degree to which these benefits were a result of the services received by program clients is uncertain. Yet, the studies show that many clients experienced positive outcomes and ascribe some of their success to program services.

Thus, we begin the publication by explaining the context and scope of microenterprise in the United States and by describing some of the factors driving low-income Americans toward self-employment. Subsequent chapters examine the evolution of the industry; industry performance; and the value of microenterprise to low-income entrepreneurs, including what we know about their experiences. The final chapter not only details four critical challenges facing the industry today, but also articulates a set of new directions for the field.

Specifically, we recommend eight directions – or actions – that could help transform the field and position it for long-term growth and sustainability. While some organizations are already moving in these directions, it is now time for more practitioners, and the support organizations, donors and other stakeholders that assist them, to embrace them as well. They are:

Direction 1: Improve understanding of the market. To increase its scale and better define its role for the future, the microenterprise field must gain a better understanding of: the demand for microenterprise services and products among potential customers, the characteristics and preferences of those customers, the competing services in the marketplace, and where there are opportunities for collaboration and/or expansion of services.

Direction 2: Differentiate and broaden products and services. Microenterprise programs must continue the trend toward developing distinct products for different types of clients, developing management processes to ensure that new offerings achieve the growth, impact, efficiency and cost recovery goals set for them.

Direction 3: Restructure the industry for greater scale and depth. To build a nationwide structure with greater market relevance, impact and economies of scale, the field must reorganize and restructure. Microenterprise organizations must seriously look at a set of possibilities to make themselves stronger including: outsourcing functions; co-branding and distributing products offered by other national, regional or local players; mergers and acquisitions; and strategic alliances.

Direction 4: Use technology to transform operations. Microenterprise programs must turn to technology more than ever to achieve their goals. Improved management information systems and communications, and on-line and other distance learning technologies, will be key to the ability of programs to increase scale, expand product offerings and realize efficiencies. Practitioners should look to develop partnerships that can leverage the technological capabilities of other providers or, when possible, implement new internal systems.

Direction 5: Measure and improve performance throughout the industry. The field as a whole must dedicate itself to the discipline of pushing on the issues of scale, efficiency and cost recovery, as well as on improving program outcomes. This will require connecting to national efforts that support and enhance performance; making investments in systems and processes necessary to collect, analyze and act on performance data; and educating donors about how they can support and provide incentives for improved performance.

Direction 6: Develop and support policies that directly benefit microentrepreneurs.

One means of reaching larger numbers of potential microentrepreneurs is to identify and promote changes in social, legal and regulatory policies that can support or reduce barriers to business ownership. This is an area where policy organizations and trade associations should play a lead role, supported by practitioners.

Direction 7: Develop new strategies to stabilize and sustain programs. Making progress toward growth and sustainability will require greater efforts to both increase self-sufficiency and secure more stable sources of support. It is now time for the field to demonstrate its impact through rigorous experimental design research, thereby demonstrating to funders the value of more sustained, multiyear support, and to more entrepreneurially explore avenues for cost recovery and revenue generation.

Direction 8: Repositioning the microenterprise field. The very term “microenterprise” may be limiting the field’s ability to attract a broader market, a funding stream and strategic alliances. The industry needs to create new language and messages that better convey the relevance of microenterprise and the role it can play in the redevelopment of local economies.

As we put forth these recommendations and, more generally, in undertaking this review of the field, we believe it is important to state that we are engaged supporters of the industry. For more than a decade, FIELD has worked with U.S.-based microenterprise programs, gathering and reflecting on data on both their program operations and the experiences of their clients – with a goal of identifying leading practices to help the field improve its performance.

There is no doubt that as the industry moves into its next decade, it must continue to learn, innovate and stretch its capacity. Practitioners, working in tandem with new partners in both the private and nonprofit sectors, must play a key role in developing new approaches and in seeking efficiencies in their current work. Funders and intermediaries will play a vital role, both in providing the funding necessary to innovate and grow and in pushing practitioners to higher levels of performance. In addition, policy change will continue to be critical, both in removing barriers that face low-income business owners and in creating structures that provide the financial tools that can help these entrepreneurs achieve higher levels of success and economic security.

In today’s economy, low-income individuals need the option of microenterprise. The microenterprise field has opened it to some; now is the time to take the steps necessary to ensure that it is available to many.